PROSPECTUS

Lancashire Holdings Limited

(*incorporated with limited liability in Bermuda under registered number EC37415*)

U.S.$130,000,000 5.70% Senior Notes due 2022

This is an offering (the "**Offering**") of U.S.$130,000,000 5.70% senior notes due 2022 (the "**Notes**") of Lancashire Holdings Limited ("**Lancashire**" or the "**Company**"). Interest on the Notes will accrue at 5.70% per annum from October 11, 2012. Lancashire will pay interest on the Notes semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2013. The Notes will mature on October 1, 2022. At the Company's option, however, the Notes will be redeemable in whole or in part at any time at a make-whole redemption price calculated as described in this prospectus (the "**Prospectus**"), plus accrued and unpaid interest thereon to, but excluding, the date of redemption. The Notes will also be redeemable in whole but not in part for certain tax reasons at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued but unpaid interest thereon to, but excluding, the date of redemption. See "Description of the Notes—Redemption" for further detail.

Lancashire has applied to list the Notes on the London Stock Exchange plc. (the "**London Stock Exchange**"). Admission to the official list (the "**Official List**") of the United Kingdom Financial Services Authority ("**FSA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") (the "**U.K. Listing Authority**") and to trading on the London Stock Exchange's Regulated Market is expected to become effective and dealings to commence in the Notes upon approval by the U.K. Listing Authority of the Prospectus by the U.K. Listing Authority in connection with the admission of the Notes to the Official List and to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). This document comprises a prospectus for the purposes of section 87 of FSMA.

The Notes will be the direct, senior unsecured obligations of Lancashire and will rank equally in right of payment upon liquidation to all of Lancashire's existing and future unsecured and unsubordinated indebtedness, including indebtedness for borrowed money. See "Description of the Notes—Ranking."

All investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus which the Company believes represent the principal material risks inherent in investing in the Notes and that may affect the Company's ability to fulfill its obligations under the Notes. The Company makes no representation that the risks described under the section headed "Risk Factors" are exhaustive.

Price per Note: 5.70% plus accrued interest, if any, from October 11, 2012

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or any state or foreign securities laws and are being offered and sold only to (i) qualified institutional buyers ("**Qualified Institutional Buyers**") within the United States in reliance on Rule 144A under the Securities Act ("**Rule 144A**") and (ii) to certain non-U.S. persons in transactions outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"). Prospective purchasers that are Qualified Institutional Buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see "Notice to Investors" herein.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Notes offered and sold to Qualified Institutional Buyers and in reliance on Rule 144A will initially be represented by one or more global certificates in registered form (the "**Rule 144A Global Certificates**") and will be registered in the name of Cede & Co., as registered owner and as nominee for The Depository Trust

Company ("**DTC**"). Notes offered and sold outside the United States in reliance on Regulation S will initially be represented by one or more global certificates in registered form (the "**Regulation S Global Certificates**") and will be registered in the name of Cede & Co., as registered owner and as nominee for DTC for credit to the respective accounts of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). See "Description of the Notes—Form of Notes; Book Entry System—Global Certificates." It is expected that delivery of the Global Notes will be made on October 11, 2012 or such later date as may be agreed (the "**Closing Date**") by Lancashire and the initial purchasers named herein (the "**Initial Purchasers**").

For the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") the credit ratings included or referred to in this Prospectus have been issued by Moody's Investors Service, Inc. ("**Moody's**"), Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC Business ("**S&P**") and A.M. Best Company, Inc. ("**A.M. Best**"). None of Moody's, S&P or A.M. Best are established in the European Union (the "**EU**") or registered under the CRA Regulation. Moody's Investors Service Limited, Standard & Poor's Credit Market Services Europe Limited and A.M. Best Europe — Rating Services Limited have respectively been registered under the CRA Regulation and have authorization to endorse the credit ratings of each of Moody's, S&P and A.M. Best, respectively. The Notes are expected, on issue, to be rated Baa2 by Moody's and BBB by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Bookrunning Managers

HSBC **Barclays**

Co-Managers

J.P. Morgan **Lloyds Securities**

Prospectus dated October 10, 2012

Prospective investors should rely only on the information contained in this Prospectus. No Initial Purchaser, agent, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such other information or representations must not be relied upon as having been authorized by any Initial Purchaser or the Company. No action has been, or will be, taken to permit a public offering of the Notes in any jurisdiction where action would be required for that purpose. Accordingly, this Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or would require registration or qualification of the Notes under the laws of such jurisdiction or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the European Economic Area (the "**EEA**"). See "Plan of Distribution."

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). The Prospectus Directive requires a prospectus to be published when securities are offered to the public or admitted to trading, and for the purpose of giving information with regard to the Company and the Company and its subsidiaries and affiliates taken as a whole (the "**Group**"), and the Notes which, according to the particular nature of the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company. This Prospectus comprises a prospectus for the purposes of section 87 of FSMA.

This Prospectus is to be read in conjunction with all the documents which are incorporated by reference into this Prospectus and shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus. See "Documents Incorporated by Reference."

The Company, together with the directors of the Company (the "**Directors**"), whose names appear on page 91 of this Prospectus (each, a "**Responsible Person**") each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

We are furnishing this Prospectus solely for the purpose of enabling prospective investors to consider the purchase of Notes in connection with an offering not registered under the Securities Act. The information contained in this Prospectus has been provided by us and other sources identified in this Prospectus.

The legally binding language of this Prospectus is the English language. All references in this Prospectus to "U.S. dollars", "U.S.$" and "$" refer to United States dollars. In addition, all references to "Sterling" and "£" refer to pounds sterling and to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Except as where otherwise indicated, references to "Lancashire," the "Company," "we," "our" and "us" in this Prospectus refer to Lancashire Holdings Limited, together with its direct and indirect subsidiaries.

The consolidated financial statements of the Company and its direct and indirect subsidiaries (the "**Group**") are prepared in accordance with accounting principles generally accepted under International Financial Reporting Standards ("**IFRS**") as adopted by the EU. Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgment and considering the accounting principles generally accepted in the United States ("**U.S. GAAP**").

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER SECTION 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE OR FOREIGN SECURITIES LAWS AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED, SOLD, TRANSFERRED OR RESOLD, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR FOREIGN SECURITIES LAWS. ACCORDINGLY, THE NOTES WILL BE OFFERED AND SOLD ONLY (A) TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A) AND (B) IN OFFSHORE TRANSACTIONS TO PERSONS OTHER THAN U.S. PERSONS (WITHIN THE MEANING OF REGULATION S) IN EACH CASE, IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$200,000 AND IN INTEGRAL MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF. NOTES SOLD PURSUANT TO REGULATION S MAY NOT BE OFFERED OR RESOLD IN THE UNITED STATES OR TO U.S. PERSONS (AS DEFINED IN REGULATION S) UNTIL THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO RULE 144A. SEE "NOTICE TO INVESTORS."

THE OFFERING WILL BE MADE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF SECURITIES THAT DOES NOT INVOLVE A PUBLIC OFFERING. EACH PURCHASER OF NOTES OFFERED HEREBY IN MAKING ITS PURCHASE WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS, WARRANTIES AND AGREEMENTS AS SET FORTH UNDER "NOTICE TO INVESTORS."

THE INITIAL PURCHASERS WILL NOT BE UNDER ANY OBLIGATION TO MAKE A MARKET IN THE NOTES AND, TO THE EXTENT THAT ANY SUCH MARKET MAKING IS COMMENCED, IT MAY BE DISCONTINUED AT ANY TIME. FURTHER, THE NOTES WILL BE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFER AS SET FORTH UNDER "NOTICE TO INVESTORS." ACCORDINGLY, THERE IS NO ASSURANCE THAT A SECONDARY MARKET WILL DEVELOP OR, IF IT DOES DEVELOP, THAT IT WILL PROVIDE HOLDERS OF THE NOTES WITH ADEQUATE LIQUIDITY OR THAT SUCH LIQUIDITY WILL BE SUSTAINED. PROSPECTIVE INVESTORS SHOULD PROCEED ON THE ASSUMPTION THAT THEY MAY HAVE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THE NOTES UNTIL MATURITY.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE INITIAL PURCHASERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

THE INITIAL PURCHASERS ASSUME NO RESPONSIBILITY FOR ITS ACCURACY OR COMPLETENESS.

THE NOTES HAVE NOT BEEN RECOMMENDED OR APPROVED BY ANY FEDERAL, STATE OR FOREIGN SECURITIES COMMISSION OR SECURITIES REGULATORY AUTHORITY OR ANY INSURANCE OR OTHER REGULATORY BODY. EXCEPT AS DESCRIBED IN THIS PROSPECTUS, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED THIS PROSPECTUS OR CONFIRMED OR DETERMINED THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS OR TAX ADVICE.

THE INVESTMENT ACTIVITIES OF CERTAIN INVESTORS ARE SUBJECT TO LEGAL INVESTMENT LAWS AND REGULATIONS, OR REVIEW OR REGULATION BY CERTAIN AUTHORITIES. EACH POTENTIAL INVESTOR SHOULD CONSULT ITS LEGAL ADVISERS TO DETERMINE WHETHER AND TO WHAT EXTENT (I) THE NOTES ARE LEGAL INVESTMENTS FOR IT; (II) THE NOTES CAN BE USED AS COLLATERAL FOR VARIOUS TYPES OF BORROWING; AND (III) OTHER RESTRICTIONS APPLY TO ITS PURCHASE OR PLEDGE OF THE NOTES. FINANCIAL INSTITUTIONS SHOULD CONSULT THEIR LEGAL ADVISERS OR THE APPROPRIATE REGULATORS TO DETERMINE THE APPROPRIATE TREATMENT OF THE NOTES UNDER ANY APPLICABLE RISK-BASED CAPITAL OR SIMILAR RULES.

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL INCOME TAX TREATMENT AND TAX STRUCTURE OF THE OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. HOWEVER, ANY INFORMATION RELATING TO U.S. FEDERAL INCOME TAX TREATMENT OR TAX STRUCTURE SHALL REMAIN CONFIDENTIAL (AND THE FOREGOING PROHIBITION SHALL NOT APPLY) TO THE EXTENT REASONABLY NECESSARY TO ENABLE ANY PERSON TO COMPLY WITH APPLICABLE SECURITIES LAWS. FOR THIS PURPOSE, "TAX STRUCTURE" IS LIMITED TO FACTS RELEVANT TO THE U.S. FEDERAL INCOME TAX TREATMENT OF THE OFFERING BUT DOES NOT INCLUDE INFORMATION RELATING TO THE IDENTITY OF THE COMPANY, ITS AFFILIATES, AGENTS OR ADVISORS.

THE COMPANY RESERVES THE RIGHT TO WITHDRAW THE OFFERING AT ANY TIME. THE COMPANY AND THE INITIAL PURCHASERS ALSO RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE THE NOTES IN WHOLE OR IN PART FOR ANY REASON AND TO ALLOT TO ANY PROSPECTIVE INVESTOR LESS THAN THE FULL AMOUNT OF NOTES SOUGHT BY SUCH INVESTOR.

IN CONNECTION WITH THIS OFFERING, ANY OF THE INITIAL PURCHASERS MAY (BUT WILL NOT BE OBLIGATED TO) OVERALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD OF TIME AFTER THE CLOSING DATE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. NEITHER THE COMPANY NOR ANY OF THE INITIAL PURCHASERS MAKE ANY REPRESENTATION THAT THE INITIAL PURCHASERS WILL ENGAGE IN SUCH TRANSACTIONS. SEE "PLAN OF DISTRIBUTION."

NOTICE PURSUANT TO U.S. TREASURY DEPARTMENT CIRCULAR 230

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX MATTERS IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY PROSPECTIVE INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. TAX LAWS; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF U.S. TREASURY DEPARTMENT CIRCULAR 230) OF THE MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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RISK FACTORS

Prospective investors should read the entire Prospectus. Words and expressions defined in the "Description of the Notes" below or elsewhere in this Prospectus have the same meanings in this section. The Company believes that the risk factors described below represent the principal material risks inherent in investing in the Notes and that may affect the Company's ability to fulfill its obligations under the Notes. The Company makes no representation that the following statements are exhaustive. The risk factors described below include certain risks relating to the Group's principal operating subsidiaries, LICL and LUK. These principal operating subsidiaries are the primary source of liquidity within the Group and the Company's principal assets are its investments in such subsidiaries. Therefore, the risks affecting LICL and LUK could impact the Group's business, prospects, financial condition or results of operations and are described below. Prospective investors should consider these risk factors before deciding to purchase the Notes. In addition, investors should be aware that the risks described may combine and thus intensify one another. The occurrence of one or more risks may have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Risks Relating to the Group

The Group is exposed to unpredictable and multiple losses from catastrophic events and substantially all of the Group's gross premiums written to date are in short-tail lines, which means the Group could become liable for significant losses in a short period of time.

Claims on policies written under the Group's short-tail insurance lines that arise from unpredictable and severe catastrophic events could adversely affect the Group's financial condition or results of operations. Substantially all of the Group's gross premiums written to date are in short-tail lines, which means it could become liable for a significant amount of losses in a brief period. The short-tail policies that the Group writes expose the Group to losses resulting from natural disasters and other catastrophic events (including man-made events). Catastrophes can be caused by various events, including hurricanes, volcanic eruptions, tsunamis, earthquakes, hailstorms, severe weather, floods, fires and explosions. The extent of losses from catastrophes is a function of both the number and severity of the insured events and the total amount of insured exposure in the areas affected. Increases in the value and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of claims from catastrophic events in the future. Claims from catastrophic events could reduce the Group's earnings and cause substantial volatility in its results of operations for any fiscal quarter or year, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The incidence and severity of such catastrophes are inherently unpredictable (for example, a number of major loss events occurred during 2011, including the Japanese Tohoku earthquake and resulting tsunami, earthquakes and aftershocks in New Zealand, Hurricane Irene in the United States, severe flooding in Thailand and U.S. tornadoes) and the Group's losses from such events could be substantial. For example, the Group recorded a loss of U.S.$117.3 million net of reinstatement premium in the year ended December 31, 2011 as a result of the Japanese Tohoku earthquake. Although the Group attempts to manage its exposure to such events, a single catastrophic event, for example, could affect multiple geographic zones. The frequency or the severity of catastrophic events could exceed the Group's estimated tolerance factors for underwriting risk, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations. On certain lines of business the Group's most significant exposure to catastrophe losses is greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period.

The Group has exposure to large, unexpected losses resulting from future man-made catastrophic events, such as acts of war, acts of terrorism and political instability. Although the Group may attempt to exclude losses from terrorism and certain other similar risks from certain types of insurance and reinsurance it underwrites, it may not necessarily be successful in doing so. In addition, the Group specifically underwrites risks relating to terrorism and political risk. These risks are inherently unpredictable as to the frequency and severity of losses. It is impossible to predict the timing of such events or to estimate the size of losses that any given occurrence will generate. Such losses could be significant. To the extent that losses from such risks occur or are significant, this could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Underwriting of insurance can be volatile and unpredictable. This combined with the Group's focus on low-frequency, high-severity events may result in substantial losses.

The underwriting of insurance risks is, by its nature, a high-risk business. Earnings can be volatile and losses may be incurred which have the effect of significantly reducing net profit. The underwriting of the operating subsidiaries is generally focused on low-frequency, high-severity losses worldwide, although it is to be noted that in the energy and marine lines of business the Group has some exposure to more attritional losses. The Group's results will be subject to unpredictable and potentially multiple losses.

It is inherent in the nature of the insurance business that it is difficult to forecast short-term trends or returns. Not only do underwriting results change, but investment income and capital appreciation or depreciation are affected by, *inter alia*, interest rates, exchange rates, taxation changes and other economic, investment and market events outside the Group's control.

The results of participants in the insurance industry worldwide vary widely, as do the results of insurers operating within the Bermuda and London insurance markets. Even if the Bermuda and London insurance markets make an overall profit, some individual insurers or lines of business may incur losses. The past results of the markets are a historical record and may not necessarily be a reliable guide to future prospects.

Underwriting is a matter of judgment, involving important assumptions about matters that by their nature are unpredictable and beyond the control of the Group and for which historical experience and probability analysis may not provide sufficient guidance. One or more catastrophic or other events could result in claims that substantially exceed the Group's expectations, which could have a material adverse effect on the Group's financial condition. A single event could result in significant losses across multiple classes of business. Certain risks are harder to model, and these are managed through aggregate exposure and not probabilistic modeling. The incorrect usage or misunderstanding of these tools may lead to unanticipated exposure to risks relating to certain perils or geographic regions which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The failure of any of the loss limitation methods employed by the Group could have a material adverse effect on the Group's financial condition or its results of operations.

The Group depends on a number of loss limitation and risk management controls, procedures and models to help it assess and manage risks. See "Business—Underwriting and Risk Management—Underwriting Processes and Controls." The Group also seeks to limit loss exposure through loss limitation provisions in its policies, such as limitations on the amount of losses that can be claimed under a policy, limitations or exclusions from coverage and provisions relating to choice of forum, which are intended to ensure that their policies are legally interpreted as intended. These contractual provisions may not be enforceable in the manner expected and disputes relating to coverage may not be resolved in the Group's favor. If the loss limitation provisions in the policies are not enforceable or disputes arise concerning the application of such provisions, the losses it might incur from a catastrophic event could be materially higher than expected, and its financial condition and results of operations could be adversely affected.

Notwithstanding the risk mitigation and underwriting controls employed, one or more catastrophic or other loss events or a greater frequency of losses than expected could result in claims that substantially exceed the Group's expectations, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations, possibly to the extent of eliminating the Group's net profit or causing material capital impairment.

Much of the information that the Group enters into its risk modeling software is based on third-party data, which may not be reliable, as well as estimates and assumptions that are dependent on many variables. Accordingly, if the estimates and assumptions that are entered into the Group's proprietary risk model are incorrect, or if the proprietary risk model proves to be an inaccurate forecasting tool, the losses the Group might incur from an actual catastrophe could be materially higher than its expectation of losses generated from modeled catastrophe scenarios, and its financial condition and results of operations could be adversely affected.

A modeled outcome of net loss from a single event also relies in significant part on the reinsurance and retrocessional arrangements in place, or expected to be in place at the time of the analysis, and may change during the year. Modeled outcomes assume that the reinsurance in place responds as expected with minimal reinsurance failure or dispute. When reinsurance and retrocessional coverage is purchased our aim is to align it with inwards exposure as far as possible, but there can be no assurance that outwards reinsurance or retrocession will be available to the Group in the future, or that it will be available on terms or at a cost deemed by the Group to be appropriate or acceptable (including as to its accounting and regulatory treatment) or from entities with satisfactory credit-worthiness, resulting in a material adverse effect on the Group's business, prospects, financial condition or results of operations. Certain of the Group's industry loss warranty reinsurances based on parametric triggers carry significant basis risk because industry loss warranty cover is purchased to pay out upon the occurrence of a defined modeled loss event whereas actual event losses may not match the modeled loss, resulting in uncertainty around payout.

The control systems of the Group may prove to be inadequate or may not be followed or implemented by the Group's employees.

The Directors believe that the Group has appropriate underwriting, claims, reserving, information technology and financial and management controls in place. However, any disruption in the implementation and/or development of these systems or processes may result in the Group incurring additional costs and may negatively impact the Group's ability to execute its strategy and to analyze in a timely and efficient manner its financial and other business information. This may ultimately have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Underwriting decisions also involve underwriting judgment and the use of important information and data submitted to underwriters by the brokers, which data may prove unreliable or inaccurate. Failure to ensure that sound underwriting disciplines are maintained and that underwritten risks reflect the business plan and strategy of the Group can affect the underwriting losses of the Group. Failure to identify and control aggregate exposures within predetermined risk tolerances may lead to unanticipated exposure to certain risks that could negatively impact results.

In the event that any employee or director of a member of the Group undertakes unauthorized underwriting activities on behalf of the Group beyond the contemplated scope of the Group's business, the anticipated risk profile of the Group could change and such change could have a material adverse effect on the Group.

Whilst the Directors believe the Group has appropriate protections in place against fraud, theft, misuse of funds, money laundering or other unauthorized or criminal activities, such systems may prove inadequate. In the event that the Group is subject to such activities and such systems prove inadequate, this could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Notwithstanding anything in this risk factor, this risk should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Group is reliant on ratings from A.M. Best and other ratings agencies, and any downgrade may have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Third-party credit rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria established by those rating agencies. The claims-paying ability ratings assigned by rating agencies to insurance and reinsurance companies represent independent opinions of financial strength and ability to meet policyholder or other obligations. Ratings reflect the ratings agencies' respective opinions on the ability of the Group or the Company (as applicable) to pay claims and are not evaluations directed to investors in, and are not recommendations to buy, sell or hold, the Group's securities. Insureds, cedants and intermediaries use these ratings as one measure by which to assess the financial strength and quality of insurers and reinsurers. These ratings are often a key factor in the decision by an insured, cedant or an intermediary on whether to place business with a particular insurance or reinsurance provider. Many insureds, cedants and intermediaries maintain a listing of acceptable insurers or reinsurers, generally based upon credit ratings. In the jurisdictions in which the Group operates, an A.M. Best "A minus" financial strength rating is the minimum rating normally acceptable for these insureds, cedants and intermediaries to include a particular insurer or reinsurer on such a list.

The Group understands that its risk management and performance will continue to be monitored by the rating agencies on a regular basis and any material deviation from the Group's business plan could lead to a ratings downgrade or placing on a negative credit watch. A ratings downgrade or placing of Lancashire Insurance Company Limited ("**LICL**") or Lancashire Insurance Company (UK) Limited ("**LUK**") on negative credit watch by A.M. Best, S&P or Moody's could have an adverse effect on the Group's ability to write business generally and the Group's ability to write in certain classes of business. Failure to qualify for inclusion on lists of acceptable insurers or reinsurers would seriously reduce the volumes of business presented to the Group's underwriters. A downgrade or placing of the Group on negative credit watch could, therefore, result in a substantial loss of business as insureds, cedants and brokers that place business with the Group might move to other insurers and reinsurers with higher credit ratings or insist on less favorable terms as a condition of continuing to do business with the Group. A credit rating downgrade might also give rise to a right of termination or amendment to any credit facilities the Group may have or reinsurance contracts placed with the Group or under which the Group is reinsured.

Third-party credit rating agencies may increase the levels of capital they require an insurer or reinsurer to hold in order to maintain a certain credit rating. Such changes could result in the Group having to raise additional capital or purchase reinsurance in order to maintain its credit rating, or, should the Group not raise such additional capital or purchase suitable reinsurance, could result in a downgrade of its credit rating, and could have a material adverse effect on the Group's business, prospects, financial condition or results of operations. See "Operating and Financial Review—Liquidity and Capital Resources—Capital Resources" for a more detailed discussion regarding the covenant under the Group's syndicated collateralized credit facility to maintain a financial strength rating for each of its insurance subsidiaries of at least B++.

The insurance and reinsurance business is historically cyclical, and the Group expects to experience periods with excess underwriting capacity and unfavorable premium rates and policy terms and conditions, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The insurance and reinsurance industry has historically been cyclical. Insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of underwriting capacity, underwriting results of primary insurers, general economic conditions and other factors. The supply of insurance and reinsurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate, including in response to changes in rates of return on investments being earned in the reinsurance industry.

The insurance and reinsurance pricing cycle has historically been a market phenomenon, driven by supply and demand rather than by the actual cost of coverage. The upward phase of a cycle is often triggered when a major event forces insurers and reinsurers to make large claim payments, thereby drawing down capital. This, combined with increased demand for insurance against the risk associated with the event, pushes prices upwards. Over time, insurers' and reinsurers' capital is replenished with the higher revenues, which leads to greater capital levels and an ability to write more business. At the same time, new entrants flock to the industry seeking a part of the profitable business. This combination prompts a slide in prices (the downward cycle) until a major insured event restarts the upward phase. As a result, the insurance and reinsurance business has been characterized by periods of intense competition on price and policy terms due to excessive underwriting capacity, which is the percentage of surplus or the dollar amount of exposure that a reinsurer is willing to place at risk, as well as periods when shortages of capacity result in favorable premium rates and policy terms and conditions.

The cyclical trends in the industry and the industry's profitability can also be affected significantly by volatile and unpredictable developments, such as natural disasters (for example, catastrophic hurricanes, windstorms, tornadoes, earthquakes and floods), courts granting large awards for certain damages, fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures that may tend to affect the size of losses experienced by insureds and primary insurance companies. The Group expects to experience the effects of cyclicality, which could have a material adverse effect on its business, prospects, financial condition or results of operations.

If actual claims exceed the Group's claim reserves, the financial condition and results of operations of the Group could be significantly adversely affected.

The Group's financial condition and results of operations will be affected by its ability to assess accurately the potential losses associated with the risks that it insures and reinsures, the reliability of the models and the quality of the data that it uses to assist in the decision-making. To the extent actual claims exceed the Group's expectations, the Group will be required to recognize promptly the less favorable development in loss exposure. This could cause a material increase in the Group's liabilities and a reduction in its profitability, including an operating loss and reduction of capital.

LICL and LUK are required under regulatory and accounting principles to maintain reserves to cover the estimated ultimate liability for claims (including claims handling expenses) with respect to reported and unreported claims incurred at the end of each accounting period (net of estimated related salvage and subrogation claims and reinsurance recoverables). There is considerable uncertainty around areas of subrogation and salvage. These reserves are estimated using actuarial and statistical projections based on the Group's expectations at the time of the ultimate settlement and administration of claims. These expectations are derived from facts and circumstances then known, predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability. As additional information is developed, it is necessary to revise estimated potential claims and therefore the Group's reserves. The inherent uncertainties of estimating claim reserves are exacerbated in respect of reinsurance by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer. Establishing an appropriate level of claim reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid will likely deviate, perhaps substantially, from the reserve estimates reflected in the Group's consolidated financial statements.

If the Group's claim reserves are determined to be inadequate after taking into account outwards reinsurance coverage, it will be required to increase claim reserves at the time of such determination with a corresponding reduction in the Group's net income in the period in which the deficiency is rectified. This could have a material adverse effect on the Group. In addition, claim reserves may prove to be inadequate in the event that outwards reinsurance cannot be collected. The Group may be forced to fund its obligations by liquidating investments unexpectedly in unfavorable market conditions or by raising funds at unfavorable costs. It is possible that claims in respect of events that occur could exceed the Group's claim reserves and have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Emerging claim and coverage issues could adversely affect the Group's liabilities on the business it underwrites.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Group's business either by extending coverage beyond the Group's intent with respect to insurance written or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after the Group has written business under insurance or reinsurance contracts that are affected by the changes.

Reliance on the availability of third-party information may result in variation to the Company's loss reserve estimates.

In addition, the Group's actual losses may vary materially from current estimates of the loss based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under the insurance or reinsurance contracts may not be known for some time after the event has occurred (which time could be several years).

There can be no assurance that premiums will be sufficient to cover the loss payments and expenses in connection with the Company's exposure under its insurance contracts in the event of insured losses.

The Company underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Company's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be

sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, among other factors. The Company's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses. The Company considers insurance risk at an individual contract level, sector level, geographic level and at an aggregate portfolio level with a view to ensuring careful risk selection, limits on concentration and appropriate portfolio diversification. Natural catastrophe exposed risks are modeled prior to execution. There can be no assurance that premiums will be sufficient to cover the loss payments and expenses in connection with the Company's exposure under its insurance contracts in the event of insured losses.

The Company is also subject to market risk on its insurance portfolio. The most important measure to mitigate insurance market risk is to maintain strict underwriting standards. Examples of how the Group reacts to insurance market risk include the following:

- Review and amend underwriting plans and outlook as necessary;
- Reduce exposure to market sectors where conditions have reached unattractive levels;
- Purchase what it considers to be appropriate, cost-effective reinsurance cover to mitigate exposure;
- Closely monitor changes in rates and terms and conditions;
- Hold a daily underwriting meeting to discuss, among other things, market conditions and opportunities;
- Regular review of the Group's proprietary internal risk management model ("**BLAST**") to assess up-to-date profitability of classes and sectors; and
- Hold a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy.

The Group's ability to mitigate insurance market risk will depend, in part, on its success in addressing such risk. Any failure by the Group to maintain strict underwriting standards could have a material adverse effect on its business, prospects, financial condition or results of operations.

Reinsurance subjects the Group to the credit risk of its reinsurers and may not be available, affordable or adequate to protect against losses.

The Group follows the customary insurance practice of reinsuring and retroceding with other insurance and reinsurance companies a portion of the risks under the insurance and reinsurance contracts that it writes in order to protect the Group against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregated extraordinary loss. The amount of coverage purchased is determined by the Group's risk strategy together with the price, quality and availability of such coverage. Coverage purchased for one year will not necessarily conform to purchases for another year. There can be no assurance that the Group will be able to obtain reinsurance or to enter into retrocession arrangements at a price, quality or in the amounts which the Group requires. There can be no assurance that the Group's outwards reinsurance or retrocession protection will be sufficient for all eventualities, which could expose the Group to greater risk and greater potential loss, which could have a material adverse effect on its business, prospects, financial condition or results of operations.

Although reinsurance will not discharge LICL and LUK from their primary obligation to pay under an insurance policy for losses insured or under a reinsurance agreement for losses assumed, reinsurance does make the assuming reinsurer or retrocessionaire liable to the Group for the reinsured or retroceded portion of the risk. Collectability of reinsurance and retrocession is dependent upon the solvency of reinsurers or retrocessionaires and their willingness to make payments under the terms of reinsurance or retrocession agreements. A reinsurer's

insolvency or inability or unwillingness to make payments under the terms of a reinsurance or retrocession arrangement could have a material adverse effect on the Group. The ultimate level of outwards reinsurance cover obtained by LICL and LUK will depend on a number of factors, including the Group's assessment of the level of reinsurance cover appropriate at the time such cover is sought in light of capacity, pricing, terms and conditions and the actual portfolio of risks assumed by these Group companies.

Competition within the industry may make profitable pricing difficult and the Group may fail to be able to access profitable insurance or reinsurance business.

The insurance industry is highly competitive. In its underwriting activities, the Group may find itself in competition with other insurers and reinsurers that may have an established position in the market or greater financial, marketing and management resources available to them. Competition in the types of business that the Group may underwrite is based on many factors, including premiums charged and other terms and conditions agreed, services provided, financial strength ratings assigned by third-party credit rating agencies and perceived financial strength, speed of claims payment, reputation and experience in the line of business to be written, and continuity, strength of relationship and reputation with clients and brokers. Competition can adversely affect premium levels by increasing insurance industry capacity, reducing prices in response to favorable loss experience, affecting the pricing of underlying direct coverage and other factors, any of which can develop in a relatively short period of time. In addition, the Group cannot predict the extent to which competition from new competitors (including hedge funds, capital markets products such as catastrophe bonds and new entrants that provide similar products) or existing competitors raising capital could mitigate projected increases of premium rates.

Rate improvements may be difficult to predict and obtain. There may be a divergence of views among market participants on the likely duration and extent of rate improvements if and when anticipated. Increased competition could result in fewer submissions, lower premium rates or less favorable policy terms and conditions with respect to the Group's products, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

In addition, the Group may fail to renew or obtain new insurance or reinsurance business at the desired profitable rates or at all. There can be no assurance that business will be available to the Group on terms or at prices that it considers to be attractive, nor can there be any assurance that if such terms or prices exist at present, they will continue as policies renew.

The Group is subject to operational risk that could adversely affect its business.

The Group's businesses are highly dependent on its ability to process large numbers of transactions promptly and accurately. The Group's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the Group's control, adversely affecting its ability to process these transactions or provide these services.

In particular, the Group relies on the ability of its employees, its internal systems and systems operated by third parties to process a high number of transactions. The Group's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports the Group's business. This may include a disruption involving natural catastrophes and hurricanes, terrorist activities, disease epidemics, electrical or other disruptions to communications or other services used by the Group, its employees or third parties with whom it conducts business. Any such event, or any other failure of the Group's operational systems to function properly, could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

In addition, the Company regularly monitors for changes in law and regulation that could impact its business. The Company's operations are regulated in each of the jurisdictions it does business. Changes in local regulatory frameworks or taxation regulations could adversely impact the way the local entities and/or the Group conducts business.

The Company actively assesses its relationships with brokers to identify strengths and also assesses for improvements. The Company is vulnerable to adverse market perception since it operates in an industry where customer integrity, trust and confidence are paramount. Any negative publicity (whether well founded or not) associated with the business or operations of the Group could result in a loss of clients and/or business.

Notwithstanding anything in this risk factor, this risk should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Group is reliant on third-party service providers and IT systems and their failure could lead to an interruption in the Group's business activities which could have a material adverse effect on the Group's business.

The Group is reliant on third parties for the provision of important services it needs to run its business, including finance and underwriting systems and processes and IT infrastructure including software, claims management and investment management services. If any of these service providers should fail to perform to the necessary level this may have a significant impact on the business of the Group and its IT systems. The Group requires complex and extensive IT systems to run its business. Any failure of these systems or by these service providers could lead to an interruption in the Group's business activities which, in turn, could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Managing change initiatives to address business developments, new and proposed regulations, and increasing data security regulations and risks could present significant challenges to the Group and impact the Group's ability to trade.

While technological developments can streamline many business processes and ultimately reduce the cost of operations, technology initiatives can present short-term cost and implementation risks. In particular, projections of implementation costs, delivery schedules and the projected benefits may be inaccurate and costs or delivery timelines can escalate over time.

The Group faces rising costs and competing time constraints in meeting compliance requirements of new and proposed regulations such as Solvency II, and also the Bermudian government's intention to achieve "equivalency" under the Solvency II framework. See "Risk Factors—Risks Relating to Regulation—The Solvency II Directive may have a negative impact on the Group's results." These statutory and regulatory requirements remain formative and the scope, implementation timescales and costs remain uncertain.

The expanding volume and sophistication of computer viruses, hackers and other external hazards may increase the vulnerability of the Group's data systems to security breaches. These increased risks and expanding regulatory requirements expose the Group to potential data loss and damages and significant increases in compliance and litigation costs, and such exposure could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Coverage disputes can increase expenses and incurred losses which could have a material adverse effect on the Group's business.

There can be no assurance that various provisions of the Group's insurance policies and reinsurance contracts, such as limitations on, or exclusions from, coverage, will be enforceable in the manner intended. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which a Group company may incur losses beyond those that it considered might be incurred at the time of underwriting the insurance policy or reinsurance contract, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group depends on brokers to distribute its products, and the loss of business provided by brokers could adversely affect it.

The Group is dependent upon brokers to distribute its products. Brokers are independent, and therefore no broker is committed to recommend or sell the products of the Group. Accordingly, the Group's relationships with brokers distributing its products will be important. A broker assesses which underwriting companies are suitable for it and its customers by considering, among other things, the security of investment and prospects for future investment returns in the light of a company's product offering, past investment performance, financial strength and perceived stability, ratings, the amount of initial and recurring sales commission and fees paid by a company and the quality of the service provided to the intermediary. A broker then determines which products are most suitable by

considering, among other things, product features and price. An unsatisfactory assessment of the Group and its products based on any of these factors could result in the Group generally, or in particular certain of its products, not being actively marketed by brokers to their customers. Failure to maintain a positive relationship with its brokers and competitive distribution network could result in a loss of market share or a reduction of the Group's sales volumes or an increase in policy lapses and withdrawals which could result in reduced fee and premium income, which, in turn, could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Concentration of our business in a small number of key brokers may subject us to reduced premium income.

In the year ended December 31, 2011 and the six months ended June 30, 2012, substantially all the Group's total gross written premiums, general insurance business and all of its reinsurance business originated from the distributor of its products through brokers. The Group faces concentration risk with respect to the brokers. In the year ended December 31, 2011 and the six months ended June 30, 2012, 27% and 33%, respectively, of the Group's total gross premiums written were distributed through Aon Benfield followed by Marsh (17% and 11% respectively), Willis (12% and 10% respectively), JLT (10% and 9% respectively), Lloyd and Partners (8% and 8% respectively) and Guy Carpenter (8% and 9% respectively), which broker information has been extracted without material adjustment from internal underwriting system records. See "Business—Distribution." Loss of all or a substantial portion of the business provided by one or more of the Group's insurance brokers could result in reduced premium income, which, in turn, could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group is exposed to the credit risk of its brokers.

In accordance with industry practice, the Group generally pays amounts owed on claims under its insurance and reinsurance contracts to brokers, and these brokers, in turn, pay these amounts over to the clients that have purchased insurance or reinsurance from the Group. If a broker fails to make such a payment, it is possible that the Group will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for payment over to the Group, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to the Group for those amounts, whether or not the Group has actually received the premiums from the broker. Consequently, the Group assumes a degree of credit risk associated with brokers around the world with respect to most of its insurance and reinsurance business.

The Company's policy of investing in instruments of high credit quality companies and sovereign debt to mitigate the amounts of credit exposure to its fixed income portfolio may prove to be inadequate.

The Company is exposed to credit risk on its fixed income investment portfolio and derivative instruments, its inwards premium receivable from insureds and cedants, and on any amounts recoverable from reinsurers. Credit risk on the fixed income portfolio is mitigated through Lancashire's policy to invest in instruments of high credit quality companies and sovereign debt and agencies of sovereign debt and to limit the amounts of credit exposure with respect to particular ratings categories and any one company. Securities rated below BBB-/Baa3 may comprise no more than 10% of shareholders' equity. At June 30, 2012, such securities comprised 2.4% of shareholders' equity. In addition, government-guaranteed securities should not exceed 5% of shareholders' equity, with the exception of securities guaranteed by Australia, Belgium, Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. There can be no assurance the Company will be successful in its aims to limit its exposure to any significant credit concentration risk on its investment portfolio.

Industry-wide developments could adversely affect the Group's business.

The availability and price of insurance and reinsurance coverage has been affected by factors such as the global economic recession, stock market performance, interest rates, the 2001 terror attacks in the United States, earthquakes such as in Chile, Japan and New Zealand, hurricanes such as Ike, Irene, Katrina, Rita and Wilma, the 2011 U.S. tornadoes, the Deepwater Horizon drilling unit catastrophe, the 2011 Gryphon Floating Production Storage and Offloading ("**FPSO**") vessel North Sea energy loss, the 2011 Thailand floods and the loss of the Costa Concordia cruise liner, asbestos and environmental liability claims, other liability claims such as directors' and officers' liability and major investment losses (including losses arising as a result of the recent turmoil in the

financial markets). The global economic recession may reduce the number and the amount of gross premiums written in the Group's business lines such as marine, where recession may result in a decline in shipbuilding projects, and aviation, where recession could produce significant declines in passenger volumes and departures. This tightening of supply may result in governmental intervention in the insurance and reinsurance markets which may affect the demand for the Group's products or the risks which may be available for it to consider underwriting. At the same time, threats of further terrorist attacks and the military initiatives and political unrest in the Middle East and Asia, and continued uncertainty arising directly and indirectly from the recent financial markets crisis have adversely affected general economic, market and political conditions, increasing many of the risks associated with the insurance and reinsurance industry worldwide.

The Group is exposed to risks relating to the general economic climate the worsening of which could have a material adverse effect on the Group's business.

The markets in which the Group offers its services are directly affected by many national and international factors that are beyond its control. Any one of the following factors may cause a substantial decline in the financial markets in which the Group offers its services: legislative and regulatory changes; economic and political conditions in Bermuda, the United Kingdom, the United States, continental Europe and elsewhere in the world; concerns about terrorism and war; the level and volatility of securities, property and commodity markets; the level and volatility of interest rates and foreign currency exchange rates and concerns over inflation, deflation and stagflation and changes in institutional and consumer confidence levels. In recent years, the financial markets have been adversely affected by acts of war, terrorism and other armed hostilities. They have also been affected by natural disasters. More recently, the financial crisis in the global credit markets that began in 2008 caused a global liquidity crisis which in turn caused a decline in stock markets worldwide, a loss in investment value of hedge funds, a widening of credit spreads, coordinated central bank interventions, and the insolvency of several mortgage lenders and banks and related stresses to the creditworthiness of certain sovereign states (for example, in the Eurozone) and resultant uncertainty for the strength and stability of currencies (in particular the Euro).

Any worsening of general economic conditions in the markets and industries in which the Group operates could result in a decrease in the demand for the Group's products and services and have a material adverse effect on its business, prospects, financial condition or results of operations, such as a reduced ability to raise credit, its liquidity and investment returns.

The Group is substantially dependent on a number of key individuals, the loss of the services of which key personnel could have a material adverse effect on the Group's business.

The Group's future success is substantially dependent on the continued services and continuing contributions of a limited number of individuals including its two executive Directors, senior underwriters and other key personnel. The loss of the services of any of these key personnel could have a material adverse effect on the Group's business. While the Group has entered into employment contracts or letters of appointment with such key personnel, the retention of their services cannot be guaranteed.

In addition, the success of the Group depends in part upon its continuing ability to recruit and retain employees with suitable skills and experience. There can be no assurance that the Group will be able to recruit sufficient or suitable staff, or that the individuals that it would like to recruit will be able to obtain the necessary work permits if required or that it will be able to retain such staff. In addition, there may be other factors affecting the Group's ability to recruit and retain staff, such as a lack of accommodation of sufficient quality in jurisdictions where the Group may employ expatriates. The inability to recruit and retain staff of suitable quality could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group is subject to Bermuda employment restrictions and the inability of certain employees of the Group to obtain or renew work permits could have a material adverse effect on the Group's business.

From time to time, the Group may need to hire additional employees in Bermuda. Under Bermuda law, non-Bermudians (other than spouses of Bermudians or holders of permanent residency certificates or working residents certificates) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian or a holder of a permanent

residency certificate or working residents certificate) is available who meets the minimum standard requirements for the advertised position. It is possible that due to these restrictions, and to the policy of the Bermuda government to place term limits upon the grant of certain work permits, subject to exceptions for key employees, the Group may lose the services of key employees (or future key employees in Bermuda who are non-Bermudian) if the Group is unable to obtain or renew their work permits, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The terms of the credit facilities available to the Group may impose restrictions on operations, and may restrict growth, resulting in a competitive disadvantage or adversely affecting the Group's ability to conduct business.

The Group has entered into credit facilities with various banks with the primary purpose of issuing letters of credit to support obligations under reinsurance liabilities of, and within, the Group. In addition, a portion of the credit facilities may be drawn down as a loan for general corporate purposes. The Group's obligations in respect of letters of credit issued and loans (if any) under the existing credit facilities are secured by collateral, which must meet certain quality requirements and value restrictions, placed in trust for the benefit of the lenders.

The terms of these credit facilities contain numerous operating and financial covenants which limit the Group's ability, among other things, to:

- make acquisitions and disposals;
- engage in any new material line of business;
- make investments;
- borrow more money for operations or capital in the future; and/or
- create any mortgage, pledge, encumbrance, lien, charge or other similar interest upon any of its property, assets or revenues.

In addition, the Group's credit facilities require that the Group maintain at all times a total debt to capitalization ratio of 30% or less, and that the Group's underwriting subsidiaries' financial strength rating by A.M. Best is not less than B++.

These restrictions could reduce the Group's flexibility to respond to changing business and economic conditions, including increased competition in the insurance and reinsurance industry, and could prevent the Group from expanding its business. Any non-compliance with the terms of these credit facilities presents a risk that the credit facilities could be withdrawn or that alternative financing may be required, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

The Group's future capital requirements depend on many factors, including any changes to capital requirements imposed by regulators or by third-party credit rating agencies increasing the levels of capital an insurer or reinsurer is required to hold in order to maintain a certain credit rating. See "—Risks Relating to Regulation—The Solvency II Directive may have a negative impact on the Group's results" and "—The Group is reliant on ratings from A.M. Best and other ratings agencies, and any downgrade may have a material adverse effect on the Group's business, prospects, financial condition or results of operations", respectively. The Group's ability to underwrite is largely dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. To the extent that current capital is insufficient to fund future operating requirements, including the maintenance of an appropriate financial strength rating, the Group may need to raise additional funds through financings or curtail its growth. Any additional financing, if available at all, may be on terms that are not favorable to the Group's then-current securities holders. In addition, the capital and credit markets may be subject to extreme volatility and disruption. In recent years, the markets have exerted downward pressure on the availability of liquidity and credit capacity for certain companies. If the Group cannot obtain adequate capital on favorable

terms or at all, this could have a material adverse effect on its business, prospects, financial condition or results of operations.

The Group is required to post collateral security to financial institutions to write certain of its business and any inability to provide collateral satisfying the statutory and regulatory guidelines applicable to primary insurers could have a material adverse effect on the Group.

As a reinsurer not licensed in the United States, the Group is required to post collateral security with respect to any reinsurance liabilities that it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain full statutory and regulatory credit for the Group's reinsurance. Other jurisdictions and non-U.S. ceding insurers may have similar collateral requirements. Under applicable statutory provisions, these security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company. The Group satisfies these statutory requirements either by providing to primary insurers letters of credit issued under the credit facilities or by posting collateral in designated trusts. To the extent that the Group is required to post additional security in the future, it may require additional letter of credit capacity. The Group may be unable to obtain this additional capacity or arrange for other types of security on commercially acceptable terms or on terms as favorable as under the current letter of credit facilities. Any inability to provide collateral satisfying the statutory and regulatory guidelines applicable to primary insurers could have a material adverse effect on the Group's ability to provide reinsurance to third parties and negatively affect its financial position and results of operations.

Security arrangements may subject the Group's assets to security interests and/or require that a portion of the Group's assets be pledged to, or otherwise held by, third parties. Although the investment income derived from the Group's assets while held in trust typically accrues to its benefit, the investment of these assets is governed by the investment regulations of the state of domicile of the ceding insurer and may also be governed by specific contractual obligations.

Bermuda is subject to catastrophe risks which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Bermuda is an island that has communications systems and power systems that are limited to one or a few providers and which are exposed to interruption by catastrophe, both natural and non-natural. Where the power or communications systems are interrupted for any material length of time, it could result in commercial or reputation damage to the Group which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Loss of business reputation or negative publicity could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group is vulnerable to adverse market perception since it operates in an industry where integrity, customer trust and confidence are paramount. In addition, any negative publicity (whether well founded or not) associated with the business or operations of the Group could result in a loss of clients and business. Accordingly, any mismanagement, fraud or failure by its employees to satisfy fiduciary responsibilities, or the negative publicity resulting from such activities or any allegation of such activities and consequential loss of reputation, could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group is exposed to the risk of litigation which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers means that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group in the future could have a material adverse effect on the Group. The Group's insurance may not necessarily cover all or any of the claims that clients or others may bring against the Group or may not be adequate to protect it against all the liability that may be imposed.

In addition, legal decisions may expand the scope of legal liabilities, which in turn could increase the amount of claims which have to be paid by the Group, thereby reducing profits and profit commission received by the Group.

The Group may be involved in litigation against third parties in the normal course of business and the probable outcome of all such litigation may be taken into account in the assessment of the Group's liabilities. If the outcome of such litigation is incorrectly estimated, this could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Investment performance and incorrect assessment of investment risk could affect the profitability and solvency position of the Group.

The Group holds significant investments to support its liabilities and its profits are affected by the returns achieved on its investment portfolios. Changes in interest rates, credit ratings and other economic variables (including inflation, deflation or stagflation) could therefore substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's net income and solvency position, which in turn may result in a reduction in the level of premium which the Group is able to underwrite, which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

While the Group emphasizes the preservation of invested assets and the provision of sufficient liquidity for the prompt payment of claims, it will nevertheless be subject to market-wide risks including illiquidity and pricing uncertainty and fluctuations, as well as to risks inherent in particular securities. The Group's investment performance may vary substantially over time, and there can be no assurance that it will achieve its investment objectives. Investment results will also be affected by general economic conditions, market volatility, interest rate fluctuations, liquidity and credit risks beyond the Group's control.

There can be no guarantee that funds will be available to meet obligations when they are due without incurring an unreasonable cost.

The Company is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Company can be exposed to daily calls on its available investment assets, principally from insurance claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost.

The Group manages its liquidity risks via its investment strategy to hold high-quality, highly liquid securities, sufficient to meet its insurance liabilities. The creation of the core portfolio with its sub-set of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event and other near-term liquidity requirements.

In addition, the Board of Directors have established asset allocation and duration parameters within the investment guidelines in order to maintain the majority of the Group's investments in high-quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlooks and re-allocates assets as deemed necessary. To the extent that the Company is unsuccessful in the management of liquidity risk, the Company may incur costs which may, in turn, have a material adverse effect on its results of operations.

The Group's investment portfolio may suffer reduced returns or losses which could adversely affect its results of operations and financial condition. Any increase in interest rates or volatility in the fixed income markets could result in significant unrealized losses in the fair value of the Group's investment portfolio which would reduce its comprehensive income.

The Group's operating results depend in part on the performance of its investment portfolio, which currently consists of cash and fixed maturity securities and derivatives, as well as the ability of its investment managers to effectively implement its investment strategy. The Board of Directors, led by the Investment Committee, oversees the Group's investment strategy, and in consultation with the Group's portfolio advisers, has established investment guidelines. The investment guidelines dictate the portfolio's overall objective, benchmark

portfolio, eligible securities, duration, limitations on the use of derivatives and inclusion of foreign securities, diversification requirements and average portfolio rating. Management and the Investment Committee periodically review these guidelines in light of the Group's investment goals and consequently they may change at any time.

The Group may invest from time to time in derivative instruments for limited purposes; for example to hedge currency exposures in its emerging market debt portfolio, to manage interest rate risk, and to match currency exposures in its insurance and reinsurance policies.

Investment results will be affected by general economic conditions, market volatility, interest rate fluctuations, liquidity and credit risks beyond the Group's control. In addition, the Group's need for liquidity may result in investment returns below its expectations. With respect to certain of its investments, the Group is subject to prepayment or reinvestment risk primarily on its mortgage-backed and asset-backed securities, which comprised 19.0% and 25.3%, respectively, of the investment portfolio as at December 31, 2011 and June 30, 2012. Although the Group attempts to manage the risks of investing in a changing interest rate environment, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of its investment portfolio and, consequently, could have an adverse effect on the Group's comprehensive income.

Acquisitions, strategic investments or new platforms could expose the Group to further risks.

From time to time, the Group may pursue growth through acquisitions and strategic investments in businesses or new underwriting or marketing platforms. The negotiation of potential acquisitions or strategic investments, as well as the integration of an acquired business, personnel or underwriting or marketing platforms (including sidecars) could result in a substantial diversion of management resources. Such initiatives could involve numerous additional risks such as potential losses from unanticipated litigation, a higher level of claims than is reflected in reserves and an inability to generate sufficient revenue to offset acquisition costs.

The Group's ability to manage its growth through acquisitions, strategic investments or new or alternative platforms (including sidecars) will depend, in part, on its success in addressing such risks. Any failure by the Group to implement its acquisitions, new platforms (including sidecars) or strategic investment strategies effectively could have a material adverse effect on its business, prospects, financial condition or results of operations.

Changes in foreign exchange rates may adversely affect the Group's business, results of operations or financial position.

The Group currently underwrites from two locations, Bermuda and London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars and the U.S. dollar is the Group's reporting currency. The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact income and could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

The Group hedges non-U.S. dollar exposures primarily by adjusting non-U.S. dollar cash levels but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, premiums receivable, dividends due and the Group's subordinated loan notes and long-term debt liability. The Group also has a small exposure to foreign currencies through its emerging markets debt investment portfolio. These positions may not be hedged depending on the currency outlook.

There is uncertainty surrounding the U.S. Federal Terrorism Risk Insurance Act, as amended ("TRIA") and whether the Group would benefit from its federal indemnification program for covered acts of terrorism.

TRIA was extended on December 26, 2007 by the Terrorism Risk Insurance Program Reauthorization Act, to December 31, 2014. TRIA was enacted to ensure the availability of insurance coverage for terrorist acts in the United States. This law requires insurers, including the Group, writing certain lines of property and casualty insurance to make available coverage against certain acts of terrorism causing damage within the United States or to any U.S. mission or U.S. flagged vessels and aircraft. TRIA also imposes various disclosure and notice obligations on the Group, and necessitates additional record keeping practices. In return, the law requires the federal government to indemnify insureds for 85% of insured losses resulting from covered acts of terrorism, in excess of a

statutory deductible based on the Group's direct earned premium. For a covered act of terrorism to have occurred, the U.S. Treasury Secretary must make several findings. Since TRIA's enactment, there has been no instance where an act of terrorism has been certified as such and triggered the federal indemnification under TRIA. As such, there can be no assurance as to how the TRIA program will operate in practice and it is therefore possible that the Group may not benefit from the federal indemnification under TRIA in the event of a loss due to terrorism.

Risks Relating to Taxation

Statements in this Prospectus concerning the taxation of the Group or of investors in the Notes are based on current Bermudan, U.K. and U.S. tax law and practice, which is subject to change. A number of risk factors could adversely impact the Group's tax position and materially affect the Company's ability to provide returns to investors.

In addition, a number of factors could affect the taxation of an investment in the Company, which also depends on the individual circumstances of investors. See "Material Tax Considerations" for certain considerations in relation to the taxation of noteholders.

Bermuda Tax Risks

The Company, LUK and LICL may become subject to taxes in Bermuda, which could negatively impact the Group's results of operations.

The Company, LUK and LICL may become subject to taxes on capital gains and/or income in Bermuda after March 31, 2035, which may have a material adverse effect on the Group's financial condition or results of operations.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given the Group an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Company, LUK or LICL or any of either company's operations, shares, debentures or other obligations until March 31, 2035. It cannot be certain that the Company, LUK and LICL will not be subject to any Bermuda tax after March 31, 2035. See "Material Tax Considerations—Certain Bermuda Tax Consequences."

The OECD's review of harmful tax competition could adversely affect the Group's tax status in Bermuda and elsewhere.

The Organization for Economic Cooperation and Development (the "**OECD**") has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. According to the OECD, Bermuda is a jurisdiction that has substantially implemented the internationally agreed tax standard and as such is listed on the OECD "white list." However, we are not able to predict whether any changes will be made to this classification or whether any such changes will subject us to additional taxes.

Application of premium tax could negatively impact the Group's results and cash flows.

Premium taxes may be payable on premiums received in respect of direct insurance business written by LICL and LUK. The amount of premium tax levied will depend on the location of the risk and the premium tax regime of that territory. It is impossible to calculate the likely level of premium taxes incurred due to the expected diversity of the book of business written by the Group. Premium taxes should not affect the profitability of LICL or LUK as such taxes generally will be paid by the insured on top of the premiums received. However, premium taxes can have a negative impact on cash flows. Reinsurance is normally, but not always, exempt from premium taxes.

U.S. Tax Risks

The Group may be subject to U.S. tax in which case its results of operations could be materially adversely affected.

If any member of the Group was considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case its results of operations could be materially adversely affected.

The Group and LICL are Bermuda companies; LUK, Lancashire Insurance Services Limited ("**LISL**") and Lancashire Insurance Marketing Services Limited ("**LIMSL**") are U.K. companies. The Directors intend to manage the business of the Company, LICL, LUK, LISL and LIMSL so that each of these companies should operate in such a manner that none of these companies should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on certain U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the United States, it cannot be certain that the U.S. Internal Revenue Service (the "**IRS**") will not contend successfully that Group members are engaged in a trade or business in the United States.

Changes in U.S. federal income tax law could materially adversely affect an investment in the Notes.

Legislation has been introduced in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. It is possible that legislation could be introduced in and enacted by the current Congress or future Congresses that could have an adverse impact on the Group, shareholders or noteholders.

Additionally, the U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States are subject to change, possibly on a retroactive basis. The Directors cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

U.K. Tax Risks

General

The Company is not incorporated in the United Kingdom but as of January 1, 2012, the Company established its head office in London and became U.K. tax resident for U.K. tax purposes. The Company and the U.K. incorporated companies within the Group are subject to U.K. corporation tax in respect of their worldwide income and gains, which represent a material portion of the Group's income and operations.

Any change in the Company's tax status or any change in U.K. tax law could materially affect the Group's financial condition or results of operations.

LICL may be subject to U.K. tax in which case its results of operations could be materially adversely affected.

LICL is not incorporated in the United Kingdom. Accordingly, LICL should not be treated as being resident in the United Kingdom for U.K. corporation tax purposes unless its central management and control is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. LICL intends to manage its affairs so that it is not resident in the United Kingdom for U.K. tax purposes.

A company not resident in the United Kingdom for U.K. corporation tax purposes can nevertheless be subject to U.K. corporation tax if it carries on a trade through a permanent establishment in the United Kingdom, but

the charge to U.K. corporation tax is limited to profits (including revenue profits and capital gains) attributable directly or indirectly to such permanent establishment.

LICL intends to operate in such a manner that it does not carry on a trade through a permanent establishment in the United Kingdom. Nevertheless, because neither case law nor U.K. statute completely defines the activities that constitute trading in the United Kingdom through a permanent establishment, Her Majesty's Revenue and Customs ("**HMRC**") might contend successfully that LICL is trading in the United Kingdom through a permanent establishment in the United Kingdom.

The United Kingdom has no comprehensive income tax treaty with Bermuda. There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a permanent establishment. However, LICL intends to operate in such a manner so that it will not fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If LICL were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if LICL were to be treated as carrying on a trade in the United Kingdom, the results of the Group's operations could be materially adversely affected.

Any adverse adjustment under the U.K. transfer pricing regime or the legislation governing the taxation of U.K. tax resident holding companies on the profits of their foreign subsidiaries could adversely impact the Group's tax liability.

The reinsurance arrangements between LICL and LUK and the marketing services arrangements between LICL and LIMSL, a wholly owned subsidiary of the Company incorporated in England and Wales, are subject to the U.K. transfer pricing regime. Consequently, if the reinsurance or provision of marketing services is found not to be on arm's-length terms and, as a result, a U.K. tax advantage is being obtained, an adjustment will be required to compute U.K. taxable profits of LUK or LIMSL, respectively, as if the reinsurance or provision of marketing services were on arm's-length terms. Any transfer pricing adjustment could adversely impact the Group's tax liability.

Under the CFC regime, the income profits of non-U.K. resident companies may in certain circumstances be attributed to controlling U.K.-resident shareholders for U.K. corporation tax purposes. The CFC regime was significantly amended in the Finance Act 2011 (*inter alia*, to include an exemption for the profits of a foreign subsidiary for a temporary period after its holding company has become U.K. resident for U.K. corporation tax purposes) and replaced with a completely new regime in the Finance Act 2012 with effect for CFC accounting periods beginning on or after January 1, 2013. The Company intends to rely on this temporary period exemption initially from the date on which it became resident in the United Kingdom, namely from January 1, 2012. Thereafter, LICL intends to operate in such a manner that its profits are not taxed on the Company under the new CFC regime. However, the new CFC regime is untested. Any change in the anticipated interpretation of the temporary period exemption or of the new CFC regime or in the way in which LICL operates or any further change in the CFC regime, resulting in an attribution of any of LICL's income profits to the Company for U.K. corporation tax purposes, could materially adversely affect the Group's financial condition.

The introduction of an EU financial transactions tax could adversely impact the Group's tax liability.

On September 28, 2011, the EU Commission published a proposal for a new financial transaction tax ("**FTT**"). According to the draft EU Directive, the FTT would apply to financial transactions where at least one of the parties is a financial institution and either that party or another party to the financial transaction is established in a Member State of the EU (a "**Member State**"). It is not relevant whether the financial institution is acting as principal or as agent. "**Financial institution**" includes a wide range of entities, including banks, credit institutions, insurance and reinsurance undertakings, pension funds, UCITS collective investment funds and their investment managers, special purpose vehicles and certain leasing companies. "**Financial transaction**" is widely defined to include the sale and purchase of a financial instrument, a transfer of risk associated with a financial instrument and the conclusion or modification of a derivative. The proposed minimum rate of tax is 0.1% of the consideration or

0.01% of the notional amount in relation to derivatives. Member States could set higher rates. The original proposal was for FTT to take effect from January 1, 2014. However, there is not EU-wide support for the EU Commission proposal, although some Member States have indicated an intention to move forward through an enhanced cooperation procedure. The introduction of FTT in this or similar form could have an adverse effect on the results of the Group.

Risks Relating to Regulation

If the Group becomes directly subject to insurance statutes and regulations in jurisdictions other than Bermuda or the United Kingdom or there is a change to the law or regulations or application of the law or regulations of Bermuda or the United Kingdom, this could have a material adverse effect on its business, prospects, financial condition or results of operations.

LICL is a registered Bermuda Class 4 insurer pursuant to the Insurance Act 1978 of Bermuda and related regulations, as amended (the "**Bermuda Insurance Act**") and as such, it is subject to regulation and supervision in Bermuda. LUK operates from the United Kingdom and is authorized by the FSA to underwrite certain classes of general insurance. LUK also has certain EEA freedom of service authorizations, which means it may offer its insurance services into certain EEA jurisdictions on a cross-border basis without the need for separate authorizations. LIMSL is a U.K.-based insurance intermediary authorized by the FSA. It acts as a marketing representative for LICL in the United Kingdom.

Bermuda and the U.K. insurance statutes and the regulations and policies of the Bermuda Monetary Authority (the "**BMA**") and the FSA may require LICL, LUK and LIMSL to, among other things:

- maintain a minimum level of capital, surplus and liquidity;
- satisfy solvency standards;
- restrict dividends and distributions;
- obtain prior approval of ownership and transfer of shares;
- maintain a principal office and appoint and maintain a principal representative in Bermuda (for LICL) and the United Kingdom (for LUK) respectively;
- provide for the performance of certain periodic examinations of LICL, LUK and LIMSL and their financial condition; and
- comply with legal and regulatory restrictions with respect to their ability to pay dividends and make capital distributions upon which the Company is reliant to provide cash flow required for debt service and dividends to shareholders. See "Regulation—Bermuda Insurance Regulation—Restrictions on Dividends and Distributions" and "Regulation—U.K. Insurance Regulation—Restrictions on Dividend Payments" below.

These statutes, regulations and policies may affect the Group's ability to write insurance and reinsurance policies, to distribute funds and to pursue its investment strategy.

The Group does not presently intend that it will create a physical presence in any jurisdiction in the United States. However, there can be no assurance that insurance regulators in the United States or elsewhere will not review the activities of the Group or related companies or its agents and claim that the Group is subject to such jurisdiction's licensing requirements. If any such claim is successful and the Group must obtain a license, it may be subject to taxation in such jurisdiction. In addition, the Group is subject to indirect regulatory requirements imposed by jurisdictions that may limit its ability to provide insurance or reinsurance. For example, the Group's ability to write insurance may be subject, in certain cases, to arrangements satisfactory to applicable regulatory bodies. Proposed legislation and regulations may have the effect of imposing additional requirements upon, or restricting the market for, alien insurers or reinsurers with whom U.S. companies place business.

Bermuda and U.K. insurance statutes and regulations applicable to the Group may be less restrictive than those that would be applicable if LICL and LUK were licensed in and governed by the laws of any state in the United States. In the past, there have been U.S. Congressional and other initiatives in the United States regarding proposals to supervise and regulate insurers domiciled outside the U.S. If in the future the Group becomes increasingly subject to any insurance laws of the U.S. or any state thereof or of any other jurisdiction, the Group cannot be certain that it would be in compliance with those laws or that coming into compliance with those laws would not have a significant and negative effect on its business.

The process of obtaining licenses in the United States and elsewhere is time consuming and costly, and LICL or LUK may not be able to become licensed in a jurisdiction other than Bermuda or the United Kingdom should they choose to do so. The modification of the conduct of the Group's business resulting from LICL or LUK becoming licensed in certain jurisdictions could significantly and negatively affect its business. In addition, the Group's inability to comply with insurance and reinsurance statutes and regulations could significantly and adversely affect its business by limiting its ability to conduct business as well as subjecting the Group to penalties and fines.

The Solvency II Directive may have a negative impact on the Group's results.

An EU directive known as Solvency II covering the capital adequacy, risk management and regulatory reporting for insurers and reinsurers is expected to be implemented on January 1, 2014. Solvency II aims to establish a revised set of EU-wide capital requirements, valuation techniques and risk management requirements that will replace the current minimum requirements in the current EU directives. In addition, a so-called Omnibus II Directive is expected (among other things) to introduce a series of transitional provisions in specific areas that may extend beyond January 1, 2014. The details of the Solvency II project will be set out in "delegated acts" and binding technical standards which will be issued by the European Commission and will be legally binding. No official drafts for any of these measures have been released. Solvency II presents a number of risks to LUK and the Group, a key one being that Solvency II may require an increase in LUK's capital requirements. Other risks include more complex regulatory reporting burdens, regulatory requirements that conflict with requirements in other jurisdictions, and shortages of skilled staff in critical areas such as actuarial, all of which may have a negative impact on LUK's and the Group's results. In addition, the Group could be required to undertake a significant amount of work to ensure compliance with the new Solvency II regime and this may divert finite resources from other business-related tasks. The Solvency II risks which may be further exacerbated because of the Group's implementation plans are based on its current understanding of the Solvency II requirements, and these may change.

Further, unless the European Commission assesses the regulatory regime in Bermuda as "equivalent" to Solvency II, then LICL may be required to post collateral in respect of any reinsurance of EEA cedants, including LUK, which may have a negative impact on LICL's and the Group's results. This is because, under Solvency II, the prohibition on EEA states imposing collateral requirements on its cedants wishing to take credit for reinsurance only applies in cases of the reinsurers who are situated in the EEA or in a country whose solvency regime is deemed "equivalent" to Solvency II. Therefore, if Bermuda's solvency regime is not deemed "equivalent" to Solvency II, then LICL's EEA cedants may be required to seek collateral from LICL in order for the cedant to take credit for such reinsurance. Regulators in Bermuda and other jurisdictions in which we operate are also considering various proposals for financial and regulatory reform. As part of its efforts to achieve equivalence under Solvency II, the BMA has implemented and imposed additional requirements on certain classes of insurance companies it regulates, such as would include LICL, and is in the process of implementing new rules regarding insurance group supervision. While it cannot be determined at this time, the future impact of the BMA's insurance group supervision and insurance group solvency rules may have an adverse effect on our results of operations and financial condition.

Furthermore, if the solvency regime in Bermuda is not deemed equivalent to that laid down in Solvency II, group supervision will likely be conducted by the FSA in addition to the BMA. The FSA would have to apply the principles of group supervision as prescribed under Solvency II and the details of how this will be implemented are not yet clear. The impact of such additional group supervision may have a material adverse effect on our business, financial condition and results of operations.

On January 1, 2011, the European Insurance and Occupational Pensions Authority ("**EIOPA**") replaced the Committee of European Insurance and Occupational Pensions Supervisor. EIOPA's final advice to the European Commission was that Bermuda meets the criteria set out in EIOPA's methodology for equivalence assessments

under Solvency II for insurers of LICL's class but with certain caveats. The European Commission has stated that its decision on third country equivalence is likely to be made in 2013, based on its current timetable. If the European Commission does not recognize the supervisory regime in Bermuda to be equivalent, this could have an adverse effect on the Group's operations.

There remains uncertainty as to the application of the group supervision provisions of Solvency II to the Group. Currently, the BMA has asserted itself as the Group's regulatory supervisor pursuant to Bermuda legislation. However, as a result of the Company's change of tax residency to the United Kingdom with effect from January 1, 2012, and assuming that the Company continues to operate its head office from the United Kingdom, the FSA will become the Group's supervisor once the Solvency II directive becomes effective (anticipated for 2014). The BMA has acknowledged that the FSA will assume supervisory responsibility for the Group if and when Solvency II becomes effective and the Group is in dialogue with both the BMA and the FSA to seek a smooth handover of group supervision from the BMA to the FSA. Nevertheless, regulations in both Bermuda and the United Kingdom are still being developed. There is considerable uncertainty as to the final applicable rules in Bermuda and the United Kingdom and there is a risk that the BMA and the FSA will in the future adopt differing regulatory approaches resulting in a significantly increased regulatory burden and costs for the Group as a whole.

Changes to the regulatory systems or loss of authorizations, permits or licenses under which the Group operates or breach of regulatory requirements by the Group could have a material adverse effect on its business.

The Company and LICL (both incorporated in Bermuda) and LUK (incorporated in England and Wales) will be subject to changes of law or regulation in these jurisdictions which may have an adverse impact on their operations, including the imposition of tax liabilities or increased regulatory supervision. The Group is also exposed to changes in accounting standards, some of which may be significant. For example, the change to IFRS 4 concerning insurance accounting may materially affect the Group's accounting treatment in the future. In addition, the Company, LICL and LUK will be exposed to changes in the political environment in Bermuda and the United Kingdom, respectively. The Bermuda insurance and reinsurance regulatory framework has recently become subject to increased scrutiny in many jurisdictions, including in Europe and the United States and in various states within the United States.

The Group's ability to conduct insurance and reinsurance business in different countries generally requires the holding and maintenance of certain licenses, permissions or authorizations, and compliance with rules and regulations promulgated from time to time in these jurisdictions. A principal exception to this is with respect to cross-border reinsurance in the United States and other countries. For reinsurance there are currently no U.S. licenses required, although the Group operates outside the U.S. and is, in common with other non-U.S. reinsurers, required to post letters of credit or establish other security in order to enable U.S. cedants to take financial statement credit for liabilities ceded to members of the Group.

A failure to comply with rules and regulations in a jurisdiction could lead to disciplinary action, the imposition of fines or the revocation of the license, permission or authorization necessary to conduct the Group's business in that jurisdiction, which could have a material adverse effect on the continued conduct of business. Among other things, insurance laws and regulations applicable to members of the Group may:

- require the maintenance of certain solvency levels;
- regulate transactions undertaken, including transactions with affiliates and intra-group guarantees;
- in certain jurisdictions, restrict the payment of dividends or other distributions; and/or
- require the disclosure of financial and other information to regulators.

In the United States, generally, only the first and last of the above requirements would apply to the Group.

It is possible that insurance regulators in the United States or elsewhere may review the activities of the Company, LICL and LUK and claim that they are subject to such jurisdiction's licensing requirements and require that the Company, LICL and LUK comply with additional regulatory obligations. Having to meet such

requirements, however, could have a material adverse affect on the Group's, LICL's and LUK's results of operations. Alternatively or in addition, any necessary changes to operations could subject the Company, LICL and LUK to taxation in the United States or elsewhere.

In recent years, regulation of the insurance and reinsurance industry in the United States, the United Kingdom, Bermuda, Europe and other markets in which the Group operates has been subject to significant review. These reviews have led to changes in certain legal and regulatory provisions which govern the operations of the Group, and it can be expected that further reviews and changes to applicable laws and regulations will occur in the future. The Group cannot predict the effect that any proposed or future law or regulation may have on the financial condition or results of operations of the Group. Changes in applicable laws or regulations or in their interpretation or enforcement could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

In particular, changes in regulatory capital requirements in the United States, the United Kingdom or Bermuda may impact upon the level of capital reserves required to be maintained by individual Group entities or by the Group as a whole.

Risks Relating to the Notes

General market conditions and unpredictable factors could adversely affect market prices for the Notes.

There can be no assurance about the market prices for the Notes. Several factors, many of which are beyond our control, will influence the market prices of the Notes. Factors that might influence the market prices of the Notes include, but are not limited to, the following:

- our credit ratings with major credit rating agencies, including with respect to the Notes;
- the prevailing interest rates being paid by other companies similar to us;
- our operating results, financial condition, financial performance and future prospects; and
- economic, financial, geopolitical, regulatory and judicial events that affect us, the industries and markets in which we are doing business and the financial markets generally, including continuing uncertainty about the strength and speed of recovery in the United States and other key economies, the impact of governmental stimulus and austerity initiatives, and sovereign credit concerns in Europe and other key economies.

The price of the Notes may be adversely affected by unfavorable changes in these factors. The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Such fluctuations could have an adverse effect on the price of the Notes.

In addition, credit rating agencies continually review their ratings for the companies that they follow, including us. The credit rating agencies also evaluate the insurance industry as a whole and may change our credit rating based on their overall view of our industry. A negative change in our rating could have an adverse effect on the price of the Notes.

The Notes may not have an active trading market and the Notes are subject to a number of obligations.

The Notes may have no established trading market when issued, and one may never develop. We intend to apply to list the Notes on the London Stock Exchange; however, we cannot assure you that the Notes will be approved for listing. If the application is approved, trading of the Notes on the London Stock Exchange is not expected to begin 30 days following the date of the initial delivery of the Notes. If the Notes are approved for listing, an active trading market on the London Stock Exchange may not develop, or, even if it does develop, may not continue, in which case the trading prices of the Notes could be adversely affected and your ability to trade your Notes may be limited. Even if a trading market does develop, it may not have significant liquidity, and transaction costs in such a market could be high. We have been advised by the Initial Purchasers that they intend to make a

market in the Notes but the Initial Purchasers are not obligated to do so and may cease market-marking activities, if commenced, at any time.

The Notes are subject to transfer restrictions.

The Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered hereby to Qualified Institutional Buyers in transactions that are either exempt from registration pursuant to Section 4(2) of, and Rule 144A under, the Securities Act, or are not subject to registration in reliance on Regulation S. Accordingly, the Notes are subject to certain restrictions on the resale and other transfer thereof as set forth under "Notice to Investors." As a result of such restrictions, there can be no assurance as to the existence of a secondary market in the United States for the Notes or the liquidity of such market if one develops. Consequently, you must be able to bear the economic risk of an investment in your Notes for an indefinite period of time.

Other than as provided by the Debt to Capital Ratio covenant, the Indenture does not limit the amount of indebtedness we may issue and other future indebtedness or liabilities may rank equally with the Notes in right of payment or upon liquidation.

The Company may not issue Debt in breach of the Debt to Capital Ratio covenant. The terms of the Indenture do not otherwise limit our ability to incur additional indebtedness or other liabilities, whether secured or unsecured, including additional senior indebtedness. If we incur additional indebtedness or liabilities, the Company's ability to pay its obligations under the Notes could be adversely affected.

Other than as provided by the Debt to Capital Ratio covenant, there is no restriction on the amount of securities that we may issue.

The Company may issue additional securities which securities may rank equally in right with payment of the Notes up to the limitation imposed by the Debt to Capital Ratio covenant. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional indebtedness could affect our ability to repay the principal of, and make payments of interest on, the Notes.

Our ability to meet our obligations under the Notes is dependent upon distributions from our subsidiaries but our subsidiaries' ability to make distributions is limited by law and certain contractual agreements.

The Notes will be solely Lancashire's obligations. We are a holding company whose principal assets are our investments in our subsidiaries. As a holding company, we are dependent on dividends, returns of capital and interest income from our direct and indirect subsidiaries to meet ongoing cash requirements, including servicing debt payments and other expenses. These subsidiaries are separate legal entities and have no obligation, contingent or otherwise, to pay any amounts due under our obligations, including the Notes, or to make any funds available for such payment, whether as dividends, loans or other payments to us.

In addition, some of our subsidiaries are insurance companies subject to laws restricting the amount of dividends they may pay. See "Regulation" for a description of certain Bermuda and U.K. regulatory restrictions on the subsidiaries' ability to pay dividends. The inability of our subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our results of operations and ability to make payments of interest and principal under the Notes. If our subsidiaries were limited in their ability to pay dividends to us in the future (either directly or indirectly), our ability to pay interest and principal due on the Notes could be impaired.

As at June 30, 2012, our insurance subsidiaries had U.S.$449.4 million available to pay dividends to us, which information has been extracted without material adjustment from internal accounting records, subject to limitations under applicable insurance law, without seeking the approval of the applicable insurance regulators. However, our subsidiaries are not prohibited or restricted by the terms of the Notes from entering into agreements or other arrangements that have the effect of prohibiting or restricting their ability to pay dividends or otherwise make distributions to us.

The Notes will be effectively subordinated to the obligations of our subsidiaries.

Our subsidiaries are separate and distinct legal entities. Because we are a holding company, our right to participate in any distribution of assets of any of our subsidiaries, upon the subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of its creditors, except to the extent that we may be recognized as a creditor of that subsidiary. The applicable insurance laws of the jurisdiction where each of our insurance subsidiaries is domiciled would govern any proceedings relating to that insurance subsidiary. Both creditors and policyholders of the subsidiary would be entitled to payment in full from the subsidiary's assets before we, as a shareholder, would be entitled to receive any distribution from the subsidiary which we might apply to make payments of principal and interest on the Notes or other indebtedness.

Accordingly, our obligations under the Notes will be effectively subordinated to all existing and future indebtedness and liabilities of our subsidiaries, including liabilities under contracts of insurance and reinsurance written by our insurance subsidiaries, and you, as holders of Notes, should look only to our assets for payment under the Notes. As of June 30, 2012, the consolidated liabilities of our subsidiaries (which include losses and loss adjustment expenses, other payables, and amounts payable to reinsurers but exclude our unearned premiums, deferred acquisition costs ceded, intercompany reinsurance balances and long-term debt) were U.S.$708.8 million. Our subsidiaries may incur additional liabilities or issue debt in the future, all of which would rank structurally senior to the Notes. In the event of our liquidation or reorganization, holders of the Notes will generally have a junior position to claims of creditors of our subsidiaries.

The Company's ability to redeem the Notes in certain circumstances may adversely affect the return on the Notes.

We may redeem the Notes (i) in whole or in part at the Company's option at a make-whole redemption price calculated as described herein or (ii) in whole, but not in part, at any time after the occurrence of a Tax Event, provided that such event is still continuing, at a redemption price equal to their principal amount, in each case plus accrued and unpaid interest to, but excluding, the date of redemption.

The Company may exercise its option to redeem the Notes at any time and events that would constitute a Tax Event could occur at any time and could result in the Notes being redeemed earlier than would otherwise be the case. In the event we choose to redeem the Notes, you may not be able to reinvest the redemption proceeds in an investment with a comparable return. We do not need your consent in order to redeem the Notes as described in the paragraph above. In addition, you may not require us to redeem or repurchase the Notes under any circumstances. However, our ability to redeem the Notes may be subject to regulatory approval depending on the size of the redemption in relation to overall capital and issues of solvency.

The Indenture under which the Notes will be issued contains only limited protection for holders of the Notes in the event we are involved in a reorganization, restructuring, merger or similar transaction in the future.

The Indenture under which the Notes will be issued may not sufficiently protect holders of the Notes in the event that we are involved in a reorganization, restructuring, merger or similar transaction. The Indenture does not contain any provisions restricting our ability or any of our subsidiaries' ability to pay dividends on or purchase or redeem capital stock, sell assets (other than certain restrictions on its ability to consolidate, merge or sell all or substantially all of its assets and its ability to sell the stock of certain subsidiaries), enter into transactions with affiliates, create liens (other than certain limitations on creating liens on the stock of certain subsidiaries) or enter into sale and leaseback transactions, or create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

U.S. persons who own the Notes may have more difficulty in protecting their interests than U.S. persons who are creditors of a U.S. corporation.

Creditors of a company incorporated in Bermuda, such as Lancashire, may enforce their rights against us by legal process in Bermuda. The creditor may have to obtain a judgment in its favor against us by pursuing a legal action in Bermuda. This would entail retaining attorneys in Bermuda and (in the case of a plaintiff who is a U.S. person) pursuing an action in a jurisdiction which would be foreign to the plaintiff. The costs of pursuing such an action could be more costly than pursuing corresponding proceedings against a U.S. person.

Appeals from decisions of the Supreme Court of Bermuda (the first instance court for most civil proceedings in Bermuda) may be made in certain cases to the Court of Appeal for Bermuda. In turn, appeals from the decisions of the Court of Appeal may be made in certain cases to the English Privy Council. Rights of appeal in Bermuda may be more restrictive than rights of appeal in the United States.

In the event that we become insolvent, the rights of a creditor could be impaired. In the event of an insolvent liquidation (or appointment of a provisional liquidator), a creditor may pursue legal action only upon obtaining permission to do so from the Supreme Court of Bermuda. The rights of creditors in an insolvent liquidation will extend only to proving a claim in the liquidation and receiving a dividend pro rata along with other unsecured creditors to the extent of our available assets (after the payment of costs of the liquidation).

The impairment of the rights of an unsecured creditor may be more severe in an insolvent liquidation in Bermuda than would be the case where a U.S. person has a claim against a U.S. corporation which becomes insolvent. This is so mainly because in the event of an insolvency Bermuda law may be more generous to secured creditors (and hence less generous to unsecured creditors) than U.S. law. The rights of secured creditors in an insolvent liquidation in Bermuda remain largely unimpaired, with the result that secured creditors will be paid in full to the extent of the value of the security they hold. Another possible consequence of the favorable treatment of secured creditors under Bermuda insolvency law is that a rehabilitation of an insolvent company in Bermuda may be more difficult to achieve than the rehabilitation of an insolvent U.S. corporation.

Under Bermuda law and our bye-laws, we may indemnify our Directors, officers, any other person appointed to a committee of the Board of Directors or resident representative (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense, incurred or suffered by such persons by reason of any act done, conceived in or omitted in the conduct of our business or in the discharge of their duties; provided that such indemnification shall not extend to any matter which arises from any fraud or dishonesty of which that person may be guilty.

The enforcement of civil liabilities against us may be difficult.

We and certain of our Directors and officers are not, or may not be, citizens or residents of the U.S., and all or a substantial portion of their respective assets may be located outside of the U.S. As a result, it may be difficult for holders of the Notes to effect service of process within the United States upon us or upon such Directors or officers or to realize against them or their assets in the event of any judgment of courts of the U.S. predicated upon civil liabilities under the U.S. federal securities laws or otherwise. For execution or enforcement of any judgment against us or our Directors and officers, or for the settlement of any dispute, it may be necessary to institute legal proceedings outside the U.S. and it may not be possible to do so. If such proceedings are feasible, it may be difficult for holders of the Notes to enforce civil liabilities in foreign jurisdictions, either in original actions or in actions for enforcement of judgments of U.S. courts, predicated upon the U.S. federal securities laws or otherwise.

There is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our Directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws or whether proceedings could be commenced in the courts of Bermuda against us or such persons predicated solely upon U.S. federal securities laws. There is no treaty in effect between the U.S. and Bermuda providing for the enforcement of judgments of U.S. courts, and there may be grounds upon which Bermuda courts will not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy.

Credit ratings may not reflect all risks.

S&P and Moody's have assigned credit ratings to the Notes. We cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. We have no obligation to inform holders of Notes of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit ratings assigned to the Notes may adversely affect the market price of the Notes.

The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The Company may make certain modifications and amendments with the consent of the holders of not less than a majority of the aggregate principal amount of the Notes which will bind all holders.

The terms of the Notes contain provisions for calling meetings of holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not based on current or historical facts and that 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 statements other than statements of historical facts including, without limitation, those regarding the Group's financial position, results of operations, liquidity, prospects, growth, capital management plans, 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 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 express or implied by such forward-looking statements. These factors include, but are not limited to:

- the number and type of insurance and reinsurance contracts that the Group writes;
- the premium rates available at the time of such renewals within the Group's targeted business lines;
- the low frequency of large events;
- unusual loss frequency;
- the impact that the Group's future operating results, capital position and rating agency and other considerations have on the execution of any capital management initiatives;
- 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;
- loss of key personnel;
- a decline in the operating subsidiaries' rating with A.M. Best, S&P or Moody's and/or other rating agencies;
- increased competition on the basis of pricing, capacity, coverage terms or other factors;
- a cyclical downturn of the industry;
- the impact of a deteriorating credit environment created by the financial markets and credit crisis;
- the impact of swings in market interest rates and securities prices;
- a rating downgrade of, or a market decline in, securities in the Group's investment portfolio;
- changes in governmental regulations or tax laws in jurisdictions where the Group conducts business;
- the Company or its Bermudian subsidiary becoming subject to income taxes in the United States or the Bermudian subsidiary becoming subject to income taxes in the United Kingdom;

- the temporary period exemption under the U.K. "controlled foreign company" ("**CFC**") regime failing to remain in force for the period intended;

- the omission from the new CFC regime of a suitable exclusion (e.g., relating to insurance or reinsurance of third-party risks written in the international insurance market); and

- the effectiveness of the Group's loss limitation methods.

Any estimates relating to loss events involve the exercise of considerable judgment and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgments in relation to natural catastrophe and man-made events involve complex factors potentially contributing to these types and loss, and the Company cautions as to the preliminary nature of the information used to prepare any such estimates.

The section of this Prospectus entitled "Risk Factors" contains a discussion of the factors that could affect the Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated by reference in, and form part of, this Prospectus:

(i) the consolidated audited financial statements of the Company and its subsidiaries for the year ended December 31, 2011 set out at pages 65 through 131 of the Annual Report and Accounts 2011;

(ii) the consolidated audited financial statements of the Company for the year ended December 31, 2010 set out at pages 65 through 125 of the Annual Report and Accounts 2010;

(iii) the consolidated audited financial statements of the Company and its subsidiaries for the year ended December 31, 2009 set out at pages 71 through 124 of the Annual Report and Accounts 2009 and the respective auditor's reports thereon (items (i) through (iii), the "**Audited Consolidated Financial Statements**"); and

(iv) the unaudited condensed interim consolidated financial statements of the Company and its subsidiaries for the six months ended June 30, 2012 (which include comparative information for the six months ended June 30, 2011) set out at pages 11 through 35 of the Half Yearly Report 2012 and the auditor's review report thereon set out at pages 37-38 of the Half Yearly Report 2012 (the "**Unaudited Condensed Interim Consolidated Financial Statements**").

Audited Consolidated Financial Statements as of December 31, 2011	**Annual Report 2011 page reference**
Auditors' Report	Page 65
Consolidated Statement of Comprehensive Income	Page 66
Consolidated Balance Sheet	Page 67
Consolidated Statement of Changes in Shareholders' Equity	Page 68
Consolidated Cash Flow Statement	Page 69
Accounting Policies	Pages 70-76
Risk Disclosure	Pages 77-102
Notes to the Audited Consolidated Financial Statements	Pages 103-131
Audited Consolidated Financial Statements as of December 31, 2010	**Annual Report 2010 page reference**
Auditors' Report	Page 65
Consolidated Statement of Comprehensive Income	Page 66
Consolidated Balance Sheet	Page 67
Consolidated Statement of Changes in Shareholders' Equity	Page 68
Consolidated Cash Flow Statement	Page 69
Accounting Policies	Pages 70-75
Risk Disclosure	Pages 76-98
Notes to the Audited Consolidated Financial Statements	Page 99-125
Audited Consolidated Financial Statements as of December 31, 2009	**Annual Report 2009 page reference**
Auditors' Report	Page 71
Consolidated Statement of Comprehensive Income	Page 72
Consolidated Balance Sheet	Page 73
Consolidated Statement of Changes in Shareholders' Equity	Page 74
Consolidated Cash Flow Statement	Page 75
Accounting Policies	Pages 76-80
Risk Disclosure	Pages 81-100
Notes to the Audited Consolidated Financial Statements	Pages 101-124
Unaudited Condensed Interim Consolidated Financial Statements as of June 30, 2012	**Half Yearly Report 2012 page reference**
Condensed Interim Consolidated Statement of Comprehensive Income	Page 11
Condensed Interim Consolidated Balance Sheet	Page 12

Each of the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements are filed with the London Stock Exchange and available from the National Storage Mechanism ("**NSM**") which can be accessed via the following link: http://www.hemscott.com/nsm.do. The Audited Consolidated Financial Statements are also available on the Company's website at www.lancashiregroup.com. The Unaudited Condensed Interim Consolidated Financial Statements are also available on the Company's website at www.lancashiregroup.com. Each of the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements, are incorporated by reference in this Prospectus. The information contained in this Prospectus should only be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements.

The documents referred to above shall be incorporated in, and form part of this Prospectus save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents incorporated by reference in the Audited Consolidated Financial Statements and Unaudited Condensed Interim Consolidated Financial Statements shall not form part of this Prospectus.

Following the publication of this Prospectus, a supplement may be prepared by the Company and approved by the U.K. Listing Authority in accordance with Section 87G of FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Company and from the specified offices of the Trustee for the time being in New York.

Information contained in the documents incorporated by reference which is not itself incorporated by reference, is either not relevant for investors or is covered elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Other than as specifically contained or incorporated by reference in this Prospectus, information on the Company's website is not part of this Prospectus.

Documents Available for Inspection

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection from the registered office of the Company and from the specified office of the Trustee for the time being in New York:

(a) the Memorandum and Bye-Laws of the Company;

(b) the Audited Consolidated Financial Statements, together with the audit reports in connection therewith;

(c) the Unaudited Condensed Interim Consolidated Financial Statements; and

(d) the indenture between the Company and Citibank, N.A., as trustee, to be dated as of the issue date of the Notes (the "**Indenture**").

Any request for information should be directed to the Trustee at Citibank, N.A., 388 Greenwich Street, New York, New York 10013, Attn: Jennifer McCourt, Telephone: +1 (212) 816-5680, or to Lancashire Holdings Limited, Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom, Attn: Christopher Head, Telephone +44 (0)207 264 4145.

Lancashire is not subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Lancashire has agreed that, so long as it is not subject to the information requirements of the Exchange Act, upon the request of any holder of a Note or a beneficial interest therein, it will furnish to such holder and to a prospective purchaser designated by such holder the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of the Notes. Lancashire will provide, without charge, to each person to whom this Prospectus is delivered, upon the written request of such person, a copy of such information.

USE OF PROCEEDS

The Company expects to receive approximately U.S.$127,935,250 million in net proceeds from the sale of the Notes after deducting the underwriting discount and estimated offering expenses payable by the Company. The Company intends to use the net proceeds for general corporate purposes, including supporting potential opportunities in the underwriting operations of the Company's subsidiaries, the repayment of indebtedness or financing capital management strategies such as the repurchase of common shares pursuant to its share repurchase program or the payment of dividends.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth Lancashire's ratio of earnings to fixed charges for the six months ended June 30, 2012 and 2011 and for the years ended December 31, 2011, 2010 and 2009:

	Six Months Ended June 30		*Years Ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
Ratio of earnings to fixed charges[(1)]	39.3x	36.5x	40.0x	63.8x	61.7x

(1) For purposes of computing these ratios, earnings consist of net income before tax, excluding interest expense. Fixed charges consist of interest expense grossed up at the effective rate of tax.

CAPITALIZATION

The following table sets forth the Company's consolidated capitalization as at June 30, 2012:

- on an actual basis; and
- on an as-adjusted basis to give effect to the issuance of U.S.$130 million aggregate principal amount of 5.70% Senior Notes due 2022 offered hereby.

The as adjusted financial information has been prepared in a manner consistent with the IFRS accounting policies adopted by the Company. Investors should read this table in conjunction with each of the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements, and related notes, incorporated by reference in this Prospectus.

	As at June 30, 2012		
	Actual[5]	*Amount of Adjustment*[4]	*As Adjusted*[1]
		(U.S.$ in millions)	
Debt: [2]			
Subordinated loan due 2035	126.9	-	126.9
U.S.$130,000,000 5.70% Senior Notes due 2022	—	130.0	130.0
Shareholders' equity:		-	
Share capital (common shares, par value U.S.$0.50 per share, 3,000,000,000 shares authorized, 168,602,427[3] shares outstanding)	84.3	-	84.3
Own shares	(68.2)	-	(68.2)
Share premium	2.4	-	2.4
Contributed surplus	659.7	-	659.7
Other reserves	52.6	-	52.6
Accumulated and other comprehensive income	29.1	-	29.1
Retained earnings	661.9	-	661.9
Total shareholders' equity	**1,421.8**	**-**	**1,421.8**
Total capitalization	**1,548.7**	130.0	**1,678.7**
Leverage	8.2%	N/A	15.3%

(1) The as adjusted information has been prepared for illustrative purposes only, and because of its nature addresses a hypothetical situation that would have been attained had the Offering actually occurred as of June 30, 2012 and, therefore, does not reflect the Group's actual financial position.

(2) See "Operating and Financial Review—Liquidity and Capital Resources—Capital Resources" for information regarding the Group's syndicated collateralized credit facility.

(3) The Group's issued share capital consists of 168,602,427 common shares of which 6,837,886 common shares are held in treasury. Therefore, the net shares in issue with voting rights as at June 30, 2012 are 161,764,541.

(4) As adjusted by the amount of U.S.$130,000,000 in respect of the Notes.

(5) Source: Audited Consolidated Financial Statements.

SELECTED HISTORICAL FINANCIAL INFORMATION

The selected financial information set out below for the years ended December 31, 2011, 2010 and 2009 has, unless otherwise stated, been extracted without material adjustment from the Audited Consolidated Financial Statements. The selected interim financial information set out below for the six months ended June 30, 2012 and 2011 has, unless otherwise stated, been extracted without material adjustment from the Unaudited Condensed Interim Consolidated Financial Statements which include comparative information for the six months ended June 30, 2011. Both the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted under International Financial Reporting Standards.

The following tables set forth selected financial information for each of the periods indicated. This selected information should be read in conjunction with "Operating and Financial Review" and the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements and related notes, each of which are filed with the London Stock Exchange and available from the NSM, which can be accessed via the following link: http://www.hemscott.com/nsm.do. The Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements are also available on the Company's website and are incorporated by reference into this Prospectus. See "Documents Incorporated by Reference" for information on where to find the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements.

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made. The most significant estimate made by management is in relation to losses and loss adjustment expenses. Estimates may also be made in determining the estimated fair value of certain financial instruments and equity compensation plans. Management judgment is applied in determining impairment charges.

The results for any interim period are not necessarily indicative of results for the full year. The results for past periods are not necessarily indicative of results to be expected for any future period.

	Six months ended June 30 (unaudited)		*Years ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
	(U.S.$ in millions)				
Statement of Comprehensive Income Data:					
Gross premiums written	514.8	379.8	632.3	689.1	627.8
Outwards reinsurance premiums	(149.2)	(50.7)	(67.2)	(39.2)	(50.7)
Net premiums written	**365.6**	**329.1**	**565.1**	**649.9**	**577.1**
Change in unearned premiums	(143.8)	(67.9)	3.5	(33.0)	22.0
Change in unearned premiums on premiums ceded	69.9	26.3	5.9	(2.7)	(4.4)
Net premiums earned	**291.7**	**287.5**	**574.5**	**614.2**	**594.7**
Net investment income	17.1	23.8	43.2	53.4	56.0
Net other investment income (losses)	0.5	—	(0.5)	0.1	0.3
Net realized gains (losses) and impairments	4.9	5.0	8.6	33.2	23.8
Share of profit of associate	1.5	—	0.9	—	—
Net foreign exchange (losses) gains	(0.4)	0.9	(9.4)	(0.1)	3.4
Total net revenue	**315.3**	**317.2**	**617.3**	**700.8**	**678.2**
Insurance losses and loss adjustment expenses	164.8	122.7	225.3	194.7	104.4
Insurance losses and loss adjustment expenses recoverable	(72.4)	(12.9)	(43.0)	(29.0)	(5.7)
Net insurance losses	**92.4**	**109.8**	**182.3**	**165.7**	**98.7**
Net insurance acquisition expenses	62.0	51.6	112.4	106.3	106.0

Other operating expenses	41.5	38.6	71.0	61.8	60.5
Equity based compensation	5.9	12.2	18.8	21.1	16.4
Total expenses	**201.8**	**212.2**	**384.5**	**354.9**	**281.6**
Results of operating activities	**113.5**	**105.0**	**232.8**	**345.9**	**396.6**
Financing costs	6.4	5.6	14.2	6.7	8.1
Profit before tax	**107.1**	**99.4**	**218.6**	**339.2**	**388.5**
Tax charge	(3.4)	(1.9)	(6.4)	(8.4)	(3.1)
Profit for the period attributable to equity shareholders	**103.7**	**97.5**	**212.2**	**330.8**	**385.4**
Net change in unrealized gains/losses on investments	11.7	4.4	(10.5)	(2.0)	2.7
Tax provision on net change in unrealized gains/losses on investments	(0.2)	(0.4)	(0.1)	(0.2)	0.1
Other comprehensive income (loss)	**11.5**	**4.0**	**(10.6)**	**(2.2)**	**2.8**
Total comprehensive income attributable to equity shareholders	**115.2**	**101.5**	**201.6**	**328.6**	**388.2**

	As at June 30 (unaudited)		*As at December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
	(U.S.$ in millions except ratio data)				
Balance Sheet Data:					
Assets:					
Cash and cash equivalents	328.1	448.9	311.8	512.5	440.0
Accrued interest receivable	9.0	11.8	10.0	13.4	12.0
Investments					
– Fixed income securities, available for sale	1,767.0	1,637.3	1,714.0	1,719.1	1,892.5
– Fixed income securities, at fair value through profit and loss	—	8.6	—	—	—
– Equity securities, available for sale	—	75.2	—	—	—
– Other investments	(0.3)	(0.4)	(0.6)	(0.2)	—
Reinsurance assets					
– Unearned premiums on premiums ceded	78.7	29.2	8.8	2.9	5.6
– Reinsurance recoveries	108.7	46.1	69.7	35.9	35.8
– Other receivables	0.6	0.1	6.2	5.6	4.3
Deferred acquisition costs	83.0	70.5	61.4	61.2	52.9
Inwards premiums receivable from insureds and cedants	335.3	292.6	212.1	217.5	178.2
Investment in associate	43.5	7.5	50.9	—	—
Other assets	29.2	24.8	63.3	59.5	15.8
Total assets	**2,782.8**	**2,652.2**	**2,507.6**	**2,627.4**	**2,637.1**
Liabilities:					
Insurance contracts					
– Losses and loss adjustment expenses	576.6	576.7	571.2	507.5	488.9
– Unearned premiums	490.9	418.5	347.1	350.6	317.6
– Other payables	23.6	19.7	23.5	20.6	15.8
Amounts payable to reinsurers	69.9	22.8	17.8	4.4	4.2
Deferred acquisition costs ceded	5.5	1.2	0.7	0.1	2.7
Other payables	67.6	101.4	92.5	328.5	297.6
Long-term debt	126.9	131.5	128.0	128.8	131.4
Total liabilities	**1,361.0**	**1,271.8**	**1,180.8**	**1,340.5**	**1,258.2**
Shareholders' Equity:					
Share capital	84.3	84.3	84.3	84.3	91.2

Own shares	(68.2)	(90.5)	(83.0)	(106.9)	(76.4)
Share premium	2.4	2.4	2.4	2.4	2.4
Contributed surplus	659.7	659.6	660.5	662.6	757.0
Accumulated other comprehensive income	29.1	32.2	17.6	28.2	30.4
Other reserves	52.6	68.2	67.6	70.7	65.3
Retained earnings	661.9	624.2	577.4	545.6	509.0
Total shareholders' equity	**1,421.8**	**1,380.4**	**1,326.8**	**1,286.9**	**1,378.9**
Total liabilities and shareholders' equity	**2,782.8**	**2,652.2**	**2,507.6**	**2,627.4**	**2,637.1**
Leverage	8.2%	8.7%	8.8%	9.1%	8.7%

	Six months ended June 30 (unaudited)		*Years ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
	(U.S.$ in millions)				
Cash Flow Data:					
Cash flows from operating activities					
Profit before tax	107.1	99.4	218.6	339.2	388.5
Tax paid	(1.2)	(6.4)	(9.7)	(5.8)	(2.7)
Depreciation	1.4	1.4	2.9	2.6	0.8
Interest expense on long-term debt	2.8	2.8	5.6	5.4	6.4
Interest and dividend income	(24.7)	(29.0)	(56.2)	(68.3)	(64.7)
Net amortization of fixed income securities	5.6	3.1	8.7	11.0	5.3
Equity based compensation	5.9	12.2	18.8	21.1	16.4
Foreign exchange (gains) losses	(1.9)	0.1	11.5	(2.1)	(2.3)
Share of profit of associate	(1.5)	—	(0.9)	—	—
Net other investment (income) losses	(0.5)	—	0.5	(0.1)	(0.3)
Net realized (gains) losses and impairments	(4.9)	(5.0)	(8.6)	(33.2)	(23.8)
Net unrealized losses (gains) on interest rate swaps	1.4	1.3	5.4	(2.8)	(1.3)
Changes in operational assets and liabilities					
– Insurance and reinsurance contracts	(36.1)	34.7	38.2	9.0	(32.6)
– Other assets and liabilities	6.8	73.0	22.9	(7.2)	(11.3)
Net cash flows from operating activities	**60.2**	**187.6**	**257.7**	**268.8**	**278.4**
Cash flows (used in) from investing activities					
Interest and dividends received	25.7	30.6	59.6	66.9	62.8
Net purchase of property, plant and equipment	(0.2)	(0.8)	(0.6)	(2.3)	(7.6)
Purchase and development of intangible asset	(1.7)	—	(1.2)	—	—
Investment in associate	8.9	(7.5)	(50.0)	—	—
Purchase of fixed income securities	(852.3)	(801.6)	(1,944.5)	(2,635.5)	(2,711.6)
Purchase of equity securities	—	(76.4)	(87.4)	—	—
Proceeds on maturity and disposal of fixed income securities	811.1	882.7	1,939.0	2,828.5	2,440.8
Proceeds on disposal of equity securities	—	2.0	80.2	—	4.8

Proceeds on disposal of other investments	(1.2)	(0.6)	1.1	1.6	0.1
Net cash flows (used in) from investing activities	**(9.7)**	**28.4**	**(3.8)**	**259.2**	**(210.7)**
Cash flows used in financing activities					
Interest paid	(2.9)	(2.8)	(5.6)	(5.4)	(6.4)
Dividends paid	(19.2)	(282.9)	(444.4)	(293.2)	(10.5)
Share repurchases	—	—	—	(149.5)	(24.9)
Distributions by trust	(7.9)	(3.3)	(4.5)	—	—
Net cash flows used in financing activities	**(30.0)**	**(289.0)**	**(454.5)**	**(448.1)**	**(41.8)**
Net increase (decrease) in cash and cash equivalents	**20.5**	**(73.0)**	**(200.6)**	**79.9**	**25.9**
Cash and cash equivalents at beginning of period	311.8	512.5	512.5	440.0	413.6
Effect of exchange rate fluctuations on cash and cash equivalents	(4.2)	9.4	(0.1)	(7.4)	0.5
Cash and cash equivalents at end of period	**328.1**	**448.9**	**311.8**	**512.5**	**440.0**

OPERATING AND FINANCIAL REVIEW

Introduction

This section provides details of the financial and operating performance of the Group. See "Business" for a detailed discussion of the Group's history and a description of its business. This section should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements and related notes, each of which are filed with London Stock Exchange and available from the NSM, which can be accessed via the following link: http://www.hemscott.com/nsm.do. The Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements are also available on the Company's website and incorporated by reference in this Prospectus.

The Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the EU. Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using its judgment and considering the accounting principles of U.S. GAAP.

Unless otherwise stated, financial information included in this section has been extracted without material adjustment from the Audited Consolidated Financial Statements and the Unaudited Condensed Interim Consolidated Financial Statements and related notes, each of which are filed with the London Stock Exchange and available on the Company's website and incorporated by reference in this Prospectus. Certain unaudited financial information has been extracted without material adjustment from internal accounting records or other sources where stated.

Overview

Management's overriding goal is to generate an attractive risk-adjusted return over the long term. The Group's expected return in any one year will, however, vary through the insurance cycle. Insurance and reinsurance markets are cyclical, meaning that premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, among other factors. Reductions in capacity (e.g., via large loss events or an accumulation of losses) typically drive an increase in prices. In the absence of such losses or capacity restrictions, prices generally decline. The insurance and reinsurance markets are competitive. When prices decline many companies seek to further diversify their business in an attempt to offset premium reductions, thereby exacerbating the pressure on pricing. The Group's management team does not endorse this approach. When new opportunities arise and a growth strategy is appropriate, the Group believes the desired returns are normally best achieved through organic growth rather than strategic acquisitions. Conversely, when market conditions deteriorate for an extended period, the Group believes its goal is best achieved through a focus on underwriting integrity and an active capital management strategy, maintaining a lean operational base and a sophisticated IT platform.

The long-term debt rating of the Company the financial strength ratings of LICL and LUK are as follows:

	LICL Financial Strength Rating	*LUK Financial Strength Rating*	*Long-Term Debt Rating of the Company*	*Outlook*
A.M. Best	A	A	bbb	Stable
S&P	A-	A-	BBB	Stable
Moody's	A3	A3	Baa2	Stable

Each rating reflects the respective rating agency's opinion of the business, capitalization, results, management and ownership of the entity to which it relates and is not an evaluation directed to investors in the Company's securities or a recommendation to buy, sell or hold the Company's securities. Ratings may be revised or revoked at the sole discretion of A.M. Best, S&P or Moody's.

Business Outlook and Trends

The Group writes business over the course of the year and results are not necessarily driven by the strength of the January 1 renewal season. The Group does write a substantial part of its property catastrophe excess of loss and retrocession book at January 1, however, and pricing has been in line with the Group's expectations, with rate increases in 2012 in the region of 12% overall, although there was wide variation with some loss affected accounts paying much larger rises. The Group's other major business renewal periods are March through June on its energy Gulf of Mexico book, as well as Asian property reinsurance renewals at April 1. The energy offshore worldwide book also renews in this period, with further business written throughout the year. Rates in the energy offshore worldwide line continued to improve in 2012 although at a slowing pace. The Asian property catastrophe excess of loss and regional retrocession renewals in 2012 saw strong increases in pricing, from 20% to 50%, following the major losses in 2011.

As rates in the insurance market increase, the same is normally true for reinsurance that the Group may purchase. Reinsurance rates are increasing and certain covers that the Group may previously have purchased, or had access to, may no longer be available or may have increased in cost.

The Group expects investment returns to remain lower than at historic levels due to a lower yield environment and our commitment to a lower duration given the continued volatility in the investment markets, with concerns remaining about the Eurozone, mixed economic data, U.S. presidential and congressional elections and U.S. budgetary constraints. The Group has no exposure to European peripheral sovereign debt. The Group has a conservative investment strategy, with the primary goal of maintaining capital and liquidity.

Key Factors Affecting Results of Operations

The profitability of the Group is driven by management's ability to manage risk and exposures and whether premium and investment income will be sufficient to cover loss payments and expenses.

The following factors and/or potential developments may have a material effect on the Group's future operating results:

Insurance Market Cycle

The insurance market cycle is dictated by capital supply and demand, punctuated by major losses. During periods where there are no major losses, insurers typically accumulate excess capital, increasing the supply of insurance and competition for business, which drives pricing down. When there are major losses, whether due to man-made or natural insured events or significant financial shocks, such as the crash of 2008, this excess capital can be depleted, reducing the supply of insurance and therefore allowing insurers to increase pricing. Demand is subject to the general state of the economy and also to the specific sentiment of insurance and reinsurance buyers. After a major loss, particularly an unexpected one, clients will often want to buy additional coverage, as was seen with the demand for terrorism insurance after the 9/11 attacks on the World Trade Center. Different classes, or lines, in which the Group underwrites may be affected differently in any future period.

Besides losses and the general state of the economy, another factor that affects the cycle is the amount of capital that rating agencies or regulators require insurers to hold against their liabilities. From time to time, rating agencies or regulators can change capital models and requirements, as is currently happening in Europe with Solvency II. In addition, the catastrophe models produced by independent risk modeling firms, which are broadly accepted standards for measuring risk, can change, affecting capital requirements, as happened with the 2010 release of RMS's (one of the leading modeling firms) version 11 of their U.S. windstorm model.

When the Group was founded in 2005, the market had suffered unprecedented losses from Hurricanes Katrina, Rita and Wilma of that year, following on from Hurricanes Charley, Frances, Ivan and Jeanne of 2004. As a result, there was a strong demand for U.S. hurricane insurance and reinsurance with restricted supply and increased pricing. Pricing also increased in areas not affected by the losses, such as aviation terrorism liability, as insurers avoided certain areas of risk to concentrate on repairing balance sheets.

After benign weather years in 2006 and 2007, pricing declined until two significant hurricanes made landfall in 2008 – Hurricanes Gustav and Ike. Hurricane Ike in particular was an especially large and destructive storm causing extensive damage both far inland after landfall and to the offshore oil and gas installations in the Gulf of Mexico. The Group incurred relatively significant losses in the offshore arena, but pricing subsequently increased strongly as a number of insurers restricted or removed capacity for this line. In addition to the catastrophe losses of 2008, there were a number of significant man-made losses in the property and energy lines. The Group's exposure to these losses was relatively small but pricing subsequently improved in these classes.

As a result of the 2008 storm losses, there was some constriction in the supply of property catastrophe excess of loss reinsurance capacity in 2009. The Group was able to establish new business relationships in this line, especially in the United States, which are now part of the core business of the Group. The expected improvement in the Gulf of Mexico energy line did not fully materialize as the insureds opted to retain more risk themselves and the economic downturn reduced exploration and drilling activity, each factor suppressing demand.

Pricing and terms and conditions continued to soften in 2010 as capacity increased through the recovery of the financial and investment markets and in the absence of any major losses. However, starting with the Maule Earthquake in Chile in February 2010, there was a sequence of large catastrophe losses through 2010 and into and through 2012 which are detailed in the table below.

Event	*Country*	*Date*	*Insured loss*	*Source*[(1)]
			(U.S.$ in billions)	
Maule Earthquake	Chile	Feb 27, 2010	8.0	Swiss Re, sigma No 1/2011
Earthquake	New Zealand	Sep 4, 2010	4.5	Swiss Re, sigma No 1/2011
Earthquake	New Zealand	Feb 22, 2011	12.0	Swiss Re, sigma No 2/2012
Tohoku Earthquake and Tsunami	Japan	Mar 11, 2011	35.0	Swiss Re, sigma No 2/2012
Severe storms, tornadoes	U.S.	Apr 22, 2011	7.3	Swiss Re, sigma No 2/2012
Severe storms, tornadoes	U.S.	Mar 20, 2011	7.1	Swiss Re, sigma No 2/2012
Earthquakes	New Zealand	Jun 13, 2011	2.0	Swiss Re, sigma No 2/2012
Flooding	Thailand	Jul 22, 2011	12.0	Swiss Re, sigma No 2/2012
Hurricane Irene	U.S.	Aug 22, 2011	5.3	Swiss Re, sigma No 2/2012
Severe drought	U.S.	2012	13-20	AIR Worldwide

(1) The catastrophe losses detailed in the table above have been accurately reproduced from the catastrophe reports listed above and, as far as the Company is aware and is able to ascertain from information published by such source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, there were two large energy risk losses: the Deepwater Horizon drilling unit in April 2010 and the Gryphon FPSO in March 2011 as well as the Costa Concordia marine loss in January 2012. Overall insured losses for the industry in 2011 were estimated by Sigma at U.S.$116 billion as compared to U.S.$48 billion in 2010.

The Group's participation on these losses was in line with the Group's expectations and manageable without materially depleting the Group's capital. Whilst these losses have removed much of the excess capital from the insurance industry, most analysts believe there is still sufficient supply in most business lines to allow for general price stability. There have been some areas of price hardening in specific lines of business in 2012, such as energy and property retrocession, but this does not amount to a broad-based hard market. The Group has reacted to this opportunity by increasing its property retrocession capacity through a joint venture sidecar, Accordion, to which it ceded a significant portion of its 2011 and 2012 retrocession business. The Group receives a commission, including, ultimately, a contingent profit commission, on the business ceded. The Group has also increased its Japanese earthquake reinsurance exposures as the contracts have been restructured and repriced following the Tohoku loss.

The Group's gross premiums written by business line for the year ended December 31, 2011 are as follows:

	For the year ended December 31, 2011
Property catastrophe excess of loss	13%
Terrorism	11%
Property direct and facultative and other property	10%[1]
Property retrocession	7%[2]
Property political risk	3%
Construction energy	2%
Onshore energy and other energy	2%
Worldwide offshore energy	22%
Gulf of Mexico offshore energy	10%
Marine hull and total loss	4%
Marine construction	3%
Marine other	6%
Aviation AV52	7%
Total gross premiums written	**100%**

[1] The Group expects gross premiums written for property direct and facultative and other property to decrease significantly in 2012 as compared to 2011.
[2] The Group expects gross premiums for property retrocession to increase significantly in 2012 as compared to 2011.

Loss Reserve Development

For most insurance and reinsurance companies, the most significant judgment made by management is the estimation of loss and loss adjustment expense reserves. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group, particularly given the nature of the business written. A significant portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe. Reserving for losses in such programs is inherently complicated because losses in excess of the attachment level of the Group's policies are characterized by high severity and low frequency losses. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

Under IFRS and U.S. GAAP, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Group's reserves are reported on an undiscounted basis.

Loss and loss adjustment expense reserves are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilized and then a range is developed around the point estimate. The point estimate represents management's best estimate of ultimate loss and loss adjustment expenses. Loss reserve calculations for direct insurance business are not precise as they deal with the inherent uncertainty of future contingent events. Estimating loss reserves requires management to make assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation.

In general, claims relating to short-tail property risks, such as the majority of risks underwritten by the Group, are reported more promptly by third parties than those relating to long-tail risks, including the majority of casualty risks. However, the timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and whether the losses are from policies in force with primary insurers or with reinsurers.

There is a time lag inherent in reporting from the original claimant to the primary insurer, to the broker and ultimately to the reinsurer. Generally, the combination of low claim frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses.

During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change, with a consequent impact on reserving. For certain catastrophic events, there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting by (including allocation of claims to event and the effect of demand surge on the cost of building materials and labor), and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

The claims count on the types of insurance and reinsurance that the Group writes, which are low frequency and high severity in nature, is generally low.

Prior to the hurricane season of 2008, there were no major loss events that materially impacted the Group's results. However, Hurricane Ike was a meaningful loss event for the Group. At June 30, 2012, management's current best estimate of the ultimate net losses in relation to Hurricane Ike are U.S.$178.3 million. For offshore losses in particular, estimation of the ultimate liability is complex. Loss assessments require skilled loss adjusters. The availability of loss adjusters with the necessary expertise is scarce and large events put a further strain on this resource.

In 2010, the Group was impacted by significant losses from the Chile Maule earthquake and subsequent aftershocks. In 2011, the Group was impacted by the Tohoku earthquake and ensuing tsunami. At June 30, 2012, management's current best estimate of the ultimate net losses in relation to the Chile Maule earthquake and the Tohoku earthquake and ensuing tsunami are U.S.$70.4 million and U.S.$120.1 million, respectively. Loss information after a severe earthquake can take longer to obtain than for other events, particularly in the property retrocession portfolio. Ultimate net losses may vary materially from preliminary estimates.

At December 31, 2011, management's estimates for incurred but not reported ("**IBNR**") losses represented 29.9% of total gross loss reserves (2010 – 38.4%; 2009 – 42.4%). The majority of the estimate relates to potential claims on non-elemental risks, which consist of losses not caused by natural perils, where timing delays in insured or cedant reporting may mean losses could have occurred which management was not made aware of by the balance sheet date.

The Group's gross losses for accident years 2006, 2007, 2008, 2009, 2010 and 2011 were as follows:

Accident year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Gross losses			*(U.S.$ in millions)*				
Estimate of ultimate liability[(1)]							
At end of accident year	39.1	154.8	444.6	163.3	297.4	397.0	
One year later	34.7	131.2	417.4	107.8	209.4		
Two years later	32.0	103.5	377.5	73.1			
Three years later	27.6	94.8	345.1				
Four years later	27.2	83.5					
Five years later	24.4						
Current estimate of cumulative liability	**24.4**	**83.5**	**345.1**	**73.1**	**209.4**	**397.0**	**1,132.5**
Payments made	**(21.7)**	**(72.4)**	**(284.4)**	**(42.5)**	**(106.4)**	**(33.9)**	**(561.3)**
Total gross liability	**2.7**	**11.1**	**60.7**	**30.6**	**103.0**	**363.1**	**571.2**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at December 31, 2011.

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. Due to the minimal number of underlying risks and lack of known loss events occurring during the period to December 31, 2005, the Group does not expect to incur any losses from coverage provided in 2005. Accordingly, the loss development tables do not include that year.

The inherent uncertainty in reserving gives rise to favorable or adverse development on the established reserves. The total favorable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2011	**2010**
	(U.S.$ in millions)	
2006 accident year	2.9	0.3
2007 accident year	11.1	8.3
2008 accident year	29.8	36.0
2009 accident year	33.7	55.5
2010 accident year	77.8	—
Total favorable development	**155.3**	**100.1**

In early 2011, an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with the industry factors previously used. On completion net reserves of $36.9 million were released. The remaining favorable prior year development in 2011 arose primarily from further IBNR releases of $96.2 million due to fewer than expected reported losses plus net releases on outstanding case reserves and additional case reserves of $22.2 million as a result of updated information received, including the Chile Maule earthquake and Hurricane Ike reserves discussed below. In 2010, the favorable development related primarily to IBNR releases, again due to fewer than expected reported losses.

Active Capital Management

The Group has engaged in several capital management strategies that seek to balance risk-adjusted returns against underwriting opportunities in recent fiscal periods.

In the six months ended June 30, 2012, the Group paid dividends, as follows:

Type	*Per share amount*	*Record date*	*Payment date*	*U.S.$ in millions*
Final	U.S.$0.10	Mar. 16, 2012	Apr. 18, 2012	19.2
Interim	U.S.$0.05	Aug. 31, 2012	Sep. 26, 2012	9.6
Total				**28.8**

In the year ended December 31, 2011, the Group paid dividends, as follows:

Type	*Per share amount*	*Record date*	*Payment date*	*U.S.$ in millions*
Final	U.S.$0.10	Mar. 18, 2011	Apr. 20, 2011	18.9
Interim	U.S.$0.05	Aug. 26, 2011	Sep. 28, 2011	9.5
Special	U.S.$0.80	Nov. 25, 2011	Dec. 21, 2011	152.0
Total				**180.4**

In the year ended December 31, 2010, the Group's capital actions totaled U.S.$430.6 million. The Group repurchased common shares from shareholders in the amount of U.S.$136.4 million and paid dividends, as follows:

Type	*Per share amount*	*Record date*	*Payment date*	*U.S.$ in millions*
Final	U.S.$0.10	Mar. 19, 2010	Apr. 14, 2010	20.8
Interim	U.S.$0.05	Sep. 3, 2010	Oct. 13, 2010	9.4
Special	U.S.$1.40	Dec. 10, 2010	Jan. 19, 2011	264.0
Total				**294.2**

In the year ended December 31, 2009, the Group's capital actions totaled U.S.$290.4 million. The Group repurchased common shares from shareholders in the amount of U.S.$16.9 million and paid dividends, as follows:

Type	*Per share amount*	*Record date*	*Payment date*	*U.S.$ in millions*
Interim	U.S.$0.05	Aug. 28, 2009	Oct. 7, 2009	10.5
Special	U.S.$1.25	Nov. 20, 2009	Jan. 6, 2010	263.0
Total				**273.5**

The Group intends to 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.

Investment Market Performance

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. These objectives are reflected in the Group's investment guidelines and evidenced by the Group's present asset allocation. Provided the Group's primary objectives are satisfied, additional growth in the investment portfolio may be pursued through longer duration fixed income investments and equity investments. This is, however, unlikely given the current volatile markets and the Group's focus on minimizing downside risk from "risk on/risk off" fluctuations, volatile fluctuations in market sentiment which can turn from a "risk on" environment to a "risk off" environment, or vice versa, on a weekly, if not daily, basis. A "risk on" environment would resemble a bull market where equities and other risk assets outperform U.S. treasury securities. A "risk off" environment would resemble a bear market where U.S. treasury securities, and other similar securities, would tend to outperform riskier assets. Current positioning is market neutral with a slight risk off bias. The Group currently does not hold any equities, direct equity investments, private equity limited partnerships or any European peripheral sovereign debt. However, the Group holds a small allocation of Eastern European sovereign and corporate debt within the emerging market debt portfolio. Derivatives may be used to reposition or hedge the investment portfolio or business exposures.

The Group's investment guidelines are established by the Investment Committee of the Board of Directors. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, maturity, sectors, geographical and sovereign debt exposures. Investment guidelines exist at the individual portfolio level and for the Group's consolidated portfolio. The performance of the investment managers and compliance with guidelines is monitored on an ongoing basis. Any adjustments to the investment guidelines must be approved by the Investment Committee and the Board of Directors.

The Group's net asset value is directly impacted by movements in the estimated fair value of investments held. Fair values can be impacted by movements in interest rates, credit ratings, economic environment and outlook, and exchange rates. The majority of the Group's investments comprise fixed income securities. The estimated fair value of the Group's fixed income portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed income investments would tend to rise and vice versa. The sensitivity of the price of fixed income securities is indicated by their duration. Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The longer a security's duration, the greater its percentage price volatility. Interest rate risk is limited by establishing and monitoring duration ranges within pre-defined investment guidelines and utilizing Value at Risk ("**VaR**") and other measures to understand and monitor risk.

Investment income is a function of the asset category market yield and the asset category holdings. Following the credit crisis of 2008, during which the Group produced an investment return of 3.1% on a

substantially de-risked portfolio, the Group re-aligned its investment portfolio as the economic environment improved. This was achieved primarily by increasing the allocation to corporate bonds. During 2010, the Group further increased its allocation to corporate bonds and also added some emerging market debt. Total returns of 3.9% and 4.2% were produced in the years ended December 31, 2009 and 2010, respectively. In the first half of 2011, the Group added a small allocation of equity securities to its investment portfolio. However, in the second half of 2011, with fresh expectations of a global recession, the European debt crisis and U.S. political gridlock, and the resulting volatility, the Group re-positioned its portfolio defensively and the equity portfolio was liquidated. Total return for the year ended December 31, 2011 was 1.8%. In 2012, the Group has continued to position its portfolio to minimize the impact of the ongoing market shocks and has reduced its allocation to emerging markets debt. This has resulted in an investment return of 1.7% for the six months ended June 30, 2012. See "Business—Investments" for more detailed information on key investment portfolio statistics for the periods.

The Group manages its liquidity risks via its investment strategy to hold high quality, highly liquid securities, sufficient to meet its insurance liabilities. Within the Group investment guidelines is a sub-set of guidelines for the portion of funds required to meet potential insurance liabilities in an extreme event, plus near-term liquidity requirements. This is designated as the "core" portfolio. The primary objective of this portion of assets is liquidity and capital preservation. Assets in excess of those required to settle potential insurance liabilities in an extreme event, plus other near-term liquidity requirements, may be held in the "core", "core plus" or in the "surplus" portfolio. The core portfolio is invested in fixed income securities and cash and cash equivalents. The core plus portfolio has a similar investment mix and strategy to the core portfolio but allows a modestly longer duration to be held. The surplus portfolio is invested in fixed income securities, cash and cash equivalents and can invest in a modest amount of equity securities and derivative instruments. These assets are not matched to specific insurance liabilities. The focus on high quality assets is maintained across all three classes of portfolio.

The Group attempts to mitigate credit risk on the fixed income portfolio through the Group's policy of investing in instruments of high credit quality companies and sovereign debt and agencies of sovereign debt and limiting the amounts of credit exposure with respect to particular ratings categories and any one company. Securities rated below BBB-/Baa3 may comprise no more than 10% of shareholders' equity. In addition, government-guaranteed securities should not exceed 5% of shareholders' equity, with the exception of securities guaranteed by Australia, Belgium, Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed income securities issued by the U.S. government and government agencies.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses which reduce counterparty credit risk, require the posting of margins and settle unrealized gains and losses daily. Credit risk on over-the-counter derivatives is mitigated by monitoring the credit-worthiness of the counter-parties and by requiring collateral to be posted for positions which are in the money by amounts exceeding predetermined thresholds.

Operational and Strategic Planning

The Group's aim is to provide shareholders with a return on equity of 13% in excess of a risk-free rate over the insurance cycle. The return is measured by management as the internal rate of return ("**IRR**") of the increase in fully converted book value per share ("**FCBVS**") in the period plus dividends accrued. This aim is a long-term goal, acknowledging that management expect both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern and the management team monitors these peaks and troughs, adjusting the Group's portfolio to attempt to make the most effective use of available capital. The Group's ability to generate the desired risk-adjusted return is impacted by its ability to optimize its portfolio of risk against its capital base. Within the insurance industry, downturns in the profitability of the cycle present the biggest challenge. BLAST assists the Group's underwriting team in portfolio optimization decisions. Management also utilizes BLAST in assessing the impact of strategic decisions on individual classes of business that the Group writes, or is considering writing, as well as the overall resulting financial impact to the Group. If the assumptions in the model are incorrect or appropriate judgment is not applied, the Group may assume a risk that does not provide an appropriate return.

Tax and Regulatory Developments

The Group's operations are regulated in each of the jurisdictions in which it does business. Changes in local regulatory frameworks or taxation regulations could impact the way the local entities and/or the Group conducts business. In particular, the impending implementation of the European regulatory framework, Solvency II, could have a significant impact on the Group, as could U.S. Treasury taxation rulings or interpretations. Solvency II will require European insurers to consider their balance sheet on an 'economic basis' and assess their regulatory capital requirements within a forward-looking risk-sensitive framework. Insurers will be required to conduct their own risk and solvency assessment ("**ORSA**"), based on their risk profile, risk appetite and business strategy, and submit the results to their supervisors as part of the supervisory review process. As part of the public disclosure, insurers will be required to make public disclosure on their solvency and capital position. The Group recognizes that Solvency II and changes in the regulatory requirements could have an impact on its future capital requirements and is planning accordingly. However, Solvency II is currently planned to take effect in 2014 and the anticipated legislation containing the necessary technical implementation measures will not be finalized until 2013.

Accounting Developments - Forthcoming Changes in IFRS

While a number of new or amended IFRS and International Financial Reporting Interpretations Committee ("**IFRIC**") standards have been issued, there are no standards that have had a material impact on the Group.

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the International Accounting Standards Board's ("**IASB**") insurance contract project and does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's project and is expected to include a number of significant changes regarding the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof. The Group currently uses, as is permitted by IFRS, U.S. GAAP for the measurement of insurance contracts. The impending standard could have a significant impact on the Group's results.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed income and equity securities as available for sale. The new standard, the effective date of which has been deferred until January 1, 2015, is not expected to have a material impact on the results and disclosures reported in the consolidated financial statements. It will, however, result in a re-classification of fixed income securities from available for sale to estimated fair value through profit or loss and a re-classification of the net change in unrealized gains and losses on investments from accumulated other comprehensive income to profit or loss.

IFRS 10, Consolidated Financial Statements, issued in May 2011, redefines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements. IFRS 12, Disclosure of Involvement with Other Entities, was issued concurrently and sets out the disclosure requirements for consolidated financial statements. Both standards are effective from January 1, 2013 and are not expected to have a material impact on the Group's results, although additional disclosures may be required.

Critical Accounting Policies

Revenue recognition

The Group's principal source of revenue is (re)insurance premium, income derived from its underwriting operations. Although the Group predominantly writes insurance business, it also writes some reinsurance. Where the insured is not an insurance company, premiums written are referred to as insurance or direct premiums. Where the insured is an insurance company, premiums written are referred to as reinsurance or assumed premiums. Policies are written based on agreed terms and conditions at an agreed price, or premium, for the coverage provided. The premium is recorded as income based on the date that coverage starts, the inception date of the policy. Any subsequent changes in the terms and conditions or price, such as an extension of the expiration date or additions to or removal of assets subject to cover, are endorsed to reflect the revised basis. If the endorsement generates any change in premium an adjustment is recorded at the effective date of the endorsement. If the premium for the policy

is estimated, based on the expected ultimate cover that will be provided, it is typically adjusted at the expiration of the policy when the risks attaching to the policy are known. Premium adjustments generally occur within six months of the expiration of the policy. Some reinsurance contracts may have a provision to reinstate cover should a loss occur. Reinstatement generates further premium to the policy. The reinstatement may be for a portion of cover or for the entire cover in the event of a full limit loss.

Premiums written are generally earned on a pro-rata basis over the term of the policy cover. In any reporting period the premiums earned will relate partly to business written in that period and partly to premiums written in prior periods which are earning out. The premiums written in the period will not all be earned in that period but will be deferred to subsequent periods. The portion of premiums written that has been deferred is unearned premium and is recorded as a liability on the balance sheet. Unearned premium reflects the unexpired portion of the (re)insurance policies written. The unearned premium reserve reduces as the policy term progresses and is recognized in income. The Group writes policies of varying contract length and the mix of business written can also change from one reporting period to another. These changes can cause the pattern of written to earned premium to differ over time. Reinstatement premiums are fully earned when triggered.

When the Group purchases reinsurance protection for the business it has written, the premiums for the cover provided are paid, or ceded, to a retrocessionaire. Premiums ceded are recorded and adjusted in a similar manner to premiums written. Reinstatement premium may also be generated on ceded premiums.

Loss recognition

Losses and loss adjustment expenses are paid in respect of claims made by policyholders to the Group for loss of or damage to their property. A reserve is maintained for the payment of these claims. The reserve is an estimate of the amount that will ultimately be paid in respect of events that have already occurred but that have not yet been reported or where they have been reported but the full settlement amount is not yet known. The process of estimating the reserve required is complex and involves a considerable amount of judgment. The estimate is based on the available facts at the time the reserve is established and can include numerous assumptions which are subject to change. As new information is received, the reserve may be adjusted to better reflect the facts. The Group regularly reviews and updates the methods and assumptions used to derive the loss reserve.

Reinsurance recoveries includes amounts due to the Group from retrocessionaires for claims that have been made in respect of losses incurred by the Group. Generally, the amount recovered is calculated based on the amount of loss that the Group has incurred. Ceded reserves are maintained for expected recoveries. This is developed in conjunction with the establishment of the Group's loss reserve and is subject to the same uncertainty.

See "—Loss Reserve Development" for more information on the subjectivity and inherent uncertainty of establishing the Group's loss reserves.

Valuation of Investments

The Group's fixed income securities are quoted investments that are classified as available for sale and are carried at estimated fair value. The classification is determined at the time of initial purchase and depends on the category of investment. Investments with an embedded conversion option are designated at estimated fair value through profit and loss. Movements in estimated fair value related primarily to the option component.

Regular way purchases and sales of investments are recognized at estimated fair value, including transaction costs on the trade date, and are subsequently carried at estimated fair value. The estimated fair values of quoted investments are determined based on bid prices from recognized exchanges, broker-dealers, indices or pricing vendors. Investments are derecognized when the Group has transferred substantially all of the risks and rewards of ownership. Realized gains and losses are included in income in the period in which they arise. Unrealized gains and losses from changes in estimated fair value of available for sale investments are included in accumulated other comprehensive income in shareholders' equity.

On derecognition of an investment, previously recorded unrealized gains and losses are removed from accumulated other comprehensive income in shareholders' equity and included in current period income.

Amortization and accretion of premiums and discounts on available for sale fixed income securities are calculated using the effective interest rate method and are recognized in current period net investment income. Interest income is recognized on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

Investment Impairments

The Group reviews the carrying value of its available for sale investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost or amortized cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortized cost and estimated fair value is removed from accumulated other comprehensive income in shareholders' equity and changed to current period income. Impairment losses on fixed income securities may be subsequently reversed through income. A security is considered impaired ("other than a temporary impairment") if the fair value of the security is below book value by more than 20% for six months or greater, or if the fair value of the security is below book value by 50% or more at any time.

Group Financial Performance

See "Selected Financial Information—Statement of Comprehensive Income," "—Balance Sheet Data" and "—Cash Flows" above for consolidated results for the years ended December 31, 2011, 2010 and 2009 and for the six months ended June 30, 2012 and 2011.

Operating review for the six months ended June 30, 2012

Gross premiums written

In the first six months of 2012, gross premiums written increased by U.S.$135.0 million, or 35.5%, from U.S.$379.8 million in the first six months of 2011 to U.S.$514.8 million in 2012. The increase was mainly due to the Group's property retrocession writings at January 1, 2012, utilizing the Accordion sidecar for a sizeable portion of this business.

Reinsurance premium ceded

Ceded reinsurance premiums increased by U.S.$98.5 million, or 194.3%, as compared to the first six months of 2011. The majority of the increase relates to cessions from the property retrocession book to the Accordion sidecar facility, as well as some opportunistic purchases of Industry Loss Warranties, amongst other reinsurance programs. In the first six months of 2012 U.S.$13.0 million of reinstatement premiums were recorded in relation to the Costa Concordia loss, which information has been extracted without material adjustment from internal accounting records. The first six months of 2011 included U.S. $4.1 million of reinstatement premiums in relation to the Gryphon FPSO loss, which information has been extracted without material adjustment from internal accounting records.

Net premiums earned

Net premiums earned as a proportion of net written premiums were 79.8% for the six months ended June 30, 2012 compared to 87.4% for the same period in 2011. Net premiums earned in 2011 benefited from a higher proportion of earnings resulting from premium volumes in the second half of the preceding year than the same period in 2012.

Net insurance acquisition expenses

Net insurance acquisition expenses, as a percentage of net premiums earned, increased from 17.9% in the six months ended June 30, 2011 to 21.3% in the same period in 2012. The increase was due to a combination of the impact of reinstatement premiums and changes in business mix.

Losses and loss expenses

The loss ratio was 31.7% for the six months ended June 30, 2012, a decrease from 38.2% for the same period in 2011. Losses and loss expenses in 2012 include estimated net losses of U.S.$58.7 million, after reinsurance and reinstatement premiums, in relation to the total loss of the Costa Concordia, which estimate has been extracted without material adjustment from internal accounting records. The first half of 2011 included estimated net losses, after reinsurance and reinstatement premiums, of U.S.$142.0 million in relation to the Tohoku and Christchurch Lyttleton earthquakes and the Gryphon FPSO.

Prior year favorable development for the six months ended June 30, 2012 was U.S.$43.5 million compared to U.S.$96.9 million for the first half of 2011, reducing the net loss ratio by 14.9 points for 2012 and 33.7 points for 2011, which reductions have been extracted without material adjustment from internal accounting records. In early 2011, an independent actuarial study was commissioned in order to incorporate the Group's own loss experience with industry factors previously used. On completion, net reserves of U.S.$36.9 million were released in the first half of 2011. Both years otherwise experienced releases due to lower than expected reported losses, with 2011 experiencing exceptionally low reported prior year losses.

The accident year loss ratio for the six months ended June 30, 2012 was 46.5% compared to 73.0% for the six months to June 30, 2011, which ratios have been extracted without material adjustment from our published financial supplement for the period. The higher ratio in 2011 was a result of the higher earthquake and flood losses in 2011 relative to 2012.

Investment performance

Net investment income was U.S.$17.1 million for the six months ended June 30, 2012 compared to U.S.$23.8 million over the same period in 2011, a decrease of 28.2%. Overall yields for the first half of 2012 were lower than the first half of 2011 and a reduction in emerging market local currency debt positions resulted in lower yields compared to the same period in the prior year.

Total investment return, including net investment income, net realized gains and losses, impairments and net change in unrealized gains and losses, was U.S.$34.0 million for the first half of the year compared to U.S.$32.8 million for the same period in 2011. The total investment return for the six months to June 30, 2012 was 1.7% compared to 1.8% for the same period in 2011.

Administrative and other expenses

General and administrative expense ("**G&A**"), excluding equity based compensation, increased by U.S.$2.9 million, or 7.5%, from U.S.$38.6 million in the six months ended June 30, 2011 to U.S.$41.5 million in the same period in 2011. Employee compensation costs, excluding equity compensation, were U.S.$27.5 million in the six months ended June 30, 2012 compared to U.S.$21.3 million in the same period in 2011. The increase was primarily due to a one-time national insurance charge of U.S.$6.9 million, which charge was extracted without material adjustment from internal accounting records, incurred as a result of the Group's tax residency move to the United Kingdom effective from January 1, 2012.

Profit for the six months

The Group generated profit after tax of U.S.$103.7 million in the six months ended June 30, 2012 compared to U.S.$97.5 million in the same period in 2011. The increase in profit year on year is driven by a reduction in net insurance losses and increased investment income, offset to a degree by increased policy acquisition costs. The FCBVS was U.S.$8.06 at June 30, 2012, a return of 7.1% for the six months, measured as the growth in FCBVS plus dividends. The combined ratio was 67.2%. Diluted earnings per share for the six months ended June 30, 2012 were U.S.$0.57.

Operating review for the financial year ended December 31, 2011

Gross premiums written

In 2011, gross premiums written decreased by U.S.$56.8 million, or 8.2%, from U.S.$689.1 million in 2010 to U.S.$632.3 million in 2011. The reduction was due mostly to a number of multi-year deals written in 2010, which were not up for renewal in 2011, offset by new business opportunities in loss-affected regions, primarily in the property catastrophe and retrocession lines of business.

Reinsurance premium ceded

Ceded reinsurance premiums increased by U.S.$28.0 million, or 71.4%, as compared to 2010. The vast majority of the increase relates to reinstatement premiums following the flood losses in Thailand and cessions from the property retrocession book to the Accordion sidecar facility, as well as some opportunistic catastrophe cover and additional reinsurance purchased early in 2011 given the favorable rates available at that time.

Net premiums earned

Net premiums earned as a proportion of net written premiums were 101.7% for the year ending December 31, 2011 compared to 94.5% for the same period in 2010. The higher value of multi-year deals in 2010 compared to 2011 results in a lag in premium earnings into 2011.

Net insurance acquisition expenses

Net insurance acquisition expenses, as a percentage of net premiums earned, increased from 17.3% in 2010 to 19.6% in 2011. The increase was due to a combination of the impact of reinstatement premiums and profit commissions and changes in business mix.

Losses and loss expenses

The loss ratio was 31.7% for 2011, an increase from 27.0% in 2010. Losses and loss expenses in 2011 include total estimated net losses, after reinsurance and reinstatement premiums, of U.S.$138.5 million in relation to the Tohoku and Christchurch Lyttleton earthquakes and U.S.$25.1 million in relation to the floods in Thailand, which estimated net losses have been extracted without material adjustment from internal accounting records. The twelve months of 2010 included an estimated net loss, after reinsurance and reinstatement premiums, of U.S.$84.7 million in relation to the Chilean earthquake.

Prior year favorable development for the year ended December 31, 2011 was U.S.$155.3 million compared to U.S.$100.1 million for 2010, reducing the net loss ratio by 27.0 points for 2011 and 16.3 points for 2010, which reductions have been extracted without material adjustment from internal accounting records. In early 2011, an independent actuarial study was commissioned in order to incorporate the Group's own loss experience with industry factors previously used. On completion, net reserves of U.S.$36.9 million were released in the first half of 2011. The remaining favorable development in both years arose from releases due to fewer than expected reported losses plus some further information on outstanding case reserves.

The accident year loss ratio for the year ended December 31, 2011 was 59.3% compared to 42.9% for 2010, which ratios have been extracted without material adjustment from our published financial supplement for the period. The increase was a result of the higher earthquake and flood losses in 2011 relative to the prior year.

Investment performance

Net investment income was U.S.$43.2 million for the year ended December 31, 2011 compared to U.S.$53.4 million over the same period in 2010, a decrease of 19.1%. The decrease in net investment income is primarily due to lower yields on the bond portfolio.

Total investment return, including net investment income, net realized gains and losses, impairments and net change in unrealized gains and losses, was U.S.$40.7 million for the year compared to U.S.$84.5 million for 2010. The total investment return for the twelve months ended December 31, 2011 was 1.8% compared to 4.2% for the twelve months ended December 31, 2010.

Returns for 2011 were lower than 2010 due to the following impacts:

- Reduced investment portfolio duration;
- A lower yield environment and volatility in the financial markets;
- Realized losses on the liquidation of the Group's equity portfolio, offset to a degree by realized gains on the liquidation of the Group's Treasury Inflation-Protected Securities ("**TIPS**") portfolio; and
- Weakening emerging market currencies.

Administrative and other expenses

G&A, excluding equity based compensation, increased by U.S.$9.2 million, or 14.9%, from U.S.$61.8 million in 2010 to U.S.$71.0 million in 2011. Employee compensation costs, excluding equity compensation, were U.S.$40.8 million in 2011 compared to U.S.$33.2 million in 2010. In 2010 there was a reduction of U.S.$6.7 million in relation to the final determination of the previous year's variable compensation, which reduction was extracted without material adjustment from internal accounting records.

Profit for the year

The Group generated profit after tax of U.S.$212.2 million in 2011 compared to U.S.$330.8 million in 2010 and returned U.S.$180.4 million of capital to shareholders in 2011 compared to U.S.$430.6 million in 2010. The reduction in profit year on year is driven by increased outwards reinsurance premiums, increased net insurance losses and reduced returns on investments. The FCBVS was U.S.$7.62 at December 31, 2011, a return of 13.4% measured as the growth in FCBVS plus dividends. The combined ratio was 63.7%. Diluted earnings per share for 2011 were U.S.$1.20.

Operating review for the financial year ended December 31, 2010

Gross premiums written

In 2010, gross premiums written increased by U.S.$61.3 million, or 9.8%, from U.S.$627.8 million in 2009 to U.S.$689.1 million. This was largely due to a small number of multi-year deals which were written early in the year to lock in pricing.

Reinsurance premium ceded

Ceded reinsurance premiums decreased by U.S.$11.5 million, or 22.7%, as compared to 2009, aided by improved pricing compared to 2009 and by a restructuring of the Group's cover from a whole account to an individual risk cover. This was offset by the Group purchasing additional catastrophe cover on its U.S. property direct and facultative portfolio, and reinstating non-elemental cover on its marine and energy book in the second quarter of 2010.

Net premiums earned

Net premiums earned as a proportion of net written premiums were 94.5% for the year compared to 103.0% in 2009. The significant increase in premiums written in the first quarter of 2010 as compared to 2009 resulted in a comparatively large deferral of earnings partially into 2011. In addition, premiums on a significant multi-year contract within the property catastrophe reinsurance class and several within the energy Gulf of Mexico class of

U.S.$36.7 million and U.S.$33.4 million, respectively, also drove the material deferrals of earning of premiums written earlier in the year. The foregoing multi-year contract financial information was extracted without material adjustment from internal accounting records.

Net insurance acquisition expenses

Net insurance acquisition expenses, as a percentage of net premiums earned, decreased from 17.8% in 2009 to 17.3% in 2010. This slight movement was due to the changes in business mix.

Losses and loss expenses

The loss ratio was 27.0% for 2010, an increase from 16.6% in 2009. The twelve months ended December 31, 2010 include the impact of the Chile Maule earthquake plus the total loss of the Deepwater Horizon drilling unit.

Net prior year reserve releases were U.S.$100.1 million for the year ended December 31, 2010, compared to U.S.$63.5 million for the same period in 2009. The favorable development in 2010 arose primarily from IBNR releases due to fewer than expected reported losses. In 2009, there was net adverse development on Hurricane Ike reserves of U.S.$17.1 million, which was more than offset by other favorable development due to fewer than expected reported losses.

The accident year loss ratio for the year ended December 31, 2010 was 42.9%, compared to 27.2% for the year ended December 31, 2009, which ratios have been extracted without material adjustment from our published financial supplement for the period. The increase was a result of the Chile Maule earthquake and the Deepwater Horizon losses.

Investment performance

Net investment income was U.S.$53.4 million in the twelve months ended December 31, 2010, compared to U.S.$56.0 million over the same period in 2009, a decrease of 4.6% due to the lower yield interest rate environment.

Total investment return, including net investment income, net realized gains and losses, impairments and net change in unrealized gains and losses, was U.S.$84.5 million for the year ended December 31, 2010 compared to U.S.$82.9 million for 2009. The total investment return for the twelve months to December 31, 2010 was 4.2%, compared to 3.9% for the twelve months ended December 31, 2009. Returns were marginally higher due to the increased allocation to both corporate bonds and emerging market debt.

Administrative and other expenses

G&A, excluding equity-based compensation, increased by U.S.$1.3 million, or 2.1%, from U.S.$60.5 million in 2009 to U.S.$61.8 million in 2010 reflecting the Group's stable operating platform. Total employment costs, excluding equity-based compensation, were U.S.$33.2 million for the year ending December 31, 2010, compared to U.S.$35.6 million in the year ending December 31, 2009.

Profit for the year

The Group generated profit after tax of U.S.$330.8 million in 2010 compared to U.S.$385.4 million in 2009 and returned U.S.$430.6 million of capital to shareholders in 2010 compared to U.S.$290.4 million in 2009. The reduction in profit year on year was largely driven by increased net insurance losses offset marginally by increased premiums. The FCBVS was U.S.$7.57 at December 31, 2010, a return of 23.3% measured as the growth in FCBVS plus dividends. The combined ratio was 54.4%. Diluted earnings per share for 2010 were U.S.$1.86.

Operating review for the financial year ended December 31, 2009

Gross premiums written

In 2009, gross premiums written were broadly consistent with 2008, with a small reduction of U.S.$10.3 million, or 1.6%, from U.S.$638.1 million to U.S.$627.8 million. Demand and recessionary driven reductions in energy, marine and aviation were largely offset by increases in the property classes, primarily in property catastrophe reinsurance.

Reinsurance premium ceded

Ceded reinsurance premiums decreased by U.S.$12.7 million, or 20.0%, compared to 2008 due to a reduction in the level of reinsurance purchased in respect of Gulf of Mexico energy catastrophe risks given the lower volume of premiums written in that class in 2009.

Net premiums earned

Net premiums earned as a proportion of net written premiums were 103.0% for the year ending December 31, 2009, compared to 105.7% for the same period in 2008. The Group's 2008 premium volumes were lower than 2007, which led to a reduction in the deferral of earnings into 2009. The increase in property catastrophe business written in June and July of 2009 increased earned premiums in the second half of the year and brought the ratios broadly in line.

Net insurance acquisition expenses

Net insurance acquisition expenses, as a percentage of net premiums earned, increased from 16.4% in 2008 to 17.8% in 2009. This was partially due to changing business mix but it was primarily driven by the increase in energy acquisition costs due to a shift from low brokerage Gulf of Mexico contracts to worldwide contracts with higher brokerage costs.

Losses and loss expenses

The loss ratio was 16.6% for 2009, a significant reduction from 61.8% in 2008. 2009 had an unusually low number of reported losses during the year and U.S.$63.5 million of favorable development of prior accident year reserves. 2008 includes total estimated net losses, after reinsurance and reinstatement premiums, of U.S.$161.7 million in relation to Hurricane Ike. Prior accident year releases in 2008 amounted to U.S.$28.6 million.

The accident year loss ratio for the year ended December 31, 2009 was 27.2% compared to 66.5% for 2008, which ratios have been extracted without material adjustment from our published financial supplement for the period.

Investment performance

Net investment income was U.S.$56.0 million in the twelve months ended December 31, 2009, compared to U.S.$59.5 million over the same period in 2008, a decrease of 5.9%, reflecting a reduction in the overall portfolio yield.

Total investment return, including net investment income, net realized gains and losses, impairments and net change in unrealized gains and losses, was U.S.$82.9 million for the year, compared to U.S.$54.7 million for 2008. The total investment return for the twelve months to December 31, 2009 was 3.9%, compared to 3.1% for the twelve months ended December 31, 2008.

Administrative and other expenses

G&A, excluding equity-based compensation, increased by U.S.$11.2 million, or 22.7%, from U.S.$49.3 million in 2008 to U.S.$60.5 million in 2009. The increase was primarily due to variable employee remuneration

costs, reflecting the strong performance of the Group in 2009. Fixed employee remuneration costs in 2009 were broadly in line with 2008 whereas variable employee remuneration costs were U.S.$18.4 million in 2009 compared to U.S.$9.6 million in 2008 due to performance-based compensation. Excluding employee remuneration, other operating expenses were broadly consistent with 2008, reflecting the Group's stable operating platform.

Equity-based compensation was U.S.$16.4 million in the year ending December 31, 2009 compared to U.S.$10.6 million in the year ending December 31, 2008. The increased 2009 expense reflects two years worth of restricted stock awards. The restricted stock program began in 2008 and awards typically vest over three years. The 2009 expense also includes mark to market adjustments on certain performance warrants plus charges associated with the revaluation of options due to amendments made to their strike price as a result of dividend declarations.

Profit for the year

The Group generated profit after tax of U.S.$385.4 million in 2009, compared to U.S.$97.5 million in 2008, and returned U.S.$290.4 million of capital to shareholders in 2009 compared to U.S.$58.0 million in 2008. The increase in profit year on year was largely driven by reduced net insurance losses and reduced investment impairment offset marginally by increased other operating expenses due to the increase in variable employee remuneration. The FCBVS was U.S.$7.41 at December 31, 2009, a return of 26.5% measured as the growth in FCBVS plus dividends. The combined ratio was 44.6%. Diluted earnings per share for 2009 were U.S.$2.05.

Fixed income portfolio at June 30, 2012 and at December 31, 2011, 2010 and 2009

At June 30, 2012 and at December 31, 2011, the fixed income portfolio plus managed cash had a weighted average duration of 1.7 years and a credit quality of AA-. At December 31, 2010, the fixed income portfolio plus managed cash had a weighted average duration of 2.2 years and a credit quality of AA. At December 31, 2009, the fixed income portfolio plus managed cash had a weighted average duration of 2.3 years and a credit quality of AA+. The duration and credit quality information in this paragraph was extracted without material adjustment from published financial supplements for the periods.

Segmental Information for the Six Months Ended June 30, 2012 and the Financial Years Ended December 31, 2011, 2010 and 2009

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

Revenue and expense by business segment for the six months ended June 30, 2012

Gross Premiums Written

	Property	Energy	Marine	Aviation	Total
	(U.S.$ in millions)				
Analyzed by geographical segment:					
Worldwide offshore	—	161.6	52.7	—	214.3
Worldwide, including the U.S. and Canada [(1)]	107.8	4.3	0.6	16.6	129.3
U.S. and Canada	62.1	0.7	—	—	62.8
Far East	32.2	0.1	—	—	32.3
Europe	25.6	—	—	—	25.6
Worldwide, excluding the U.S. and Canada [(2)]	20.6	0.6	—	—	21.2
Middle East	3.9	0.3	—	—	4.2
Rest of world	24.3	0.2	0.6	—	25.1
Total	**276.5**	**167.8**	**53.9**	**16.6**	**514.8**
Net premiums earned	**141.1**	**105.4**	**22.6**	**22.6**	**291.7**
Net underwriting profit	**78.8**	**60.1**	**(18.9)**	**17.3**	**137.3**
Profit before tax	—	—	—	—	**107.1**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by business segment for the six months ended June 30, 2011

Gross Premiums Written

	Property	Energy	Marine	Aviation	Total
	(U.S.$ in millions)				
Analysed by geographical segment:					
Worldwide offshore	0.4	140.2	42.7	—	183.3
Worldwide, including the U.S. and Canada (1)	35.3	7.6	0.4	18.3	61.6
U.S. and Canada	46.7	1.2	—	—	47.9
Far East	11.1	—	—	—	11.1
Europe	21.0	0.5	0.5	—	22.0
Worldwide, excluding the U.S. and Canada (2)	16.7	0.5	(0.1)	—	17.1
Middle East	2.6	0.8	—	—	3.4
Rest of world	31.4	1.3	0.7	—	33.4
Total	**165.2**	**152.1**	**44.2**	**18.3**	**379.8**
Net premiums earned	**136.8**	**91.2**	**35.7**	**23.8**	**287.5**
Net underwriting profit	**38.2**	**35.7**	**28.5**	**23.7**	**126.1**
Profit before tax					**99.4**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by business segment for the year ended December 31, 2011

Gross Premiums Written

	Property	Energy	Marine	Aviation	Total
	(U.S.$ in millions)				
Analyzed by geographical segment:					
Worldwide offshore	0.6	210.0	73.7	—	284.3
Worldwide, including the U.S. and Canada (1)	59.4	11.6	1.3	47.1	119.4
U.S. and Canada	80.9	3.3	—	—	84.2
Far East	25.9	0.2	0.1	—	26.2
Europe	30.2	0.6	0.7	—	31.5
Worldwide, excluding the U.S. and Canada (2)	25.8	0.5	—	—	26.3
Middle East	7.7	0.8	—	—	8.5
Rest of world	49.3	2.0	0.6	—	51.9
Total	**279.8**	**229.0**	**76.4**	**47.1**	**632.3**
Net premiums earned	**256.4**	**195.9**	**77.3**	**44.9**	**574.5**
Net underwriting profit	**91.1**	**99.5**	**48.2**	**41.0**	**279.8**
Profit before tax	—	—	—	—	**218.6**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by business segment for the year ended December 31, 2010

Gross Premiums Written

	Property	Energy	Marine	Aviation	Total
	(U.S.$ in millions)				
Analyzed by geographical segment:					
Worldwide offshore	1.2	225.0	75.2	—	301.4
Worldwide, including the U.S. and Canada [(1)]	53.9	7.6	0.5	50.7	112.7
U.S. and Canada	133.3	2.6	—	—	135.9
Far East	15.9	0.3	0.4	—	16.6
Europe	42.9	0.3	0.2	0.1	43.5
Worldwide, excluding the U.S. and Canada [(2)]	40.6	0.2	0.1	—	40.9
Middle East	6.1	0.7	—	—	6.8
Rest of world	29.7	1.6	—	—	31.3
Total	**323.6**	**238.3**	**76.4**	**50.8**	**689.1**
Net premiums earned	**311.7**	**183.3**	**66.8**	**52.4**	**614.2**
Net underwriting profit	**164.7**	**109.4**	**21.8**	**46.3**	**342.2**
Profit before tax	—	—	—	—	**339.2**

[(1)] Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
[(2)] Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by business segment for the year ended December 31, 2009

Gross Premiums Written

	Property	Energy	Marine	Aviation	Total
	(U.S.$ in millions)				
Analyzed by geographical segment:					
Worldwide offshore	1.0	154.9	71.4	—	227.3
Worldwide, including the U.S. and Canada [(1)]	51.5	7.4	(0.6)	60.9	119.2
U.S. and Canada	156.0	2.2	0.1	—	158.3
Far East	10.9	2.1	0.2	—	13.2
Europe	30.3	3.5	2.1	0.3	36.2
Worldwide, excluding the U.S. and Canada [(2)]	35.1	—	0.4	0.1	35.6
Middle East	8.6	3.3	—	—	11.9
Rest of world	23.9	2.1	0.1	—	26.1
Total	**317.3**	**175.5**	**73.7**	**61.3**	**627.8**
Net premiums earned	**283.5**	**172.6**	**75.9**	**62.7**	**594.7**
Net underwriting profit	**256.6**	**60.8**	**24.1**	**48.5**	**390.0**
Profit before tax	—	—	—	—	**388.5**

[(1)] Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
[(2)] Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Gross premiums written increased by 35.5% in the first six months of 2012 compared to the same period in 2011. The increases compared to the prior year are driven primarily by the property book. The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 67.4% in the first six months of 2012 compared to the first six months of 2011. The increase was largely due to the Group's increased property retrocession writings at January 1, 2012. In anticipation of a declining trading environment through the rest of the year, the Group increased its exposures at January 1 significantly, utilizing the Accordion sidecar for a sizeable portion of this business. The

increase is also impacted by the April 1, 2011 Japanese renewals being extended to July 1, 2011 in the aftermath of the Tohoku earthquake and resulting tsunami, renewing again in 2012 at their traditional time of April 1. Premium volumes in property direct and facultative were, however, down for the year to date as the Group continued to rebalance its book towards the better priced reinsurance lines. The Group ceased writing new and renewal property direct and facultative business from July 1, 2012 given current pricing and anticipated lower profitability for renewals.

Energy gross premiums written increased by 10.3% in the first six months of 2012 compared to the first six months of 2011. The increase in premiums year on year was driven primarily by an increased premium flow from prior underwriting years risk attaching business in the worldwide offshore book.

Marine gross premiums written increased by 21.9% in the first six months of 2012 compared to the first six months of 2011. The increase was largely driven by the timing of multi-year contract renewals, which included significant price increases on loss affected contracts following the Costa Concordia marine loss.

Aviation gross premiums written decreased by 9.3% in the first six months of 2012 compared to the first six months of 2011. While pricing and renewal rates remain under some pressure, the first half of the year is not a major renewal period for the aviation sector and volumes are relatively light.

Liquidity and Capital Resources

The Group aims to maintain a strong balance sheet at all times. An adequate level of capital must be maintained to support the Group's underwriting and the mix of capital must be sufficiently conservative in order to preserve that capital.

Liquidity

The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group can be exposed to daily calls on its available investment assets, principally from insurance claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost.

The Group's liquidity needs are primarily to meet insurance liabilities and other short-term liabilities, including interest payments on the Group's long-term debt and capital management actions. The Company's dividend policy is for a small ordinary dividend augmented from time to time, as appropriate, with larger special dividends. The Company does not pay large progressive ordinary dividends. The Company may also repurchase shares from time to time, subject to appropriate economics. The primary sources of liquidity are from premiums received under insurance and reinsurance contracts and from investments and investment income. The principal outflows for the Group are the settlement of claims, payment for reinsurance cover, payment of general and operating expenses, servicing of debt, distribution of dividends and the repurchasing of shares.

Cash flow from operating activities has been positive for the six months ended June 30, 2012 and the years ended December 31, 2011, 2010 and 2009. Net cash flows from operating activities were U.S.$278.4 million, U.S.$268.8 million and U.S.$257.7 million for 2009, 2010 and 2011, respectively. In the first half of 2012, net cash flows from operating activities were $60.2 million. The significant positive cash flows in all periods was driven by the Group's robust underwriting performance.

In all periods, there was significant positive cash flow despite the sequence of large catastrophe losses in 2010 and 2011 and the two large energy risk losses discussed previously. The catastrophe claims are complex and therefore subject to loss adjustment. As a result, the catastrophe claims do not settle immediately. The Group has more than adequate liquid resources available to fund these claims.

There was a net cash outflow of U.S.$9.7 million from investing activities in the first half of 2012. This was mainly due to net purchases of fixed income securities of U.S.$41.2 million offset by interest and dividends received of U.S.$25.7 million and a return of U.S.$8.9 million from the Group's investment in associate.

There was a net cash outflow of U.S.$3.8 million from investing activities in 2011. The 2011 outflows were mainly due to net purchases of fixed income and equity securities of U.S.$12.7 million, an investment in associate of U.S.$50.0 million offset by interest and dividends received of U.S.$59.6 million. During 2011, the investment portfolio yielded lower cash returns than 2010 as a result of the continuing lower interest rate environment. As higher yielding securities matured or were sold, the proceeds were reinvested in securities with coupon payments at lower prevailing interest rates.

In 2010, there was a net inflow of U.S.$259.2 million primarily as a result of the net proceeds on fixed income securities of U.S.$193.0 million and interest and dividends received of U.S.$66.9 million. In 2009, there was a net outflow of U.S.$210.7 million, primarily as a result of the net purchase of fixed income securities of U.S.$270.8 million, as the Group deployed excess cash balances, including the purchase of corporate bonds. This was partially offset by inflows of interest and dividends received of U.S.$62.8 million and net proceeds of U.S.$4.8 million received from the sale of equities.

Net cash flows from financing activities have consistently been outflows due to the Group's focus on capital management. In the first half of 2012, the net outflow was U.S.$30.0 million as a result of dividends paid of U.S.$19.2 million, distributions by the Lancashire Holding Employee Benefit Trust (the "**EBT**") of U.S.$7.9 million and interest payments made to the Group's long-term debt holders of U.S.$2.9 million. In 2011, the net outflow was U.S.$454.5 million as a result of dividends paid of U.S.$444.4 million, interest payments of U.S.$5.6 million and distributions by the EBT of U.S.$4.5 million. In 2010, the net outflow was U.S.$448.1 million as a result of dividends paid of U.S.$293.2 million, settlement of share repurchases of U.S.$149.5 million and interest payments of U.S.$5.4 million. In 2009, the net outflow was U.S.$41.8 million as a result of dividends paid of U.S.$10.5 million, settlement of share repurchases of U.S.$24.9 million and interest payments of U.S.$6.4 million.

Capital Resources

Management and the Board of Directors review the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital to take advantage of underwriting opportunities and to meet obligations to policyholders;
- maximizing the return to shareholders within pre-determined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal and regulatory requirements.

Capital is therefore raised or returned as appropriate. Capital raising can include the issuance of debt, equity or hybrid securities and returns of capital may be made through dividends, share buy-backs or redemption of debt or any combination thereof. Other capital management tools and products available to the Group, such as reinsurance, sidecars and capital markets products, may also be utilized. All capital actions require approval by the Board of Directors.

There are several inter-linked factors which lead to decisions on the level of capital to maintain:

- the underwriting opportunities: matching capital to the underwriting opportunities ahead;
- the level of various risk factors which the Group currently has, and what the Group anticipates having in the short- to medium-term;
- the ability to raise capital from the financial markets; and
- the stage of the insurance industry cycle.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements, and the capital requirements of the combination of a wide range of other risk categories. Management increasingly uses these approaches in decision-making. The operating companies also conduct capital requirement assessments under internal measures and in compliance with local regulatory requirements.

BLAST, the Group's economic capital model, provides management and the Board of Directors with information on risk and return that can assist with business decisions. BLAST is an integral part of the Group's Enterprise Risk Management ("**ERM**") program. It is primarily a stochastic model that incorporates insurance risk, market risk, credit risk and other general risks, including operational risk. It requires the input of a large number of parameters and data. The inputs include historical data and projected future premium income, reinsurance programs, loss ratios, default rates, asset performance and operational costs. All classes of business, including non-elemental classes, are within the capabilities of the model.

BLAST produces data in the form of a stochastic distribution for all classes, including non-elemental classes. The distribution includes the mean outcome and the result at various return periods, including remote events. BLAST includes the calculation of present and projected financial outcomes for each insurance class and also recognizes diversification credit. This arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time. Diversification credit is calculated within categories or across a range of risk categories, with the most significant impact resulting from insurance risks. BLAST also measures the Group's aggregate insurance exposures, thereby helping the Group determine the level of capital required at both the Group and operating entity level to meet the combined risk from a wide range of categories. Assisted by BLAST, the Group seeks to achieve an improved risk-adjusted return over time.

There are several areas of uncertainty associated with achieving accurate results from BLAST. These include the following: incorrect assumptions on parameters, including frequency and severity of losses; external environmental factors, including trading conditions or major loss events; correlation factors between different types of risk; counter party credit-worthiness; and changes in laws and regulations or their interpretation. The management of various types of risks is described in more detail below.

The composition of capital is also driven by management's appetite for leverage, which is calculated as total debt divided by total capital. Leverage at June 30, 2012 and December 31, 2011 was 8.2% and 8.8%, respectively. In appropriate circumstances, management would be willing to increase leverage somewhat. An increase in leverage in line with the Group's nimble approach to capital management is entirely dependent on the availability and price of debt and the Group's ability to raise capital in the capital markets. Maintaining a strong balance sheet will be the overriding factor in all capital management decisions.

The Company 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 jurisdictions 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 capitalized under IFRS but expensed or have a different valuation basis for regulatory reporting, or are not admitted under insurance regulations. See "Regulation—Bermuda Insurance Regulation—Restrictions on Dividends and Distributions" and "Regulation—U.K. Insurance Regulation—Restrictions on Dividend Payments" below.

As at June 30, 2012 and December 31, 2011, 2010 and 2009, the regulatory capital requirements of all jurisdictions in which the Group had operating subsidiaries were met.

As at June 30, 2012, the Group had the following capital resources:

- On December 15, 2005, the Group issued, via a trust company, U.S.$97.0 million and €24.0 million aggregate principal amount of floating rate junior subordinated notes of the Company due 2035 at an issue price of U.S.$1,000 and €1,000 of their principal amounts, respectively. The U.S. dollar subordinated loan notes are repayable on December 15, 2035 with a prepayment option available from March 15, 2011. Interest on the principal is based on a set margin (3.7%) above the variable LIBOR rate and is payable quarterly. The euro subordinated loan notes are repayable

on June 15, 2035 with a prepayment option available from March 15, 2011. Interest on the principal is based on a set margin (3.7%) above the variable EURIBOR rate and is payable quarterly. The Group has entered into swap agreements in order to manage its interest rate risk. The Group has no off-balance sheet debt.

- As both LICL and LUK are non-admitted insurers or reinsurers throughout the United States, the terms of certain contracts require them to provide letters of credit ("**LOCs**") to policyholders as collateral. The Company and LICL have the following facilities in place as of June 30, 2012:

  (i) a U.S.$350 million syndicated collateralized five year credit facility with U.S.$75.0 million loan sub-limit that has been in place since April 5, 2012 and will expire on April 5, 2017. There was no outstanding debt under this facility as at June 30, 2012; and

  (ii) a U.S.$400.0 million bi-lateral uncommitted LOC facility with Citibank Europe PLC.

  The terms of the U.S.$350.0 million LOC facility include standard default and cross default provisions which require certain covenants to be adhered to. These include the following:

  (i) an A.M. Best financial strength rating of at least B++; and

  (ii) a maximum debt to capital ratio of 30%, where the current long-term debt issuance is excluded from this calculation.

  As at all reporting dates, the Group was in compliance with all covenants under these facilities. The U.S.$400.0 million bi-lateral uncommitted LOC facility does not contain default provisions or covenants.

  As at both December 31, 2011 and June 30, 2012, LOCs totaling U.S.$9.4 million (2010 – U.S.$18.9 million; 2009 – U.S.$25.7 million) had been issued to third parties and there was no outstanding debt under this facility (2010 and 2009 – U.S.$nil). LOCs are required to be fully collateralized.

- In addition to the LOC facilities, the Group has several trust arrangements in place in favor of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions. As at June 30, 2012 and December 31, 2011, 2010 and 2009, the Group was in compliance with all covenants under its trust facilities. As at December 31, 2011 and June 30, 2012, U.S.$192.6 million and U.S.$192.7 million, respectively, (2010 – U.S.$.267.2 million; 2009 – U.S.$157.3 million) of cash and cash equivalents and investment balances were held in trust and other collateral accounts in favor of third parties.

Capital actions taken by the Group are as follows:

- In November 2011, a strategic decision was made to return U.S.$152.0 million of excess capital to shareholders, leaving total capital at December 31, 2011 of U.S.$1.455 billion comprising U.S.$1.327 billion of shareholders' equity and U.S.$128.0 million of long-term debt. No share repurchases were made during 2011 but, at the Annual General Meeting held on May 3, 2012, the Group's shareholders approved a renewal of the Repurchase Program authorizing the repurchase of a maximum of 16,860,242 shares, with such authority to expire on the conclusion of the 2013 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Program was passed.

- In May 2011, the Group launched the sidecar vehicle, Accordion, a fully collateralized property retrocession quota share reinsurance vehicle with a capital draw down feature. Capital is fully committed and is called as required up to a maximum of U.S.$250.0 million (subject to a capital step-up option). The Company receives an over-ride commission, an ultimate contingent profit

commission, and has a 20.0% equity investment in the vehicle. In May 2012, the Group and its co-investment partners rolled over the capital and undrawn capital commitment for a subsequent underwriting year.

- In December 2010, a strategic decision was made to return U.S.$264.0 million of excess capital to shareholders, leaving total capital at December 31, 2010 of U.S.$1.416 billion, comprising U.S.$1.287 billion of shareholders' equity and U.S.$128.8 million of long-term debt. During 2010, U.S.$136.4 million of shares were repurchased.

- In November 2009, a strategic decision was made to return U.S.$263.0 million of excess capital to shareholders, leaving total capital at December 31, 2009 of U.S.$1.510 billion, comprising U.S.$1.379 billion of shareholders' equity and U.S.$131.4 million of long-term debt. During 2009, U.S.$16.9 million of shares were repurchased.

The Group does not hold a material amount of capital assets and does not have any significant planned capital expenditure.

BUSINESS

Business Overview of the Group

The Group, through its London- and Bermuda-incorporated insurance subsidiaries, is a global provider of specialty insurance and reinsurance. The Group writes primarily short-tail insurance and reinsurance business, and writes a diversified book of business, mostly on a direct basis, in four principal lines: property, energy, marine and aviation. The Group believes its operations afford it the ability to access business while maintaining underwriting control and a low-cost operating structure.

Gross premiums written by the Group in the year ended December 31, 2011 were U.S.$632.3 million and for the six months ended June 30, 2012 were U.S.$514.8 million. Net premiums written were U.S.$565.1 million for the year ended December 31, 2011 and U.S.$365.6 million for the six months ended June 30, 2012. Profit attributable to equity shareholders was U.S.$212.2 million for the year ended December 31, 2011 and U.S.$103.7 million for the six months ended June 30, 2012.

The long-term debt rating of the Company and the financial strength ratings for LICL and LUK are as follows:

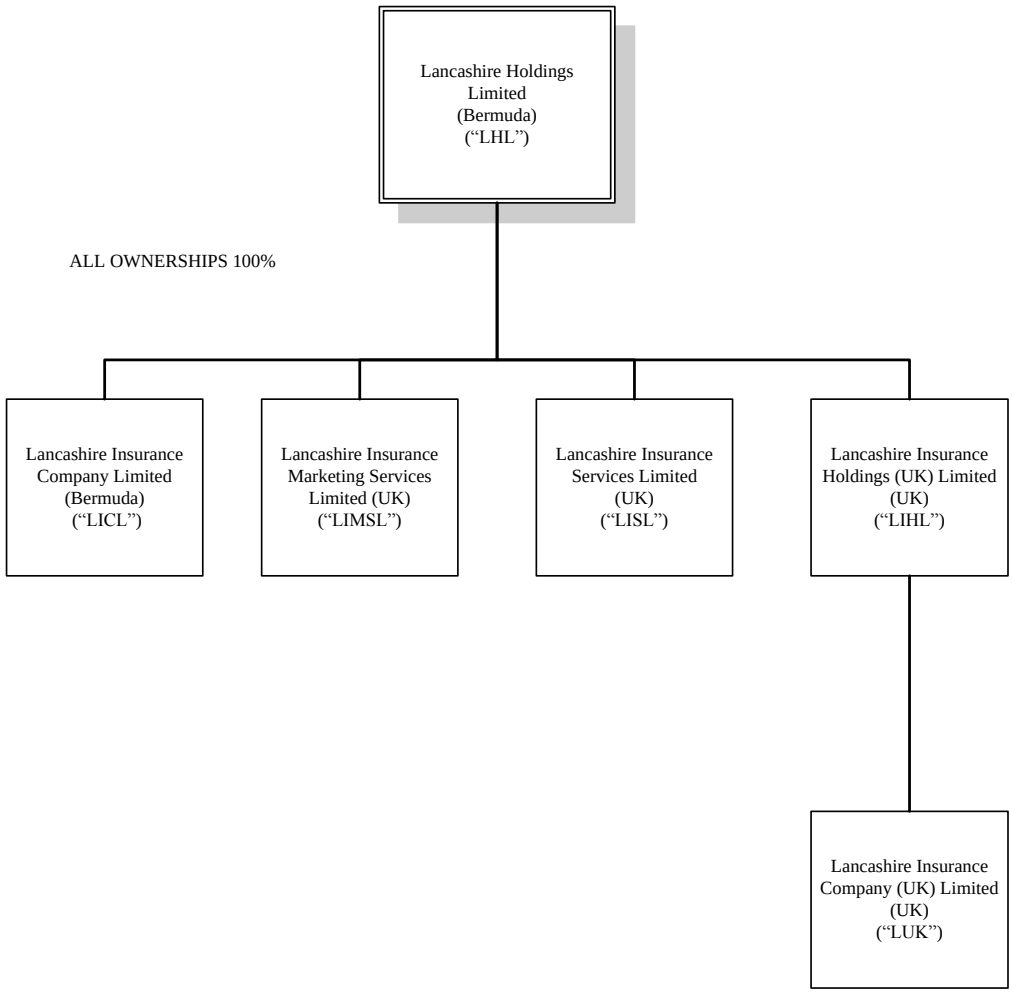
	LICL Financial Strength Rating	*LUK Financial Strength Rating*	*Long-Term Debt Rating of the Company*	*Outlook*
A.M. Best	A	A	bbb	Stable
S&P	A-	A-	BBB	Stable
Moody's	A3	A3	Baa2	Stable

The financial strength ratings of our operating subsidiaries, LICL and LUK, are often a key factor in the decision by an insured, cedant or an intermediary on where to place business. Many insureds, cedants and intermediaries maintain a listing of acceptable insurers or reinsurers, generally based upon financial strength ratings. In the jurisdictions in which the Group operates, an A.M. Best "A minus" financial strength rating is the minimum rating normally acceptable for these insureds, cedants and intermediaries to include a particular insurer or reinsurer on such a list.

Each rating reflects the respective rating agency's opinion of the business, capitalization, results, management and ownership of the entity to which it relates and ratings are not an evaluation directed to investors in the Company's securities or a recommendation to buy, sell or hold the Company's securities. Ratings may be revised or revoked at the sole discretion of A.M. Best, S&P or Moody's.

The Group has five wholly owned material subsidiaries operating in two jurisdictions: Bermuda and the United Kingdom which, together with the Company, constitute the Group.

The Group's operating structure is as follows:



LICL and LUK are currently the Group's principal operating subsidiaries based in Bermuda and London, respectively, being the centers of the world's most important insurance and reinsurance specialty markets. The primary sources of liquidity within the Group are from premiums received under insurance and reinsurance contracts and from investments and investment income derived from the assets held by LICL and LUK. As the Company is a holding company whose principal assets are its investments in such subsidiaries, it is dependent on dividends, returns of capital and interest income from, in particular, LICL and LUK, to meet ongoing cash requirements, including servicing debt payments and other expenses.

LICL and LUK provide insurance and reinsurance products to the Group's customers, with an emphasis on property, energy, marine and aviation lines of business. LICL was incorporated under the laws of Bermuda on October 28, 2005 and is authorized and regulated by the BMA as a Class 4 general insurer under the Bermuda Insurance Act. LUK was incorporated under the laws of England and Wales on March 17, 2006 and is a wholly owned subsidiary of Lancashire Insurance Holdings (UK) Limited, a wholly owned subsidiary of the Group incorporated in England and Wales. LUK is authorized by the FSA to underwrite certain classes of general insurance business in the United Kingdom. LUK also has certain EEA freedom of service authorizations to operate within the EEA. LUK is also registered as a Class 3 general insurer in Bermuda under the Bermuda Insurance Act and has a permit issued under Section 134 of the Bermuda Companies Act 1981 ("the **Companies Act**") to enable certain activities related to its business to be performed from Bermuda.

LISL was incorporated under the laws of England and Wales on March 17, 2006 and provides support services to the Group.

LIMSL is a U.K.-based insurance intermediary authorized by the FSA to undertake insurance mediation activities. LIMSL provides business introduction and other marketing and support services to LICL in the United Kingdom, and was incorporated under the laws of England and Wales on October 7, 2005.

In 2012, the Company incorporated a wholly owned subsidiary in Canada to assist in the provision of certain investment and treasury services to the Group. The Group considers this subsidiary immaterial.

Key Strengths

The Group believes it has a strong performance record and considers that its key strengths can be categorized into the following areas:

- Established and successful market leader with a strong underwriting track record: The Group's overriding goal is to create a superior risk adjusted return over time. The Group had a combined ratio (ratio, in percent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned) of 44.6%, 54.4%, 63.7% and 67.2% for 2009, 2010, 2011 and the six months ended June 30, 2012, respectively. Inception to date average combined ratio is 58.7%. The average is based on the period from inception to June 30, 2012 and is weighted by annual net premiums earned.

- Strong underwriting team: The Group's underwriting team is highly experienced. Team leaders in major lines of business have, on average, almost 20 years' experience and, in the opinion of the Directors, are well matched to the lines of business written.

- Underwriting discipline: The Group's priority is excellence in underwriting and the pricing thereof, which the Group believes it has demonstrated by proactively moving in and out of certain business lines as terms, conditions and pricing fluctuate according to market cycles. The Group's daily underwriting and marketing conference call is an integral part of the Group's control over underwriting and fundamental to the Group's nimble approach.

- Focus on capital management and capital preservation: The Group matches capital to underwriting opportunities, not the other way round, while maintaining what it considers to be appropriate levels of capital under both internal and external (such as rating agency and regulatory) requirements plus risk tolerances. Gross written premium growth does not drive the Group's strategy.

- Strong balance sheet: The Group maintains a strong balance sheet and believes it is able to absorb large losses whilst still being able to take advantage of ensuing opportunities (for example, as occurred following the Chile earthquake in 2010 and the Japan Tohoku earthquake in 2011). In 2011, the Group launched a contingent capital sidecar, Accordion, to take advantage of the dislocation in the property retrocession market.

- Solid investment performance: The Group has a conservative investment philosophy, with the primary emphasis being preservation of capital and the provision of sufficient liquidity for prompt payment of claims and other obligations. The Group has produced a total investment return of 3.9%, 4.2%, 1.8% and 1.7% for 2009, 2010, 2011 and the six months ended June 30, 2012, respectively. Total investment return is the sum of net investment income plus net realized gains (losses) and impairments plus net change in unrealized gains/losses divided by average invested assets.

- Efficient operating structure: Management believes in a simple operating structure with only two underwriting locations in order to maximize the efficiency of operations, manage the insurance cycle and maximize returns.

- Financial strength: As at June 30, 2012, the Group's total capital was U.S.$1.549 billion, comprising U.S.$1.422 billion of shareholder's equity and U.S.$126.9 million of long-term debt. Leverage was 8.2%.

- Distribution strength: The Group maintains what it considers to be good relationships with the largest global broking firms as well as individual brokers, which it believes is an important factor in achieving effective distribution of its products.

Operating Principles and Business Strategy

The Group's strategy is centered on the goal of generating an attractive risk-adjusted return over the long-term, with success in achieving the Group's goals measured against risk and return targets. The Group believes that its strength is excellence in the underwriting risk selection process. The Group also aims to maintain a strong balance sheet at all times. An adequate level of capital must be maintained to support the Group's underwriting, including future opportunities, and the mix of capital must be sufficiently conservative in order to preserve that capital.

The Group executes its strategy by concentrating on certain key priorities. These are represented by the following three statements or "cornerstones":

- underwriting comes first;

- effectively balance risk and return; and

- operate nimbly through the cycle.

Underwriting comes first

The Group underwrites a diversified short-tail property specialty book of insurance and reinsurance risks, allocating capital to classes according to pricing and opportunities. Risk selection is key. Across the majority of the Group's classes, the insurance and reinsurance portfolio is one of low frequency/high severity. Except in respect of certain aviation and marine quota share programs exposed to attritional losses, the Group aims to avoid attritional losses by writing excess layer contracts, leading or participating on an agreement party basis on about 70% of the programs that it writes (leading or having an agreement party status typically provides the Group with control of the terms and conditions of the placement, or has a substantial influence on the terms and conditions if it is a subscription market placement) with an aim of maximizing the expected contribution of underwriting profits to the return on equity while remaining within established risk tolerances.

As part of its underwriting strategy, the Group continually considers classes of business that it does not currently write. The Group may decide to enter new classes if, in its judgment, to do so would improve cross-cycle risk-adjusted return. The Group's appetite for casualty business has been restricted primarily to the AV52 product (coverage for aviation third-party liability arising from war perils) and marine protection and indemnity ("**P&I**"), where the Group has written a small number of liability risks on an excess basis. Some additional liability exposure, limited in scope, has been provided as part of certain packaged programs in the energy class.

The Group writes a relatively small number of classes compared to most insurance companies. The Group has maintained a relatively stable portfolio mix since its inception in 2005.

Effectively balance risk and return

The Group has a number of internal risk tolerances along with external requirements set by regulators and rating agencies. The Group seeks to manage premium and capital across the cycle, reducing premiums and exposures in "soft" markets and expanding in "hard" markets. Further discussion of the Group's risk management, including the use of BLAST, is set out below.

Operate nimbly through the cycle

The Group's collegiate underwriting approach is crucial to being able to operate nimbly through the cycle, growing in a hard market (where premium rates are increasing) and shrinking in a soft market (where premium rates are decreasing) and maintaining tight control of its underwriting process. There are four main components needed to achieve this strategy:

Be prepared to forgo growth

The Group believes that the natural inclination of a business is to expand and it takes a degree of commitment to go in the opposite direction of most competitors. To turn away business in the short term, which the Group is prepared to do, requires having confidence that it will produce better results across the cycle.

Manage capital through the cycle

Capital management has two main components:

- seeking to maintain the right level of capital at all times; and
- seeking the right mix of capital at all times.

The Group aims to carry what it considers to be adequate capital based upon its risk profile at all times. Risk tolerances are set at a level that aim to prevent the Group incurring losses that would prevent it from continuing to operate. Generally, the Group expects 1 in 100 year windstorm probable maximum losses ("**PMLs**") and 1 in 250 year earthquake PMLs to be less than 25% of its total capital base. The Group also expects to maintain its investment grade ratings with the three agencies currently rating the Group. To this end, where the rating agency has a capital model, the Group expects to maintain sufficient capital to meet the requirements of those models plus an excess in order to absorb any large losses and preserve the rating. A similar approach is applied to its regulatory capital requirements.

With this in mind, the Group's strategy is to utilize a variety of capital management methods, including share repurchases, the payment of special dividends and purchasing reinsurance, amongst others. These are used frequently. The Group may also issue debt and/or equity in order to take advantage of significant broad-based rate increases (also known as hard markets) following a major loss event or may utilize sidecar capacity to access shorter term opportunities in dislocated markets. The Group's stated policy on dividends provides for the payment of a small recurring annual dividend, supplemented by special dividends from time to time, as part of its ongoing capital management strategy to return capital when insurance markets are soft. The Group does not have a progressive dividend policy. Dividends (to the extent paid) are expected to be linked to past performance and future prospects, expected cash flows and working capital needs. Under most scenarios, the annual dividend is not expected to increase from one year to the next to allow maximum flexibility. Special dividends are expected to vary substantially in size and in timing, and may not be paid at all, in line with the Group's capital management strategy. Capital mix is an important part of the Group's strategy.

Maintain a lower-cost, tight operating structure

The Group believes that a strategy to expand and contract underwriting volumes across the cycle fits most naturally with a lower-cost, tight operating structure. This also contributes to a low combined ratio.

Be quick to market when opportunities arise

When a market-changing event occurs (such as happened with the World Trade Centre attack in 2001 and Hurricanes Katrina, Rita and Wilma in 2005), the Group intends to be well-positioned to capitalize on opportunities such as hardening rates following the event. Similarly, when there is regional dislocation, such as in New Zealand and Japan following the 2011 earthquakes, the Group's strategy is to redirect its capital to opportunities in those regions. In the case of New Zealand and Japan in 2011, the Group offered back-up covers and increased capacity, respectively.

Information on the Business

The Group writes a diversified book of business in four principal lines: property, energy, marine and aviation.

The Group writes mostly direct risks, although it does also write a selection of reinsurance risks (23% and 40%, respectively, of premiums written for the year ended December 31, 2011 and the six months ended June 30, 2012 related to reinsurance risks). For the year ended December 31, 2011 and the six months ended June 30, 2012, gross premiums written for risks exposed to natural catastrophe represented 33% and 49%, respectively, of total gross premiums written. The Group expanded its property retrocession book significantly at January 1, 2012 and utilized the sidecar vehicle, Accordion, to a significant extent. This is driving the increase in these ratios from 2011. The percentages in this paragraph have been extracted without material adjustment from internal accounting records.

The London and Bermuda underwriting centers are both authorized to write each class of business in the Group's business plan, although regional differences in expertise, broker specialization and resources have resulted in variances in appetite by class. As a general rule, reinsurance risks are written in Bermuda and both offices write insurance risks, although the majority of the insurance risks are written in London. For most classes of business, the allocation between offices is determined by the type of business; for example, for marine, the International Group of Protection and Indemnity Associations ("**IGPIA**") covers are written in Bermuda as they are a reinsurance class, while other marine classes are generally written in London as they are insurance classes. A further distinction may be made on the basis of which office has access to the best distribution. Overriding these approaches is the need to take into account differences in client preferences (clients may insist on one office providing cover) and in licensing and authorization between the companies (for example, unlike LICL, LUK can write EU direct business through the EU "passporting" provisions).

The table below sets out details of gross premiums written by geographic area for the periods stated:

	Six months ended June 30		*Years ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
	(U.S.$ in millions)				
Worldwide offshore	214.3	183.3	284.3	301.4	227.3
Worldwide, including the U.S. and Canada[(1)]	129.3	61.6	119.4	112.7	119.2
U.S. and Canada	62.8	47.9	84.2	135.9	158.3
Far East	32.3	11.1	26.2	16.6	13.2
Europe	25.6	22.0	31.5	43.5	36.2
Worldwide, excluding the U.S. and Canada[(2)]	21.2	17.1	26.3	40.9	35.6
Middle East	4.2	3.4	8.5	6.8	11.9
Rest of world	25.1	33.4	51.9	31.3	26.1
Total	**514.8**	**379.8**	**632.3**	**689.1**	**627.8**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Business Lines

The following are the principal lines in which the Group conducts its business. The table below sets out details of the gross premiums written and percentage split for the Group's four principal lines for the periods stated:

	Six months ended June 30		*Years ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
			(U.S.$ in millions)		
Property	276.5	165.2	279.8	323.6	317.3
Energy	167.8	152.1	229.0	238.3	175.5
Marine	53.9	44.2	76.4	76.4	73.7
Aviation	16.6	18.3	47.1	50.8	61.3
Total	**514.8**	**379.8**	**632.3**	**689.1**	**627.8**
Property	53.7 %	43.5 %	44.2 %	46.9 %	50.5 %
Energy	32.6 %	40.0 %	36.2 %	34.6 %	28.0 %
Marine	10.5 %	11.7 %	12.1 %	11.1 %	11.7 %
Aviation	3.2 %	4.8 %	7.5 %	7.4 %	9.8 %
Total	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Property

The property segment includes property retrocession and property catastrophe excess of loss reinsurance treaties as well as terrorism and political risk business written mostly on a direct and facultative basis. The property segment accounted for 53.7% of the Group's gross premiums written for the six months ended June 30, 2012. Details of the specific lines of business underwritten are noted below.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks only. Cover is for specific perils and may cover individual countries or regions or could be worldwide. Cover may include a reinstatement of the limit following a loss.

Property catastrophe excess of loss also covers elemental risks only and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio covers specific perils and regions, or countries or could be worldwide. Cover may include a reinstatement of the limit following a loss.

Terrorism cover can be written ground-up or for primary or high excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial entities. Policies are typically issued for scheduled locations and exposure is controlled through setting limits on aggregate exposure within a "blast zone" radius. Some national terrorism risk pools are also written, which include nuclear, chemical and biological coverage.

Property political risk cover is generally written on a ground up excess of loss basis or on an individual case-by-case basis. Coverage can vary significantly between policies within the political risk class. The Group also offers cover for sovereign and quasi-sovereign obligor credit risk. The Group does not write private obligor trade credit risk covers.

The Group ceased underwriting new and renewal direct commercial property insurance on July 1, 2012. The in force book will run off largely over the course of the next 12 months. This business was typically written on a first loss, excess of loss basis, included elemental and non-elemental perils and was worldwide in nature.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, primarily from assuming its property retrocession and property catastrophe excess of loss risks, but also from the run off of its property direct and facultative portfolio. Exposure to such events is controlled and managed by setting limits on aggregate exposures in certain classes per geographic zone and through loss modeling. The accuracy of the latter is limited by the quality of data and effectiveness of the modeling. It is possible that a catastrophic event exceeds the

expected modeled event loss. Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses or to reduce the Group's worldwide exposure to large risk losses. See "—Underwriting and Risk Management—Outwards Reinsurance" below.

Energy

The energy segment includes offshore energy written on a worldwide basis. Energy risks are mostly written on a direct basis and may be ground up or for primary or excess layers. Details of the specific lines of business underwritten are set out below. The energy segment accounted for 32.6% of the Group's gross premiums written for the six months ended June 30, 2012.

Worldwide offshore energy policies are typically package policies which may include physical damage, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high value and are therefore mostly written on a subscription basis, meaning that coverage is shared between several (re)insurers. Some package policies may include onshore energy exposures.

The Gulf of Mexico energy programs cover elemental and non-elemental risks and are mostly targeted at deepwater oil rigs. Most policies have sub-limits on coverage for elemental losses. The largest exposure is from risk losses and hurricanes. Exposure to the latter is controlled and measured through loss modeling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event could significantly exceed the modeled expected event loss. Non-elemental energy risks include fire, explosion and control of well perils.

Construction energy contracts generally cover all risks of platform and drilling units under construction.

The Group ceased underwriting new and renewal energy onshore on a stand-alone basis on July 1, 2012. The in force book will run off largely over the course of the next twelve months. This business was typically written on a first loss basis, included elemental and non-elemental perils and was worldwide in nature, including some Gulf of Mexico exposure.

Energy excess of loss currently consists of excess of loss and industry loss warranty covers protecting underlying energy reinsurance portfolios.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims and from an accumulation of smaller, attritional, losses.

Marine

The marine segment includes marine hull and war, builders risk, marine P&I and can include marine excess of loss. The Group does not normally write cargo risks. With the exception of the marine P&I clubs and marine excess of loss, where excess layers are written, most policies are written on a ground up basis. The marine segment accounted for 10.5% of gross premiums written for the six months ended June 30, 2012.

Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. In marine hull, the Group targets larger, higher quality fleets with newer tonnage, which typically outperforms older tonnage, as well as liquid natural gas tankers, cruise lines and high-profile market risks.

Marine war is direct insurance of loss of vessels from war, piracy or terrorist attack.

Marine builders risk covers the building of ocean-going vessels in specialized yards worldwide. In its marine builders, the Group seeks to target the more reputable shipyards surveyed and graded by Braemar SA, a marine surveying and technical consultancy.

Marine P&I includes the reinsurance of the IGPIA and covers marine and some energy liabilities.

Marine excess of loss is generally written on a treaty basis and can include elemental and non-elemental loss. It can be combined with Energy excess of loss under a single limit.

The largest expected exposure in the marine class is from non-elemental loss rather than from elemental loss events. Reinsurance may be purchased to reduce the Group's exposure to both medium and large risk losses. See "—Underwriting and Risk Management—Outwards Reinsurance" below.

Aviation

The Group's aviation focus, which accounted for 3.2% of the Group's gross premiums written for the six months ended June 30, 2012, has historically been focused on AV52 war carve-out business written on a risk attaching excess of loss basis. Aviation AV52 provides coverage for third-party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes U.S. commercial airlines and certain other countries whose governments provide a backstop coverage. Other aviation business includes aviation hull war risks and contingent hull which the Group writes from time to time. As at the date of this Prospectus, the Group does not write general aviation business, including hull and general liabilities. Reinsurance may be purchased to mitigate exposures to an AV52 event loss. See "—Underwriting and Risk Management—Outwards Reinsurance" below.

Underwriting and Risk Management

Outwards Reinsurance

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavorable underwriting results by entering into reinsurance arrangements with third-party reinsurers. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The Group has defined limits by rating and an aggregate exposure to a rating band. The Group considers reinsurers that are not rated or do not fall within the pre-defined rating categories on a case-by-case basis, and would usually require collateral to be posted to support such obligations. The Group monitors the credit-worthiness of its reinsurers on an ongoing basis. In the event of a loss due to terrorism covered by one or more policies issued by companies in the Group, the U.S. federal government indemnification contemplated by TRIA may be available to such Group companies, although there is some uncertainty as to such availability. See "Risk Factors—Risks Relating to the Group—There is uncertainty surrounding the U.S. Federal Terrorism Risk Insurance Act, as amended ("TRIA") and whether the Group would benefit from its federal indemnification program for covered acts of terrorism."

Reinsurance protection is typically purchased on an excess of loss basis and occasionally includes industry loss warranty covers or quota share arrangements. Reinsurance is purchased on both a facultative and treaty basis. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. The structure varies between types of peril and subclass. The Group regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances, as it is possible that the cover purchased is not sufficient. Any loss amount which exceeds the program would be retained by the Group. Some parts of the reinsurance program have limited or no reinstatements; therefore, the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

As at June 30, 2012, the Group had reinsurance recoveries of U.S.$108.7 million due from various reinsurers. The percentage of A+ rated reinsurers, A rated reinsurers, A- rated reinsurers and unrated reinsurers are detailed in the table below, extracted without material adjustment from internal accounting records:

A.M. Best Rating	Balance (*U.S.$ in millions*)	% of total
A+	28.2	26.0%
A	62.3	57.3%
A-	0.4	0.4%
Not rated[(1)]	17.8	16.3%
	108.7	100.0%

[(1)] Not rated reinsurance balances are fully collateralized

Underwriting Processes and Controls

Subject to certain limited exceptions, the underwriting processes and controls are identical for both the Bermuda and London underwriting units. Each of LICL and LUK has its own underwriting procedures setting out the steps to be taken by individual underwriters and assistants in the handling of business. Each underwriter is assigned a specific level of underwriting authority commensurate with his or her experience. It is a key premise of the Group's underwriting that, wherever possible, underwriting decisions should be subject to full peer review prior to binding.

Underwriting and marketing conference calls are held daily. The Group considers that these daily conference calls, which take place between its underwriting offices, are a key element of the Group's underwriting process. These calls are designed so that the vast majority of potential business is discussed in an open forum, which includes senior management, before the relevant company's underwriting quorum considers the incoming proposal and decides whether and in what amount to accept a risk. The Group believes this cross discipline, collegiate approach enhances risk selection.

All risk details, from initial enquiry to binding of a risk, are handled in the Lancashire Insurance Portal Submission System. This system shares a common clearance procedure for London and Bermuda to prevent duplicate risks being written by both offices. It also incorporates a licensing and sanctions check to ensure that the company in question (LICL or LUK) holds the appropriate licenses or authorizations to write the business from the relevant platform.

The Group seeks to limit its exposure to insurance losses through a number of controls, including (i) the use of a rolling three year strategic plan that helps establish the overriding business goals that the Board of Directors aim to achieve; (ii) a detailed business plan which is produced annually, approved by the Directors and monitored and reviewed on an ongoing basis, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements; (iii) the use of BLAST to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks; (iv) pre-determined normal maximum line structure for each authorized class; (v) a clearly defined limit of underwriting authority for each underwriter; (vi) pre-determined tolerances and preferences on probabilistic and deterministic losses of capital for certain single events and aggregate losses over a period of time; (vii) regular communication of risk levels versus tolerances being monitored; (viii) the holding of a daily underwriting meeting to peer review insurance proposals, opportunities and emerging risks; (ix) the use of sophisticated pricing and aggregation models in certain areas of the underwriting process, which are updated frequently; (x) the deployment of BLAST and other modeling tools to simulate catastrophes and resultant losses to the portfolio and the Group and the discussion of outcomes at the Group Underwriting Risk and Reward Committee; and (xi) the purchase of reinsurance to mitigate both frequency and severity of losses on a treaty or facultative basis. The Group also maintains targets for the maximum proportion of capital, including long-term debt, that can be lost in a single extreme event or a combination of events.

Enterprise Risk Management

The Group is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of ERM is to ensure that the amount of capital held is consistent with the risk profile of the Group and therefore that the balance between risk and reward is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite to risk will vary marginally from time to time to reflect the potential risks and rewards that present themselves. However, protecting the Group's capital and aiming to provide investors with a return of 13% above the risk-free rate over the long-term are constant goals. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity Boards of Directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances are the maximum amount of capital that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring Group risk tolerances and the boards of directors of the individual entities are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The Company and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, usually on a fortnightly basis, management reviews the output from BLAST in order to assess modeled potential losses against risk tolerances and ensure that risk levels are managed in accordance with them.

The primary role of the Chief Risk Officer (the "**CRO**") is to facilitate the effective operation of ERM throughout the Group at all levels. Responsibility for the management of individual risks has been assigned to, and forms part of the performance objectives of, the risk owners within the business, which consist of senior executives and department heads. As part of each internal audit, the accuracy and completeness of risks and the effectiveness of the controls that mitigate them are reviewed and commented upon and the audit verifies that these risks and controls are consistent with their day-to-day processes and the entries made in the Group and subsidiary risk registers, which for operational risk are a direct input to BLAST. The CRO provides regular reports to the business, outlining the status of the Group's ERM activities and strategy, as well as formal reports to the boards of directors of the operating entities and the Company in this regard.

The foundation of the Group's risk-based capital approach to decision-making is its proprietary economic capital model BLAST, which is based on the widely accepted economic capital modeling tool ReMetrica. Management uses BLAST primarily for monitoring its insurance risks. However, BLAST is also used to monitor the entire spectrum of risks, including market, credit and operational risks.

BLAST produces data in the form of a stochastic distribution for all classes, including non-elemental classes. The distribution includes the mean outcome and the result at various return periods, including very remote events. BLAST also measures the Group's aggregate insurance exposures. It therefore helps senior management and the Board of Directors determine the level of capital required to meet the risks that the Group is faced with managing. Assisted by BLAST, the Group seeks to achieve an improved risk-adjusted return over time.

BLAST is used in strategic underwriting decisions as part of the Group's annual planning process and to assist in portfolio optimization decisions. Management also utilizes BLAST in assessing the impact of strategic decisions on individual classes of business that the Group writes, or is considering writing, as well as the overall resulting financial impact to the Group. BLAST output, covering all of the risk categories the Group is exposed to, is reviewed, including the anticipated loss curves, combined ratios and risk-adjusted profitability, to determine profitability and risk tolerance headroom by class.

There are risks with using any model and there are inherent limitations in the models used by the Group, including parameter risks and the existence of risks that are not or cannot be modeled (non-modeled risks). These limitations and risks, and limitations in the ability of management to understand the modeled outputs, could adversely impact underwriting decisions and the financial condition or results of operations.

Distribution

In 2011, almost all of the Group's total gross premiums written and general insurance business and all of its reinsurance business originated from the distribution of its products through brokers. The Group does not commit in advance to accept any business that is submitted to it by brokers. All new and renewal business is subject to acceptance by the Group. The Group very rarely delegates binding authority to any broker or other third-party. Where it does participate on brokers' lineslips, the Group is almost always a leader or agreement party and so agrees to the terms of each risk before binding, or delegates the authority to bind the Group to another leader whom the Group believes is competent to protect its interests. The Group's relationships with its brokers are an important factor in achieving effective distribution of its products. Brokers need to know that insurers and reinsurers of their clients have excellent financial strength, a thorough understanding of the risks at hand, and a willingness and ability to provide first class service. The Group strives to meet all of these requirements and maintains close working relationships with key broking firms and individual brokers.

In the year ended December 31, 2011 and the six months ended June 30, 2012, 27% and 33%, respectively, of the Group's total gross premiums written were distributed through Aon/Aon Benfield, followed by Marsh (17% and 11%, respectively), Willis (12% and 10%, respectively), JLT (10% and 9%, respectively), Lloyd and Partners (8% for both periods) and Guy Carpenter (8% and 9%, respectively). The Group's business with its brokers is conducted through standardized terms of business on a transaction-by-transaction basis.

Claims Management

The key responsibilities of the claims management department are:

- to efficiently and accurately process, manage and resolve reported insurance and reinsurance claims, using workflow management systems, to ensure the proper application of intended coverage, timely reserving for the probable ultimate cost of both indemnity and expense and making timely payments in the appropriate amount on those claims for which the Group is legally obligated to pay;

- to contribute to the underwriting process by collaborating with both underwriting teams and senior management in terms of the evolution of policy language and endorsements and providing claim-specific feedback and education regarding legal activity;

- to contribute to the analysis and reporting of financial data and forecasts by collaborating with the finance and actuarial functions relating to the drivers of actual claim reserve developments and potential for financial exposures on known claims; and

- to support the Group's marketing efforts through the quality of its claims service.

The Group has developed processes and internal business controls for identifying, tracking and settling claims, and authority levels have been established for all individuals involved in the reserving and settlement of claims. Its underwriters do not make the final decisions regarding the ultimate determination of reserves and settlement of claims; rather, this is a function separately determined by the claims team, except for *ex gratia* payments which are subject to approval by members of senior management (depending on the amount of such payment).

Members of the claims department regularly report to senior management on the status of reserves and settlement of claims, it being recognized that fair interpretation of reinsurance agreements and insurance policies with customers and timely payment of valid claims are a valuable service to clients of the Group.

Competition

The industry consists of a wide range of insurers, reinsurers, brokers, agents, loss adjustors and consultants providing insurance and reinsurance services to small, medium and large corporate entities on a worldwide basis. The Company's peer group consists of specialty insurers and reinsurers that are well-capitalized with good rating

agency ratings. These peers are located in four main concentrations: London, continental Europe, the U.S. and Bermuda. The largest have capitalization in the order of several billion dollars or currency equivalent, the smallest of just a few hundred million dollars. Many of the companies are publicly owned on the major exchanges, others are privately held by management and institutional investors. Clients range from Fortune 100 companies with global exposures and multiple assets, to small private corporations and individuals. The Group also competes with such non-insurance competitors as hedge funds, capital markets products such as catastrophe bonds and other new entrants that provide similar products.

The international specialty insurance and reinsurance markets are highly competitive, encompassing a range of niche and multi-product insurers and reinsurers. Some operate on a global or regional scale, others on a very local one such as a specific area of a single U.S. state. The Group's principal competitors vary by line of business, with some being common to more than one line of business.

Investments

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. These objectives are reflected in the Group's investment guidelines and evidenced by the Group's present asset allocation. Provided the Group's primary objectives have been satisfied, additional growth in the investment portfolio may be pursued through longer duration fixed income investments and equity investments. This is, however, unlikely in the current volatile markets and the Group's focus is on minimizing downside risk from "risk on/risk off" fluctuations, volatile fluctuations in market sentiment which can turn from a "risk on" environment to a "risk off" environment, or vice versa, on a weekly, if not daily, basis. A "risk on" environment would resemble a bull market where equities and other risk assets outperform U.S. treasury securities. A "risk off" environment would resemble a bear market where U.S. treasury securities, and other similar securities, would tend to outperform riskier assets. Current positioning is market neutral with a slight risk off bias. The Group currently does not hold any equities, direct equity investments, private equity limited partnerships or any European peripheral sovereign debt. However, the Group holds a small allocation of Eastern European sovereign and corporate debt within the emerging market debt portfolio. The Group aggregates emerging market investments with its political risk-underwriting exposures. Derivatives may be used to reposition or hedge the investment portfolio or business exposures.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. The Group's VaR tolerance is 4% of shareholders' equity, using the 90 day VaR at the 95% confidence level. The ninety day VaR, at a 95% confidence level, measures the minimum value the assets should be expected to lose in a ninety day time horizon, under normal conditions, 5% of the time.

The Group's investment guidelines are established by the Investment Committee of the Board of Directors. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, maturity, sectors, geographical and sovereign debt exposures. Investment guidelines exist at the individual portfolio level and for the Group's consolidated portfolio. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Committee and the Board of Directors. The fixed income portfolios are managed by three external investment managers who are regulated by the U.S. Securities and Exchange Commission. The Group held equities for a short period of time in 2011. The equity portfolio was liquidated in the third quarter of 2011 to limit the Group's exposure to further anticipated volatility. The performance of the managers is monitored on an ongoing basis.

Within the Group guidelines is a sub-set of guidelines for the portion of funds required to meet potential insurance liabilities in an extreme event, plus other near-term liquidity requirements, the "core" portfolio. The core portfolio is invested in fixed income securities and cash and cash equivalents. The sub-set of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objective of this portion of assets is liquidity and capital preservation. The core portfolio must hold sufficient funds to meet the one-year modeled payout pattern of current reserves and potential claims from an extreme event.

Assets in excess of those required to be held in the "core" portfolio, are typically held in the "core plus" portfolio or in the "surplus" portfolio. Both the core plus and the surplus portfolios are invested in fixed income securities and cash and cash equivalents, while the surplus portfolio also holds a modest amount of derivatives and can be invested in equity securities. These assets are not matched to specific insurance liabilities. In general, the duration is slightly longer, while maintaining focus on high quality assets.

The table below sets out the key investment portfolio statistics for the periods stated:

	As at June 30		*As at December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
Duration	1.7 years	1.8 years	1.8 years	2.2 years	2.3 years
Credit quality	AA-	AA	AA-	AA	AA+
Book yield	1.8%	2.2 %	1.9%	2.4%	2.8%
Market yield	1.2%	1.6%	1.5%	1.9%	2.2%
Investment allocations					
Short-term investments	2.9%	2.2%	4.0%	0.5%	14.2%
U.S. treasuries	13.7%	11.9%	17.8%	13.7%	12.5%
Other government bonds	7.3%	8.5%	8.0%	8.2%	3.7%
U.S. municipal bonds	1.3%	1.0%	1.4%	0.5%	—
U.S. government agency debt	6.3%	1.3%	4.2%	1.6%	5.6%
Asset backed securities	3.3%	3.5%	3.5%	0.9%	—
U.S. government agency mortgage backed securities	20.1%	10.5%	13.2%	15.3%	23.8%
Non-agency mortgage backed securities	0.3%	1.2%	0.7%	0.8%	—
Agency commercial mortgage backed securities	0.2%	0.1%	—	—	—
Non-agency commercial mortgage backed securities	1.4%	1.2%	1.6%	1.2%	—
Corporate bonds – non FDIC guaranteed	28.5%	32.6%	29.9%	31.1%	23.6%
Corporate bonds – FDIC guaranteed	1.0%	3.8%	2.5%	4.3%	9.5%
Convertible debt	—	0.4%	—	—	—
Equities	—	3.6%	—	—	—
Managed cash	13.7%	18.2%	13.2%	21.9%	7.1%

Detailed investment holdings, including unrealized gains and losses, as at June 30, 2012 were as follows:

As at June 30, 2012	**Cost or amortised cost**	**Gross unrealised gain**	**Gross unrealised loss**	**Estimated fair value**
		(U.S.$ in millions)		
Fixed income securities				
- Short-term investments	59.3	—	—	59.3
- U.S. treasuries	279.8	1.0	(0.1)	280.7
- Other government bonds	146.0	5.8	(1.7)	150.1
- U.S. municipal bonds	26.2	1.4	(0.1)	27.5
- U.S. government agency debt	127.6	0.7	—	128.3
- Asset backed securities	67.1	0.3	(0.1)	67.3
- U.S. government agency mortgage backed securities	402.0	10.0	(0.2)	411.8
- Non-agency mortgage backed securities	6.1	0.1	—	6.2
- Agency commercial mortgage backed securities	4.2	—	—	4.2
- Non-agency commercial mortgage backed securities	26.0	1.9	—	27.9
- Corporate bonds – non FDIC guaranteed	573.9	11.3	(1.9)	583.3
- Corporate bonds - FDIC guaranteed	20.3	0.1	—	20.4
Total fixed income securities - available for sale	**1,738.5**	**32.6**	**(4.1)**	**1,767.0**
Other investments	(0.3)	0.9	(0.9)	(0.3)
Managed cash	279.3	—	—	279.3

Total investments	**2,017.5**	**33.5**	**(5.0)**	**2,046.0**

The following table, which has been extracted without material adjustment from internal accounting records, sets out the maturity dates of the Group's fixed income portfolio as at June 30, 2012:

	Total
	(U.S.$ in millions)
Less than one year	271.4
Between one and two years	361.6
Between two and three years	201.6
Between three and four years	76.0
Between four and five years	210.2
Over five years	128.8
Asset backed and mortgage backed securities	517.4
Total fixed income securities	**1,767.0**

The following table, which has been extracted without material adjustment from internal accounting records, sets out the credit quality of the Group's fixed income portfolio as at June 30, 2012. The weighted average credit quality of the portfolio at this date is AA-.

	Total
AAA	17%
AA	55%
A	18%
BBB	8%
BB or below	2%
Total	**100%**

The Group, as approved by the Investment Committee and Board of Directors, expects to add Senior Bank Loans, a new asset class, to the investment portfolio in the third quarter of 2012. The purpose of the new asset class will be to reduce interest rate risk through the addition of securities that are floating rate securities, senior in the capital structure and are secured loans.

Collateralization

The Group may from time to time pledge investments and other assets as collateral for collateralization of certain insurance balances, or in respect of such other collateral-posting obligations (for example, to support the issue of LOCs under the Group's credit facilities) as may be required from time to time in the Group's insurance and reinsurance business.

Accordion

Flexibly capitalized for up to U.S.$250 million, the Group launched a property retrocession sidecar, Accordion, in May 2011 as a fully collateralized vehicle with a difference from many other sidecars. It was designed with both a capital drawdown and a step-up feature to ensure the capital called matched the underwriting opportunities and maximized returns for our investment partners. This structure was designed to afford the Group maximum flexibility in relation to underwriting opportunities. In 2012, LICL and Accordion's other investors renewed Accordion for another underwriting year. In addition to our quota share agreement with Accordion, which provides us with an over-ride commission plus a contingent profit commission based on future performance, LICL also has a 20% equity investment in the vehicle.

REGULATION

General

The Group operates primarily through two companies licensed to underwrite insurance and reinsurance business: LICL, a Bermuda incorporated company, and LUK, a U.K. incorporated company. LICL is authorized as a general insurer in Bermuda. LUK has a permit to carry on business in Bermuda pursuant to Section 134 of the Companies Act and was registered as a Class 3 insurer on November 17, 2006 under the Bermuda Insurance Act to enable certain activities related to its insurance business to be performed from Bermuda. Subsequently LUK applied for, and received from, the BMA a direction under Section 56 of the Bermuda Insurance Act specifically exempting LUK from the requirement to prepare and file Bermuda statutory financial statements, provided that LUK submits to the BMA its annual financial statements and returns filed with the FSA and a certificate of compliance of good standing from the FSA each year.

LICL and LUK are eligible for surplus lines insurance in 49 U.S. jurisdictions and since July 1, 2011 have been eligible in the remaining U.S. jurisdictions by virtue of their listing with the International Insurers Department ("**IID**") of the National Association of Insurance Commissioners, and are able to reinsure U.S. cedants in all U.S. jurisdictions. Neither LICL nor LUK are licensed insurers in any U.S. jurisdiction. LUK is also currently authorized to provide insurance services from the United Kingdom to 24 EEA states under the EU passporting regime. LIMSL is currently authorized to provide insurance mediation services from the U.K. to 21 EEA states.

Given that the Group's principal operating subsidiaries, LICL and LUK, are the primary source of liquidity within the Group and the Company's principal assets are its investments in such subsidiaries, set out below is more detail on the regulatory regimes in which LICL and LUK conduct their business. Such regimes are designed to protect policyholders rather than investors, and relate to such matters as authorization and licensing of insurers and agents, solvency requirements, internal systems and controls, related party transactions, dividend limitations, disciplinary and other sanctions and reporting obligations. Assuming the continued existence of LUK's direction under Section 56 of the Bermuda Insurance Act and because LUK's authorization as a Class 3 Bermuda insurer has been obtained and maintained for very limited purposes, the following description does not specify the particular requirements pertaining to the regulation of Class 3 insurers in Bermuda (although many of the obligations described below and imposed on a Class 4 insurer would also apply to a Class 3 insurer absent any exemptions approved by the BMA).

Bermuda Insurance Regulation

The Bermuda Insurance Act 1978 and Related Regulations, as amended

The Bermuda Insurance Act provides that no person shall carry on any insurance business in or from within Bermuda unless registered as an insurer under the Bermuda Insurance Act by the BMA, which is responsible for the supervision of insurers. Under the Bermuda Insurance Act, insurance business includes reinsurance business. The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Bermuda Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise to operate an insurance business. The continued registration of a company as an insurer under the Bermuda Insurance Act is subject to its complying with the terms of its registration and such other conditions as the BMA may impose from time to time. In addition, the BMA is required by the Bermuda Insurance Act to determine whether a person who proposes to control 10%, 20%, 33% or 50% (as applicable) of the voting powers of a Bermuda-registered insurer or its parent company is a fit and proper person to exercise such degree of control.

An Insurance Advisory Committee ("**IAC**") established under the Bermuda Insurance Act advises the BMA on matters connected with the discharge of its functions. Sub-committees of the IAC supervise and review the law and practice of insurance in Bermuda, including reviews of accounting and administrative procedures. The Bermuda Insurance Act also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies.

The Bermuda Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements and grants the BMA powers to supervise, investigate, require information

and the production of documents and intervene in the affairs of insurance companies. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below. Unless the context specifies otherwise, the following description refers to LICL's registration as a Class 4 insurer under the Bermuda Insurance Act.

Classification of Insurers

The Bermuda Insurance Act distinguishes between insurers carrying on long-term business and insurers carrying on general business. There are six classifications of insurers carrying on general business, with Class 4 insurers subject to the strictest regulation. LICL has been registered to carry on general business as a Class 4 insurer in Bermuda and is regulated as such under the Bermuda Insurance Act. The continued registration of LICL as an insurer is subject to LICL complying with the terms of its registration and such other conditions as the BMA may impose from time to time.

Cancellation of an Insurer's Registration

An insurer's registration may be cancelled by the BMA on certain grounds specified in the Bermuda Insurance Act, including failure of the insurer to comply with its obligations under the Bermuda Insurance Act or if, in the opinion of the BMA, the insurer has not been carrying on business in accordance with sound insurance principles.

Principal Representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. The principal representative must be knowledgeable in insurance and will be responsible for arranging for the maintenance and retention of the statutory accounting records and for making the annual statutory financial return. The principal representative, who must be approved by the BMA, may be a salaried director or manager normally resident in Bermuda or a Bermuda-registered insurance management company. For the purpose of the Bermuda Insurance Act, the principal office of LICL is at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda, and LICL's principal representative is Colin Alexander, LICL's Director of Compliance. Without a reason acceptable to the BMA, an insurer may not terminate the appointment of its principal representative, and the principal representative may not cease to act as such, unless 30 days' notice in writing to the BMA is given of the intention to do so. It is the duty of the principal representative to forthwith notify the BMA where the principal representative believes that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred. Within 14 days of such notification to the BMA, the principal representative must furnish the BMA with a report in writing setting out all of the particulars of the case that are available to the principal representative. Examples of such a reportable "event" include failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin or a liquidity or other ratio.

Approved Independent Auditor

Every registered insurer must appoint an independent auditor who will annually audit and report on the statutory financial statements and the statutory financial return of the insurer, both of which, in the case of LICL, are required to be filed annually with the BMA. The independent auditor of LICL must be approved by the BMA and may be the same person or firm who audits LICL's financial statements and reports for presentation to its shareholder. LICL's independent auditor is Ernst & Young Ltd. (located in Hamilton, Bermuda).

Loss Reserve Specialist

As a registered Class 4 insurer, LICL is required to submit an opinion of its approved loss reserve specialist with its statutory financial return in respect of its loss and loss expense provisions. The loss reserve specialist, who will normally be a qualified casualty actuary, must be approved by the BMA. LICL's approved loss reserve specialist is Mr. Matthew Ball, FCAS, MAAA of Towers Watson.

Annual Statutory Financial Statements and Returns

LICL must prepare annual statutory financial statements in accordance with the requirements of the Bermuda Insurance Act. The Bermuda Insurance Act prescribes rules for the preparation and substance of such statutory financial statements (which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto). LICL is required to give detailed information and analyses regarding premiums, claims, reinsurance and investments. The statutory financial statements are not prepared in accordance with IFRS or U.S. GAAP and are distinct from the financial statements prepared for presentation to LICL's shareholder under the Bermuda Insurance Act, which financial statements are prepared in accordance with IFRS. LICL, as a general business insurer, is required to submit the annual statutory financial statements as part of the annual statutory financial return. The statutory financial statements and the statutory financial return do not form part of the public records maintained by the BMA.

The Bermuda Insurance Act requires LICL to prepare annual statutory financial statements and file these statements with the BMA together with a statutory financial return within four months after the financial year end (unless specifically extended). The rules for preparing these statements are set out in the Bermuda Insurance Act regulations and include a uniform format of the balance sheet, income statement, statement of capital and surplus and rules for valuation of assets and determination of liabilities.

The statutory financial statements are not prepared in accordance with U.S. GAAP. The statutory financial return includes a business solvency certificate and a declaration of statutory ratios, both of which must be signed by at least two directors of LICL (of whom one must be a director resident in Bermuda if the insurer has a Bermuda resident director) and the insurer's principal representative in Bermuda.

In signing the business solvency certificate, the directors and the principal representative are required to state whether the business solvency margin and (for general business insurers) the minimum liquidity ratio have been met. Further, the auditor is required to state whether, in the auditor's opinion, it was reasonable for the directors to so certify and whether the declaration of statutory ratios complies with the requirements of the Regulations.

The statutory financial statements and the statutory financial returns do not form a part of any public file in Bermuda for members of the public to examine.

In addition to preparing statutory financial statements, LICL must also file with the BMA audited financial statements in respect of its insurance business prepared in accordance with generally accepted insurance principles or IFRS. The BMA publishes copies of the audited financial statements for LICL on its website, together with the notes to those statements and the auditor's report.

Minimum Solvency Margin

LICL must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Bermuda Insurance Act. The prescribed solvency margin requires the value of the general business assets of a Class 4 insurer to exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin.

As a registered Class 4 insurer under the Bermuda Insurance Act, LICL is required, with respect to its general business, to maintain a minimum solvency margin (the prescribed amount by which the value of its general business assets must exceed its general business liabilities) equal to the greatest of:

1. BD$100,000,000;

2. 50% of net premiums written (being gross premiums written less any premiums ceded by LICL but LICL may not deduct more than 25% of gross premiums when computing net premiums written); and

3. 15% of loss and other insurance reserves.

If LICL at any time fails to meet its minimum solvency margin it must, within 30 days of becoming aware of such failure, file a report with the BMA detailing the circumstances that gave rise to the failure and describing how LICL intends to bring itself back into compliance.

Bermuda Solvency Capital Requirement

The Bermuda Solvency Capital Requirement (the "**BSCR**") is a statutory standard mathematical model designed to give the BMA more advanced methods for determining an insurer's capital adequacy. Where insurers apply in-house models that deal more effectively with their own particular risks and where such models satisfy the standards established by the BMA, such insurers may apply to the BMA to use such models in lieu of the BSCR. Underlying the BSCR is the belief that all insurers should operate on an ongoing basis with a view to maintaining their capital at a prudent level in excess of the minimum solvency margin otherwise prescribed under the Bermuda Insurance Act.

Enhanced Capital Requirement

Currently, LICL is required to maintain available statutory capital and surplus at a level equal to or in excess of its enhanced capital requirement ("**ECR**"). The ECR applicable to LICL is established by reference to the BSCR model as LICL has not yet applied to have its internal capital model approved by the BMA.

If LICL fails to comply with its ECR it must, within 14 days of becoming aware of such failure, file a report with the BMA detailing the circumstances that gave rise to the failure and describing how the company intends to rectify it. Furthermore, within 45 days, LICL must furnish the BMA with (i) unaudited interim statutory financial statements, (ii) an opinion from its loss reserve specialist in relation to its outstanding loss and expense reserves (including IBNR), (iii) a general business solvency certificate in respect of such interim statutory financial statements, and (iv) a capital and solvency return reflecting an ECR prepared using post-failure data.

Target Capital Level

While not specifically set out in the Bermuda Insurance Act, the BMA has also established a target capital level ("**TCR**") for each insurer subject to an enhanced capital requirement equal to 120% of its ECR. While LICL as a qualifying insurer is not currently required to maintain its statutory capital and surplus at this level, the TCR serves as an early warning tool for the BMA and failure to maintain statutory capital at least equal to the TCR will likely result in increased BMA regulatory oversight.

Eligible Capital Requirements

For each insurer subject to an ECR, the BMA has introduced a three-tiered capital system designed to assess the quality of capital resources that a company has available to meet its capital requirements. The new system classifies all capital instruments into one of three tiers based on their "loss absorbency" characteristics. Highest quality capital is classified as Tier 1 Capital; lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. Under the regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital (determined by registration classification) may be used to support the company's minimum solvency margin, ECR and TCR.

Minimum Liquidity Ratio

The Bermuda Insurance Act provides a minimum liquidity ratio for general business insurers, such as LICL. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, account and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit and guarantees.

Restrictions on Dividends and Distributions

If LICL fails to meet its minimum solvency margin or minimum liquidity ratio (the "**Relevant Margins**") on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the prior approval of the BMA.

Furthermore, if LICL fails to comply with its ECR, it is also prohibited from declaring and paying any dividends until the failure has been rectified.

In addition, LICL cannot declare or pay in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit stating that it will continue to meet its Relevant Margins.

The restrictions on declaring or paying dividends and distributions under the Bermuda Insurance Act are in addition to the solvency requirements under the Companies Act, which restricts a company from declaring or paying a dividend or a distribution out of contributed surplus unless there are reasonable grounds for believing that the insurer is able, and after the payment of the dividend or distribution will be able, to pay its liabilities when they become due and that the realizable value of that company's assets will, after payment of the dividend or distribution, be greater than the sum of its liabilities.

Reduction of Capital

LICL may not reduce its total statutory capital, as set out in its previous year's financial statements, by 15% or more unless it has received the prior approval of the BMA. Total statutory capital includes the amount paid in with respect to the issue of its shares as well as all contributed surplus.

If LICL seeks to reduce its total statutory capital, as set out in its previous year's financial statements, by 15% or more, it must also submit an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the company's directors are resident in Bermuda) and the principal representative (discussed above) stating that the proposed reduction will not cause the company to fail to meet its Relevant Margins.

Group Supervision

The BMA may, in respect of an insurance group, determine whether it is appropriate for it to be the group supervisor of that group. An insurance group is defined as a group of companies that conducts exclusively, or mainly, insurance business.

The BMA may make such determination (i) where it ascertains that the group is headed by a "specified insurer" (that is to say, it is headed by either a Class 3A, Class 3B, Class 4 general business insurer or a Class E or another class of insurer designated by order of the BMA); or (ii) where the insurance group is not headed by a "specified insurer," where it is headed by a parent company which is incorporated in Bermuda or (iii) where the parent company of the group is not a Bermuda company, where the BMA is satisfied that the insurance group is directed and managed from Bermuda or the insurer with the largest balance sheet total is a specified insurer.

In 2011, the BMA determined at that time that it should act as the group supervisor for the Group. Consequently, it designated LICL to be the designated insurer and gave written notice of its intention to act as group supervisor.

The BMA maintains a register of particulars for every insurance group of which it acts as the group supervisor, detailing the names and addresses of (i) the designated insurer for the insurance group; (ii) each member company of the insurance group falling within the scope of group supervision; (iii) the principal representative of the insurance group in Bermuda; (iv) other competent authorities supervising other member companies of the insurance group; and (v) the insurance group auditors. LICL as designated insurer in the Group must notify the BMA of any changes to the above details entered on the register.

As group supervisor, the BMA will perform a number of supervisory functions including (i) coordinating the gathering and dissemination of information which is of importance for the supervisory task of other competent authorities; (ii) carrying out a supervisory review and assessment of the insurance group; (iii) carrying out an assessment of the insurance group's compliance with the rules on solvency, risk concentration, intra-group transactions and good governance procedures; (iv) planning and coordinating, through regular meetings (to be held at least annually) with other competent authorities, supervisory activities in respect of the insurance group, both as a going concern and in emergency situations; (v) coordinating any enforcement action that may need to be taken against the insurance group or any of its members; and (vi) planning and coordinating meetings of colleges of supervisors in order to facilitate the carrying out of the functions described above.

In carrying out its functions, the BMA may make rules for (i) assessing the financial situation and the solvency position of the insurance group and/or its members; and (ii) regulating intra-group transactions, risk concentration, governance procedures, risk management and regulatory reporting and disclosure.

Certain specified entities may be excluded from group supervision on the application of LICL, or on the BMA's initiative. Entities that may be excluded must (i) be from countries or territories in which legal impediments to information exchange exist; (ii) have financial operations that would have a negligible impact on the operations of the insurance group; or (iii) be considered an inappropriate inclusion in light of the objectives of group supervision.

The BMA may withdraw from acting as group supervisor voluntarily following the request of a competent authority from an equivalent jurisdiction, or on the application of LICL. For the purposes of the Bermuda Insurance Act, a competent authority is a national authority that is legally empowered to supervise insurers and an equivalent jurisdiction is one possessing supervisory standards deemed equivalent by the BMA to those under the Act.

Following the establishment of the Company's head office in the United Kingdom with effect from January 1, 2012, the Group expects the FSA to become its group supervisor once Solvency II becomes effective in Europe from 2014. The BMA has acknowledged that the FSA will assume supervisory responsibility for the Group if and when Solvency II comes into effect following the FSA's confirmation that they were willing to act as the group supervisor for the Group. The BMA and the FSA have already held preliminary discussions regarding the transfer of the Group from BMA to FSA supervision.

Investigation and Intervention

The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to the BMA, the BMA may direct an insurer to produce documents or information relating to matters connected with the insurer's business.

If it appears to the BMA that there is a risk of LICL becoming insolvent, or that it is in breach of the Bermuda Insurance Act or any conditions imposed upon its registration, the BMA may, among other things, direct LICL (a) not to take on any new insurance business; (b) not to vary any insurance contract if the effect would be to increase LICL's liabilities; (c) not to make certain investments; (d) to realize certain investments; (e) to maintain in, or transfer to, the custody of a specified bank, certain assets; (f) not to declare or pay any dividends or other distributions or to restrict the making of such payments, and/or (g) to limit its premium income.

Fit and Proper Controllers Requirement

A person who becomes a holder of at least 10%, 20%, 33% or 50% of the voting shares of an insurer whose shares or the shares of its parent company are traded on any stock exchange recognized by the BMA for this purpose must notify the BMA in writing within 45 days of becoming such a controller.

Where it appears to the BMA that a person who is a controller of any description is not, or is no longer, a fit and proper person to be such a controller, it may serve him with a written notice of objection to his continuing as a controller of the registered person. A controller includes (i) the managing director of the registered insurer or its parent company; (ii) the chief executive of the registered insurer or of its parent company; (iii) a 10%, 20%, 33% or 50% shareholder controller; and (iv) any person in accordance with whose directions or instructions the directors of the registered insurer or of its parent company are accustomed to act. In the event that the BMA determines that such

person seeking to become a controller or who has become a controller is not "fit and proper," the BMA may give notice objecting to such persons.

Once there has been a change of shareholder controller or officer, LICL is required to notify the BMA in writing within 45 days of becoming aware of such change taking place.

An officer in relation to an insurer means a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

Notification of Material Changes

All registered insurers, and LICL as designated insurer in respect of the Group, are required to give notice to the BMA of certain measures that are likely to be of material significance to the BMA in the discharge of its functions under the Bermuda Insurance Act.

For the purposes of this provision, a material change includes (i) the transfer or acquisition of insurance business being part of a scheme falling under section 25 of the Bermuda Insurance Act or section 99 of the Companies Act, (ii) the amalgamation with or acquisition of another firm, (iii) engaging in non-insurance business and activities related thereto where such business is not ancillary to its insurance business; and (iv) engaging in unrelated business that is retail business.

No registered insurer shall take any steps to give effect to a material change, and LICL as designated insurer for the Group shall not, subject to the immediately following paragraph, permit any member of its group to take steps to give effect to a material change, unless it has first served notice on the BMA that it intends to effect such material change and, before the end of 14 days, either the BMA has notified such company in writing that it has no objection to such change or that period has lapsed without the BMA having issued a notice of objection.

Before issuing a notice of objection, the BMA is required to serve upon the person concerned a preliminary written notice stating the BMA's intention to issue formal notice of objection. Upon receipt of the preliminary written notice, the person served may, within 28 days, file written representations with the BMA which shall be taken into account by the BMA in making its final determination.

A designated insurer shall not be required to serve notice of a material change if the member of the group in question is regulated by a competent authority in an equivalent jurisdiction and has within 90 days of the event filed written notice of the material change with the BMA.

Code of Conduct

LICL, along with all other Bermuda insurers, must comply with a Code of Conduct issued by the BMA which prescribes duties and standards to be complied with under the Bermuda Insurance Act. Failure to comply with these requirements will be a factor to be taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner under the Bermuda Insurance Act.

Government Fees

The Company and LICL are required to pay an annual government fee based on assessable capital. In LICL's case, the assessable capital is the aggregate of its authorized share capital and share premium account. An annual declaration is submitted each year at the time of payment of the annual government fee. This declaration states the type of business carried on by the company, the amount of its assessable capital and how the assessable capital has been calculated.

In addition to the annual government fee, LICL is required to pay an annual insurance registration fee to the BMA. There are also various fees payable to the BMA regarding particular matters such as applications for directions under sections 56 and 57A of the Bermuda Insurance Act.

Maintenance of Records in Bermuda

Apart from being required to keep its statutory financial statements at its principal office for a period of five years, the BMA may also direct an insurer to maintain proper records of account in Bermuda with respect to (i) all sums of money received and expended by the insurer and the matters in respect of which the receipts and expenditures take place; (ii) all premiums and claims relating to the insurer; and (iii) all assets, liabilities and equity of the insurer.

The BMA's Powers of Intervention, Obtaining Information, Reports and Documents and Providing Information to Other Regulatory Authorities

The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to them, the BMA may direct an insurer to produce documents or information relating to matters connected with the insurer's business. Moreover, the BMA has the power to appoint professional persons to prepare reports about registered insurers. If it appears to the BMA to be desirable in the interests of policyholders, the BMA may also exercise these powers in relation to subsidiaries, parents and other affiliates of registered insurers.

In addition to being given powers to investigate the affairs of an insurer, the BMA may also demand that certain additional information be provided to them by the insurer or certain other persons.

The BMA has the power to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda if it is satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities and that such cooperation is in the public interest. The grounds for disclosure by the BMA to a foreign regulatory authority without consent of the insurer are limited and the Bermuda Insurance Act provides for sanctions for breach of the statutory duty of confidentiality.

Certain Other Bermuda Law Considerations

The Company and LICL are designated as non-resident for exchange control purposes by the BMA. Pursuant to their non-resident status, the Company and LICL may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda.

Under policies of the BMA adopted pursuant to the Exchange Control Act of 1972 of Bermuda, the Company may issue and transfer Notes to and between non-residents of Bermuda for exchange control purposes. None of the BMA, the Registrar of Companies in Bermuda or the Minister of Finance of Bermuda accepts any responsibility for the Group's financial soundness or the correctness of any of the statements made or opinions expressed in this Prospectus.

The Company has been incorporated in Bermuda as an "exempted company." Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As a result, they are exempt from Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians, but they may not participate in certain business transactions, including: (a) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for terms of not more than 50 years) without the express authorization of the Bermuda legislature, (b) the taking of mortgages on land in Bermuda to secure an amount in excess of BD$50,000 without the consent of the Minister of Finance, (c) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities or (d) the carrying-on of business of any kind in Bermuda, except in furtherance of their business carried on outside Bermuda or under license granted by the Minister of Finance. An insurer is permitted to reinsure risks undertaken by any company incorporated in Bermuda and permitted to engage in insurance and reinsurance business.

The Bermuda government actively encourages foreign investment in "exempted" entities such as LICL and the Company that are incorporated in Bermuda, but which do not operate in competition with local businesses. As

well as having no restrictions on the degree of foreign ownership, LICL and the Company are not currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax.

Exempted companies, such as the Company and LICL, must comply with Bermuda resident representation provisions under the Companies Act. The Group does not believe that such compliance will result in any material expense to the Group.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians or holders of permanent residency certificates or working residents certificates) may not engage in any gainful occupation in Bermuda without an appropriate Bermuda government work permit. The Group's success may depend in part upon the continued services of key employees in Bermuda. Certain key employees of the Group may not be a Bermudian, a spouse of a Bermudian or an individual holding a permanent residency or working resident certificate. Accordingly, any such key employee will require specific approval to work for the Group and LICL in Bermuda. A work permit may be granted or extended upon showing that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or an individual holding a permanent residency certificate or working resident certificate) is available who meets the minimum standards reasonably required by the employer. The Bermuda government from time to time may impose term limits on individuals with work permits, subject to certain exemptions for key employees. See also "Risk Factors—Risks Relating to the Group—The Group is subject to Bermuda employment restrictions."

U.S. Insurance Regulation

LICL is licensed in Bermuda to write insurance and reinsurance and is not admitted to do business in any jurisdiction in the United States. LUK is authorized in the United Kingdom to write insurance and reinsurance and is not admitted to do business in any jurisdiction in the United States. The insurance laws of each state of the U.S. and of many other jurisdictions regulate the sale of insurance and reinsurance within their jurisdictions by non-admitted insurers and reinsurers, such as LICL and LUK. LICL and LUK conduct their business so as not to be subject to the licensing requirements of insurance regulators in the United States.

It is nonetheless possible, however, that insurance regulators in the United States or elsewhere may review the activities of LICL and LUK and claim that LICL or LUK is subject to such jurisdiction's licensing requirements, although the Group believes it unlikely under the circumstances, assuming LICL and LUK comply with applicable laws regarding non-admitted business in each jurisdiction. Having to meet such requirements, however, could materially and adversely affect LICL's or LUK's financial condition or results of operations. Alternatively, any necessary changes to operations could subject LICL or LUK to taxation in the United States.

Reinsurance

Many aspects of the activities of LICL and LUK are similar to those employed by other non-admitted reinsurers that provide reinsurance to U.S. and other cedants. Specifically, and in accordance with common practice, the transaction of reinsurance by non-admitted reinsurers is generally exempt from U.S. regulation, except for the credit for reinsurance requirements discussed herein. In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, in the United States reinsurers are subject to indirect regulatory requirements through the "credit for reinsurance" mechanism imposed by jurisdictions in which they are not licensed but where their cedants are licensed. A cedant that obtains reinsurance from a reinsurer that is licensed or accredited by the jurisdiction or state in which the insurer files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the liability for unearned premiums and loss as well as adjustment expense reserves ceded to the reinsurer. However, non-licensed and non-accredited reinsurers such as LICL and LUK have to post acceptable collateral as dictated by each state's credit for reinsurance laws and regulations (such as a letter of credit, trust or other acceptable security arrangement) in order for a cedant to be able to take credit for the reinsurance on its balance sheet.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2011 (the "**Dodd-Frank Act**"), only the ceding insurer's state of domicile can dictate the credit for reinsurance requirements; other states in which the ceding insurer is licensed will no longer be able to require additional collateral from non-admitted reinsurers or otherwise impose their own credit for reinsurance laws on ceding insurers domiciled in other states. As a result, several states have begun efforts to change their credit for reinsurance laws and regulations as

Florida, Indiana, New Jersey and New York already have, so that qualifying non-admitted reinsurers meeting certain minimum rating and capital requirements would, upon application to the state Insurance Departments, be permitted to post less than 100% of the collateral currently required in most U.S. states. As collateral reduction efforts continue, LICL and LUK will continue to monitor developments and may decide to seek approval to post reduced collateral in one or more states.

Insurance

With respect to insurance business, LICL and LUK have been granted a listing with the IID of the National Association of Insurance Commissioners. After submitting further applications to individual states, LICL and LUK are now eligible surplus lines insurers in 49 U.S. jurisdictions. By virtue of LICL's and LUK's status as eligible or approved surplus lines insurers with the IID and in the various states, LICL and LUK are required to maintain separate U.S. surplus lines trust funds (each trust fund is currently required to contain an amount equal to 30% of U.S. surplus lines liabilities for the first U.S.$200 million, 25% for U.S.$300 million excess of U.S.$200 million, 20% for U.S.$500 million excess of U.S.$500 million and 15% excess of U.S.$1 billion, subject to a cap of U.S.$100 million, which cap is discretionary upon the IID's consent). In common with other surplus lines insurers, LICL's and LUK's rates and forms are not regulated by any state. The foregoing surplus lines trust funds information has been extracted without material adjustment from internal accounting records.

As a result of the Dodd-Frank Act, surplus lines brokers in every U.S. jurisdiction will be permitted to place surplus lines insurance with LICL and LUK, even in states where the companies are not currently eligible or to which they have not applied for such eligibility. At the present time, there is still significant uncertainty as to how the provisions of the Dodd-Frank Act will be implemented in practice. As surplus lines insurers, LICL and LUK must make periodic financial and business disclosure filings to the IID and individual states, and to that extent LICL and LUK are subject to limited regulatory oversight in the United States in connection with their direct insurance activities. As a result of the Dodd-Frank Act, compulsory state regulatory filings have been eliminated, but it remains unclear whether the IID filing requirements will be more onerous in the future.

U.K. Insurance Regulation

General

Effecting and carrying out contracts of insurance in the United Kingdom by way of business, as well as arranging and advising on contracts of insurance in the United Kingdom by way of business, are regulated activities under FSMA. A firm must either be authorized by the FSA or "exempt" in order to carry on these (or any other) regulated activities. Under FSMA, references to "insurance" include reinsurance.

As an insurer, LUK is authorized and regulated by the FSA with permission, *inter alia*, to effect and carry out contracts of general insurance and to accept deposits. As an insurance intermediary (an entity which arranges or advises on insurance policies but does not provide the insurance (by way of indemnification or other means of risk transfer) in relation to the insurance risk on such policies), LIMSL is authorized and regulated by the FSA with permission to carry on the regulated activities of arranging (bringing about) deals in, advising on making arrangements with a view to transactions in non-investment insurance contracts, and agreeing to carry on a regulated activity.

Authorization by the FSA of LUK and LIMSL and their ongoing compliance with the FSA's regulatory regime is very important to the Group's business. The ability of LUK and LIMSL to continue to conduct their regulated activities in the United Kingdom is dependent on their continued compliance with the relevant legal and regulatory requirements. The FSA's requirements for firms carrying on insurance and/or reinsurance business and insurance intermediary business cover areas such as:

- prudential supervision of insurers and insurance groups, requiring insurers and reinsurers to maintain capital resources (namely an amount of assets in excess of its liabilities as calculated in accordance with the FSA's rules) and for insurance intermediaries to maintain financial resources equal to or in excess of certain financial requirements set out in the FSA's rules and to hold a required level of professional indemnity insurance;

- internal systems and controls, including approval by the FSA of persons carrying on certain key functions which are identified in the FSA Handbook of Rules and Guidance (the "**FSA Handbook**"); and

- extensive periodic reporting requirements.

Failure to comply with the relevant legal and regulatory requirements could lead to the FSA taking disciplinary and/or remedial action (including public statements and censures and/or financial penalties) against a firm, or the individuals who work for it or are approved on its behalf (including censures, financial penalties, prohibition or action) or employing measures to secure redress or restitution (such as requiring a firm to compensate its customers).

The FSA also has the power to cancel or vary a firm's permission, including to withdraw a firm's authorization.

Solvency Requirements

LUK is required to maintain a margin of solvency at all times, the calculation of which depends on the type and amount of insurance business written. The method of calculation of the solvency margin (or "capital resources requirement") is set out in the FSA's Prudential Sourcebook for Insurers, and for these purposes, all assets and liabilities are subject to specific valuation rules. Failure to maintain capital resources equal to or in excess of the capital resources requirement is one of the grounds on which the wide powers of intervention conferred upon the FSA may be exercised. For financial years ending on or after January 1, 2004, the calculation of the required capital resources requirement has been amended as a result of the implementation of amendments to the EU Solvency I Directives. In respect of liability business accepted, 150% of the actual premiums written and claims incurred must be included in the calculation, which has the effect of increasing the capital resources requirement for LUK.

LUK is required to calculate an ECR, which is a risk-sensitive formula for calculating capital needs based on its business profile, in addition to its required minimum solvency margin. An insurer is also required to maintain financial resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The process of identifying, quantifying and assessing the risk facing an insurer and the resources available to mitigate those risks is called the Individual Capital Assessment ("**ICA**"). As part of the ICA, the insurer is required to take comprehensive risk factors into account, including market, credit, operational, liquidity and group risks, and to carry out stress and scenario tests to identify an appropriate range of realistic adverse scenarios in which the risk crystallizes and to estimate the financial resources needed in each of the circumstances and events identified. The FSA may give Individual Capital Guidance ("**ICG**") to insurers following receipt of ICAs. If the FSA considers that there are insufficient capital resources it can give guidance advising the insurer of the amount and quality of capital resources it considers necessary for that insurer. The FSA has powers under Section 45 of FSMA to require firms (including insurers) to hold capital in accordance with its guidance.

In addition, an insurer that is part of a group is required to perform and submit to the FSA a solvency margin calculation return in respect of its ultimate parent undertaking, in accordance with the FSA's rules. This return is not part of an insurer's own solvency return and hence will not be publicly available. Although there is no requirement for the parent undertaking a solvency calculation to show a positive result where the ultimate parent undertaking is outside the EEA, the FSA may take action where it considers that the solvency of the insurance company is or may be jeopardized due to the Group solvency position. Further, an insurer is required to report in its annual returns to the FSA all material related party transactions (e.g., intra-group reinsurance, whose value is more than 5% of the insurer's general insurance business amount).

Restrictions on Dividend Payments

The U.K. Companies Act 2006 prohibits LUK from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While FSMA does not impose any statutory restrictions on a general insurer's ability to declare a dividend, the FSA's rules require maintenance of each insurance company's solvency margin within its jurisdiction.

Reporting Requirements

U.K. insurers must prepare their financial statements under the U.K. Companies Act 2006, which requires the filing with Companies House of audited financial statements and related reports. In addition, U.K. insurers are required to file with the FSA periodic regulatory returns, which include a revenue account, a profit and loss account and a balance sheet in prescribed forms. These returns must be filed with the FSA within two months and 15 days (or three months where the delivery of the return is made electronically) after year-end.

Supervision of Management

The FSA supervises the management of insurers through the approved person regime, by which any appointment of individuals to perform certain specified "controlled functions" within a regulated entity must be approved by the FSA. These individuals are subject to an ongoing obligation to comply with the FSA's fitness and propriety requirements to continue to perform these controlled functions.

Control and FSA Consent

As firms regulated by the FSA, LUK and LIMSL must ensure compliance with the rules relating to "controllers" contained in Part XII of the FSMA. In particular, where a person (together with any person with whom it or he is "acting in concert"):

- holds 10% or more of the shares or voting power in a parent undertaking ("**P**") of a company undertaking a regulated activity ("**A**") or 10% or more of the shares or voting power in A; or

- is able to exercise significant influence over the management of A through its shareholding or voting power in A or P through his shareholding or voting power in P

then such person will be regarded by the FSA as a "controller" of A, in this case A being any Group company which is regulated by the FSA (namely, LUK and LIMSL). However, in respect of LIMSL (as an insurance intermediary) the controller threshold will be 20%, rather than the 10% threshold referred to in paragraph (a) above.

Any proposed changes to existing controllers or the appointment of new controllers must first be approved by the FSA in accordance with the relevant provisions of FSMA. If a person who is already a controller proposes to increase its control in line with certain thresholds set out in Section 182 of FSMA, such person will also require the prior approval of the FSA. Under FSMA, the FSA is afforded a period of up to 90 working days from the date of a complete notification of the proposed acquisition of or increase in control to approve or object to such proposed acquisition of or increase of control. Under Section 187 of FSMA, the FSA's approval may be unconditional or subject to such conditions as it considers appropriate.

If a person acquires shares (including by way of a transfer of shares or acquiring a right to be issued shares) which would result in a controlling interest or relevant change in a controlling interest without first obtaining the FSA's approval, they will be committing a criminal offense under Section 191F of FSMA. Section 191B of FSMA confers powers on the FSA to serve notice on a person who becomes a controller, or increases existing control over one of the specified thresholds, without first obtaining such approval, that it directs that any such shares or voting power as it specifies are subject to one or more of the following restrictions:

(1) the transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, is void;

(2) no voting power is to be exercisable in respect of those shares;

(3) no further shares are to be issued in light of them or in pursuance of any offer made to their holder; and

(4) except in a liquidation, no payment is to be made of any sums due from the body corporate on the shares, whether in respect of capital or otherwise.

The court also has the power, on the application of the FSA, to make such order relating to the sale or transfer of the shares acquired without approval as it thinks fit.

In addition, an existing controller who, among other things, proposes to reduce its control in line with certain thresholds set out at Section 183 of FSMA or proposes to cease to have control of a relevant kind must notify the FSA of this proposal.

FSA Powers of Supervision, Intervention and Investigation

The FSA carries out periodic on-site visits to regulated firms (such as LUK and LIMSL) as part of its supervisory work to evidence that they continue to comply with the requirements of FSMA.

The FSA has substantial powers of intervention in relation to the entities it regulates. The FSA's wide powers of intervention and investigation under FSMA allow it to, among other things, require an insurance company to take such action as it appears to the FSA to be appropriate to protect policyholders against the risk that the relevant company may be unable or unwilling to meet its liabilities.

The FSA also has the power to require an authorized firm to provide specified information or produce specified documents, to the extent such information or documents are reasonably required by the FSA in connection with the exercise of its functions under FSMA. If necessary, the FSA may in addition require an authorized firm (or any member of its group) to provide the FSA with a report (prepared by a person nominated or approved by the FSA) on any matter in relation to which it has required or could require information or production of documents.

Fees and Levies

As an authorized insurer in the United Kingdom, LUK is subject to FSA fees and levies based on LUK's gross premiums written and gross technical liabilities. The fees and levies charged by the FSA to LUK are not material to the Group. LUK's fees and levies paid to the FSA were £247,448 for 2011/12. The FSA also requires authorized insurers to participate in an investors' protection fund, known as the Financial Services Compensation Scheme.

Changes to U.K. Regulation

In June 2010, the U.K. Chancellor announced the government's intention to create two new regulatory bodies:

- the Prudential Regulation Authority (the "**PRA**") which will be responsible for ensuring that certain systemically important firms such as insurers are soundly managed and have adequate financial reserves (so called "micro prudential regulations"); and

- the Financial Conduct Authority ("**FCA**"), which will be responsible for ensuring consumer protection and orderly market conduct.

Under the new arrangement, the Bank of England is to be given express responsibility for 'macro prudential' regulation, requiring it to identify and take action to mitigate potential systemic risks to the market through the Financial Policy Committee ("**FPC**").

The FPC will have direct oversight of the work of the PRA, with the PRA being a wholly owned subsidiary company of the Bank.

The FSA established a regulatory reform program, which is working jointly with the Bank of England and the Treasury to design the regulatory and operating models for the new authorities and manage the transition to the new structure.

The FSA has already started to evolve towards this new structure and will take a progressive approach to changing certain regulatory processes permitted within existing statutory remit so that the FSA can begin to operate a more 'twin peaks' style of regulation. Since April 2012 it has adopted a "shadow split" with separate prudential and conduct business units being created. It is expected that the formal separation will take place in 2013. LUK will be supervised and regulated by both the PRA and FCA. LIMSL will be solely supervised and regulated by the FCA.

We should not underestimate the fact that the separation and transfer of the responsibilities and powers of the FSA is a complex and resource-intensive exercise which carries significant execution risk. The key risk stems from the impact on the FSA staff and the need for FSA management to devote time to the design and implementation of the new structure. The other material risk is the potential additional cost and resource commitments imposed on firms like LUK by the necessity of interacting with two regulators with distinctive and independent objectives.

European Regulatory Framework

The regulatory framework of the insurance industry in the United Kingdom is significantly derived from EU directives (which are required to be implemented by Member States through national legislation). Changes to applicable law or regulation in the United Kingdom or at EU level may affect the regulatory environment in which LUK and LIMSL operate. The Group cannot predict the financial effect that any proposed regulations or future law or regulation may have on the financial condition or results of operations of LUK or LIMSL. It is possible that LUK and LIMSL may be adversely affected by any proposed or future changes in applicable laws or regulations or in their interpretation or enforcement.

A significant current EU regulatory development which will affect LUK is Solvency II. Solvency II is the name given to the process of review of the EU insurance directives, the objective of which is to introduce an economic risk-based solvency framework providing appropriate protection for consumers across Member States and to improve capital allocation across the EU's financial markets. One of the ways it will achieve this will be to promote higher-quality risk management and assessment, and to ensure the integration of capital assessment, risk management and business planning processes. In particular, insurers will be required to hold capital against market risk (i.e., fall in the value of insurers' investments), credit risk (e.g., when third parties cannot repay their debts) and operational risk (e.g., risk of ineffective systems and controls or malpractice). These are all risks which are currently not covered by the EU's regime, although the current ICA requirements of the FSA do take such risks into account. Solvency II is currently expected to be in force for insurers by January 1, 2014.

LICL

LICL is not, and the Group intends that LICL will continue conducting its business so as not to be, subject to insurance regulation in the United Kingdom. However, if it were determined that LICL is effecting or carrying out contracts of insurance (including contracts of reinsurance) in the United Kingdom, it would be required to be authorized and regulated by the FSA. In the event that LICL effects or carries out such contracts without first having obtained FSA authorization, it could commit a criminal offense. LICL and any officer of LICL who consented to or connived in the offense or whose negligence led to the offense could be liable to be proceeded against and if found guilty punished accordingly. Further, any contract made by LICL whilst not authorized by the FSA when it should have been will be unenforceable against the other party unless the relevant court otherwise allows.

Insurers who are authorized by the FSA to carry on the business of effecting and carrying out contracts of insurance in the United Kingdom are required to provide information relating to their insurance and reinsurance arrangements to the FSA and insurers headquartered outside the EU are required to maintain assets in the United Kingdom in accordance with the requirements of the FSA. The FSA has wide-ranging powers of intervention in relation to such insurers, which may be triggered if the FSA has a concern relating to such arrangements or the solvency of such insurers as a result of the receipt of such information or otherwise. Having to meet such requirements could materially and adversely affect LICL's results of operations. Authorization in the United Kingdom is also likely to subject LICL to taxation in the United Kingdom.

MANAGEMENT

Directors

Set out below are the Directors of the Company as of the date of this Prospectus. The business address of all of the Directors referred to below is Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom.

Name	Current Positions	Age
John Bishop	Non-Executive Director	67
Richard Brindle	Executive Director and Chief Executive Officer	50
Emma Duncan	Non-Executive Director	53
Alex Maloney	Executive Director and Chief Underwriting Officer	39
Neil McConachie	Non-Executive Director	40
Ralf Oelssner	Senior Independent Non-Executive Director	68
Robert Spass	Non-Executive Director	56
William Spiegel	Non-Executive Director	50
Martin Thomas	Non-Executive Chairman	49

Biographical Information

John Bishop
Non-Executive Director

John Bishop is an actuary with broad experience in the insurance sector. He is currently a non-executive director of Berkshire Hathaway International and Houston Capital Corporation International. Mr. Bishop has previously worked at the Euler Group and Eagle Star Insurance Company Ltd.

Richard Brindle
Executive Director and Chief Executive Officer

Richard Brindle was the driving force behind the establishment of the Group in late 2005. Prior to this Mr. Brindle was a non-executive member of the Ascot Underwriting Agency Board from 2001 until September 2005. Mr. Brindle started his career in 1984 working at Posgate and Denby Managing Agency and as a Director of Charman Underwriting Agencies.

Emma Duncan
Non-Executive Director

Emma Duncan is the Deputy Editor of The Economist. She has also held several other posts on the paper, including Britain Editor and Asia Editor. She has covered the media business, the Middle East, home affairs, agriculture, commodities and the transport industry. Ms. Duncan has an honors degree in politics, philosophy and economics from Oxford University.

Alex Maloney
Executive Director and Chief Underwriting Officer

Alex Maloney joined the Group in December 2005 and now leads the Group's underwriting operations. Mr. Maloney built the energy business and team for the Group after joining from Zurich Insurance where he spent 15 years. He assisted in establishing Zurich Global Energy's presence in the Bermuda Insurance market, and has significant experience in the London market. Mr. Maloney is also Chief Executive Officer of LUK.

Neil McConachie
Non-Executive Director

Neil McConachie worked for the Group from February 2006 to June 2012 and during that time held the roles of Chief Financial Officer, Chief Operating Officer, Chief Risk Officer and President. He also served as an executive member of the Board of Directors. Mr. McConachie was previously Senior Vice President, Treasurer and Chief Accounting Officer of Montpelier Re Holdings Ltd. ("**Montpelier**"). He has extensive involvement in debt and equity capital markets transactions, including the Initial Public Offerings of the Company and Montpelier. Prior to joining Montpelier, Mr. McConachie worked for PricewaterhouseCoopers LLP in London and Bermuda and at Stockton Holdings Limited. Mr. McConachie has a B.A. in Accounting and Finance from Heriot-Watt University and an M.B.A from Edinburgh Business School.

Ralf Oelssner
Senior Independent Non-Executive Director

Ralf Oelssner was Vice President of corporate insurance for Lufthansa German Airlines until October 31, 2007. In 1979, he was appointed Director of corporate insurance, and in 1990 was appointed Managing Director of Lufthansa's in-house broker. He is President of the German Risk Managers' Association and holds an M.A. in Economics from Cologne University.

Robert Spass
Non-Executive Director

Robert Spass is a founding partner of Capital Z Partners, an investment firm he joined on its formation in 1998. Mr. Spass previously held similar positions at Insurance Partners, L.P. and International Insurance Advisors L.P. He currently serves on the board of Universal American Financial Corp., Endurance Specialty Holdings, Ltd. and other privately-held companies.

William Spiegel
Non-Executive Director

William Spiegel is a founding partner of Pine Brook Road Partners, LLC, a private equity firm specializing in energy and financial services investing. Mr. Spiegel has worked in the private equity industry since 1990. He has a B.Sc. in Economics from the London School of Economics, an M.A. in Economics from the University of Western Ontario and an M.B.A. from the University of Chicago.

Martin Thomas
Non-Executive Chairman

Martin Thomas is a partner and board member of Altima Partners, LLP, the hedge fund manager, and a director of two significant farming businesses. Prior to this, he was an official at the Bank of England and was previously Deputy Chief Executive of the Financial Law Panel. He started his career as a solicitor in private practice at Travers Smith and Clifford Chance.

Key Senior Management

Elaine Whelan
Chief Financial Officer

Elaine Whelan joined the Group in March 2006 and as Chief Financial Officer leads the group finance function. Ms. Whelan was previously Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. Prior to joining Zurich, Ms. Whelan was an Audit Manager at PricewaterhouseCoopers LLP, Bermuda where she managed a portfolio of predominately (re)insurance and captive insurance clients. Ms. Whelan is also Chief Executive Officer of LICL.

DESCRIPTION OF THE NOTES

The following is a description of the material terms and provisions of the Notes necessary to enable investors to make an informed assessment. If you purchase the Notes, your rights will be governed by the provisions of the Indenture (together with any related amendments or supplements thereto), the Notes themselves, including the definitions therein of certain terms. See "Documents Available for Inspection" in this Prospectus for information on how to obtain copies of the Indenture.

For purposes of this description, "we," "our," "us," the "Company" or "Lancashire" mean Lancashire Holdings Limited and "the Group" or "our Group" mean Lancashire Holdings Limited and its consolidated subsidiaries.

General

The Notes are direct, senior unsecured obligations of the Company and will rank equally in right of payment with all of the Company's other unsecured and unsubordinated indebtedness outstanding from time to time. The Notes will rank senior to any subordinated indebtedness. The Notes will be structurally subordinated to all obligations of the Company's subsidiaries, including any claims of their policyholders. The Company had no senior indebtedness for borrowed money outstanding as of June 30, 2012. As of June 30, 2012, the consolidated liabilities of our subsidiaries (which include losses and loss adjustment expenses, other payables, and amounts payable to reinsurers but exclude our unearned premiums, deferred acquisition costs ceded, intercompany reinsurance balances and long-term debt) that were structurally senior to the Notes were U.S.$708.8 million. The Notes will constitute a separate series of senior debt securities and will be issued under and governed by an indenture between us, as issuer, and Citibank, N.A., as trustee, to be dated as of the issue date of the Notes (the "**Indenture**"). The Notes will initially be issued in the aggregate principal amount of U.S.$130,000,000. The Notes will mature on October 1, 2022, unless earlier redeemed.

The Notes will pay 5.70% interest per annum semi-annually.

We may, without the consent of the holders of the Notes, issue additional Notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as the Notes. Any such additional Notes, together with the Notes offered by this Prospectus, will constitute a single series of securities under the Indenture.

Notes offered and sold to Qualified Institutional Buyers and in reliance upon Rule 144A will initially be represented by one or more security certificates in fully registered, global form, without interest coupons (the "**Rule 144A Global Certificates**"), and will be registered in the name of Cede & Co., as registered owner and as nominee for DTC, for credit to an account of a direct or indirect participant in DTC. Notes offered and sold outside the United States pursuant to Regulation S will initially be represented by one or more security certificates in fully registered, global form without interest coupons (the "**Regulation S Global Certificates**" and together with the Ruler 144A Global Certificates, the "**Global Certificates**"), and will be registered in the name of Cede & Co., as registered owner and as nominee for DTC for credit to the respective accounts of Euroclear and Clearstream Luxembourg. For a more detailed summary of the form of the Notes and settlement and clearance arrangements, see "—Form of Notes; Book-Entry System" below.

As an insurance holding company, the Company's ability to meet debt service obligations, including on the Notes, depends primarily upon the receipt of sufficient funds from LICL and LUK, the Group's principal operating insurance companies. LICL and LUK are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts pursuant to the Notes or to make any funds available therefor, whether as dividends, loans or other payments to the Company. In addition, since LICL and LUK are insurance companies, their ability to pay dividends and make other distributions and payments to the Company is subject to regulatory limitations. See "Risk Factors—Risks Relating to Regulation."

The Notes will not contain provisions designed to require us to redeem the Notes, reset the interest rate or take other actions with respect to a change in control, change in credit rating or other similar occurrences involving us that may adversely affect the holders of the Notes, other than to the limited extent set forth under "—Consolidation, Merger and Sale of Assets; Assumption" below. The Indenture does not restrict us from paying

dividends or other payments on our other outstanding securities, including our ordinary shares. The Notes do not have the benefit of any negative pledge covenant.

Interest

The Notes will bear interest at a fixed rate of 5.70% per annum from, and including, the issue date to, but excluding, the maturity date or any date of earlier redemption. Interest will be paid semi-annually in arrears on April 1 and October 1 of each year (each an "**interest payment date**"), commencing on April 1, 2013 to, and including, the maturity date or date of earlier redemption, to the holders of record at the close of business on the March 17 and September 16 immediately preceding the related interest payment date, whether or not such interest payment date is a business day.

The first interest payment on the Notes is a short coupon and will be made on April 1, 2013. On each interest payment date we will pay interest on the Notes for the period commencing on, and including, the immediately preceding interest payment date (or, in the case of the first interest payment date, the issue date) and ending on, but excluding, that interest payment date. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. If any interest payment date falls on a day that is not a business day, the interest otherwise payable on that interest payment date will be payable on the next succeeding day that is a business day, without adjustment of the amount of that interest for interest or any other payment with respect to that delay, with the same force and effect as if made on that interest payment date. We refer to "**business day**" for any payment in this "Description of the Notes" as any Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in The City of New York, Bermuda and London are generally open for business.

Redemption

Redemption at Maturity

The maturity date of the Notes is October 1, 2022 unless earlier redeemed. Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the maturity date at its final redemption amount (which is its principal amount, together with any interest accrued to (but excluding) the date of redemption and any other amount otherwise due and payable, including any Additional Amounts)).

Early Redemption

We may redeem the Notes, upon not less than 30 nor more than 60 days' written notice for an amount in cash equal to the Optional Redemption Amount (as defined below):

(i) in whole or in part at any time at a make-whole redemption price equal to the greater of: 100% of the principal amount being redeemed; or the sum of the present values of the remaining scheduled payments of principal and interest (other than accrued interest) on the Notes being redeemed, discounted to the redemption date on a semi-annual basis at the Treasury Rate (as defined herein) plus 50 basis points, plus, in either case, accrued and unpaid interest to, but not including, the redemption date, together with any Additional Amounts payable in respect thereof; or

(ii) in whole (but not in part) at any time following the occurrence of a Tax Event (see "—Tax Event" below), provided that such event is still continuing at the time of the giving of the notice of redemption, at a redemption price equal to their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption, together with any Additional Amounts payable in respect thereof (each of clause (i) and (ii), an "**Optional Redemption Amount**").

"Treasury Dealer" means one of HSBC Securities (USA) Inc. or Barclays Capital Inc. (or their successors), as selected by us, or, if HSBC Securities (USA) Inc. and Barclays Capital Inc. (or their successors) refuse to act as Treasury Dealers for this purpose or cease to be primary U.S. Government securities dealers, another nationally recognized investment banking firm that is a primary U.S. Government securities dealer specified by us for these purposes.

"Treasury Price" means the bid-side price for the treasury security as of the third trading day preceding the redemption date, as set forth in the Wall Street Journal in the table entitled "Treasury Bonds, Notes and Bills", except that: (i) if that table (or any successor table) is not published or does not contain that price information on that trading day, or (ii) if the Treasury Dealer determines that the price information is not reasonably reflective of the actual bid-side price of the Treasury Security prevailing at 3:30 p.m., New York City time, on that trading day, then Treasury Price will instead mean the bid-side price for the Treasury Security at or around 3:30 p.m., New York City time, on that trading day (expressed on a next trading day settlement basis) as determined by the Treasury Dealer through such alternative means as are commercially reasonable under the circumstances.

"Treasury Rate" means the semi-annual equivalent yield to maturity of the Treasury Security that corresponds to the treasury price (calculated in accordance with standard market practice and computed by the Treasury Dealer as of the second trading day preceding the redemption date).

"Treasury Security" means the United States Treasury security that the Treasury Dealer determines would be appropriate to use, at the time of determination and in accordance with standard market practice, in pricing the notes being redeemed in a tender offer based on a spread to United States Treasury yields.

If we elect to redeem the Notes, they will cease to accrue interest from the early redemption date. Holders of the Notes will have no right to require the Company to call the Notes for early redemption.

Tax Event

For purposes of the Notes, a "**Tax Event**" means the receipt by the Company of an opinion of competent tax counsel to the effect that, as a result of the introduction of, or amendment or clarification to, or change in, or change in the interpretation of (or announcement of a prospective introduction of, amendment or clarification to, or change in) a law or regulation by any legislative body, court, governmental agency or regulatory authority in the United Kingdom or any other Taxing Jurisdiction (as defined below in "—Payment of Additional Amounts") or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which such Taxing Jurisdiction is a party, after the issue date (a "**Tax Law Change**"), there is more than an insubstantial risk that: (i) payments arising under or on the Notes are or will be subject to any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such Taxing Jurisdiction, or any political subdivision or authority therein or thereof having the power to tax for which the Company must pay Additional Amounts (as defined in "—Payment of Additional Amounts" below) and the Company cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; (ii) in respect of the Company's obligation to make any payment of interest on the next following interest payment date, the Company would not be entitled to claim a deduction in respect of computing its taxation liabilities in the Taxing Jurisdiction, or such entitlement is materially reduced; (iii) in respect of the Company's obligation to make any payment of interest on the next following interest payment date, the Company would not to any material extent be entitled to claim a deduction in respect of computing its taxation liabilities in the Taxing Jurisdiction set against the profits of companies with which it is grouped for applicable tax purposes (whether under the group relief system current as of the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist); or (iv) in respect of the Company's obligation to make any payment of interest on the next following interest payment date, the Company would otherwise suffer adverse tax consequences, and in each of (ii) through (iv) above the Company cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it.

Redemption Procedures

The Company must give holders of the Notes not less than 30 and not more than 60 days' written notice of any redemption of the Notes. The Company must provide notice to the holders of Notes in accordance with the provisions under "—Notices" below. Each notice of redemption of the Notes must state (i) the date of early redemption, (ii) that, as from the date of early redemption, interest will cease to be calculated and payable and the only rights holders of Notes will have will be to obtain the applicable Optional Redemption Amount in accordance with the Indenture, (iii) the applicable redemption price, (iv) the place or places where the definitive or global securities may be submitted and (v) any other information required by any stock exchange or quotation system where the Notes are then listed or quoted or otherwise required by applicable law.

If the Company has given notice of redemption, which notice will be irrevocable, and has deposited cash as required, then interest will cease to accrue on the Notes from and after the date of redemption, and all rights of holders of any Notes called for redemption will cease, except the right of the holders of those Notes to receive the applicable Optional Redemption Amount, and those Notes will cease to be outstanding on the date of early redemption. If any date fixed for redemption of the Notes is not a business day, then the Company will pay the amount payable on the next succeeding day that is a business day, without any interest or other payment with respect to the Optional Redemption Amount.

Repurchases

Subject to applicable laws and regulations, including, without limitation, United States federal securities laws, the laws of Bermuda, the laws of the United Kingdom, and any requirements of the London Stock Exchange, the Company and any of its subsidiaries for the time being may, at any time, or from time to time, purchase outstanding Notes by tender, in the open market, by private agreement or otherwise on such terms and conditions as it shall determine.

Payment of Additional Amounts

We will make all payments of principal or interest and any other amounts otherwise due and payable under the Notes (including any Additional Amounts) by or on behalf of the Company free and clear of, and without withholding or deduction for or on account of, any and all present and future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Bermuda, the United Kingdom or any authority therein or thereof having power to tax (the "**Taxing Jurisdiction**"), unless such withholding or deduction is required by law. In that event, the Company shall pay such amounts ("**Additional Amounts**") as shall result in receipt by the holders of the Notes of such amounts as would have been received by them had no such withholding or deduction been required by law to be made, except that no such Additional Amounts shall be payable with respect to any Note:

- if it is presented for payment by, or on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some current or former connection with the Taxing Jurisdiction other than the mere holding (as holder or beneficial owner) of the Note;

- if it is presented for payment by, or on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements that are a precondition for an exemption from, or a reduction in, the relevant taxes, duties, assessments or governmental charges or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note is presented for payment;

- if it is presented (or in respect of which the certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day;

- in respect of any taxes, duties, assessments or governmental charges required to be withheld or deducted under sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (or any Treasury Regulations or other administrative guidance thereunder); or

- where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive or any agreement between the EU and any jurisdiction providing for equivalent measures.

As used herein, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is

duly given to the holders of the Notes that, upon further presentation of the Note being made in accordance with the terms of the Notes, such payment will be made, provided that payment is in fact made upon such presentation.

In this Prospectus, any reference to "principal" with respect to the Notes shall be deemed to include either (i) the principal portion of the final redemption amount of the Notes or (ii) the principal portion of the Optional Redemption Amount of the Notes, together with any Additional Amounts that may be payable with respect to principal. Any reference to "interest" with respect to the Notes shall be deemed to include all amounts of interest payable, together with any Additional Amounts that may be payable with respect to interest.

Ranking of the Notes

The Notes will be senior indebtedness of the Company. The Notes will rank equally in right of payment with all of our current and future unsecured and unsubordinated indebtedness. The Notes will be junior to all of our current and future secured indebtedness to the extent of the value of the assets securing such indebtedness. We are a holding company and as such conduct substantially all of our operations through our direct and indirect subsidiaries and our subsidiaries generate substantially all of our operating income and cash flow. The Notes will not be guaranteed by any of our subsidiaries and will be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. As of June 30, 2012, the consolidated liabilities of our subsidiaries (which include losses and loss adjustment expenses, other payables, and amounts payable to reinsurers but exclude our unearned premiums, deferred acquisition costs ceded, intercompany reinsurance balances and long-term debt) that were structurally senior to the Notes were U.S.$708.8 million.

In addition, because we are a holding company, our rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors, except to the extent that we may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary.

The terms and conditions of the Notes do not prohibit us from creating any mortgage, charge, lien, pledge, encumbrance or any other form of security interest over any of our assets, properties or undertakings.

Events of Default

The following events will constitute an "**Event of Default**" under the Indenture with respect to the Notes (whatever the reason for such Event of Default and whether it will be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest on the Notes, or any Additional Amounts payable with respect thereto, when such interest becomes or such Additional Amounts become due and payable, and the continuance of such default for a period of 30 days;

(2) default in the payment of the principal of or any premium, if any, on the Notes, or any Additional Amounts payable with respect thereto, when such principal or premium becomes or such Additional Amounts become due and payable either at maturity, upon any redemption, by declaration of acceleration or otherwise;

(3) default in the performance, or breach, of any covenant of ours contained in the Indenture or the Notes, and the continuance of such default or breach for a period of 60 days after there has been given written notice as provided in the Indenture; or

(4) certain events relating to our bankruptcy, insolvency or reorganization.

If an event of default with respect to the Notes (other than an Event of Default described in clause (4) of the preceding paragraph) occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes by written notice as provided in the Indenture may declare the principal amount of all outstanding Notes to be due and payable immediately. At any time after a declaration of acceleration has been made, but before a judgment or decree for payment of money has been obtained by the Trustee, and subject to applicable law and certain other provisions of the Indenture, the holders of a majority in aggregate principal

amount of the Notes may, under certain circumstances, rescind and annul such acceleration. An Event of Default described in clause (4) of the preceding paragraph will cause the principal amount and accrued interest to become immediately due and payable without any declaration or other act by the Trustee or any holder.

The Indenture provides that, within 60 days after a responsible officer of the Trustee shall have actual knowledge of the occurrence of any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to the Notes, the Trustee will transmit, in the manner set forth in the Indenture and subject to the exceptions described below, notice of such default to the holders of the Notes unless such default has been cured or waived. The Trustee will not be deemed to have actual knowledge of any Event of Default unless a responsible officer of the Trustee has received written notice of such Event of Default. However, except in the case of a default in the payment of principal of, or premium, if any, or interest on, or Additional Amounts with respect to, any Notes, the Trustee may withhold such notice if and so long as it in good faith determines that the withholding of such notice is in the interests of the holders of the Notes.

If an Event of Default occurs, has not been waived and is continuing with respect to the Notes, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the holders of the Notes by all appropriate judicial proceedings. After an Event of Default, the Trustee is required to exercise the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Indenture provides that the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of the Notes, unless such holders shall have offered to the Trustee indemnity and/or security satisfactory to it. Subject to such provisions for the indemnification of the Trustee, and subject to applicable law and certain other provisions of the Indenture, the holders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Notes.

Under the Bermuda Companies Act 1981, as amended, any payment or other disposition of property made by us within six months prior to the commencement of our winding up will be invalid if made with the intent to fraudulently prefer one or more of our creditors at a time that we were unable to pay our debts as they became due.

Modification

We and the Trustee may make certain modifications and amendments of the Indenture with respect to the Notes without the consent of holders of the outstanding Notes for any of the following purposes among others specified in the Indenture:

- to add to our covenants for the benefit of the holders of the Notes or to surrender any right or power herein conferred upon us;
- to change or eliminate any restrictions on the payment of any principal of, or interest on, the Notes; or
- to cure any ambiguity, to correct or supplement any provision of the Indenture which may be defective or inconsistent with any other provision herein as evidenced by an officer's certificate, or to make any other provision with respect to matters or questions arising under the Indenture that will not be inconsistent with any provision of the Indenture; provided that such action will not adversely affect the interests of the holders of the Notes in any material respect.

We may make other modifications and amendments with the consent of the holder or holders of not less than a majority in aggregate principal amount of the Notes. However, we may not make any modification or amendment without the consent of the holder of each Note affected that would:

- change the stated maturity of the principal amount of, or any instalment of interest on, any Note or change any redemption dates;
- reduce the principal amount of any Notes;

- reduce the interest payable with respect to the Notes;
- reduce our obligation to pay Additional Amounts (without any prejudice to any potential changes to such obligation as a result of a consolidation, merger or sale of assets as described in "— Consolidation, Merger and Sale of Assets; Assumption");
- change the currency of payment or change the place of payment to a location other than The City of New York;
- impair the right of holders to sue for payment of amounts past due and unpaid or petition for a winding up when an Event of Default has occurred;
- reduce the percentage in aggregate principal amount of the outstanding Notes necessary to modify or amend the Indenture, waive compliance with certain provisions of the Indenture or waive certain defaults thereunder; or
- modify the above requirements.

Certain Covenants

Financial Covenant

The Company will not Incur Debt that would permit the Debt to Capital Ratio to exceed thirty percent (30%).

For purposes of this section the following definitions shall apply:

"Consolidated Total Capital" means, at any date, without duplication, the sum of (i) the aggregate shareholders' equity determined on a consolidated basis in accordance with IFRS, plus (ii) the amounts recorded on the Company's financial statements related to Hybrid Securities to the extent given equity treatment by Standard & Poor's at the time of the issuance thereof, plus (iii) Consolidated Total Debt at such date, all as determined on a consolidated basis for the Company and its consolidated subsidiaries in accordance with IFRS.

"Consolidated Total Debt" means, at any date, all Debt of the Company and its consolidated subsidiaries at such date determined on a consolidated basis in accordance with IFRS.

"Debt" means, at any date, without duplication all obligations for borrowed money properly recordable as a liability on the financial statements.

"Debt to Capital Ratio" means the ratio, expressed as a percentage, of (a) Consolidated Total Debt to (b) Consolidated Total Capital.

"Hybrid Securities" means any securities directly or indirectly issued by the Company that are treated as hybrid capital by Standard & Poor's, including, without limitation, the U.S.$97 million aggregate principal amount of floating rate junior subordinated notes due 2035 and the €24 million aggregate principal amount of floating rate junior subordinated notes due 2035.

"Incur" means issue, create, assume, incur or otherwise become, contingently or otherwise, liable for; and the terms "Incurred" and "Incurrence" have meanings correlative to the foregoing.

Consolidation, Merger and Sale of Assets; Assumption

We may, without the consent of the holders of any of the Notes, consolidate or amalgamate with or merge into any other corporation or convey, transfer or lease all or substantially all of our assets, to any person provided:

- the corporation formed by such consolidation or amalgamation or into which we are merged, or the person which acquires, leases or is the transferee of or recipient of the conveyance of all or substantially all of our assets,

    (a) shall be organized and validly existing under the laws of any country that is a member of the Organization for Economic Co-operation and Development (as the same may be constituted from time to time); and

    (b) shall expressly assume, by an amendment or supplement to the Indenture that is executed and delivered in form reasonably satisfactory to the applicable Trustee, with any amendments or revisions necessary to take account of the jurisdiction in which any such corporation or other person is organized (if other than Bermuda):

        (i) the due and punctual payment of any principal or interest and any other amount (including Additional Amounts) due under the Notes or the Indenture;

        (ii) the performance of every covenant of the Indenture and of the Notes on our part to be performed;

        (iii) such assumption shall provide that such corporation or person shall pay to the holder of the Notes such Additional Amounts as may be necessary in order that every net payment of the principal, premium, if any, or interest and any other amount (including Additional Amounts) on the Notes will not be less than the amounts provided for in the Notes to be then due and payable; and

        (iv) with respect to (iii) above, such obligation shall extend to any deduction or withholding for or on account of any present or future tax, assessment or governmental charge imposed upon such payment by Bermuda, the United Kingdom or the country in which any such corporation or person is organized or any district, municipality or other political subdivision or taxing authority thereof (subject to the limitations contained in "—Payment of Additional Amounts" above, as applied to such corporation or person and, if applicable, such other country).

- the definition of Taxing Jurisdiction shall be amended to refer to the jurisdiction in which the successor is resident for tax purposes and the Tax Event redemption will be amended to apply to changes in law in the successor Taxing Jurisdiction subsequent to the date of succession;

- immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event which, after notice or lapse of time or both, would become an Event of Default with respect to the Notes, shall have occurred and be continuing, and immediately after giving effect to such transaction, the Company shall be solvent; and

- we have delivered to Trustee a certificate signed by two duly authorized officers and an opinion of counsel each stating that such consolidation, amalgamation, merger, conveyance, transfer or lease and such amendment or supplement to the Indenture evidencing the assumption by such corporation or person comply with the Indenture and that all conditions precedent provided for in the Indenture relating to such transaction have been met.

Upon any such consolidation, amalgamation or merger, or any such conveyance, transfer or lease, the successor corporation or person will succeed to, and be substituted for, and may exercise all of our rights and powers under the Indenture with the same effect as if such successor corporation or person had been named as the Company thereunder and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the Indenture and such debt securities.

Form of Notes; Book-Entry System

General

Global Certificates

Notes offered and sold to Qualified Institutional Buyers in reliance upon Rule 144A will be issued in book-entry form and initially will be represented by one or more Rule 144A Global Certificates in fully registered, global form without interest coupons. Notes represented by the Rule 144A Global Certificates will be registered in the name of Cede & Co., as registered owner and as nominee for DTC, for credit to an account of a direct or indirect participant in DTC as described below under "—Depositary Procedures."

Notes offered and sold outside the United States pursuant to Regulation S will be issued in book-entry form and initially will be represented by one or more Regulation S Global Certificates in fully registered, global form without interest coupons. Notes represented by the Regulation S Global Certificates will be registered in the name of Cede & Co., as registered owner and as nominee for DTC for credit to the respective accounts of Euroclear and Clearstream.

Investors in the Notes represented by the Rule 144A Global Certificates may hold their interests directly through DTC if they are participants in the DTC system, or indirectly through organizations (including Euroclear and Clearstream) that are participants in the DTC system. Through and including the 40th day after the later of the commencement of the Offering and the closing of the Offering (the "**40-day Restricted Period**"), investors in the Notes represented by the Regulation S Global Certificates must hold their interests through Euroclear or Clearstream. After the expiration of the 40-day Restricted Period (but not earlier), investors may also hold interests in Notes represented by the Regulation S Global Certificates through Euroclear and Clearstream, or through organizations other than Euroclear and Clearstream that are participants in the DTC system. Euroclear and Clearstream will hold interests in the Notes represented by the Regulation S Global Certificates on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. The depositaries, in turn, will hold such interests in the Notes represented by the Regulation S Global Certificates in customers' securities accounts in the depositaries' names on the books of DTC.

DTC will act as securities depositary for the Rule 144A Global Certificates and the Regulation S Global Certificates. Purchases of beneficial interests in the Global Certificates will be made in book-entry form. Except in the limited circumstances described below, beneficial interests in the Global Certificates may not be exchanged for Notes in definitive form, and owners of beneficial interests in Global Certificates will not receive certificates representing their beneficial interests in the Global Certificates. See "—Depositary Procedures" below.

Restrictive Legend

Beneficial interests in the Global Certificates will be subject to restrictions on transfer, and the Global Certificates will bear a restrictive legend as described under "Notice to Investors." In addition, transfers of beneficial interests in the Notes represented by a Global Certificate will be subject to the applicable rules and procedures of DTC and its direct and indirect participants (including Euroclear and Clearstream), which may change from time to time.

Intention to Remove Restrictive Legend

Under Rule 144A as currently in effect, a holder of the Notes that satisfies the one-year restricted period requirements of Rule 144, and that at the time such holder proposes to sell such Notes is not (and has not been at any time during the three months preceding) one of Lancashire's affiliates, may sell such Notes without volume restrictions.

Lancashire intends (but is not obligated) to remove the restrictive legend regarding the securities laws on the Global Certificates on or shortly following the first anniversary of the date the Notes are delivered to the Initial Purchasers or, if later, the time the Notes become freely transferable pursuant to Rule 144 without volume restrictions by holders other than Lancashire's affiliates. Lancashire is not, however, required to remove the

restrictive legend from the Notes at any such time or ever, and Lancashire will not be required to pay additional interest or otherwise be liable in any way in the event that Lancashire does not remove the legend.

Lancashire has covenanted that it will not, and will not permit any of its "affiliates" (as defined in Rule 144) to, during the period of one year after the last original issuance of the Notes, resell any of the Notes that have been acquired by Lancashire or any of them.

The Notes will be issued with one or more restricted CUSIP numbers. Until such time as Lancashire notifies the Trustee to remove the restrictive legend from the Global Certificates, restricted CUSIP numbers will be the CUSIP numbers for the Notes. At such time as Lancashire notifies the Trustee to remove the restrictive legend from the Notes, such legend will be deemed removed from the Global Certificates, and any unrestricted CUSIP numbers for the Notes will be deemed to be the CUSIP numbers for the Notes.

Depositary Procedures

The information in this section concerning DTC, Euroclear, Clearstream and their respective procedures have been obtained from sources that Lancashire believes to be reliable, but Lancashire does not take responsibility for its accuracy.

Upon the issuance of the Global Certificates, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by the Global Certificates to the accounts of persons who have accounts with such depositary. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a Global Certificate will be limited to persons who have accounts with DTC ("**participants**") or persons who hold interests through participants. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

DTC

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly ("**indirect participants**"). The rules applicable to DTC and its participants are on file with the Commission.

All interests in a Global Certificate, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in the Notes represented by a Global Certificate to such persons will be limited to that extent. Because DTC can act only on behalf of its participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a Global Certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such beneficial interest, may be affected by the lack of a physical certificate evidencing such interest.

Except as provided below, owners of beneficial interests in the Global Certificates will not be entitled to have such Global Certificates, or any Notes represented thereby, registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and will not be considered the registered owners or holders of such Global Certificates or any Notes represented thereby.

Any payments of principal or interest due on the Notes on any interest payment date or at maturity will be made available by Lancashire to the Trustee by such date and, as soon as possible thereafter, will be payable by the

Trustee to DTC or its nominee in its capacity as the registered holder of the Notes represented by the Global Certificates. The Trustee will treat the persons in whose names the Notes represented by the Global Certificates are registered as the owners thereof for the purpose of receiving such payments and for all other purposes. Consequently, neither the Trustee nor any agent thereof nor Lancashire has or will have any responsibility or liability for (1) any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interests in the Notes represented by the Global Certificates, or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the Notes represented by the Global Certificates or (2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised Lancashire that its current practice, upon receipt of any payment in respect of securities, is to credit the accounts of the relevant participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Payments by DTC's participants and indirect participants to the beneficial owners of the Notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants rather than of DTC or the Trustee.

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is owned by Euroclear Clearance System Public Limited Company and operated through a license agreement by Euroclear Bank, S.A./N.V. (the "**Euroclear Operator**"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchasers. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator was granted a banking license by the Belgian Banking and Finance Commission in 2000, authorizing it to carry out banking activities on a global basis. It took over operation of Euroclear from the Brussels, Belgium office of Morgan Guaranty Trust Company of New York on December 3 1, 2000.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law (the "**Terms and Conditions**"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by Euroclear.

Clearstream

Clearstream is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depositary. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the Initial Purchasers. Indirect

access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

Transfer and Exchange

Beneficial Interests in Notes Represented by Global Certificates

Transfers between DTC participants will be effected in accordance with DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes as described herein, cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Certificates in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

DTC has advised Lancashire that it will take any action permitted to be taken by a holder of the Global Certificates only at the direction of one or more participants to whose account with DTC interests in the Global Certificates are credited.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Notes represented by the Global Certificates among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither Lancashire nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Transfers of Beneficial Interests in Notes Represented by Global Certificates

Prior to the expiration of the 40-day Restricted Period, transfers by an owner of a beneficial interest in a Regulation S Global Certificate to a transferee who takes delivery in the form of a beneficial interest in the Notes represented by a Rule 144A Global Certificate will be made only in accordance with the applicable procedures of DTC and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Certificate to a transferee who takes delivery in the form of a beneficial interest in the Notes represented by a Regulation S Global Certificate, whether before or after the expiration of the 40-day Restricted Period, will be made only upon receipt by the Trustee of a certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 and that, if such transfer is being made prior to the expiration of the 40-day Restricted Period, the interest transferred will be held immediately thereafter through DTC.

Exchanges of beneficial interests in the Notes represented by one Global Certificate for interests in Notes represented by another Global Certificate will be subject to the applicable rules and procedures of DTC and its direct and indirect participants. Any beneficial interest in the Global Certificates that is transferred to a person who takes delivery in the form of an interest in another Global Certificate will, upon transfer, cease to be an interest in that

Global Certificate and become an interest in the Global Certificate to which the beneficial interest is transferred and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in the Notes represented by the Global Certificate to which the beneficial interest is transferred for as long as it remains an interest in that Global Certificate.

Issuance of Definitive Certificates

If (1) at any time DTC notifies Lancashire that it is unwilling or unable to continue to act as depositary for the Global Certificates or if at any time DTC shall no longer be eligible to act as such because it ceases to be a clearing agency registered under the Exchange Act, and, in either case, a successor depositary or clearing system is not appointed within 90 days of this notice or cessation, or (2) upon written request of a holder or the Trustee upon the occurrence and continuation of an event of default under the Indenture, then, upon surrender by DTC of the Global Certificates, Notes represented by definitive certificates ("**Definitive Certificates**") will be issued to each person that DTC identifies as the beneficial owner of the Notes represented by the Global Certificates. Upon any such issuance, the Trustee is required to register the Definitive Certificates in the name of the person or persons or the nominee of any of these persons and cause the same to be delivered to these persons.

Neither Lancashire nor the Trustee shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes, and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued.

Exchange of Beneficial Interests in Notes Represented by Global Certificates for Notes represented by Definitive Certificates

For so long as DTC or its nominee is the registered holder of the Notes represented by a Global Certificate, DTC or such nominee will be considered the sole owner and holder of the Notes represented by such Global Certificate for all purposes under the Indenture and the Notes. Owners of beneficial interests in a Note represented by a Global Certificate will not be entitled to have any portion of such Notes represented by a Global Certificate registered in their names, will not be entitled to receive physical delivery of the Notes represented by a Definitive Certificate and will not be considered the owners or holders of such Notes represented by a Global Certificate for any purposes under the Indenture or the Notes, unless:

- DTC notifies Lancashire that it is unwilling or unable to continue to act as depositary for such Global Certificate or has ceased to be a clearing agency registered under the Exchange Act, and in either case, Lancashire thereupon fails to appoint a successor depositary within 90 days of receiving such notice; or

- there shall have occurred and be continuing an event described herein under "—Events of Default" with respect to the Notes represented by such Global Certificate.

In addition, a beneficial interest in the Notes represented by the Regulation S Global Certificate may not be exchanged for a Certificated Note until the end of the 40-day Restricted Period and then only upon receipt by the Trustee of written certificates in the form required by the Indenture. In all cases, Notes represented by Definitive Certificates delivered in exchange for any interests in the Notes represented by a Global Certificate will be fully registered and issued without coupons and will bear, if applicable, the restrictive legend referred to in "Notice to Investors."

Notes Represented by Definitive Certificates

The holder of any Notes represented by Definitive Certificates may transfer such Notes, subject to compliance with the provisions of the legend set forth on the applicable Definitive Certificate, if any, by surrendering it at (1) the office or agency maintained by Lancashire for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee or (2) the office of any transfer agent appointed by Lancashire for such purpose. Upon the transfer, exchange or replacement of Notes represented by Definitive Certificates bearing the legend, or upon specific request for removal of the legend on the applicable Definitive Certificate, Lancashire will deliver only Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to Lancashire such satisfactory evidence, which

may include an opinion of counsel, as may reasonably be required by Lancashire that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Exchanges or transfers by a holder of the Notes represented by Definitive Certificates to a transferee who takes delivery in the form of a beneficial interest in the Notes represented by a Global Certificate may be made only upon receipt by the Trustee of a written certification from the transferor in the form provided in the Indenture. In addition, if the Definitive Certificates representing the Notes being transferred or exchanged contains a restrictive legend, certification to the effect that such exchange or transfer is in accordance with the restrictions contained in such legend may be required.

Listing

We intend to apply to have our Notes listed on the London Stock Exchange. If approved for listing, we expect that trading on the London Stock Exchange will commence within 30 trading days of the original issuance date of our Notes.

Notices

All notices to holders of the Notes shall be validly given if in writing and mailed, first-class postage prepaid, to them at their respective addresses in the register maintained by the Trustee. However, for so long as the Notes are represented by one or more global securities, we will instead deliver all notices to DTC as the registered holder in accordance with its customary procedures.

The Trustee

Citibank, N.A. of 388 Greenwich Street, New York, New York 10013 is the notes trustee under the Indenture. The Trustee has two main roles: first, the Trustee can enforce your rights against us if we default, although there are limitations on the extent to which the Trustee acts on your behalf, as described under "—Events of Default;" and second, the Trustee performs administrative duties for us, such as making interest payments and sending notices. The Trustee is under no obligation to exercise any of the powers vested in it by the Indenture at your request, as a holder of Notes, unless offered security or indemnity satisfactory to it by you against the costs, expense and liabilities which might be incurred thereby.

Consent to Service of Process

Under the Indenture, we irrevocably designate C T Corporation System at 111 Eighth Avenue, New York, New York 10011 as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the Indenture or any Notes brought in any federal or state court in The City of New York, New York. Except with any proceeding for the winding-up of the Company (which proceeding is required to be brought in the courts of Bermuda), we have also irrevocably submitted to the non-exclusive jurisdiction of those New York courts.

Governing Law

The Indenture and the Notes will be governed by and construed in accordance with the laws of the State of New York without regard to conflicts of law principles.

MATERIAL TAX CONSIDERATIONS

The following summary of the taxation of an investment in Notes is for general information only. This summary is based upon current law. Legislative, judicial or administrative changes, interpretations, clarifications or pronouncements may be forthcoming, and may apply on a retroactive basis, that could affect this summary. The Company cannot be certain, if, when or in what form such guidance may be provided and whether such guidance will have a retroactive effect. This summary does not address the taxation of an investment in any securities other than the Notes. The tax treatment of a holder of the Notes, or of a person treated as a holder of the Notes for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular situation. Prospective investors should carefully examine this Prospectus and should consult their professional advisers concerning the possible tax consequences of an investment in the Notes under the laws of their countries of citizenship, residence or domicile.

Certain U.S. Federal Income Tax Consequences

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of the Notes. Unless otherwise stated, this summary deals only with holders of Notes who acquire the Notes upon original issuance at their original issue price and who hold their Notes as capital assets within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") and as beneficial owners. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular Note holder in light of such Note holder's specific circumstances. In addition, the following summary does not describe the U.S. federal income tax consequences that may be relevant to holders of Notes who may be subject to special rules, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers in securities or traders that adopt a mark-to-market method of tax accounting, tax-exempt organizations, expatriates, investors in pass through entities, U.S. holders (as defined below) whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax or persons who hold the Notes as part of a hedging or conversion transaction or as part of a short-sale or straddle. This discussion is based upon the Code, the U.S. Treasury regulations proposed and promulgated thereunder and any relevant administrative rulings or pronouncements and judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States or any non-U.S. tax laws that may be applicable to the Notes or the holders of Notes and does not address any aspect of U.S. federal taxation other than income taxation. In addition, this discussion assumes that the Notes are not issued at a premium, with more than a "*de minimis*" amount of OID, if any, or in bearer form for U.S. federal income tax purposes.

If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Notes, you should consult your tax adviser.

THE U.S. FEDERAL TAX ADVICE CONTAINED HEREIN IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE NOTES, AND IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THEIR PARTICULAR CIRCUMSTANCES CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

For purposes of this discussion, the term "**U.S. holder**" means a beneficial owner of the Notes that is, for U.S. federal income tax purposes: (i) a citizen or an individual resident of the United States; (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; (iv) a trust if either (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust or (b) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes; or (v) any other person or

entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing. For purposes of this discussion, a "**non-U.S. holder**" is a beneficial owner of the Notes that is not a U.S. holder.

U.S. Holders of Notes

Interest Payments. Interest paid to a U.S. holder on a Note will be includible in such holder's gross income as ordinary interest income in accordance with the holder's regular method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for U.S. federal income tax purposes. For foreign tax credit limitation purposes, interest on the Notes generally will constitute passive category income.

Sale, Exchange, Redemption or Other Disposition of Notes. Upon the sale, exchange, redemption or other disposition of a Note, a U.S. holder will recognize taxable gain or loss, if any, equal to the difference between the amount realized on the sale, exchange, redemption or other disposition (other than accrued but unpaid interest, which will be taxable as interest to the extent not previously included in income) and such U.S. holder's tax basis in such Note. A U.S. holder's tax basis in a Note generally will equal the cost of the Note and any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period in the Note exceeds one year at the time of disposition of the Note. For U.S. holders other than corporations, preferential tax rates may apply to such long-term capital gain compared to rates that may apply to ordinary income. The deductibility of capital losses is subject to certain limitations.

Medicare Contribution Tax. Legislation will impose, beginning in 2013, a 3.8% Medicare contribution tax on net investment income, including interest, dividends and capital gain, of U.S. individuals with income exceeding U.S.$200,000 (or U.S.$250,000 if married filing jointly), and of estates and trusts.

Information Reporting and Backup Withholding. Information returns may be filed with the IRS in connection with payments of interest on the Notes and the proceeds from a sale or other disposition of the Notes unless the holder of the Notes establishes an exemption from the information reporting rules. A holder of Notes that does not establish such an exemption also may be subject to U.S. backup withholding tax on these payments if the holder fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS.

FBAR Reporting and Reporting of "Specified Foreign Financial Assets." U.S. persons holding Notes (and non-U.S. persons holding Notes that are in and doing business in the United States) should consider their possible obligation to file an IRS Form TD F 90-22.1—Foreign Bank and Financial Accounts Report or IRS Form 8938—Statement of Specified Foreign Financial Assets—with respect to the Notes. Additionally, such U.S. and non-U.S. persons should consider their possible obligations to annually report certain information with respect to Lancashire with their U.S. federal income tax returns. Noteholders should consult their tax advisers with respect to these or any other reporting requirement which may apply with respect to their acquisition of Notes.

Non-U.S. Holders of Notes

The following discussion is limited to the U.S. federal income tax consequences relevant to a beneficial owner of a Note that is a **non-U.S. holder** as defined above.

Interest and Disposition. In general (and subject to the discussion below under "Information Reporting and Backup Withholding"), a non-U.S. holder will not be subject to U.S. federal income tax with respect to payments of interest on, or gain upon the disposition of, Notes, unless: (i) the interest or gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment); or (ii) in the case of gain upon the disposition of Notes, the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year and certain other conditions are met.

Interest or gain that is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States will generally be subject to regular U.S. federal income tax in the same manner as if it were realized by a U.S. holder, unless an applicable income tax treaty provides otherwise. In addition, if such non-U.S.

holder is a corporation, such interest or gain may be subject to a branch profits tax at a rate of 30% (or such lower rate as is provided by an applicable income tax treaty).

Information Reporting and Backup Withholding. If the Notes are held by a non-U.S. holder through a non-U.S. (and non-U.S. related) broker or financial institution, information reporting and backup withholding generally would not be required. Information reporting, and possibly backup withholding, may apply if the Notes are held by a non-U.S. holder through a U.S. (or U.S. related) broker or financial institution and the non-U.S. holder fails to provide appropriate information. Non-U.S. holders should consult their tax advisers concerning the application of the information reporting and backup withholding rules.

In addition, no information reporting or backup withholding will be required regarding the proceeds of the sale of a Note made within the United States or conducted through certain U.S.-related financial intermediaries, if the payor receives appropriate documentation and does not have actual knowledge or reason to know that the non-U.S. holder is a U.S. person as defined under the Code, or such holder otherwise establishes an exemption.

The amount of any backup withholding from a payment to a non-U.S. holder will be allowed as a credit against the non-U.S. holder's U.S. federal income tax liability and may entitle the non-U.S. holder to a refund, provided that the required information is timely furnished to the IRS.

All Holders of Notes

U.S. Foreign Account Tax Compliance Withholding. On March 18, 2010, the U.S. Congress enacted the Hiring Incentives to Restore Employment Act, which contains the Foreign Account Tax Compliance Act ("**FATCA**") that would require any non-U.S. entity that is characterized as a "foreign financial institution" ("**FFI**") to enter into an agreement with the IRS that may require the FFI to obtain information about the FFI's financial account owners, including its noteholders other than holders of notes that are regularly traded on an established securities market ("**Non-Publicly Traded Securities Holders**"), and to disclose information about its U.S. Non-Publicly Traded Securities Holders to the IRS. This legislation generally also would impose a 30% withholding tax on certain payments of direct or indirect U.S. source income to the FFI after December 31, 2013 if it does not enter into the agreement, is unable to obtain information from its U.S. Non-Publicly Traded Securities Holders or otherwise fails to satisfy its obligations under the agreement. Additionally, if the FFI does enter into such an agreement with the IRS, the 30% withholding tax could be imposed on certain payments it makes on or after January 1, 2017 to Non-Publicly Traded Securities Holders that do not provide the required information and to other FFIs who do not enter into an agreement of their own.

Further, if the non-U.S. entity is not characterized as an FFI, it generally would be subject to such 30% withholding tax on certain payments of direct or indirect U.S. source income unless it either provides information to withholding agents with respect to its "substantial U.S. owners" or makes certain certifications, with an exception to this rule provided for a corporation the stock of which is regularly traded on an established securities market and subsidiaries of such corporation.

Although Lancashire and its non-U.S. subsidiaries do not expect to be subject to the withholding and reporting obligations of FATCA because Lancashire does not expect to be treated as an FFI and its stock is regularly traded on an established securities market, a view which continues to be supported in draft regulations issued by the IRS on February 8, 2012, the scope of the legislation has not been clarified. As a result, holders of the Notes may be required to provide any information that we determine necessary to avoid the imposition of such withholding tax in order to allow us to satisfy such obligations. In the event that this withholding tax is imposed, the results of Lancashire's operations, and the return to noteholders, could be materially adversely affected.

THE PRECEDING DISCUSSION IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH PROSPECTIVE HOLDER OF A NOTE SHOULD CONSULT ITS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO IT OF PURCHASING, OWNING AND DISPOSING OF NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR NON-U.S. TAX LAWS, AND OF ANY PROPOSED CHANGES IN APPLICABLE LAW.

Certain U.K. Tax Consequences

The following paragraphs are intended as a general guide for certain classes of investor based on current U.K. tax legislation and HMRC practice as at the date of this Prospectus. Such law and practice is subject to change, possibly with retrospective effect. The following paragraphs are not, and are not intended to be, an exhaustive analysis of the U.K. tax consequences of the acquisition, ownership and disposal of the Notes. In particular, they only apply to persons who hold the Notes as absolute beneficial owners and do not address the tax consequences which may be relevant to certain other categories of holders, for example, dealers in securities, financial institutions, banks, insurance companies, collective investment schemes or persons connected with us or clearance services, intermediaries or persons who benefit from special exemptions or rules. Moreover, the paragraphs below assume that the holders of the Notes have invested in the Notes for bona fide commercial purposes and not with the purpose of avoiding a liability for taxation. The comments below are not intended to be, nor should they be considered as, legal or tax advice. Holders of Notes and prospective investors, who are in any doubt as to their tax position, should consult their own independent professional adviser immediately.

Payments of Interest on Notes

Payments of interest made in respect of the Notes should not be subject to withholding or deduction for or on account of U.K. income tax provided that the Notes are and remain at all times listed on a "recognised stock exchange" within the meaning of section 1005 of the United Kingdom Income Tax Act 2007 ("**ITA 2007**") and so are "**quoted Eurobonds**" for the purposes of section 987 of the ITA 2007. The London Stock Exchange is a recognised stock exchange for these purposes.

Even if the Notes do not qualify as quoted Eurobonds as noted above, interest on the Notes may also be paid without withholding or deduction for or on account of U.K. income tax (subject to contrary direction from HMRC) if at the time the payment is made, Lancashire reasonably believes the person beneficially entitled to the payment is either (a) a U.K. resident company; or (b) a non-U.K. resident company carrying on a trade in the United Kingdom through a permanent establishment where the payment is required to be brought into account in calculating the U.K. corporation tax liability of that company; or (c) an entity of the kind listed in section 936 of the ITA 2007 (which includes registered pension schemes, charities and local authorities) or a partnership of entities of the kind listed in section 937 of the ITA 2007 (which includes all of the foregoing) that is entitled to be paid gross.

In all other cases, an amount must be withheld on account of U.K. income tax at the basic rate (currently 20%), subject to any prior direction to the contrary under a double tax treaty.

Where interest is paid free of any withholding or deduction, the interest will not be assessed to U.K. income or corporation tax in the hands of a holder of Notes who is not resident in the United Kingdom, except where the holder of Notes carries on a trade, profession or vocation through a United Kingdom branch or agency or carries on a trade through a U.K. permanent establishment in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent such as investment managers) tax may be levied on the U.K. branch or agency, or permanent establishment.

U.K. Corporation Tax Payers

In general, holders of Notes within the charge to U.K. corporation tax should be treated for tax purposes as realizing profits, gains or losses in respect of the Notes on a basis which is broadly in accordance with their statutory accounts, provided that the accounting treatment is in accordance with generally accepted accounting practice (as that term is defined for U.K. tax purposes). Such profits, gains, and losses (including those attributable to currency fluctuations) will be taken into account in computing taxable income for corporation tax purposes.

Other U.K. Tax Payers

Taxation of Chargeable Gains

An individual holder of Notes who is resident or ordinarily resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom, through a branch or agency to which the Notes are attributable, may have to account for capital gains tax in respect of any gains arising on a disposal of the Notes. Any

capital gains would be calculated by comparing the sterling values at the time of acquisition and disposal. Accordingly, a taxable gain can arise even where the U.S. Dollar amount received on a disposal is less than or the same as the U.S. Dollar amount paid for the Notes.

Accrued Income Scheme

On a disposal of the Notes, any interest which has accrued since the last interest payment date may, depending on the terms of the relevant Notes and in particular whether they are "deeply discounted securities," be chargeable to tax as income under the rules of the "accrued income scheme" as set out in Part 12 of the ITA 2007, if that holder of Notes is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Taxation of Discount

Depending on the issue price and redemption amount, the Notes may constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the United Kingdom Income Tax (Trading and Other Income) Act 2005. If the Notes are "deeply discounted securities," any gain realized on redemption or transfer of the Notes by a holder who is within the charge to U.K. income tax in respect of the Notes will generally be taxable as income but such holder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Notes.

Non-U.K. Tax Payers

Holders of Notes who are resident in a jurisdiction outside the United Kingdom and who are neither resident nor ordinarily resident in the United Kingdom or carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, for holders who are companies, through a permanent establishment in the United Kingdom) to which the Notes are attributable should not generally be liable to U.K. taxation in respect of a disposal (including redemption) of the Notes.

Holders of Notes who are individuals and who have ceased to be resident or ordinarily resident in the United Kingdom for a period of less than five years of assessment and who dispose of their Notes during that period may be liable on return to the United Kingdom to U.K. taxation on chargeable gains arising during that period of absence, subject to any applicable exemptions or reliefs.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No U.K. stamp duty or SDRT should be payable (i) upon the issue of the Notes by us to DTC or Cede & Co. as nominee for DTC or to a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or (ii) on agreements to transfer Notes.

Provision of Information by and/or to HM Revenue and Customs

Holders of Notes should note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to, or receives interest on behalf of, the holder of the Notes. Any such information obtained by HMRC may, in certain circumstances, be shared by HMRC with the tax authorities of the jurisdiction in which the holder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the "**Directive**") on the taxation of savings income, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) made by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain

other agreements relating to information exchange with certain other countries). During the transitional period, withholding will not apply under the Directive to a payment if the beneficial owner of the payment authorizes exchange of information instead. A number of non-EU countries and territories including the Cayman Islands and Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On September 15, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On November 13, 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

Certain Bermuda Tax Consequences

Under the current law of Bermuda (which, for purposes of this paragraph, includes any authority or political subdivision therein or thereof having power to tax), there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, net wealth tax, value added tax, estate duty or inheritance tax payable by the Company or its shareholders, other than shareholders ordinarily resident in Bermuda, if any. The Group and LICL have received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act of 1966, as amended, an assurance that, in the event of there being enacted in Bermuda any legislation imposing any tax computed on profits or income, or computed on any capital assets, gain or appreciation or any tax in the nature of any estate or inheritance tax or duty, the imposition of such tax shall not be applicable to the Group or LICL or any of either company's operations, shares, debentures or other obligations until March 31, 2035, except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable to the Group in respect of real property owned or leased by it in Bermuda.

CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to ERISA should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Notes. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under ERISA or the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as individual retirement accounts, Keogh plans and any other plans that are subject to Section 4975 of the Code (also "**Plans**"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the Plan. A violation of these prohibited transaction rules may result in excise tax or other liabilities under ERISA or the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) ("**Non-ERISA Arrangements**") are not subject to the requirements of Section 406 of ERISA or Section 4975 of the Code but may be subject to Similar Laws.

We and certain of our affiliates may each be considered a party in interest and a disqualified person with respect to many Plans. The acquisition, holding or disposition of the Notes by a Plan or any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "**Plan Asset Entity**") with respect to which we, the underwriters or any of our respective affiliates is or becomes a party in interest or disqualified person may result in a prohibited transaction under ERISA or Section 4975 of the Code, unless the Notes are acquired, held or disposed of pursuant to an applicable exemption. The U.S. Department of Labor has issued five PTCEs that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the acquisition, holding or disposition of the Notes. These exemptions are PTCE 84-14 (for certain transactions determined by qualified professional asset managers), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 95-60 (for transactions involving certain insurance company general accounts) and PTCE 96-23 (for transactions managed by in-house asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code may provide an exemption for the acquisition and disposition of the Notes, provided that neither the issuer of the Notes nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than "adequate consideration" in connection with the transaction (the "**service provider exemption**"). There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be acquired or held by any person investing "plan assets" of any Plan, Plan Asset Entity or Non-ERISA Arrangement, unless such acquisition and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Any acquiror or holder of the Notes or any interest therein will be deemed to have represented by its acquisition and holding of the Notes or any interest therein that it either (1) is not a Plan, a Plan Asset Entity or a Non-ERISA Arrangement and is not acquiring or holding the Notes on behalf of or with the assets of any Plan, Plan Asset Entity or Non-ERISA Arrangement or (2) the acquisition and holding of the Notes will not constitute a non-exempt prohibited transaction or a similar violation under any applicable Similar Laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering acquiring the Notes on behalf of or with the assets of any Plan, a Plan Asset Entity or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or the potential consequences of any acquisition or holding under Similar Laws, as applicable. Acquirors of the Notes have exclusive responsibility for ensuring that their acquisition and holding of the Notes do not violate the fiduciary or prohibited transaction rules of ERISA or the Code or any similar provisions of Similar Laws. The transfer of any Notes to a Plan, Plan Asset Entity or Non-ERISA Arrangement is in no respect a representation by us or any of our affiliates or representatives that an investment in the Notes meets all relevant legal requirements with

respect to investments by any such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement or that such investment is appropriate for such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement dated October 5, 2012, relating to the Notes (the "**Purchase Agreement**"), the Initial Purchasers named below have severally agreed to purchase and the Company has agreed to sell to each Initial Purchaser the principal amount of Notes listed opposite its name below:

Initial Purchaser	**Principal Amount**
HSBC Securities (USA) Inc.	U.S.$72,959,000
Barclays Capital Inc.	U.S.$51,735,000
J.P. Morgan Securities LLC	U.S.$2,653,000
Lloyds Securities Inc.	U.S.$2,653,000
Total	U.S.$130,000,000

The Initial Purchasers have severally agreed to purchase all of the Notes sold pursuant to the Purchase Agreement if any of such Notes are purchased. The Purchase Agreement provides that if either or both of the Initial Purchasers default, the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Purchase Agreement, in certain circumstances, may be terminated.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers and to reject orders in whole or in part.

The Notes are offered for sale in those jurisdictions where it is lawful to make such offers.

The Initial Purchasers have advised us that they propose initially to offer the Notes at the offering price on the cover page of this Prospectus. After the initial offering the offering price with respect to the Notes offered hereby may be changed.

The expenses of the offering, not including the Initial Purchasers' discount, are estimated to be U.S.$950,000 and are payable by us.

The Notes are a new issue of securities with no established trading market. An application will be made to the U.K. Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market. However, we cannot assure you that the Notes will be approved for listing. If the application is approved, trading of the Notes on the London Stock Exchange is expected to begin 30 days following the date of the initial delivery of the Notes. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes or that an active market for the Notes will develop. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected and your ability to trade your Notes may be limited. Even if a trading market does develop, it may not have significant liquidity and transaction costs in such a market could be high. Barclays Capital Inc. and HSBC Securities (USA) Inc. and any of their respective affiliates may use this Prospectus in connection with offers and sales of the Notes in market-making transactions at negotiated prices related to prevailing market prices at the time of sale.

In connection with the offering, the Initial Purchasers are permitted to engage in transactions that stabilize the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. If an Initial Purchaser creates a short position in the Notes in connection with the offering, i.e., if it sells more Notes than are specified on the cover page of this Prospectus, it may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, commercial and investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except that Notes may be offered or sold to (a) qualified institutional buyers, as such term is defined in the Securities Act, in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) non-U.S. persons in offshore transactions in reliance upon Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see "Notice to Investors."

In connection with sales outside the United States, each Initial Purchaser has agreed that, except for sales described in the preceding paragraph, it will not offer, sell or deliver the Notes to, or for the account or benefit of, U.S. persons (a) as part of the Initial Purchaser's distribution at any time or (b) otherwise prior to 40 days after the later of the Closing Date with respect to the Notes and the completion of the distribution of the Notes, and it will send to each dealer to whom it sells such Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the Notes are restricted as described under "Notice to Investors."

In addition, until 40 days after the later of the Closing Date with respect to the Notes and the completion of the distribution of the Notes, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another valid exemption therefrom.

As used herein, the terms "offshore transaction", "United States" and "U.S. person" have the meaning given to them in Regulation S under the Securities Act.

Compliance with non-U.S. Laws and Regulations

Each Initial Purchaser has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any of the Notes directly or indirectly, or distribute this Prospectus or any other offering material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on the Company except as set forth in the Purchase Agreement.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State other than:

(i) to legal entities which are qualified investors as defined in the Prospectus Directive;

(ii) to fewer than 100, or if the Relevant Member State has implemented the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted by the Prospectus Directive; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, (i) the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that EEA state by any measure implementing the Prospectus Directive in that Member State, (ii) the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State, and (iii) the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

Each Initial Purchaser has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

NOTICE TO INVESTORS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

Each purchaser ("**you**") of the Notes will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) You (A) (i) are a Qualified Institutional Buyer, (ii) are aware that the sale of the Notes to you is being made in reliance on Rule 144A and (iii) are acquiring such Notes for your own account or for the account of a Qualified Institutional Buyer, as the case may be, or (B) are not a U.S. person, as such term is defined in Rule 902 under the Securities Act, and are purchasing the Notes in accordance with Regulation S.

(2) You understand that the Notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person who you reasonably believe is a Qualified Institutional Buyer purchasing for its own account or the account of a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A; (ii) in an offshore transaction complying with Rule 904 of Regulation S; (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or (iv) pursuant to any other exemption from registration under the Securities Act, subject to the delivery of reasonably satisfactory evidence to the Company establishing such exemption, which may include an opinion of counsel and (B) in accordance with all applicable securities laws of the states of the United States and all other applicable jurisdictions. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of the Notes.

(3) You acknowledge that until 40 days after the commencement of this Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the exemption from the registration requirements of the Securities Act provided by Regulation S if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

(4) The Notes will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law:

"THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**QUALIFIED INSTITUTIONAL BUYER**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER (IF AVAILABLE), OR (4) PURSUANT TO ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, SUBJECT TO THE DELIVERY OF REASONABLY SATISFACTORY EVIDENCE TO THE COMPANY ESTABLISHING SUCH EXEMPTION, WHICH MAY INCLUDE AN OPINION OF COUNSEL, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ALL OTHER APPLICABLE JURISDICTIONS.

EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM SUCH REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (TOGETHER WITH ANY SUCCESSOR PROVISION AND AS SUCH MAY BE HEREAFTER AMENDED FROM TIME TO TIME, "**RULE 144A"**) OR REGULATION S UNDER THE SECURITIES ACT (TOGETHER WITH ANY SUCCESSOR PROVISION THERETO, AND AS SUCH MAY BE HEREAFTER AMENDED FROM TIME TO TIME, "**REGULATION S**")."

(5) The Notes offered in reliance on the exemption from registration provided by Regulation S will bear the following additional legend:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON, UNLESS THIS NOTE IS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF IS AVAILABLE. THE FOREGOING SHALL NOT APPLY FOLLOWING EXPIRATION OF FORTY DAYS FROM THE LATER OF (I) THE COMMENCEMENT OF THE OFFERING AND (II) THE DATE OF ISSUANCE OF THIS NOTE."

(6) You understand that no employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), or plan or other arrangement subject to the prohibited transaction provisions of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") (each, a "**Plan**"), or governmental, church or foreign plan subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Laws**"), and no person acting on behalf of a Plan or a plan similar to Similar Laws, may acquire a Note, unless, in the case of a Plan, the acquisition and holding of the Note are exempt under one or more of Prohibited Transaction Class Exemptions ("**PTCE**") 84-14, 90-1, 91-38, 95-60 or 96-23 (or any amendment thereto) or Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, another applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code or, in the case of a governmental, church or foreign plan subject to Similar Laws, such acquisition and holding do not violate any Similar Laws. The acquisition by any person of a Note constitutes a representation by such person to Lancashire and Citibank, N.A., or any duly appointed successor thereto (the "**Trustee**"), that either (i) such person is not a Plan or a plan subject to Similar Laws and is not acquiring the Note on behalf of or with "plan assets" of any Plan or plan subject to Similar Laws or (ii) its acquisition and holding of such Note or any interest therein are covered under an applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code or, in the case of a plan subject to Similar Laws, do not violate such Similar Laws.

(7) If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to such account and that you have full power to make the acknowledgments, representations and agreements contained herein on behalf of each such account.

(8) You understand that the Company, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing representations and agreements.

(9) If you are an affiliate (within the meaning of Rule 144A under the Securities Act) of Lancashire Holdings Limited, you understand that you will not be able to resell the Notes.

GENERAL INFORMATION

Authorization

The Company has obtained all necessary consents, approvals and authorizations in Bermuda and the United Kingdom in connection with the Offering. The issuance of the Notes was duly authorized by resolutions of the Board of Directors of the Company passed on October 4, 2012.

Listing of Notes

The Company has applied to list the Notes on the London Stock Exchange. Admission to the Official List of the U.K. Listing Authority and to trading on the London Stock Exchange's Regulated Market is expected to become effective and dealings to commence in the Notes within 30 trading days of the original issuance date of the Notes. The total expenses related to the admission to trading are estimated to be £2975.

Clearing Systems

The Notes have been accepted for clearance through DTC, Euroclear or Clearstream, Luxembourg, as applicable. The Notes being offered and sold in reliance on Rule 144A shall have a CUSIP of 513774AA7 and an ISIN Code of US513774AA79. The Notes being offered and sold outside the United States in reliance on Regulation S shall have a CUSIP of G5361WAA2 and an ISIN Code of USG5361WAA20.

Significant or Material Change

There has been no significant change in the financial or trading position of the Company or the Group since June 30, 2012 and there has been no material adverse change in the prospects of the Company or the Group since December 31, 2011.

Auditors

The consolidated financial statements of the Company as of December 31, 2011 and 2010 and for the years then ended, incorporated by reference in this Prospectus have been audited by Ernst & Young LLP, 1 More London Place, London SE1 2AF, United Kingdom, registered auditors, as stated in their reports incorporated by reference herein. The consolidated financial statements of the Company as of December 31, 2009 and for the year then ended incorporated by reference in this Prospectus have been audited by Ernst & Young Ltd., 3 Bermudiana Road, Hamilton, HM 11 Bermuda, independent auditors, as stated in their report incorporated by reference herein. The auditors of the Company have no material interest in the Company.

Dealers Transacting with the Company

Certain of the Initial Purchasers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Company and its affiliates in the ordinary course of business.

Governmental, Legal and Arbitration Proceedings

As of the date of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Company is aware) during the 12 months prior to the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

Material Contracts

The Company has not entered into any material contracts which are not in the ordinary course of the Company's business and could result in the Company being under an obligation or entitlement that is material to the Company's ability to meet its obligations to holders of the Notes.

Related Party Transactions

There are no potential conflicts of interests between any duties to the Company of the Directors or the officer listed under the section titled "Management—Key Senior Management" in this Prospectus and their private interests and/or other duties.

Employees

The following table, which has been extracted without material adjustment from internal accounting records, sets out the Group's total number of employees for the periods stated:

	Six months ended June 30		*Years ended December 31*		
	2012	*2011*	*2011*	*2010*	*2009*
Total number of employees	104	111	115	103	101

Information Technology

The Group requires complex and extensive IT systems to run its business and is reliant on third-parties for the provision of important services, including finance and underwriting systems and processes and IT infrastructure including software, claims management and investment management services. In addition, the Group uses BLAST and other modeling tools to simulate catastrophes and resultant losses to the portfolio and the Group. See "Risk Factors—Risks Relating to the Group—The Group is reliant on third-party service providers and IT systems."

Major Shareholders

As at February 22, 2012, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Name	Number of shares held	Percentage of shares in issue
Legal & General Group Plc	10,147,077	6.4%
BlackRock, Inc.	9,889,764	6.3%
William Blair & Company, LLC	8,369,891	5.3%
Standard Life Investments Ltd	8,121,525	5.1%
Alken Luxembourg Sarl	7,043,075	4.5%
Franklin Mutual Advisers, LLC	6,534,160	4.1%

The foregoing number of shares held and percentage of shares in issue have been extracted without material adjustment from internal accounting records.

Property

The Group leases office space in Bermuda and the United Kingdom. The Group renews and enters into new leases in the ordinary course of business. For further discussion of the Group's leasing commitments as at December 31, 2011, see the Audited Consolidated Financial Statements incorporated by reference in this Prospectus.

Where You Can Find Us

Our registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Since January 1, 2012, the Company's head office is at Level 11, Vitro, 60 Fenchurch Street, London, EC3M 4AD, United Kingdom. Our head office telephone number is +44 (0)20 7264 4000 and our website is www.lancashiregroup.com. Information contained on our website is not incorporated into, and does not constitute part of, this Prospectus.

Date of Incorporation

The Company was incorporated in Bermuda on October 12, 2005 under the Companies Act.

Third Party Information

Where information has been sourced from a third party, this information has been accurately reproduced and as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

THE COMPANY

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

TRUSTEE

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New York, New York 10013
United States

PRINCIPAL PAYING AGENT

Citibank, N.A.
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New York, New York 10013
United States

LEGAL ADVISERS

To the Company as to English and U.S. law
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United Kingdom

To the Company as to Bermudian law
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To the Initial Purchasers as to English and U.S. law
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