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Breaking News

Monday 13th October 2008: 20:21

Lancashire reveals hurricane hit but upbeat on investment returns

Lancashire Holdings, the specialist Bermudian insurer, said that it estimates that Hurricanes Gustav and Ike will have a combined net negative impact on its financial results of approximately \$150m on its books.

Hurricane Gustav is expected to contribute less than \$5m, while Ike will contribute over \$145m. Of the \$150m impact, approximately \$125m relates to offshore losses.

However, there was better news on the investment front, where it estimates that it has had an annualized total positive investment return of 1.2% for the nine months to 30 September, 2008.

Richard Brindle, Lancashire's CEO said: "In the third quarter, Lancashire has been thoroughly tested on both sides of the balance sheet by two large hurricanes in the Gulf of Mexico and by the worst financial crisis since the Great Depression.

"Hurricane Gustav was a Category Three hurricane, generating losses more or less in-line with that typically expected of that storm category. Gustav passed over a significant number of oil platforms however Lancashire's loss was minimal. In contrast to Gustav, Ike was a remarkable storm. Despite officially being a Category Two hurricane, Ike demonstrated the destructive potential more commonly expected of Category 4 or 5 storms while offshore. It was enormously wide, with the second highest measure of integrated kinetic energy of any US hurricane in the past forty years.

"Hurricane force winds were experienced by any one location for an unusually long period of time, resulting in the destruction of at least 52 oil platforms, compared to 47 in Hurricane Katrina. This was a very large loss event indeed for the offshore energy industry but we anticipate our losses will be underweight our market share. We are also encouraged by what we believe will be a significant hardening of this sector in 2009."

Neil McConachie, Lancashire's chief finance officer said: "The continuing turmoil in the financial markets can only be described as extraordinary. Since inception, Lancashire's investment strategy has been highly conservative, with the primary aims being to preserve liquidity and limit downside risk. That philosophy has served us well, particularly in recent weeks. Lancashire has no holdings of alternative investments such as hedge funds, has a very small allocation to U.S. equities, has no holdings in non-agency structured products and has a large allocation to cash. At 30 June, 2008 the average duration of the fixed income portfolio and managed cash was 1.3 years and the average credit quality was AA+. Our investment strategy will remain very defensive for the foreseeable future."

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