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HOLDINGS LIMITED
Underwriting comes first
Effectively balance risk and return
Operate nimbly through the cycle
Investor Presentation
Q2 2017
September 2017
www.lancashiregroup.com

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# Lancashire Group - Sticking to the Strategy, Managing the Cycle

- "Lancashire's strategy since day one has always been to write more exposure in a hard market and less in a soft one. There are now abundant reinsurance and retrocession opportunities that allow us to maintain our core insurance and reinsurance portfolios both servicing the requirements of our clients and the broker community, whilst significantly reducing net exposures and protecting risk adjusted returns. From our peak exposures in April 2012, when losses had driven substantial market hardening, we have reduced exposures across the board. We will stick to our strategy in the knowledge that when an event comes, we are well prepared through all three of our platforms to take advantage of subsequent opportunity"

  *Alex Maloney, CEO*

- Lancashire's strategy is designed to be robust across all phases of the market cycle and with Lancashire's London and Bermuda market operations, the Kinesis and the Cathedral Lloyd's platforms there are multiple ways to maintain or enhance the portfolio

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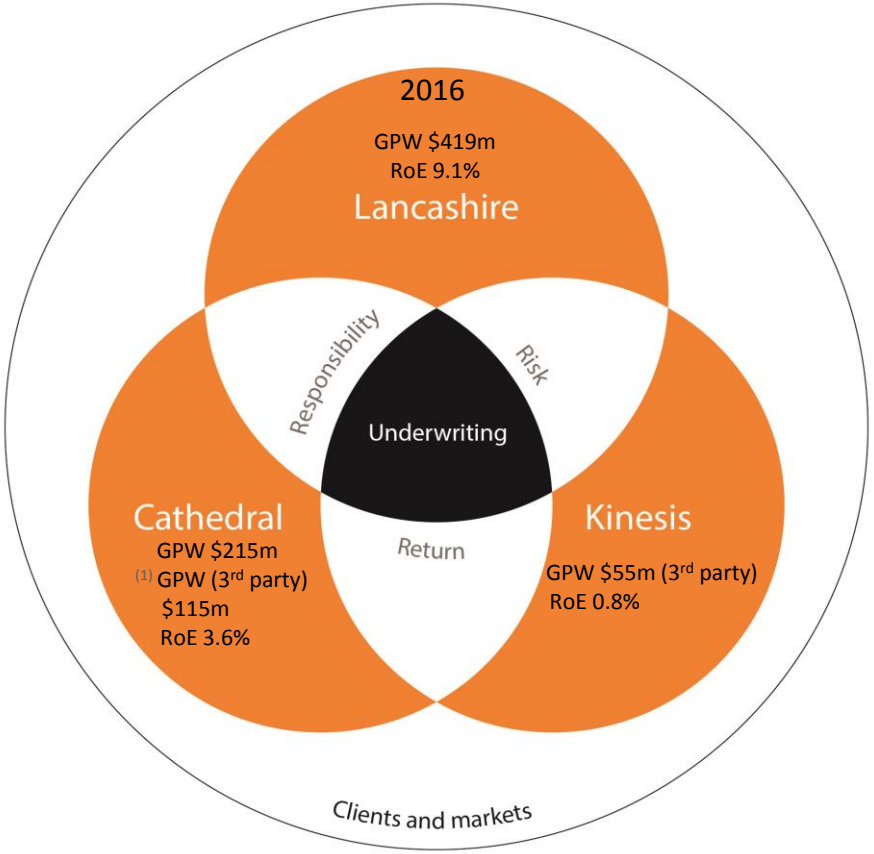
# Lancashire Group - The power of three platforms




## Lancashire

- ✓ **High layers with high deductibles** differentiate market position and drive low attritional loss ratios
- ✓ **Lower number of large contracts** and single exposures provide greater underwriting control
- ✓ Consistent strategy and transparent risk appetite make Lancashire **an important underwriter for key brokers**

## Cathedral

- ✓ **Low-severity loss exposures and smaller line sizes** drive increased diversification
- ✓ **Lloyd's extensive global network and infrastructure** offer distribution advantages
- ✓ **Long-standing client relationships**, driving good knowledge of underlying risks

## Kinesis

- ✓ **Ability to scale-up opportunistically** based on market dislocations, delivering speed to market advantage
- ✓ **Large line multi-class reinsurance** on a collateralised basis remains in demand and with limited supply

***Three platforms give the Lancashire Group more clout in the market place.***
***More broker relationships, more cross selling and referral opportunities and more reinsurance purchasing power.***

(1) Additional premium managed on behalf of third party Names or capital



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# Lancashire Group - Proven strategy for long term success

- ✓ **Underwriting comes first – UMCC** (Underwriting Marketing Conference Call)[1]
  - Underwriting excellence is key to delivery
  - Unique underwriting approach
  - Over 11 year track-record of consistent combined ratio out-performance
  - Risk selection and portfolio construction
- ✓ **Effectively balance risk and return – RRC** (Risk and Return Committee)
  - Strategic overview of risk
  - Active management of exposures
- ✓ **Operate nimbly through the cycle**
  - Proven ability to manage risk / return dynamic via re-underwriting, risk selection, de-risking and M&A
  - Three platform strategy enabling diversified access and a quick response to market events
- ✓ **Disciplined capital deployment**
  - Commitment to total shareholder returns, not growth and volumes
  - Track record of active management via special dividends and buybacks when appropriate

(1) The UMCC is a call for Lancashire Insurance companies (LICL and LUK) only

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# Overview of Lancashire: our 11 year history

**2005**
- LHL Incorporated
- AM Best assigns A- rating
- IPO & listing on AIM

**2010**
- S&P assign A- rating, ERM rating adequate with strong risk controls
- Moody's assign A3 rating

**2011**
- Accordion sidecar launched
- AM Best upgrade to A rating
- Significant peer(3) outperformance in 2nd largest aggregate loss year in history

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| Combined ratio | n/a | 44.3% | 46.3% | 86.3% | 44.6% | 54.4% | 63.7% |
| Dividend yield (1) | n/a | n/a | 15.2% | n/a | 18.1% | 18.0% | 8.4% |
| Return on Equity (2) | (3.2%) | 17.8% | 31.4% | 7.8% | 26.5% | 23.3% | 13.4% |
| Tangible capital | $1.1bn | $1.3bn | $1.3bn | $1.4bn | $1.5bn | $1.4bn | $1.5bn |
| No. of employees | 5 | 57 | 79 | 91 | 101 | 103 | 115 |

**2006**
- Sirocco sidecar launched
- London office opened

**2008**
- Hurricane Ike
- Credit crisis – investment return 3.1%

**2009**
- Listing on LSE
- Inclusion in FTSE 250 index

(1) Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price
(2) RoE excludes the impact of warrant exercises
(3) 2011 peer group included Amlin, Aspen, Axis, Beazley, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus

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# Overview of Lancashire: our 12 year history

**2013**
- Purchase of Cathedral Capital Limited
- Launch of Kinesis Capital Management, Kinesis Re and Kinesis Holdings

**2015**
- Syndicate 3010 capacity expanded to £100 million

**2016**
- Hired new management team for Cathedral and a new underwriting team for Cathedral Property Catastrophe and D+F portfolios

| | 2012 | 2013 | 2014 | 2015 | 2016 | H1 2017 |
|---|---|---|---|---|---|---|
| Combined ratio | 63.9% | 70.2% | 68.7% | 72.1% | 76.5% | 78.4% |
| Dividend yield (1) | 8.3% | 12.3% | 17.8% | 17.3% | 10.5% | 1.7% |
| Return on Equity(2) | 17.1% | 18.9% | 14.7% | 13.5% | 13.5% | 5.9% |
| Tangible capital | $1.6bn | $1.6bn | $1.5bn | $1.4bn | $1.4bn | $1.4bn |
| No. of employees | 104 | 169 | 185 | 192 | 198 | 194 |

**2012**
- Rollover of Accordion sidecar
- Saltire facility launched
- Issued $130 million of 5.7% senior unsecured notes due 2022

**2014**
- Alex Maloney appointed as CEO
- Syndicate 3010 capacity added Energy and Terror
- Accordion and Saltire placed in run-off

(1) Annual dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Dividend yield at 30 June 2017 calculated as the total quarter cash dividends declared divided by the 30 June 2017 share price and includes the interim dividend of $0.05 declared in July 2017.

(2) RoE excludes the impact of warrant exercises



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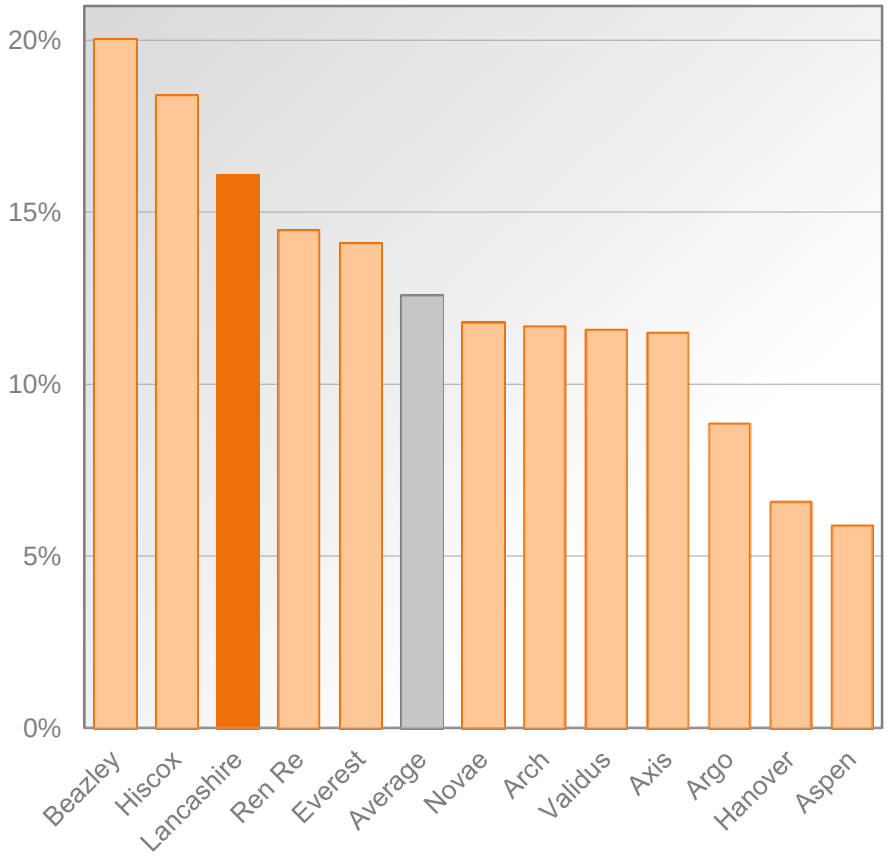
# Our long-term performance is one of the most consistent in our peer group[1]

## RoE ranking in peer group [1]

| Company[2] | 2012 | 2013 | 2014 | 2015 | 2016 | 5 yr avg |
|---|---|---|---|---|---|---|
| Beazley | 1 | 1 | 1 | 1 | 2 | 1 |
| Hiscox | 8 | 2 | 2 | 2 | 1 | 2 |
| **Lancashire** | **3** | **4** | **4** | **4** | **5** | **3** |
| Everest | 2 | 5 | 3 | 7 | 4 | 4 |
| Ren Re | 4 | 3 | 7 | 5 | 7 | 5 |
| Novae | 6 | 7 | 5 | 3 | 10 | 6 |
| Arch | 7 | 8 | 6 | 9 | 3 | 7 |
| Axis | 5 | 9 | 8 | 8 | 8 | 8 |
| Validus | 9 | 6 | 9 | 6 | 9 | 9 |
| Argo | 10 | 10 | 12 | 11 | 6 | 10 |
| Hanover | 12 | 11 | 11 | 10 | 11 | 11 |
| Aspen | 11 | 12 | 10 | 12 | 12 | 12 |

## 5 year compound annual RoE [3]




(1) Peer group as defined by the Board. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. For Arch, Argo, Beazley, Everest, Hanover, Hiscox, Novae and Ren Re, basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports

(2) Companies listed in order of average annual RoE ranking for the years 2012 - 2016. Average ranking calculated as the sum of annual rankings for each year divided by five years. Lancashire RoE calculated excluding the impact of warrant exercises

(3) Lancashire RoE calculated excluding the impact of warrant exercises from 1 January 2012 to 31 December 2016. Data for Lancashire and peers for the period 1 January 2012 through 31 December 2016



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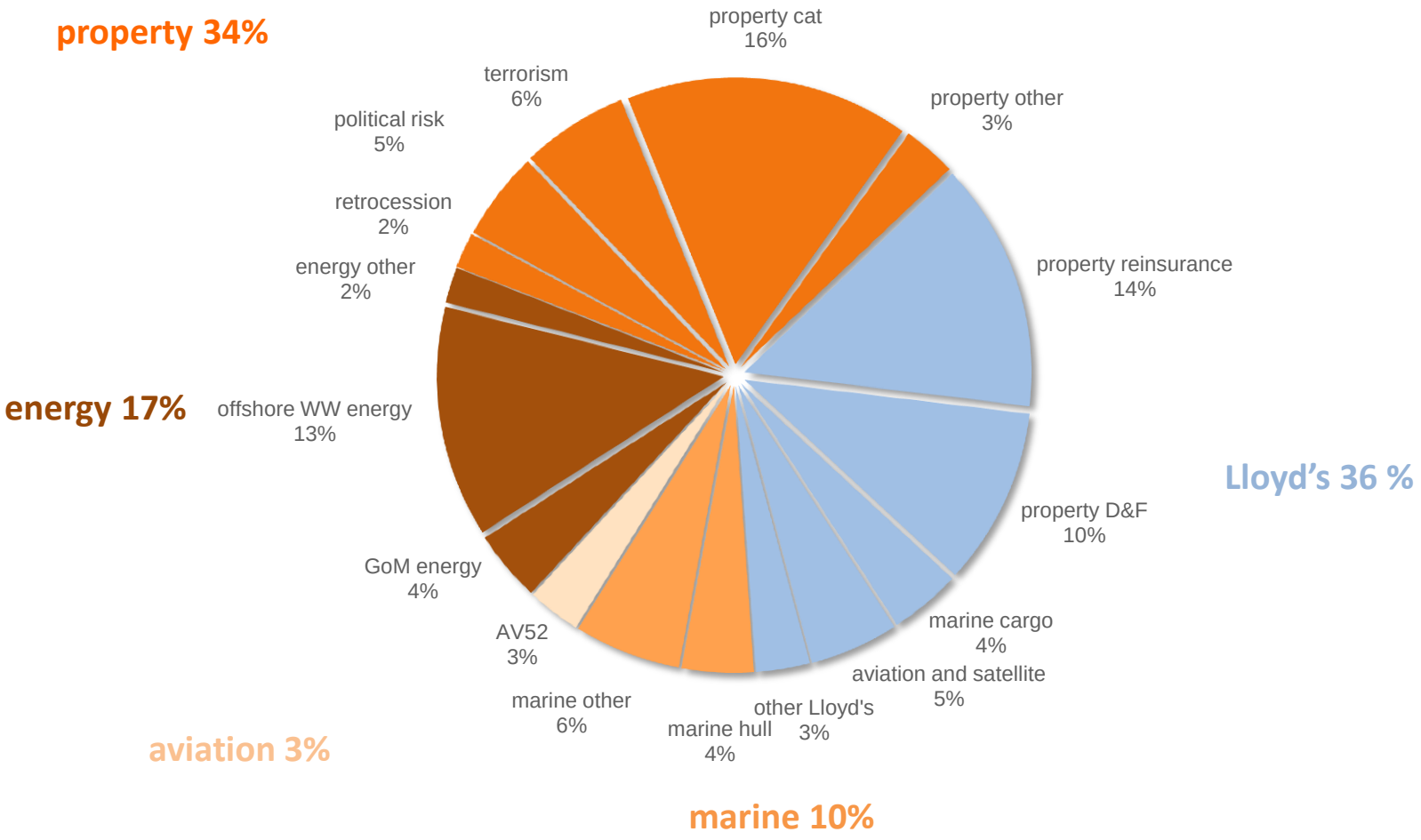
# Underwriting comes *first*

# Underwriting comes first: Group

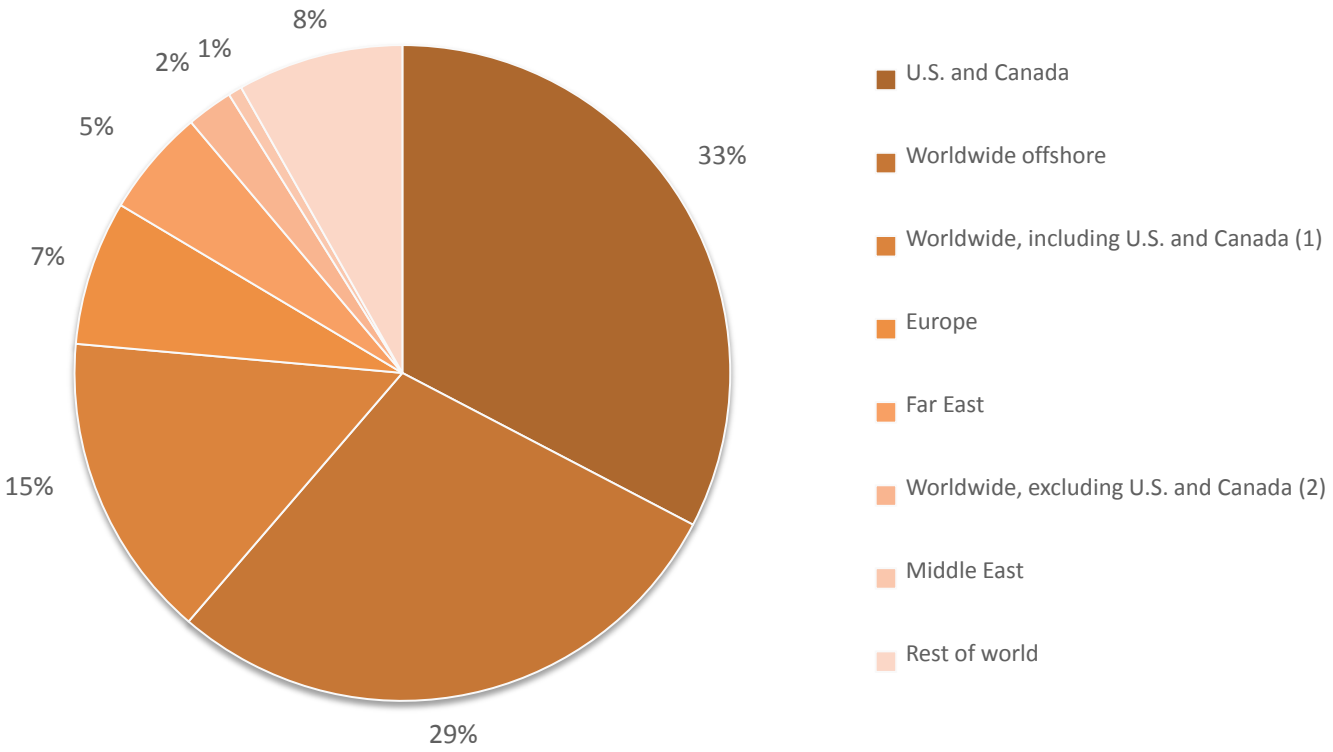
**58% insurance 42% reinsurance 41% nat-cat exposed 59% other**




Based on 2017 forecast of gross premiums written as of 26 July 2017. Estimates could change without notice in response to several factors, including trading conditions.

# Geographic distribution

## 2017 geographic analysis by risk location




- U.S. remains top source of income, as appropriate for market with largest insurance market and reinsurance spend
- However, good spread of risk worldwide, especially with LUK energy offshore, Cathedral D&F and LICL international property catastrophe excess of loss

(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

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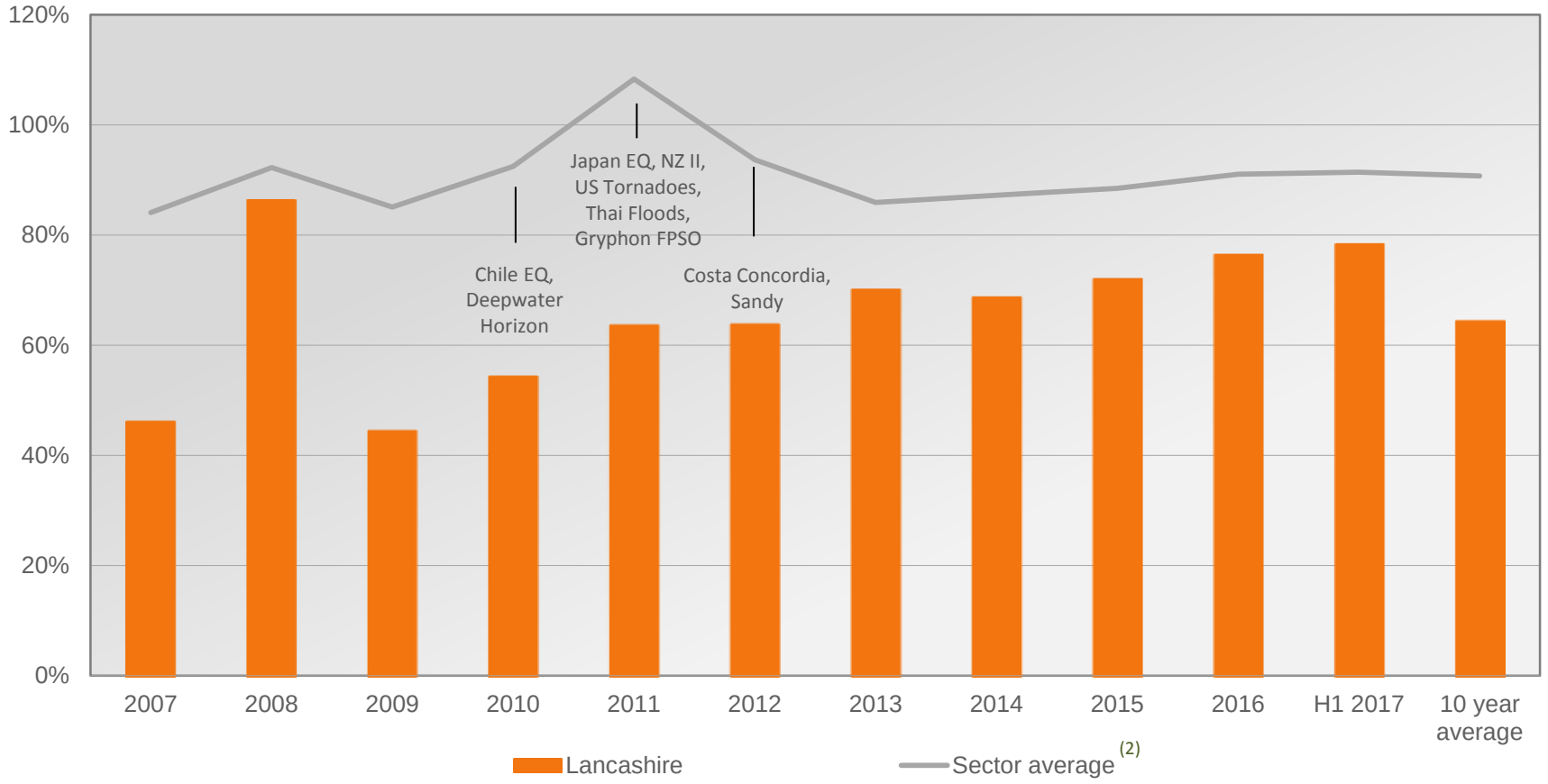
# Our underwriting performance has been exceptional

## Combined ratio (1)




(1) 10 year average based on 2007 to 2016 reporting periods. Lancashire ratios weighted by annual net premiums earned. Annual sector ratios are weighted by annual net premiums earned

(2) Sector includes Arch, Argo, Aspen, Axis, Beazley, Everest, Hanover, Hiscox, Novae, Renaissance Re and Validus. Source: Company reports

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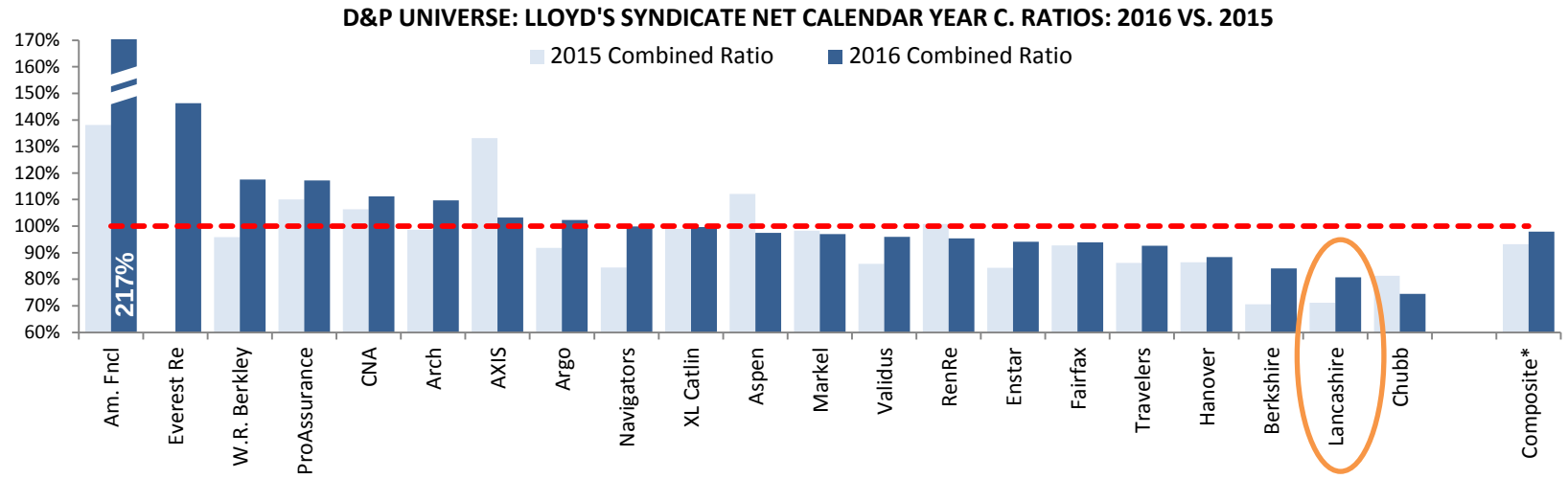
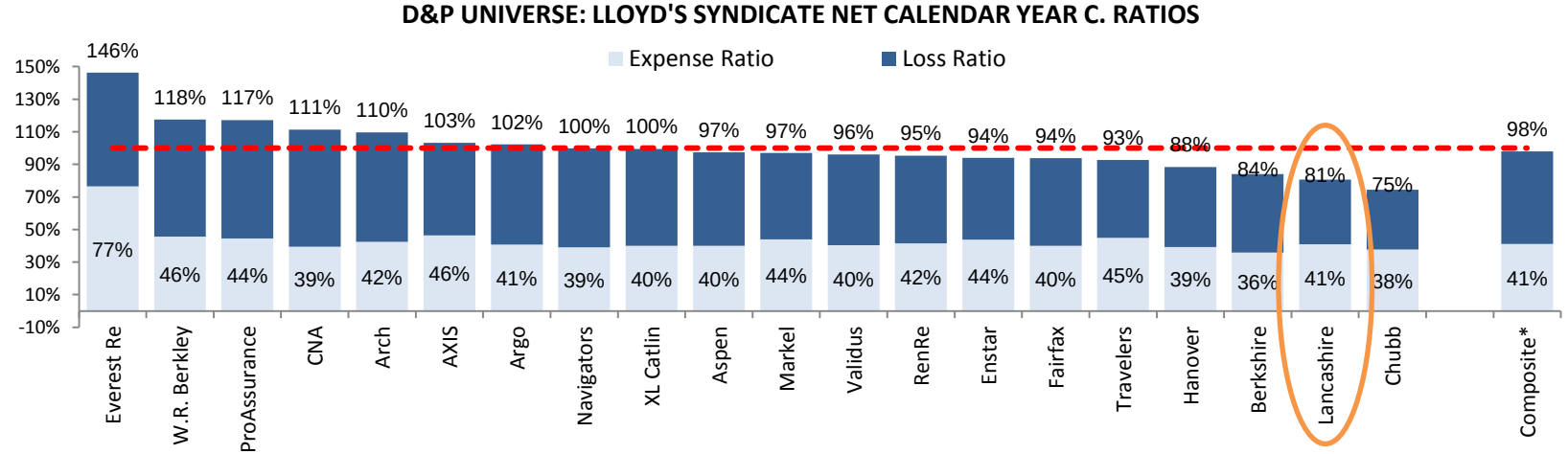
# Consistent performance to date – exceptional Syndicate underwriting performance




Notes: (1) Weighted By Net Earned Premiums; Source: Lloyd's 2016 Annual Syndicate Reports




Notes: (1) Weighted By Net Earned Premiums; (2) American Fnc'l not shown = outlier. Source: Lloyd's 2016 Annual Syndicate Reports

Source: D&P Analysis

# General market update

| Class | 2017 Rating Expectation | Market Dynamics |
|---|---|---|
| Property Reinsurance & Retrocession | Rates off 5% - 10% | • Clients using savings to buy more limit – Japan & certain U.S. clients<br>• M&A reducing limit purchased for some carriers but also providing new opportunities<br>• Rates holding best in U.S. where new demand should meet increasing supply<br>• Tail cover under less pressure than more attritional covers where high premiums allow scope for further softening |
| Energy Offshore Worldwide | Rates off 5 - 10% | • Oil price impacted activity and demand during 2015 & 2016. Expect less impact in 2017 on demand side (assuming oil price doesn't fall further) albeit pricing still weakening given market capacity remaining at all time highs<br>• Demand for liability product remains stable, with price adjusted for drop in exposure |
| Energy Gulf of Mexico | Rates off 5 - 10% | • Impact of oil price on client demand is less given majority of LUK's portfolio is on a multi-year basis and the purchase is often lender-driven |
| Marine | Rates off 10% | • Cruise liner clients benefit from low oil price<br>• Falling commodity prices impacting cargo portfolio<br>• Stable demand from the International Group |
| Terrorism & Political Risks | Rates off 5% – 10% | • Global political uncertainty maintains demand for product<br>• Falling commodity prices impacting Sovereign risk demand |
| Property Direct & Facultative | Binder rates off 5% to 7.5%<br>Open Market rates off 5% to 7.5% | • Binder portfolio very stable with only single digit rate reductions<br>• Open market risks with pressure on coverage and deductibles as well<br>• Portfolio exposure reduced |
| Aviation AV52 | Rates off 5% – 10% | • Demand stable but lineslip capacity at an all-time high which is affecting signings |
| Aviation Reinsurance | Rates off 5% – 10% | • Competitive landscape<br>• M&A reducing client base |
| Aviation War & Aviation Direct | Aviation War rates steady to -5%<br>Aviation Direct rates off 5% – 7.5% | • First signs of change following two years of war losses with broker line-slips attracting significantly less capacity<br>• Market still over-capitalised and line-slips very active<br>• Profit Commission earnings are now coming through from the three managed Aviation War Consortia |

# Kinesis Capital Management Indicative Results

| | Mean loss scenarios (10% Expected Loss) | | | No loss scenarios | | |
|---|---|---|---|---|---|---|
| | Limit of $300m [1] | Limit of $500m [1] | Limit of $1B [1] | Limit of $300m [1] | Limit of $500m [1] | Limit of $1B [1] |
| Lancashire investment ($m) [2] | 24.2 | 40.4 | 80.8 | 24.2 | 40.4 | 80.8 |
| RoL (net) | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% | 21.0% |
| RoE contribution, excluding PC [3] | 0.2% | 0.4% | 1.1% | 0.3% | 0.6% | 1.4% |
| RoE contribution, including PC [3] | 0.3% | 0.7% | 1.7% | 0.8% | 1.4% | 3.1% |
| **Current year earnings ($m)** [1] | | | | | | |
| Underwriting fees | 4.9 | 8.1 | 16.3 | 4.9 | 8.1 | 16.3 |
| G&A costs [4] | (4.3) | (5.1) | (5.9) | (4.8) | (6.5) | (9.2) |
| LHL equity pickup [5] | 2.3 | 3.8 | 7.7 | 4.6 | 7.8 | 15.6 |
| Net CY contribution to LHL, after NCI | 2.4 | 6.2 | 17.4 | 4.2 | 8.8 | 21.7 |
| **Subsequent year earnings ($m)** | | | | | | |
| Profit commissions | 2.6 | 4.3 | 8.7 | 7.6 | 12.6 | 25.2 |
| Total profit contribution | 5.0 | 10.5 | 26.1 | 11.8 | 21.4 | 46.9 |

- Actual annualised return since inception has been in the mid to high teens

(1) Assumes 75% written at 1/1 and 25% at 1/7 from a standing start i.e. no run-off earnings from prior years. Earnings patterns reflect the underlying risks attaching i.e. not straight line

(2) LHL's investments 10% of the underlying risks in aggregate, up to a maximum of $100m invested through co-investment alongside third-party investors or co-insurance

(3) Indicative assuming LHL target cross cycle RoE of 13% over the risk free rate, actual contribution will vary depending on actual RoE produced

(4) Staff levels increase as limits increase; bonuses increase as total profit contribution increases: bonuses subject to caps

(5) NPW less UW fees less losses less PC x 10% investment (subject to cap). PC provision is included in Kinesis Re in year 1 but not recognised as income by KCM until year 2. Equity pickup ignores capital returns to LHL

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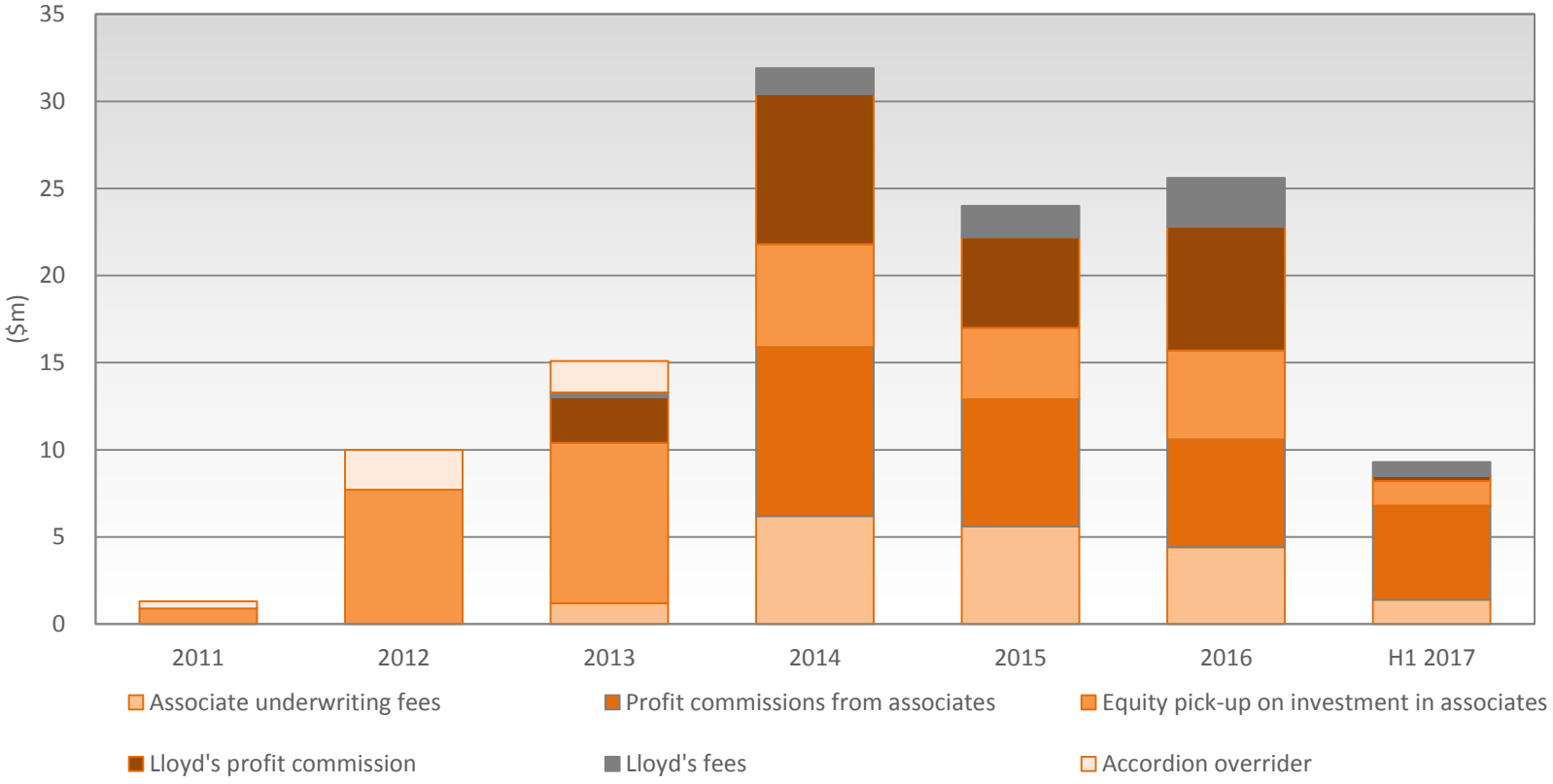
# Third party capital: fee income




- Kinesis profit commissions earned in H1 2017 on the January 2016 underwriting cycle of $5.4 million, with the remaining $0.5 million to be received in Q3 2017.
- Kinesis profit commissions earned on the January 2015 underwriting cycle are expected to total $6.6 million assuming no further loss development. $5.4 million of this amount was received in 2016 with the remaining $1.2 million dependent on timing of collateral release.
- Assuming mean losses for the remainder of the January 2017 underwriting cycle, we would receive approximately $3.6 million of profit commission in 2018. A no loss scenario would produce $6.5 million of profit commission



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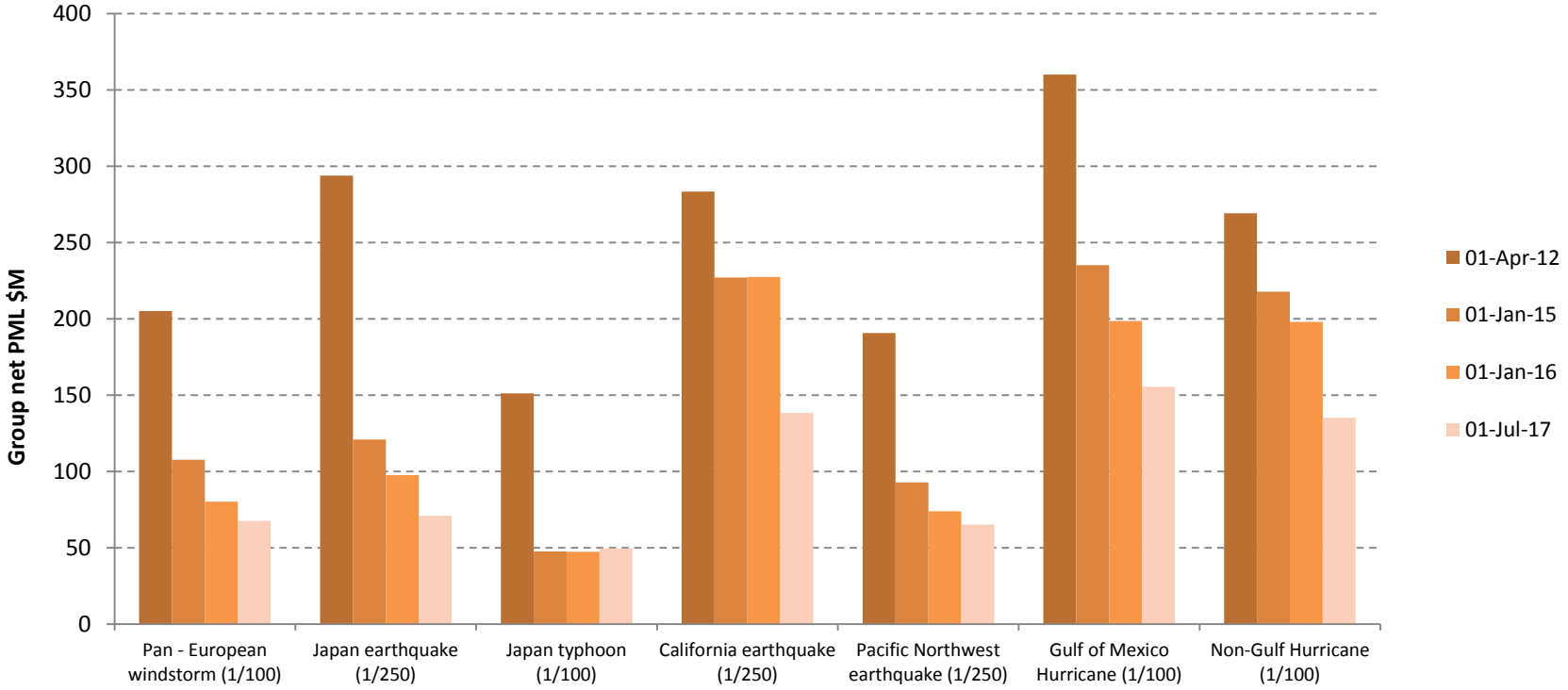
*balance*
risk and
return

# Managing the cycle – reducing net exposures

- Since April 2012, which was the high-tide mark of the pricing cycle, the Group has reduced PMLs across all key exposures, in spite of the addition of Cathedral
- PMLs are not predictors of losses but they do provide consistent measures of catastrophe risk levels




- The Group has developed the estimates of losses expected from certain catastrophes for its portfolio of property and energy contracts using commercially available catastrophe models, which are applied and adjusted by the Group. These estimates include assumptions regarding the location, size and magnitude of an event, the frequency of events, the construction type and damageability of property in a zone, and the cost of rebuilding property in a zone. Return period refers to the frequency with which losses of a given amount or greater are expected to occur
- Gross loss estimates are net of reinstatement premiums and gross of outward reinsurance, before income tax. Net loss estimates are net of reinstatement premiums and net of outward reinsurance, before income tax
- The estimates of losses above are based on assumptions that are inherently subject to significant uncertainties and contingencies. In particular, modeled loss estimates do not necessarily accurately predict actual losses, and may significantly deviate from actual losses. Such estimates, therefore, should not be considered as a representation of actual losses and investors should not rely on the estimated exposure information when considering investment in the Group.
- The Group undertakes no duty to up date or revise such information to reflect the occurrence of future events

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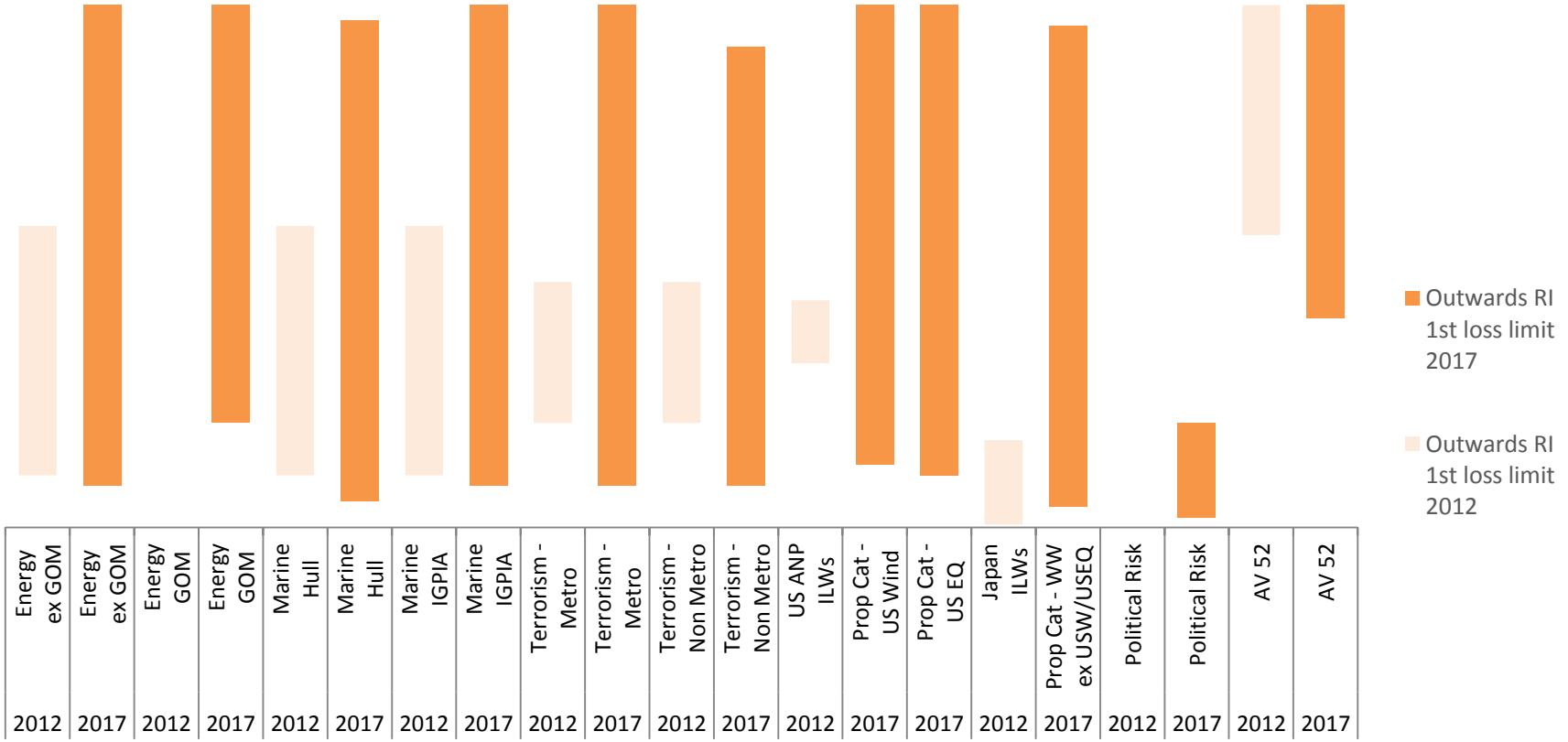
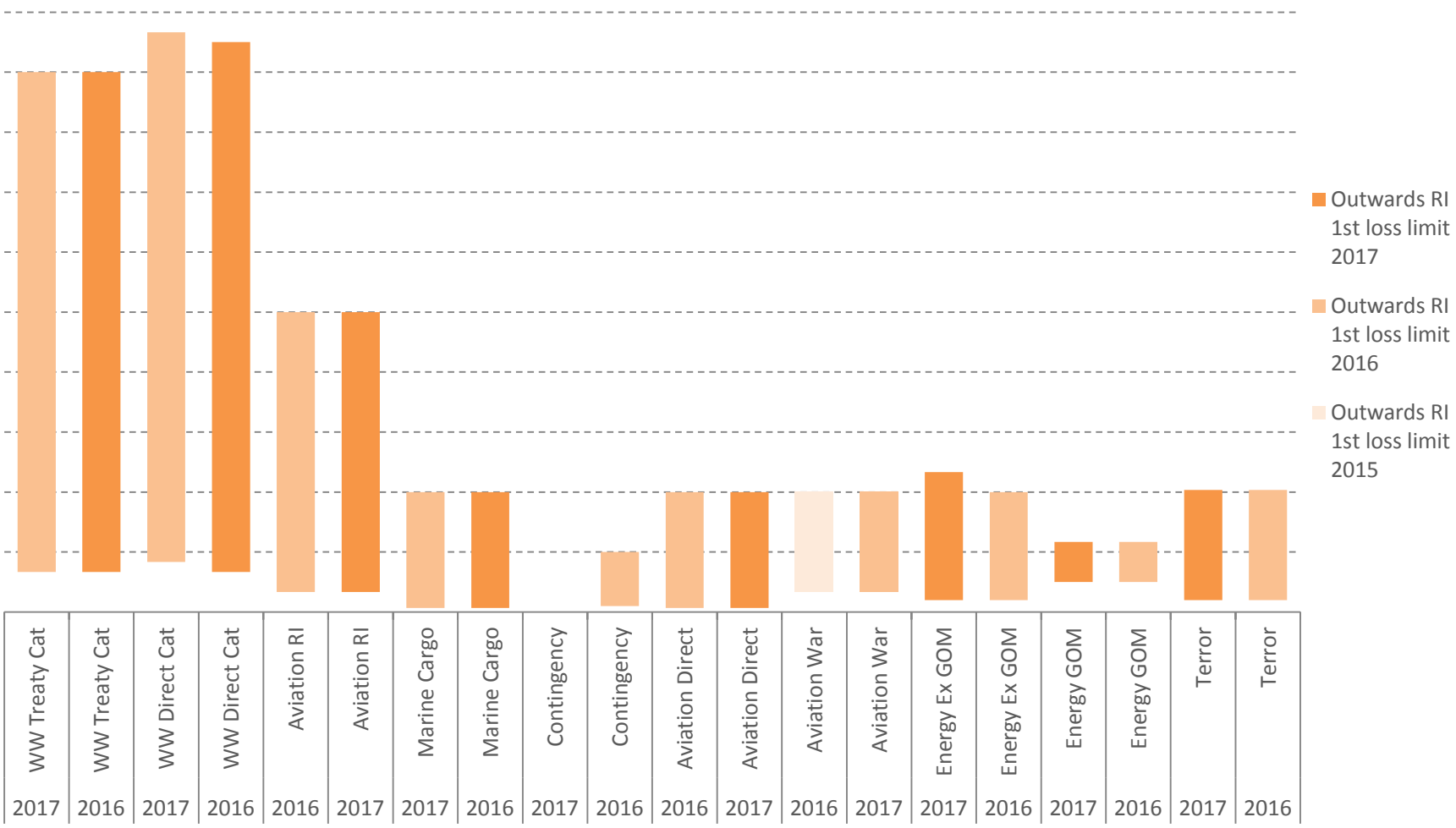
# Exposure management – Increasing RI purchases

**Lancashire first loss XL limit 2012 vs 2017**




- Terrorism excludes terror pools
- First loss limit purchased by Lancashire on an excess of loss basis, excluding quota shares, cessions to side cars, facultative purchases and reinstatements
- Excludes Cathedral's reinsurance
- A portion of the Lancashire Property Cat and Energy GOM cover is shared with S2010

# Exposure management – Stable RI purchases




- First loss limit purchased by Cathedral on an excess of loss basis, excluding ILWs, quota shares, cessions to sidecars, facultative purchases and reinstatements

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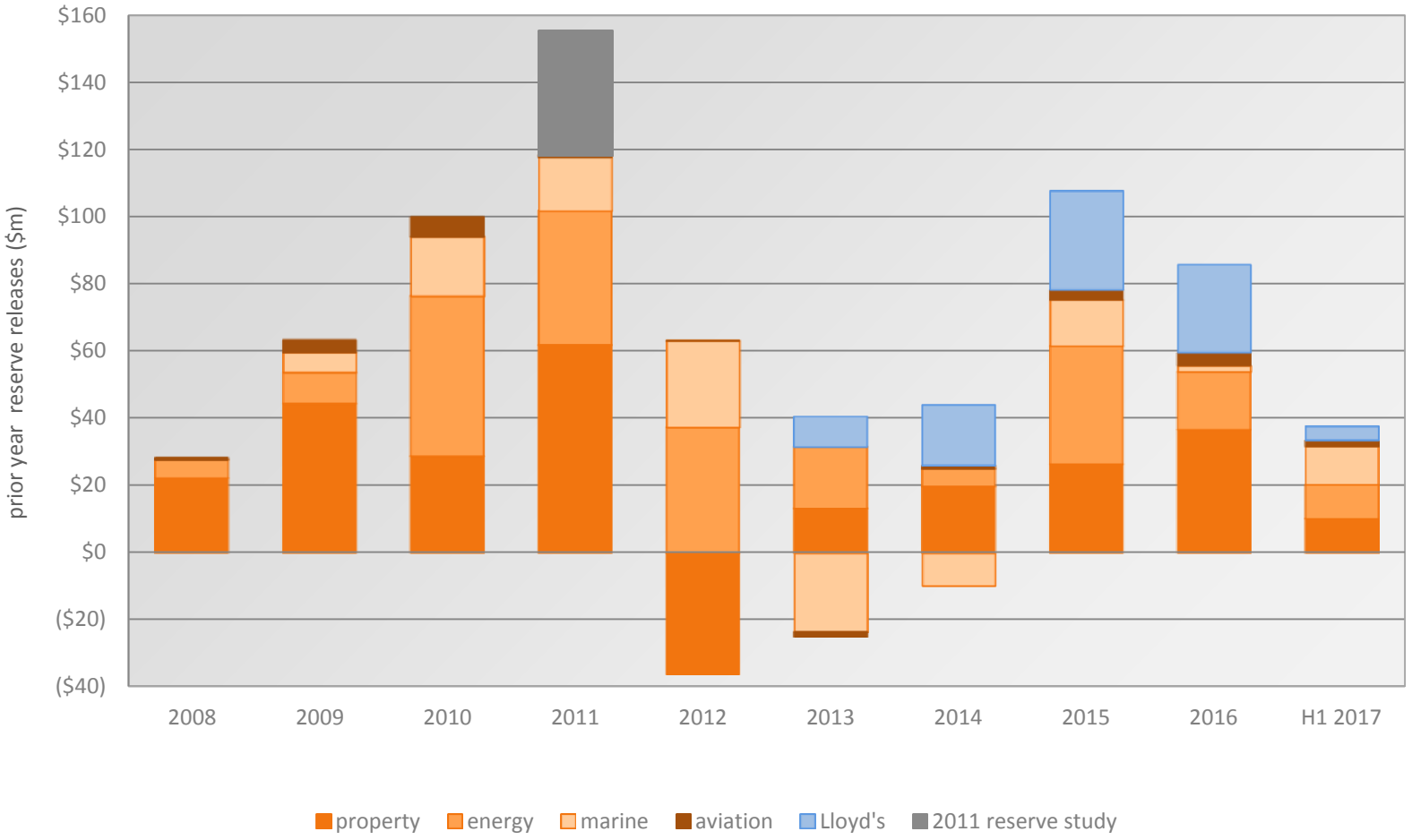
# Reserve adequacy

## Consistent favourable reserve development [1]




[1] Excludes the impact of foreign exchange revaluations



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# Effectively balance risk and return – investment philosophy

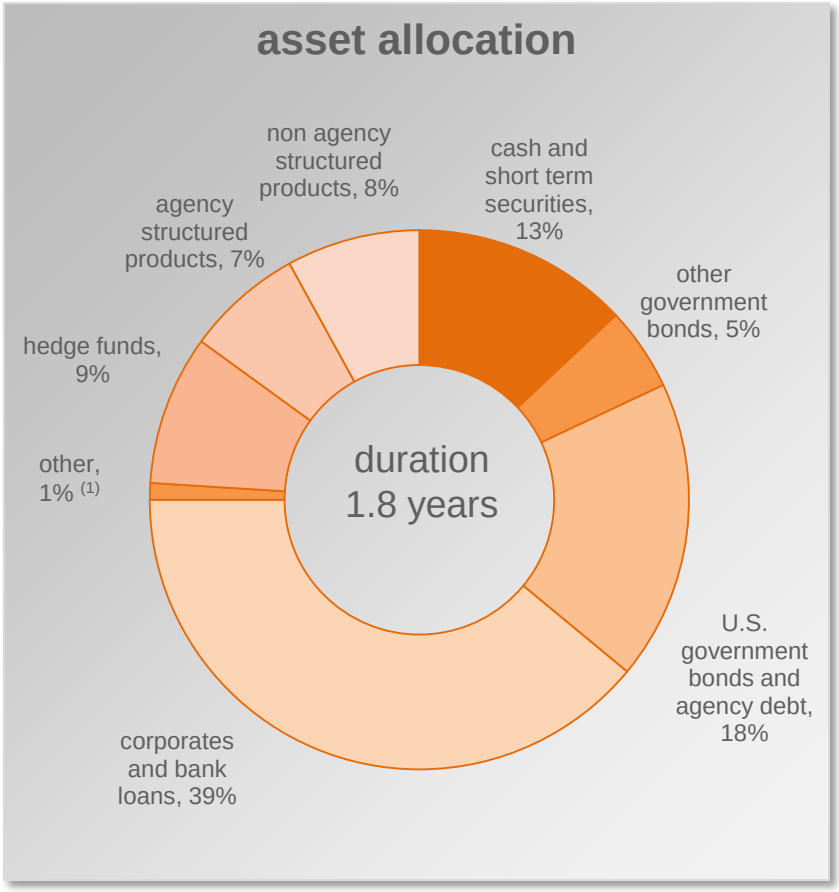
## Modest improvement in global growth prospects

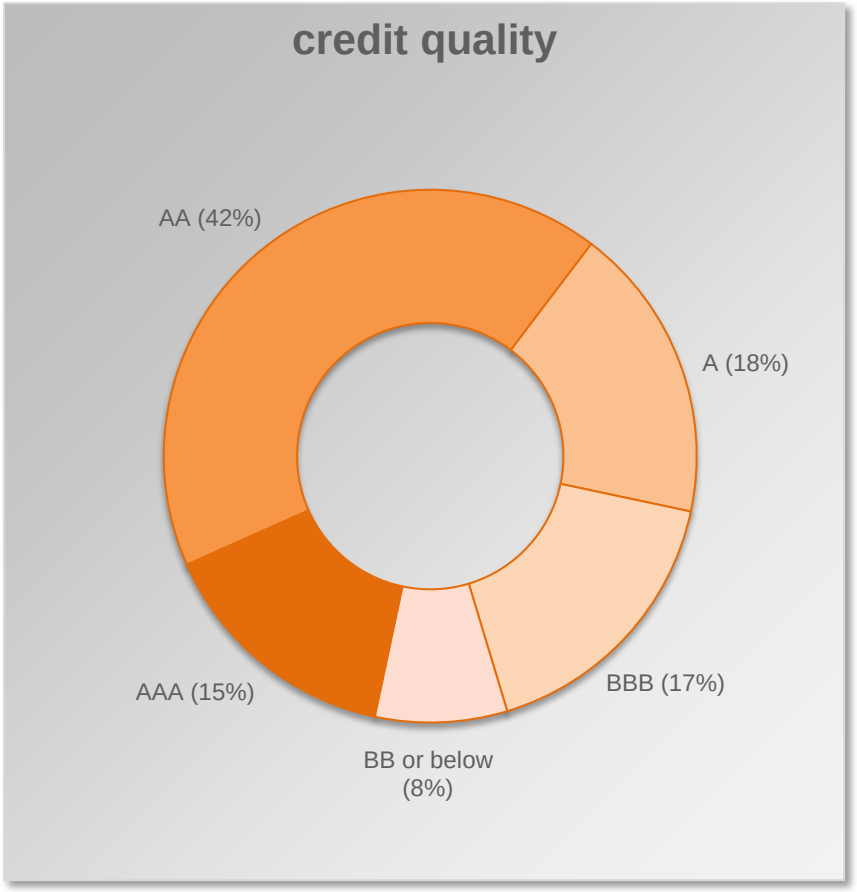
- The growth outlook for the U.S. economy for 2017 has remained steady despite the 'unwind' of the Trump trade and lower inflation than expected.
- While below historical averages, we expect a slight uptick in global growth levels in 2017 compared to 2016.
- Divergent central bank policies and current geopolitical events continue to exacerbate risk in the global economy

## Preservation of capital continues to be paramount and we will focus on interest rate risk

- Maintain reduced investment portfolio duration in anticipation of further increases in U.S. interest rates over the next few years, and the expectation that the Federal Reserve will begin reducing the size of its balance sheet gradually later this year.
- Mitigate interest rate risk:
  - ✓ Hold floating rate notes and non-fixed income securities
  - ✓ Maintain an allocation to a low volatility hedge fund portfolio, diversifying the overall investment portfolio
  - ✓ Short five-year treasury futures overlay used to protect the investment portfolio from a rise in interest rates, reducing duration by 0.2 years
- Continue monitoring risk/return trade off in the portfolio:
  - ✓ Continue to manage the risk on/risk off balance in anticipation of additional increases in U.S. interest rates, while also protecting the portfolio in risk-off environments

# Conservative portfolio structure – Quality




- Total portfolio at June 30, 2017 = $1,876 million
- Average portfolio credit rating of A+ (including internally managed cash)

(1) Other includes equity securities and other investments



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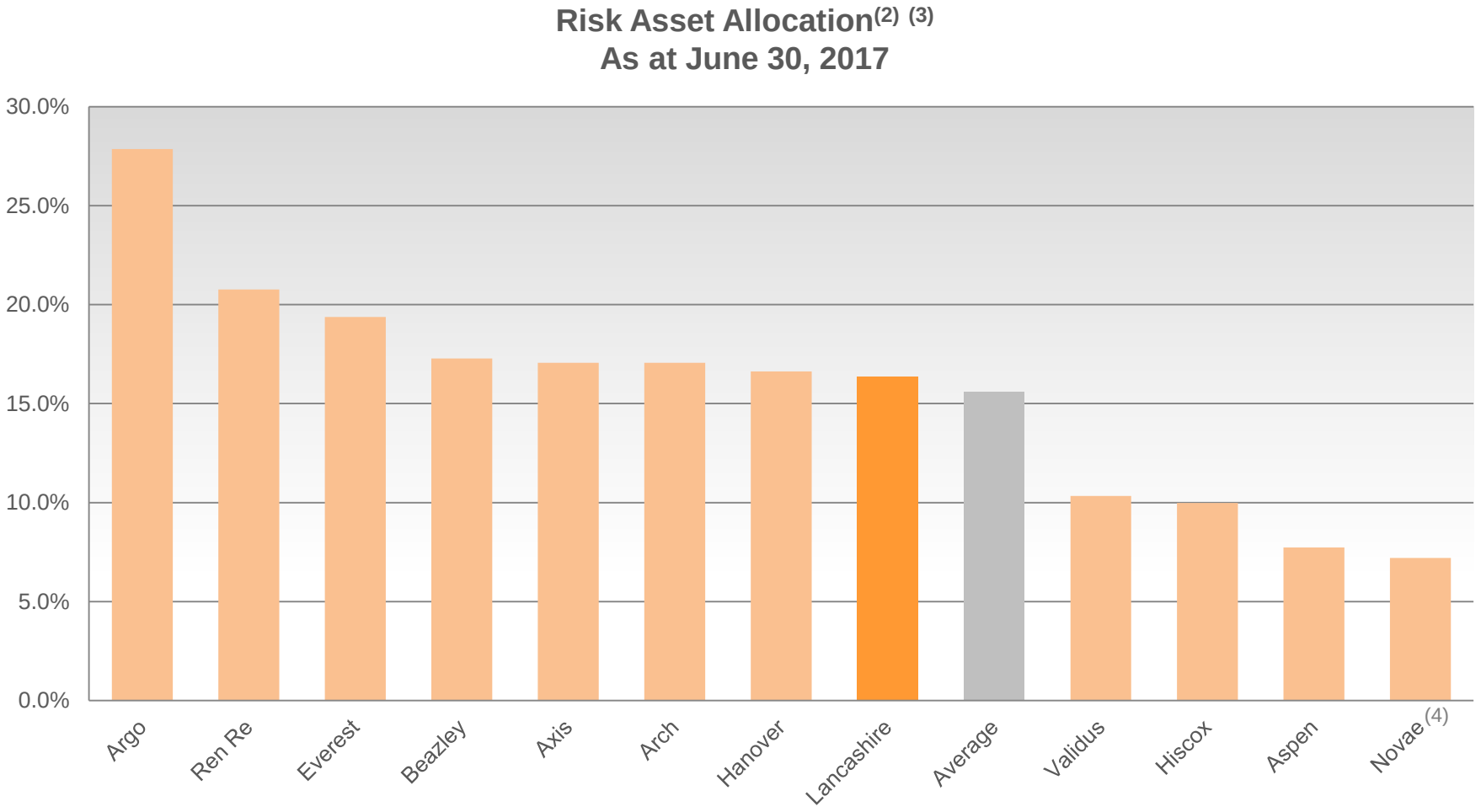
# Risk asset levels in line with peer group[1] average




(1) Peer group as defined by the Board. Source: Company reports

(2) Risk assets include: equities, hedge funds, private equities and bonds below investment grade

(3) Risk assets as a percentage of total cash and investments

(4) Novae does not disclose the allocation to non-investment grade bonds and is therefore assumed to be zero



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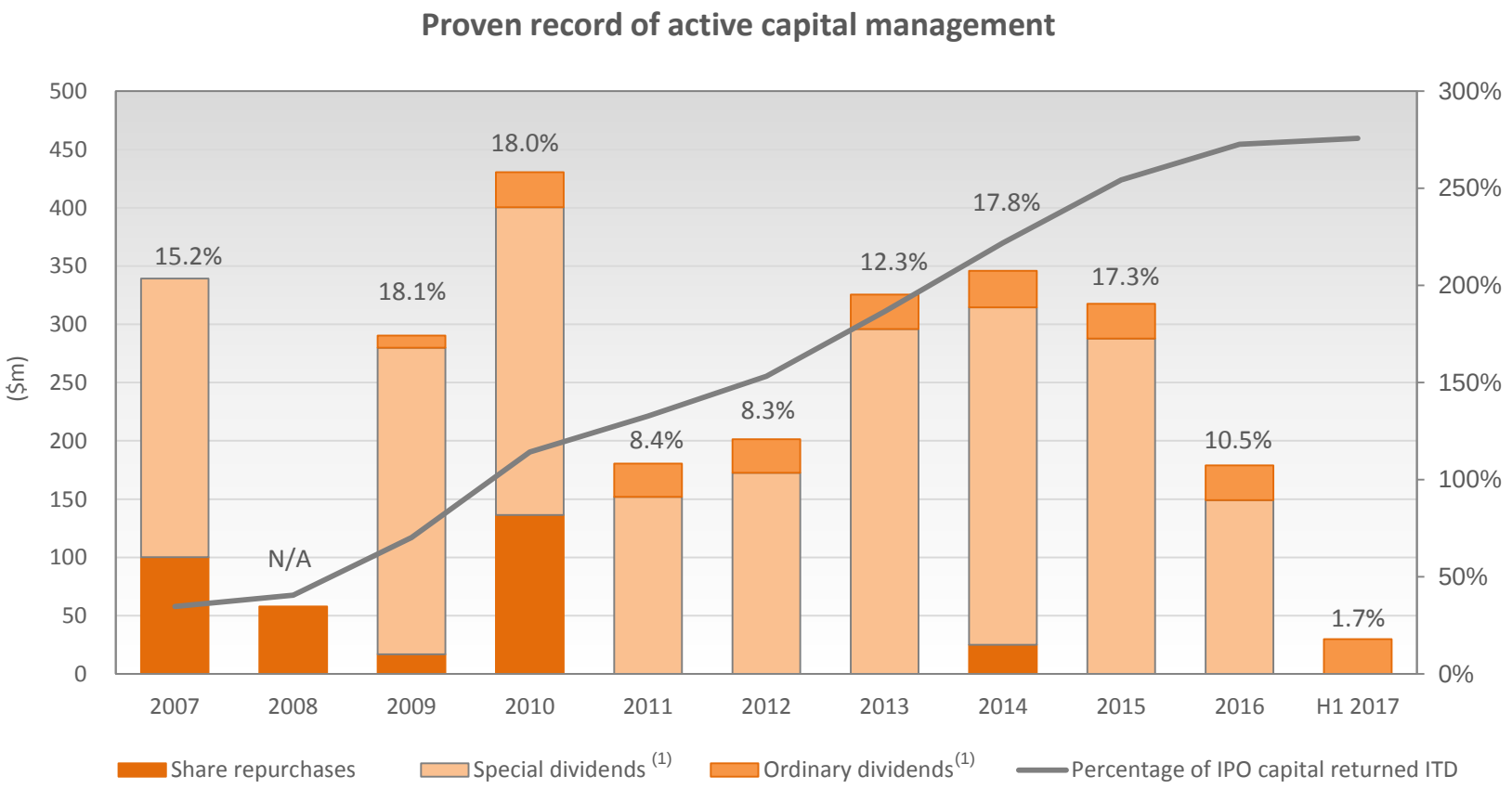
# Operate *nimbly* through the cycle

# Operate nimbly through the cycle




**275.7% of original IPO share capital has been returned to shareholders**

(1) Dividends included in the financial statement year in which they were recorded

(2) Dividend yield is shown above the data in the chart area. Annual dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Dividend yield at 30 June 2017 calculated as the total quarter cash dividends divided by the 30 June 2017 share price and includes the interim dividend of $0.05 declared in July 2017.



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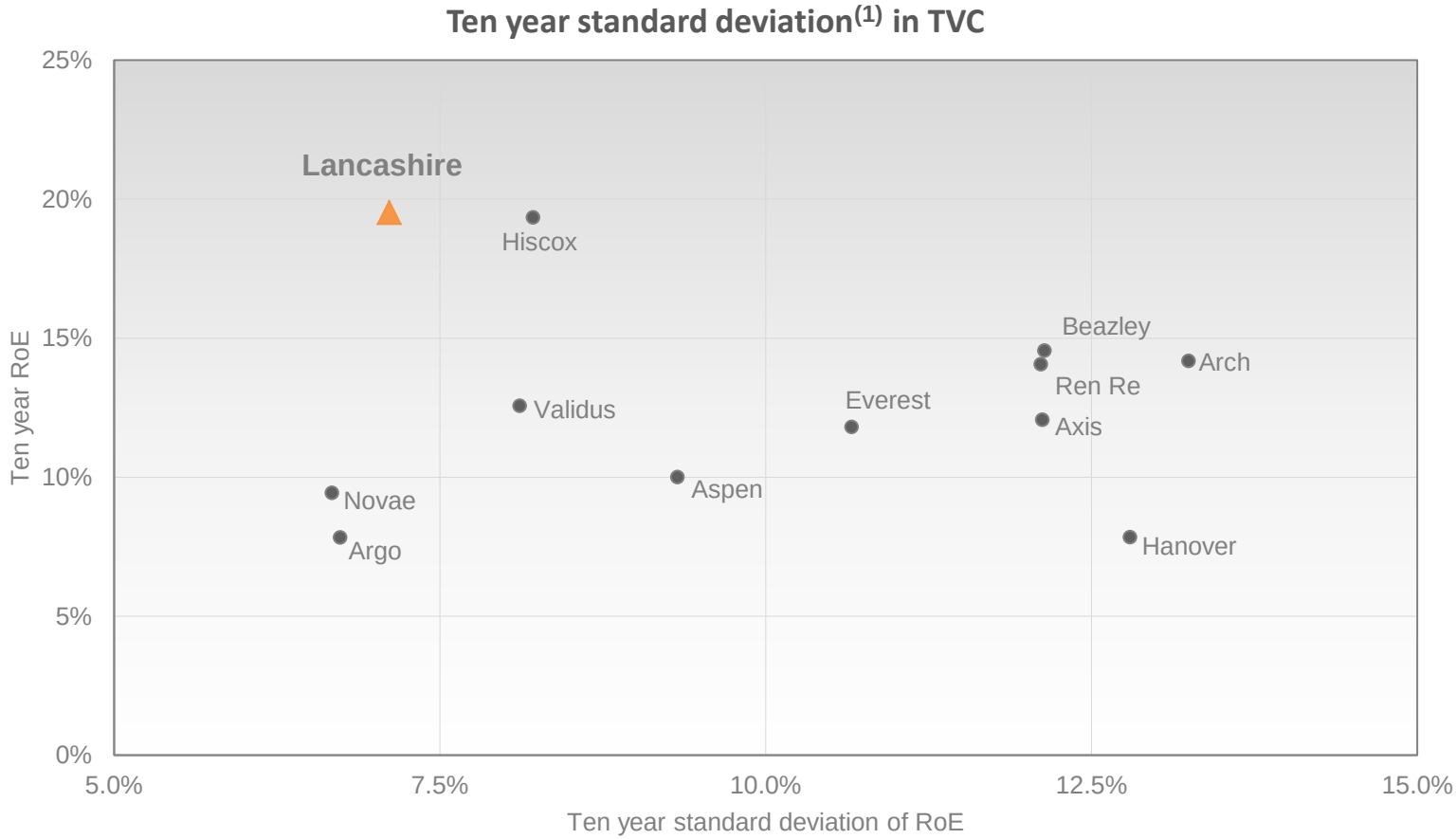
# Consistency: Total value creation (TVC)




- Lancashire has the best performance versus peers with low volatility
- Evidence of adherence to business plan and strong risk management

(1) Standard deviation is a measure of variability around the mean

(2) Compound annual returns for Lancashire and peers are from 1 January 2007 through 31 December 2016. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. Lancashire RoE calculation excludes the impact of warrant exercises. For Arch, Argo, Beazley, Everest, Hanover, Hiscox, Novae and Ren Re, basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports

Sticking to our
game plan

# Conclusion

- Lancashire has one of the **best and most consistent performances** in the London and Bermuda markets
- Our strategy is designed to cope with hard and soft markets, managing capital and exposures to maximise risk-adjusted returns across the cycle
- Group management is fully integrated and has decades of experience in rated company, Lloyd's and collateralised markets
- Group profitability is not overly dependent on property reinsurance, with strong weightings to specialty classes with proven RoE potential and low attritional loss ratios
- A well-diversified portfolio across multiple lines and geographies as a base to trade across the cycle
- Third party capital vehicle well established with a stable investor and client base and capacity to grow rapidly in the right market conditions

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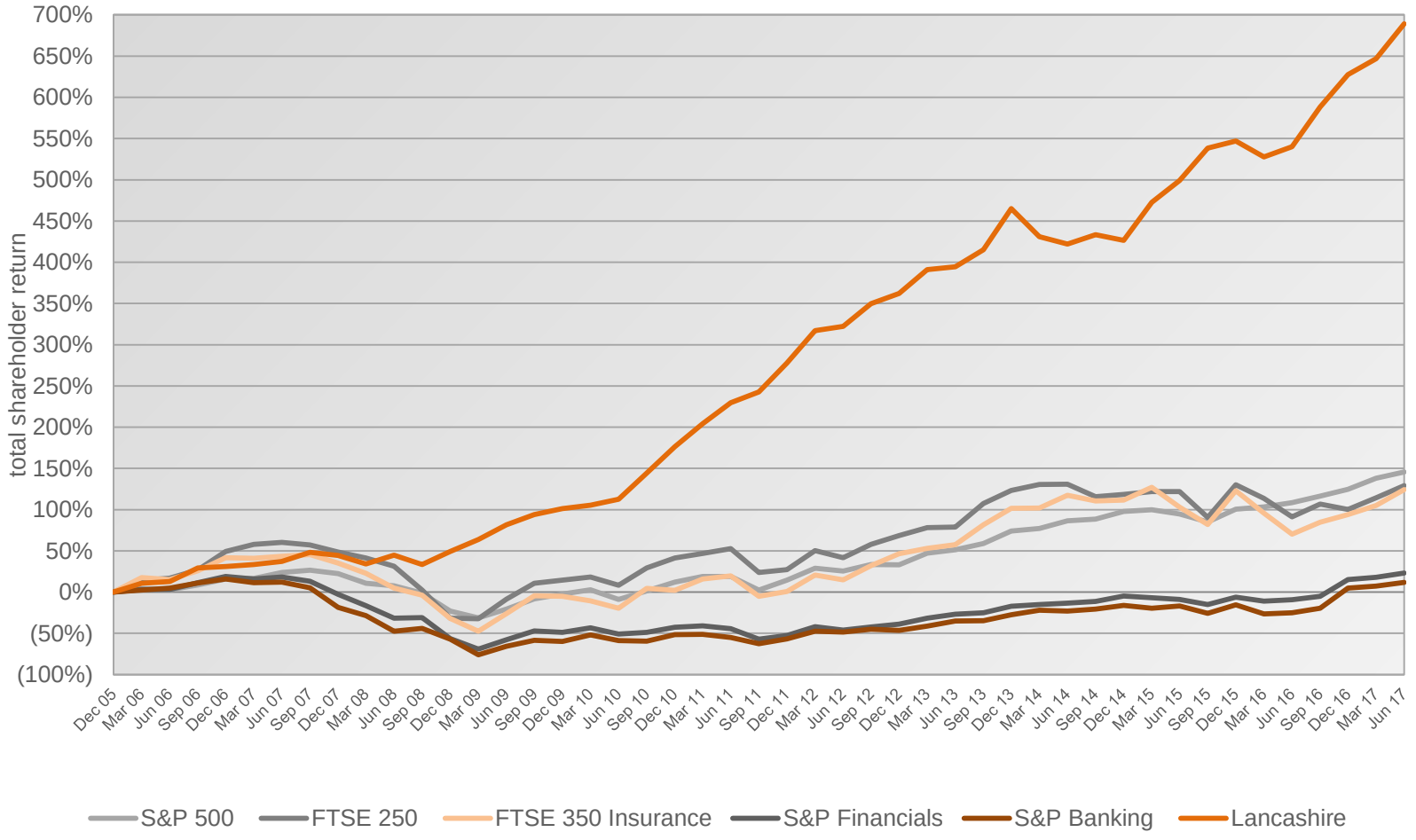
# Our goal: to provide an attractive risk-adjusted total return to shareholders over the long-term

## Lancashire total shareholder return vs. major index returns (1)




(1) Lancashire TSR calculated as compound return since inception using IRR. Major index returns indicate total return including the reinvestment of dividends from Bloomberg