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HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation
Q2 2011

September 2011
www.lancashiregroup.com

safe harbour statements

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS 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 EXPRESSED 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 WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR 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 OUR 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 OUR OPERATING SUBSIDIARIES' RATING WITH A.M. BEST COMPANY 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; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; AND THE EFFECTIVENESS OF OUR 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 LOSSES ARISING FROM NATURAL CATASTROPHE AND MAN MADE EVENTS INVOLVE COMPLEX FACTORS POTENTIALLY CONTRIBUTING TO THESE TYPES OF LOSS, AND WE CAUTION AS TO THE PRELIMINARY NATURE OF THE INFORMATION USED TO PREPARE ANY SUCH ESTIMATES.

THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS (INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE)) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

an established and successful market leader

Lancashire is a global provider of specialty insurance products operating in Bermuda, London and Dubai. Lancashire focuses on short-tail, mostly direct, specialty insurance risks under four general categories: property, energy, marine and aviation.

- Fully converted book value per share plus accumulated dividends has grown at a compounded annual rate of 19.9% since inception
- Total shareholder return of 232.1%[1] since inception in late 2005, compared with 5.4%[1] for S&P 500, 26.4%[1] for FTSE 250 and (3.2)%[1] for FTSE 350 Insurance Index
- Returned 117.2% of original share capital raised at inception or 77.4% of cumulative comprehensive income
- Traded on London Stock Exchange (LRE.L) with market capitalisation of $1.64B[2]
- Member of FTSE 250 Index

[1] Shareholder return through 14 September 2011. LRE and FTSE returns in USD terms.

[2] As at 14 September 2011 Source: Bloomberg

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H1 2011 headlines

- **Combined ratio of 69.5%**
  - Reported loss ratio of 38.2%; accident year loss ratio of 73.0%
  - Combined ratio since inception of 58.0% (including G&A)
  - New Zealand / Australia catastrophe loss of $17.8M
  - Reserve of $72.9M (gross & net) for Japan quake, $72.0M after RIP; contributes 25.3% to the net loss ratio
  - US tornadoes loss of $3.8M
- **Total investment return of 1.8% (annualised 3.6%)**
  - Positive total return in 20 out of 22 quarters since inception
  - Equity weighting of 3.6%
- **Growth in fully converted book value per share, adjusted for dividends, of 6.5%[1]**
  - Compound annual return since inception of 19.9%[1]
- **Active cycle management**
  - No share repurchases – strong multiple & improving underwriting conditions
  - RMS 11 fully integrated and steps already taken to rebalance portfolio
  - Accordion sidecar launched to write retrocession risks as opportunities arise
  - 2011 interim dividend, $0.05 authorised 26 July 2011

[1] Through to 30 June 2011

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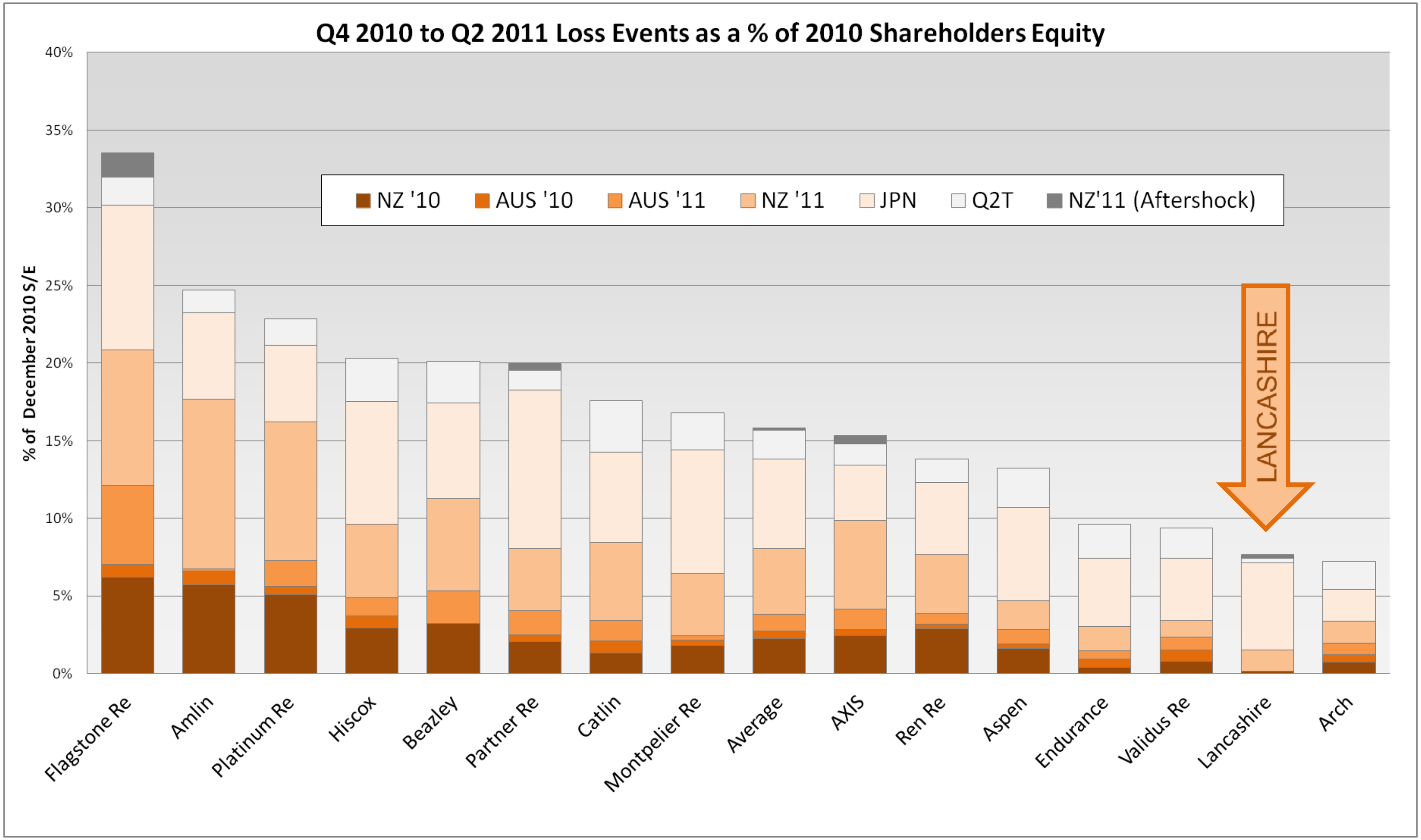
performance in recent cat events



As of 9 September 2011   Source: Company reports and Aon Benfield

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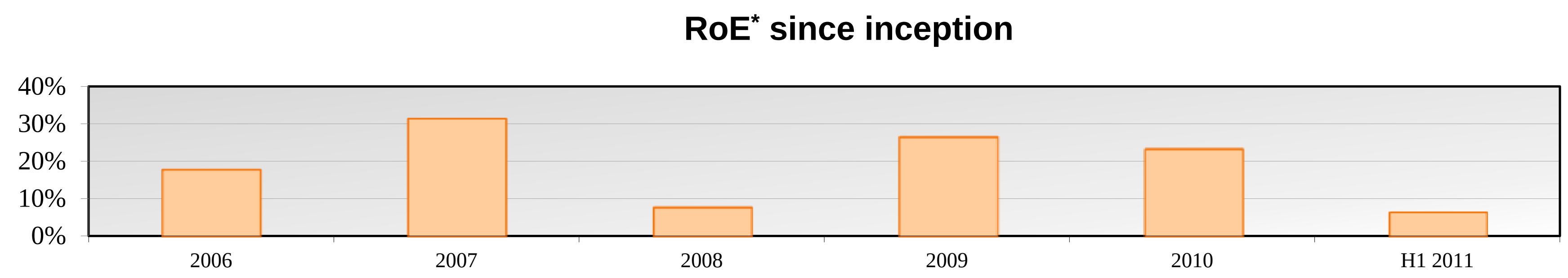
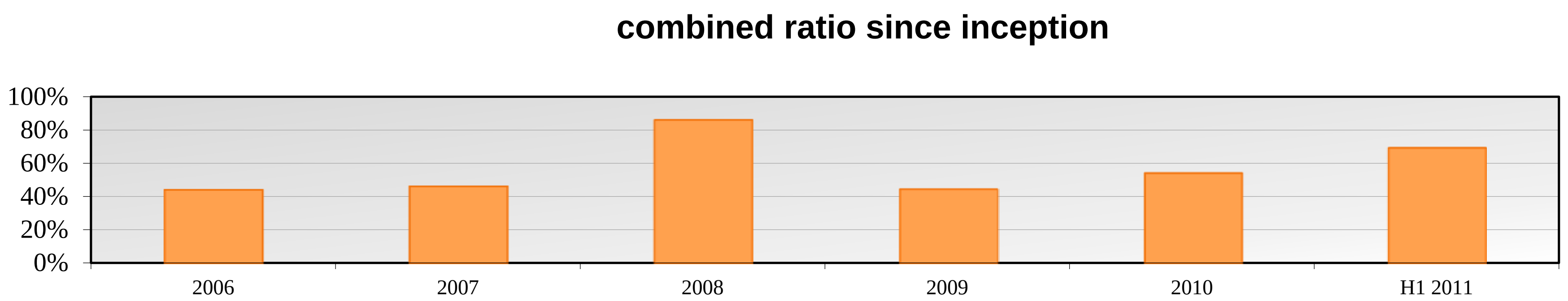
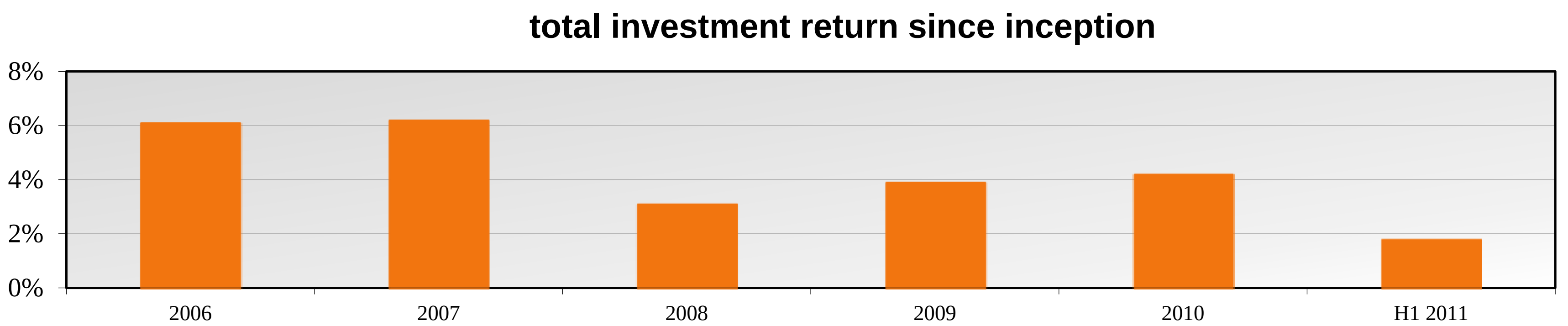
our consistent and excellent track record







* RoE is defined as growth in fully converted book value per share, adjusted for dividends.

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strategy for long-term success

Our goal

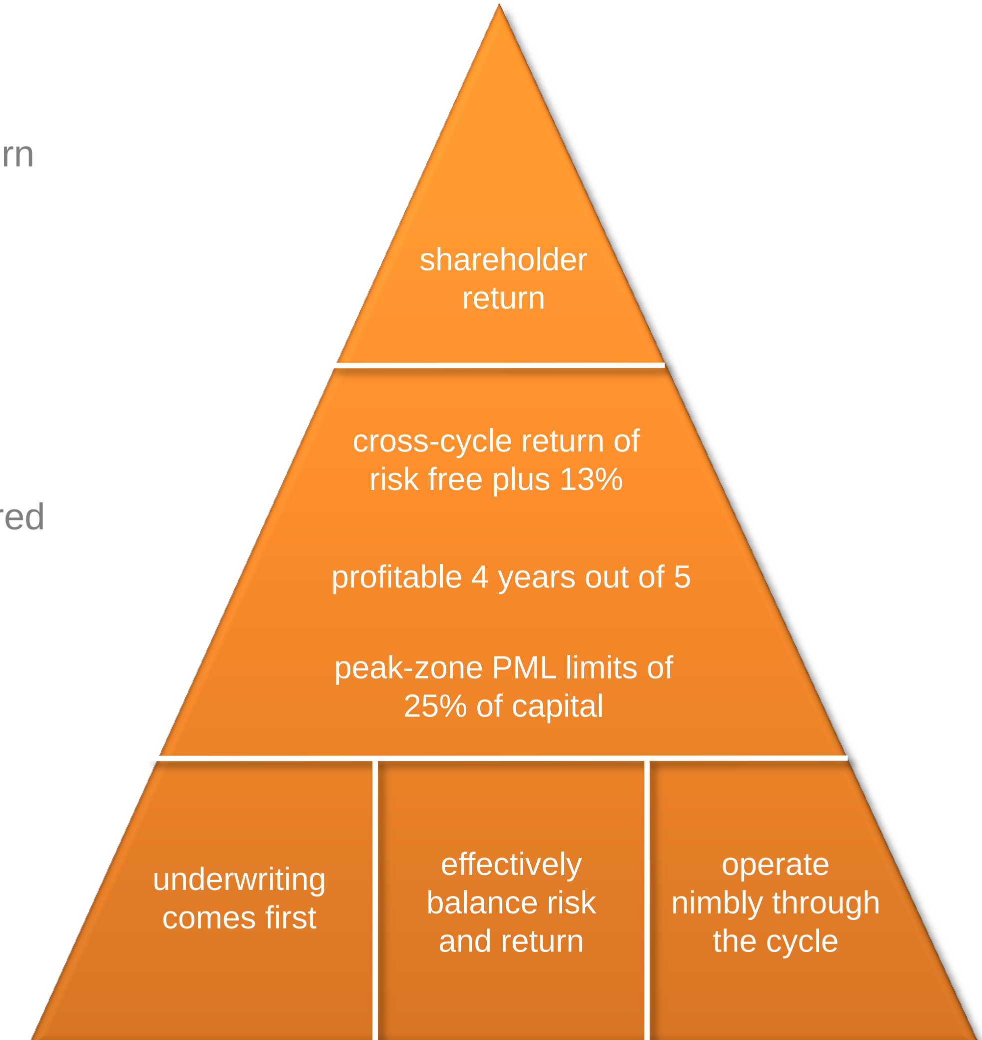
To provide an attractive risk-adjusted return to shareholders over the long-term

Financial targets

Success in achieving our goals is measured against risk and return targets

Strategic priorities

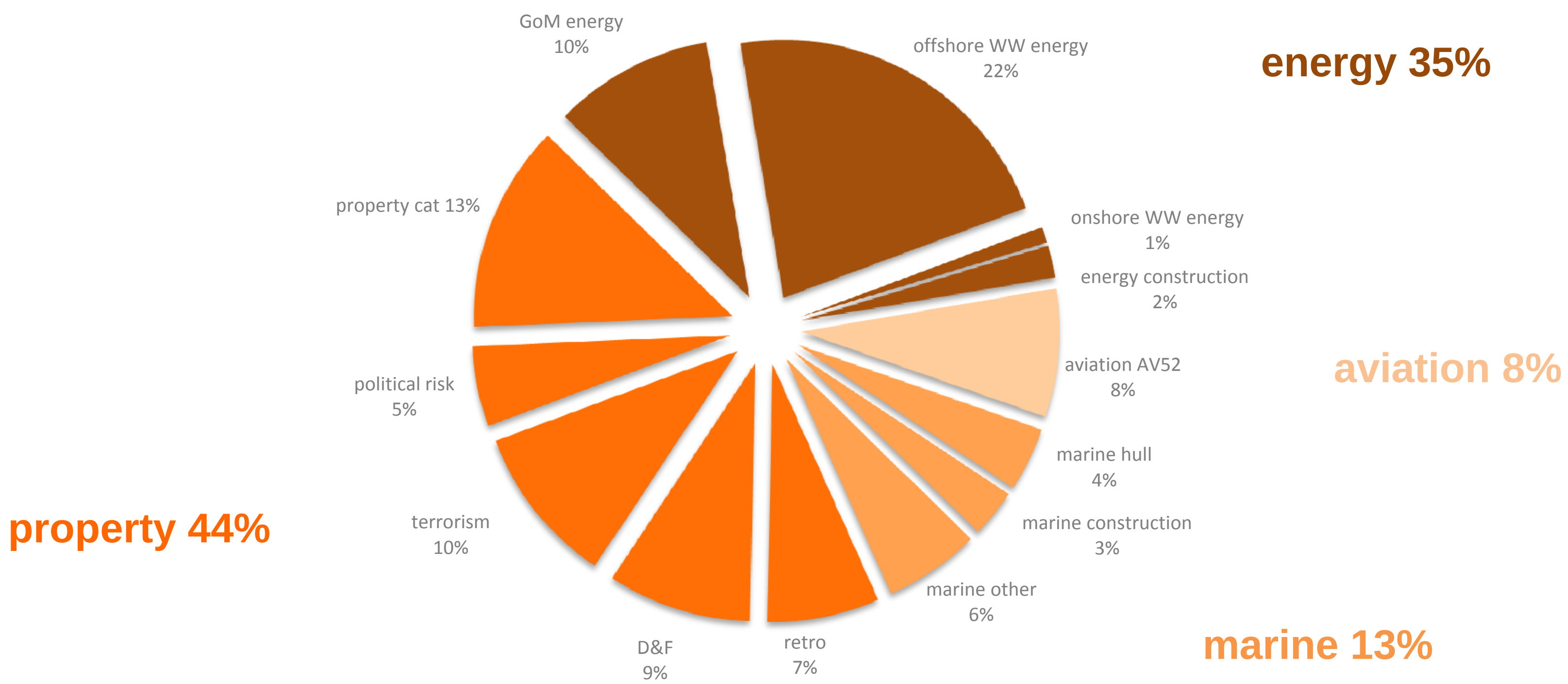
Financial targets are achieved by concentrating on a small number of key priorities



underwriting comes first

79% insurance 21% reinsurance

32% nat-cat exposed 68% other



Based on business forecast as of 13 July 2011. Estimates could change without notice in response to several factors, including trading conditions.

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underwriting comes first

appropriate mix of technology and culture

Culture and techniques

- Daily underwriting call – management awareness
- Collegiate approach – cross class/many sets of eyes
- Multiple pricing assessments/soft factors
- No premium targets
- Underwriters compensated on Group RoE
- Close involvement of actuarial and modelling departments

BLAST proprietary model

- Remetrica platform
- Lancashire custom features
- RMS 11 implemented
- Blends multiple types of risk
- Optimisation capability to improve risk:return of portfolio
- Fortnightly review with underwriter's, finance, risk & modelling departments

Reinsurance: buy risk protection to protect volatility in earnings and catastrophe protection on D&F

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underwriting comes first

trading outlook: catastrophe positive **no broad market turn - yet**

Property	Insurance	RMS 11 positively impacting renewals for catastrophe driven accounts. Seeing a selection international catastrophe exposed accounts with increased rates
	Reinsurance	International property catastrophe rates Japan/NZ/Australia at 1 July up significantly. Retro increasingly distressed, benefits Accordian vehicle, RPI 150-300%. Further hardening expected from RMS 11 implementation, accumulation of losses and increased buying both vertically and horizontally
	Terror/political risk	Rates generally flat, seeing some pressure upwards for MENA territories, continued focus on attractive benign risks. Political risk underwritten with extreme caution
Marine	Hull, war, P&I	Market stable. Attractive niche opportunities
Aviation	AV52	Market still seeing downward pressure. Risk profile remains attractive and passenger numbers picking up

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trading outlook: energy modestly positive

Energy	Gulf of Mexico	Stable market outlook. Drilling was picking up, although demand for Lancashire GOM wind product largely unaffected by drilling slowdown. Looking to lock in pricing with a limited number of selected longer term contracts at historic highs
	WW offshore	Rating environment remains positive, backbone stiffened following Gryphon loss. Seeing 5-10% rate increases Any further price movement will be driven by reinsurers at 1 January 2012, but need to address retention levels to cause further hardening Recent Lloyds franchise board edict on liability putting pressure on what is already a very tight market. If rating pressure sustained, may become an area of opportunity
	WW onshore	Market now stable following a run of medium to large losses. Prices increasing on loss affected business and capacity limits placements

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Transitional market – Retro & property catastrophe

Lancashire	Competition
Marginal pricing Portfolio optimisation	**Portfolio optimisation** Marginal pricing
⇩	⇩
Retain more capital Hard market retro Write diversified portfolio Nimble property cat opportunities (back ups)	Status quo Cocoon mentality Withdrawal of capacity in loss affected areas Stick to product

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What could drive change?

Higher demand for cover

Capital Shortfalls
RMS11 US/Europe
Loss history/PML calibrations
Reserve shortfalls
Fear
Rating agency pressure
Solvency 2

Restricted supply of capital

Poor results
Trading below book
Closed debt markets
Nervous investors
Trapped capital
Cost of retro

Risks: Profitable H2 2011, global recession

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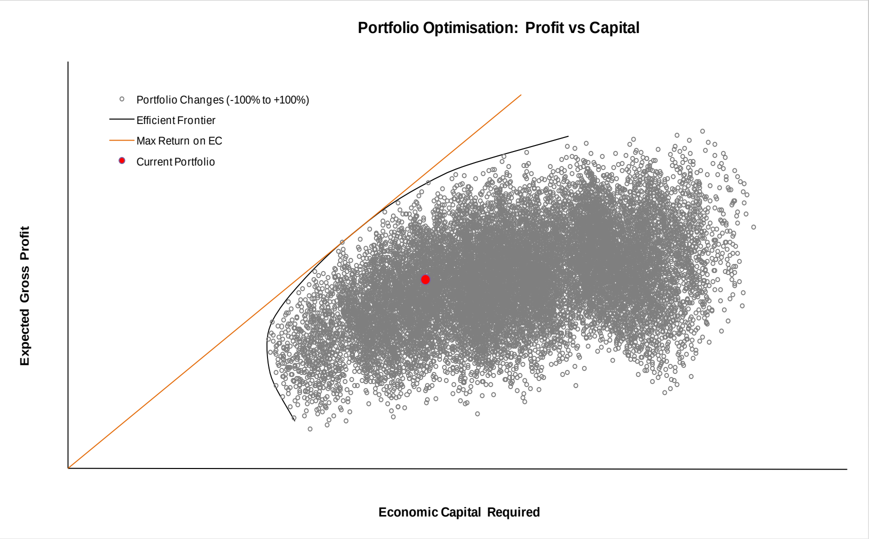
effectively balance risk and return

enhancing sophistication of portfolio efficiency

Optimisation process

1. Establish RoC per class
2. Run optimisation scenarios in BLAST: establish theoretically most efficient portfolio risk: return frontier
3. Adapt outcomes for the real-world: choose an efficient portfolio that considers all relevant factors

Example scenarios



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Zones	Perils	100 year return period $M (% of capital)[1]	250 year return period $M (% of capital)[1]
Gulf of Mexico	Hurricane	252 (17%)	369 (24%)
California	Earthquake	101 (7%)	190 (13%)
Pacific Northwest	Earthquake	35 (2%)	123 (8%)
Pan-European	Windstorm	110 (7%)	174 (12%)
Japan	Earthquake	180 (12%)	270 (18%)
Japan	Typhoon	111 (7%)	234 (15%)

[1] As at 1 July 2011

The company has developed the estimates of losses expected from certain natural catastrophes using commercially available catastrophe models in conjunction with its proprietary BLAST model. These estimates include assumptions regarding the location, size and magnitude of any event, the frequency of events, the construction type and damageability of property in a zone, and the cost of rebuilding property in a zone, among other assumptions. Return period refers to the frequency with which losses of a given amount or greater are expected to occur.

Net loss estimates are before income tax, net of reinstatement premium, and net of retrocessional recoveries. The estimates set forth are based on assumptions that are inherently subject to significant uncertainties and contingencies. These uncertainties and contingencies can affect actual losses and could cause actual losses to differ materially from the loss estimates expressed above. In particular, modelled loss estimates do not necessarily accurately predict actual losses, and may significantly misestimate actual losses. Such estimates, therefore, should not be considered as an accurate representation of actual losses. Investors should not rely on the foregoing information when considering investing in the company. The company undertakes no duty to update or revise such information to reflect the occurrence of future events.

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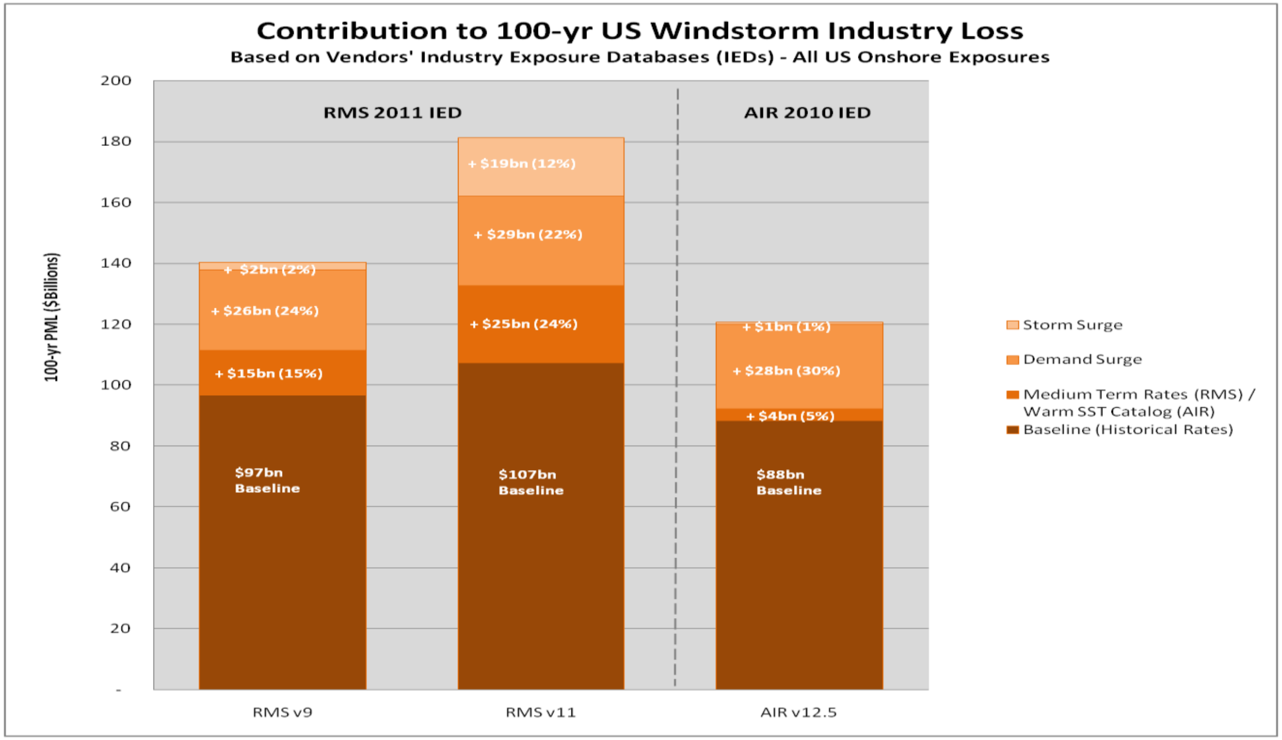

- Using the same exposure database, RMS and AIR give similar baseline results at the Industry Level
- We note two major differences between these models:
  - Medium term rates: RMS assumes that more hurricanes are likely to develop in the short run than AIR, to account for factors such as warmer Sea Surface Temperature;
  - Storm Surge: RMS models more damages coming from storm surge hazard and also assumes that a greater proportion of it will be paid by the industry compared to the default AIR industry curve.

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Lancashire response to RMS 11

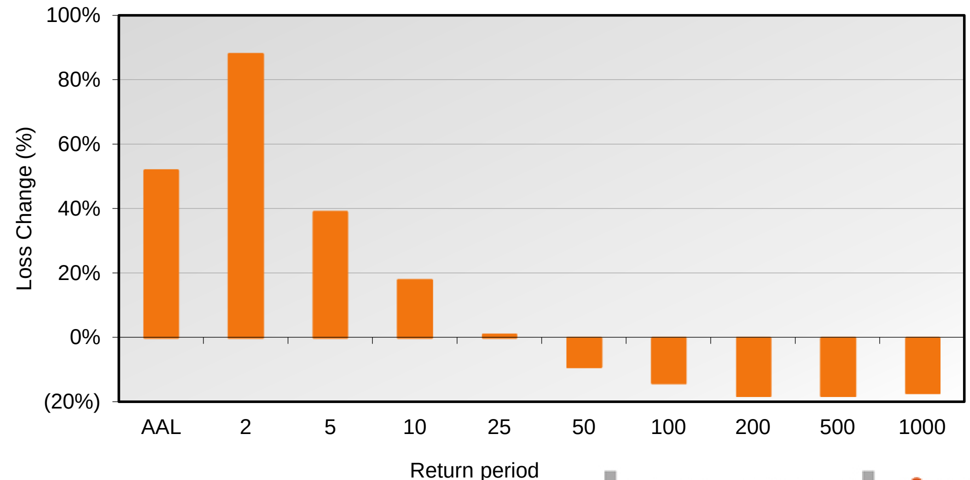
US wind

- Dialogue with RMS and AIR began late 2008 for offshore risks and October 2010
- Identified potential highly impacted RMS 11 accounts in Q4 2010 and modelled them to identify key drivers of capital and least efficient drivers of capital
- Communicated inefficient accounts to brokers well ahead of renewal to manage relationships
- North east aggregate limits reduced by approx 25%
- Exited Florida catastrophe private insurance market
- Case study: D&F accounts identified: 32, overall PML reduction 40%, overall premium impact -4.9%

European wind

- Increases at short return period
- Decreases at long return period

Europe, all LOBs, gross loss[1]



[1] Industry data from RMS

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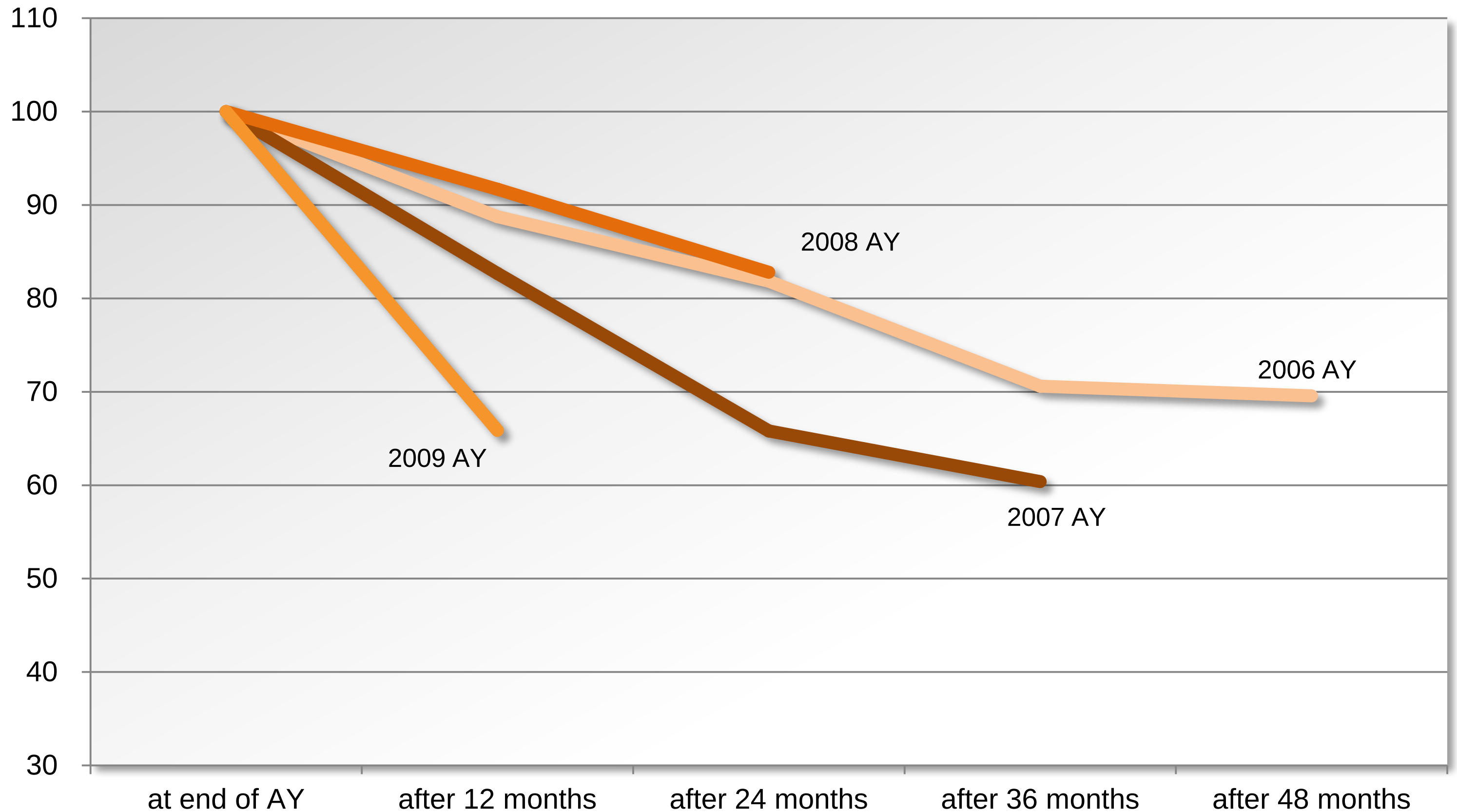
consistent positive reserve development

(net reserves at end of accident year = index of 100)



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further favourable development in 2011 of $96.9M

Independent reserve study $36.9m	Chile earthquake release $10.0m	Political risk release $9.3m	Non-specific cross-line releases $40.7m

- Independent reserve study performed
  - Faster reporting patterns
  - Lower initial attritional loss picks going forward
- How does Lancashire reserve?
  - Attrition – industry data plus own experience
  - Large losses – best estimate, using loss adjuster expertise
  - Catastrophe events
    - best estimate
    - ground up review of exposed accounts
    - estimate of industry loss and market share

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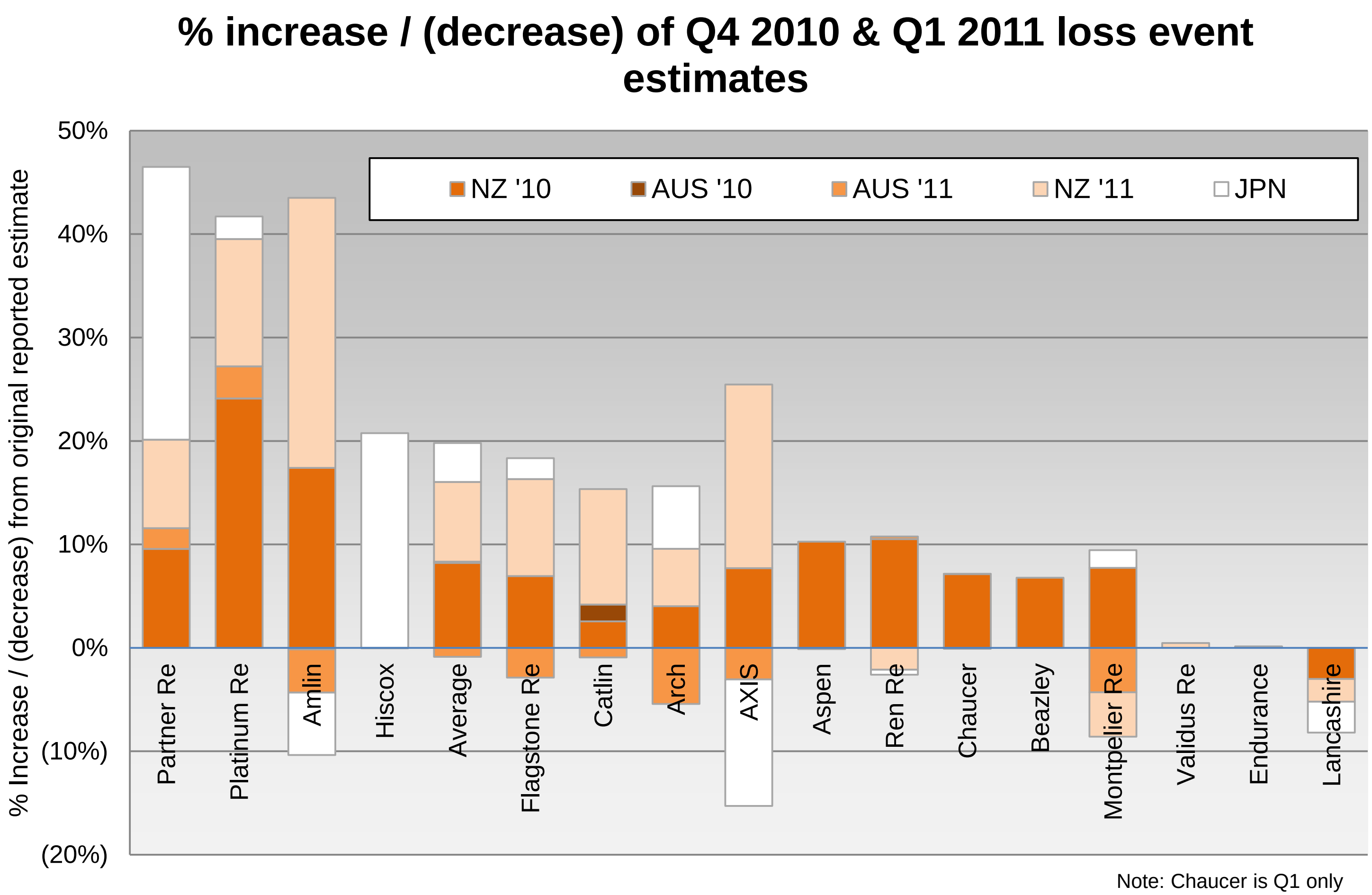
effectively balance risk and return



Benefit of UMCC, risk selection and strong relationships

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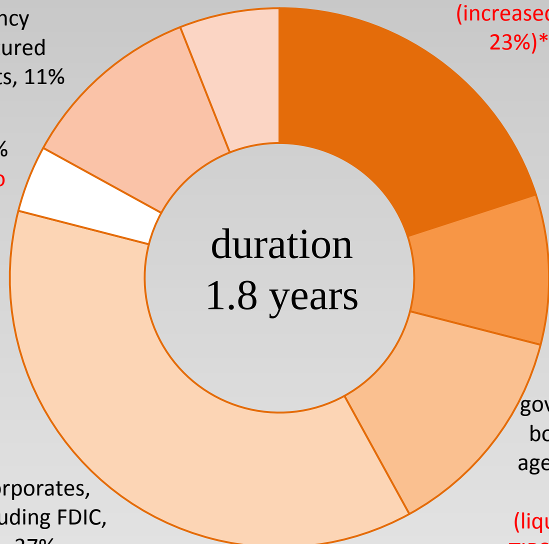
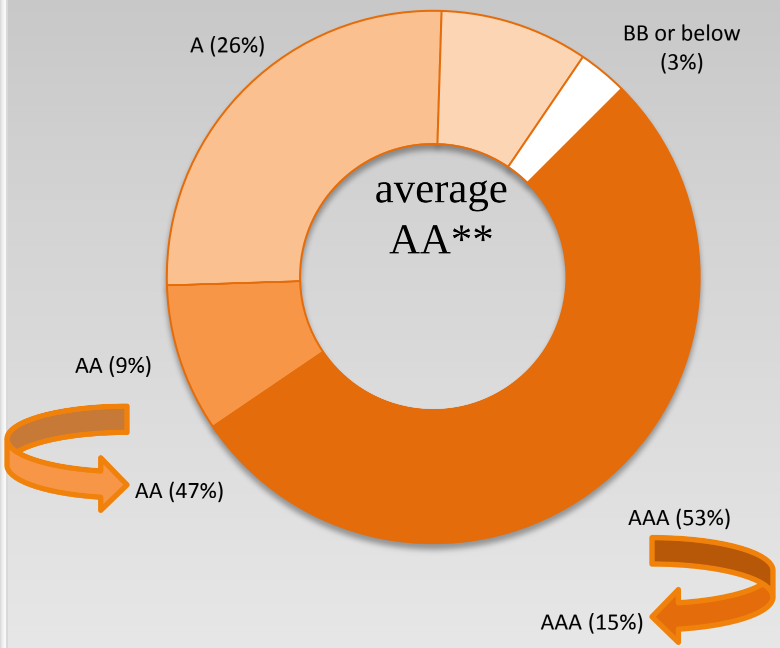
investments rule #1: 'Don't lose your money'

asset allocation



* *Changes post June 30, 2011.*

credit quality



** *No changes to average credit rating despite the downgrade of the U.S. Treasury*

Total portfolio at 30 June 2011 = $2,104M

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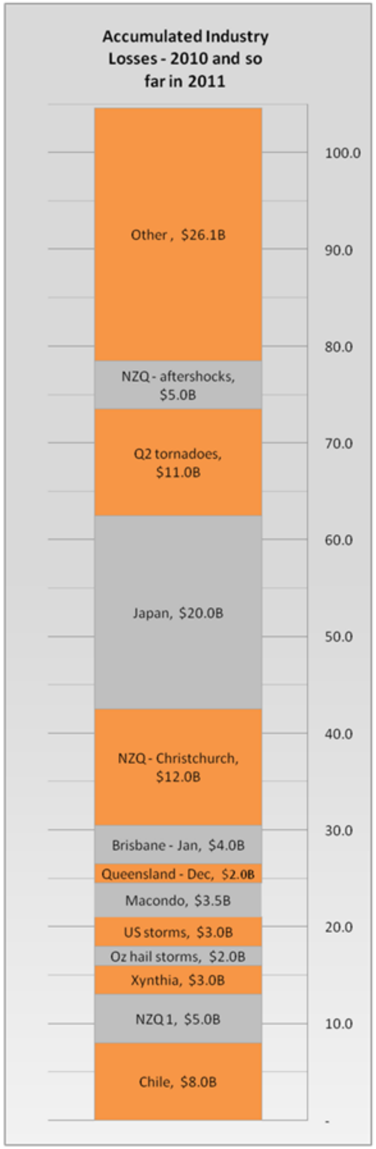
operate nimbly through the cycle

accordian outlook excellent

- **Rationale**
  - Accumulation of catastrophe events
  - Exhaustion of programme limits
  - Implementation of RMS 11 US & Europe
- **Product offering**
  - Worldwide product attaching around approximately $15B for international catastrophe & $35B for US catastrophe
  - Up front fee 4% with 13.5% profit commission
  - Capital draw down feature to maximise market opportunities and investor returns
  - Ability to write approximately $345M of fully collaterised limit, $50m sold to date
- **Risk to product business model**
  - None. No business = capital not called



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change in tax residency

Why?

- UK government aim to increase competitiveness of UK tax regime
- Change in UK Controlled Foreign Corporation rules
- Reduces operating risk, no impact on corporation tax liability
- Increases management flexibility, ability to make decisions even faster

How?

- Applied to HMRC for exemption (received) to 31 December 2014
- HMRC drafting legislation for permanent exemptions in progress

When?

- Expected from 1 January 2012

What stays the same?

- Holding company domicile (Bermuda)
- Lancashire Bermuda operating platform

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proven record of active capital management

	2007 $M	2008 $M	2009 $M	2010 $M	H1 2011 $M	Total $M
Share repurchases	100.2	58.0	16.9	136.4	-	311.5
Special dividends[1]	239.1	-	263.0	264.0	-	766.1
Ordinary dividends – interim[1]	-	-	10.5	9.4	9.6[2]	29.5
Ordinary dividends – final[1]	-	-	-	20.8	18.9	39.7
Total	**339.3**	**58.0**	**290.4**	**430.6**	**28.5**	**1,146.8**
Average price of share repurchase [3]	102.2%	88.4%	98.5%	97.9%	n/a	97.6%
Weighted average dividend yield[1]	15.8%	n/a	16.8%	16.4%	1.0%	n/a

117.2% of IPO capital has been returned to shareholders[2]

[1] Dividends included in the financial statement year in which they were recorded

[2] Interim dividend of $9.6M authorised 26 July 2011

[3] Ratio of price paid compared to book value

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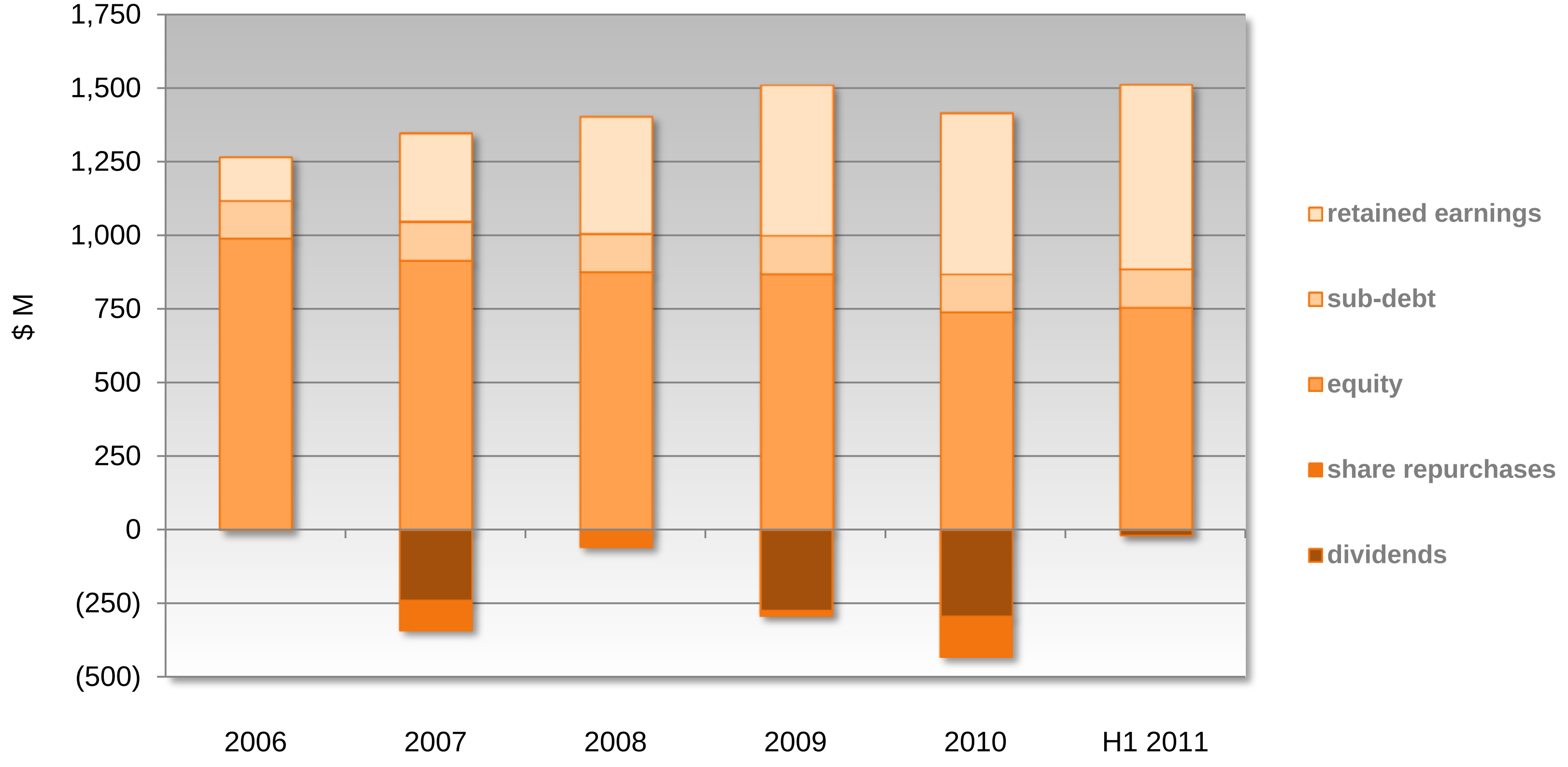
constant adjustment of capital



strategy for long-term success

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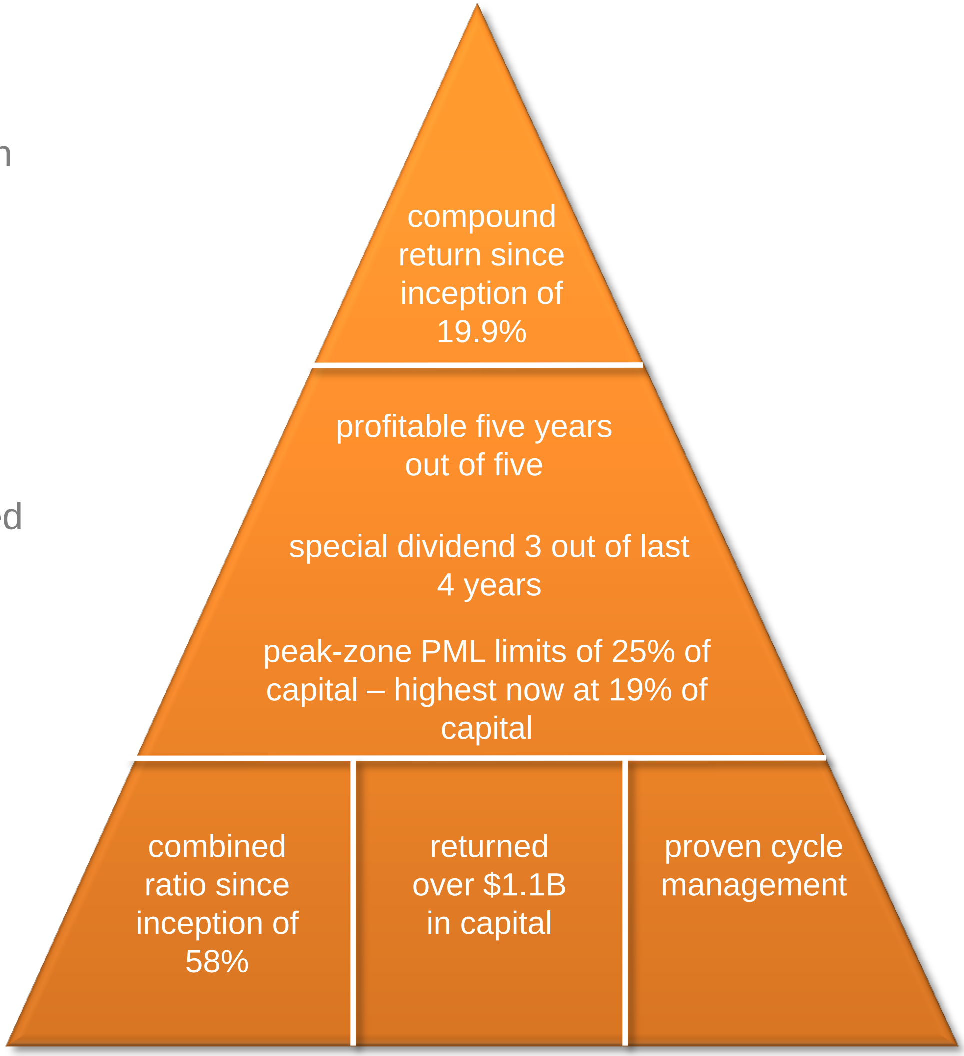

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