lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation
Q3 2011

November 2011
www.lancashiregroup.com

safe harbour statements

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING WITHOUT LIMITATION, STATEMENTS CONTAININ 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, STANDARD & POOR'S, MOODY'S 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 FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES 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; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CURRENT CFC REGIME AND CONTAINED IN THE UK FINANCE ACT 2011 REMAINS IN FORCE FOR THE PERIOD INTENDED; THE UK GOVERNMENT BRINGS BEFORE PARLIAMENT LEGISLATION CONTAINING A SUITABLE NEW CFC REGIME IN LINE WITH THE PROPOSALS OUTLINED IN THE CONSULTATION DOCUMENT; THE LEGISLATION AND NEW CFC REGIME INCLUDE A SUITABLE EXCLUSION RELATING TO LARGE RISKS WRITTEN IN THE INTERNATIONAL INSURANCE MARKET, ANY CHANGE IN UK GOVERNMENT OR THE UK GOVERNMENT POLICY DOES NOT IMPACT THE TEMPORARY PERIOD EXEMPTION, THE ANTICIPATED TERRITORIAL BUSINESS EXEMPTION OR OTHER ASPECTS OF THE NEW CFC REGIME; THE IMPLEMENTATION OF THE CHANGE IN TAX RESIDENCE DOES NOT NEGATIVELY IMPACT STAKEHOLDERS OF LANCASHIRE IN A MATERIAL WAY; AND CHANGES IN OTHER GOVERNMENTAL REGULATIONS OR TAX LAWS IN OTHER JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS. 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 LOSS 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.

lancashire
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an established and successful market leader

Lancashire is a global provider of specialty insurance products operating in Bermuda and London. 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 19.8% since inception
- Total shareholder return of 279.9%[1] since inception in late 2005, compared with 13.6%[1] for S&P 500, 33.6%[1] for FTSE 250 and 6.6%[1] for FTSE 350 Insurance Index
- Returned 132.7% of original share capital raised at inception or 84.2% of cumulative comprehensive income
- Traded on London Stock Exchange (LRE.L) with market capitalisation of $1.96b[2]
- Member of FTSE 250 Index

[1] Shareholder return through 8 November 2011. LRE and FTSE returns in USD terms.

[2] As at 8 November 2011. Source: Bloomberg

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Q3 2011 headlines

- **Combined ratio of 43.5% (YTD 60.7%)[1]**
  - Reported loss ratio of 12.2% (YTD 29.3%); accident year loss ratio of 27.7% (YTD 57.5%)
  - Combined ratio since inception of 57.3%[1]
  - New Zealand / Australia catastrophe loss of $21.3m net of RIP
  - Reserve of $76.1m (gross & net) for Japan quake, $75.1m after RIP; contributes 17.4% to the YTD reported loss ratio
  - US tornadoes, Irene, Danish floods and Texas wildfires losses total $3.8m
- **Total investment return of negative 0.6% (YTD 1.2%)**
  - Loss driven by equity and emerging market debt volatility
  - Positive total return in 20 out of 23 quarters since inception
- **Growth in fully converted book value per share, adjusted for dividends, of 10.4%[2]**
  - Compound annual return since inception of 19.8%[2]
- **Active cycle management**
  - No share repurchases – strong multiple & improving underwriting conditions
  - RMS 11 fully integrated and steps already taken to rebalance portfolio
  - 2011 special dividend of $0.80 per share, authorised 3 November 2011
  - Further cessions to Accordion sidecar vehicle

[1] Including G&A.
[2] Through to 30 September 2011.

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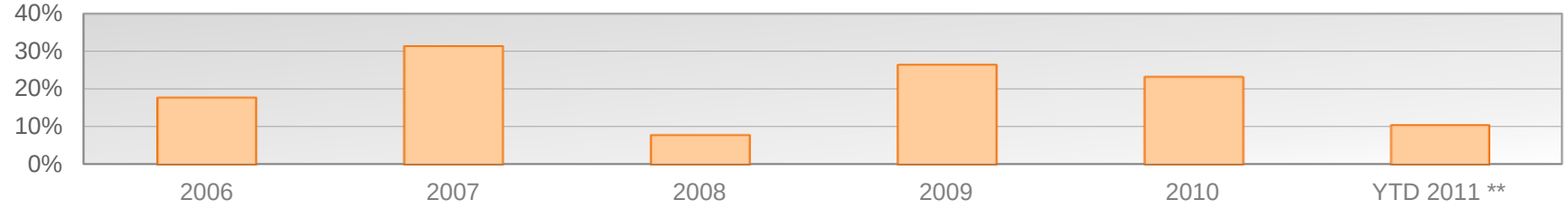
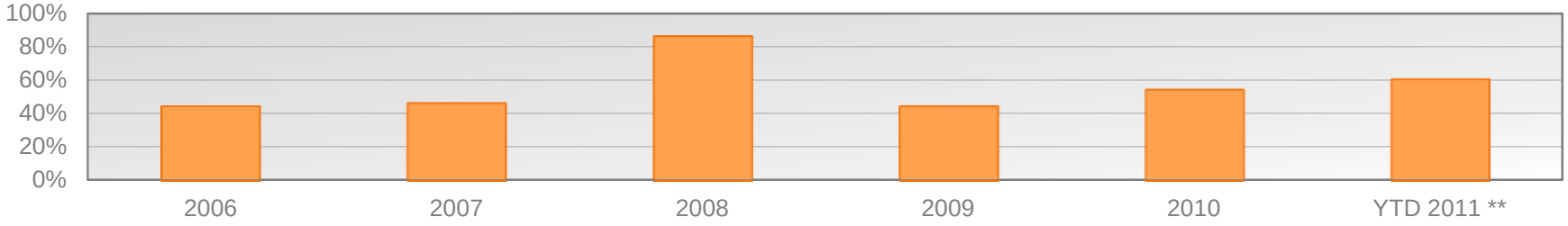
our consistent and excellent track record

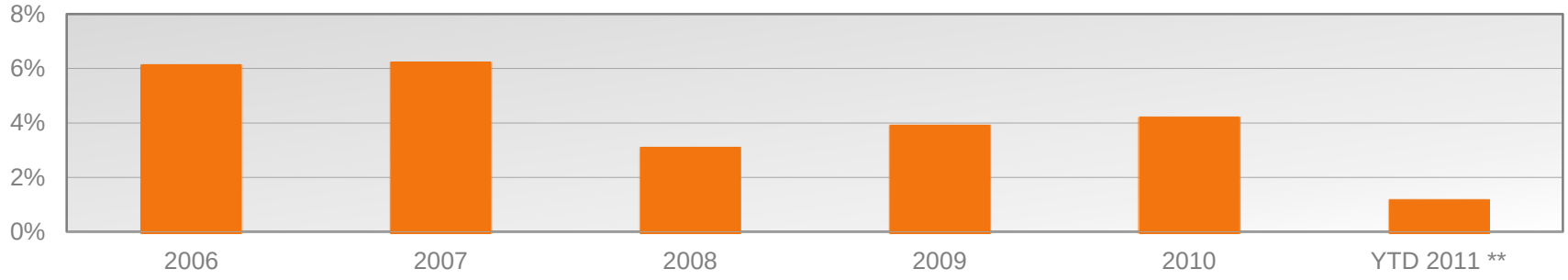
RoE * since inception



combined ratio since inception



total investment return since inception



* RoE is defined as growth in fully converted book value per share, adjusted for dividends.
** For the period ending 30 September 2011.

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consistency: exceptional underwriting performance

	2006	2007	2008	2009	2010	5 year average [1]	ytd 2011 [2]
loss ratio	16.1%	23.9%	61.8%	16.6%	27.0%	30.9%	29.3%
acquisition cost ratio	14.3%	12.5%	16.4%	17.8%	17.3%	15.8%	18.5%
expense ratio	13.9%	9.9%	8.1%	10.2%	10.1%	10.0%	12.9%
combined ratio	44.3%	46.3%	86.3%	44.6%	54.4%	56.7%	60.7%
sector combined ratio [3]	76.1%	76.6%	88.0%	78.1%	87.9%	81.7%	118.2%
Lancashire out-performance	31.8%	30.3%	1.7%	33.5%	33.5%	25.0%	57.5%

[1] 5 year average based on 2006 to 2010 reporting periods. Lancashire ratios weighted by annual net premiums earned. Annual sector ratios are weighted by annual net premiums earned for the companies reported over five years.

[2] For the period ending 30 September 2011.

[3] Sector includes Amlin, Axis, Beazley, Brit, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus for the years 2006 to 2010. In 2011 Brit was replaced by Aspen. Results to 30 September 2011 for Amlin, Beazley and Catlin not available at time of report. Source: Company reports.

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consistency: strong investment performance

	2006	2007	2008	2009	2010	5 year cumulative annualised return [3]	ytd 2011 [4]
total return [1]	6.1%	6.2%	3.1%	3.9%	4.2%	4.7%	1.2%
sector total return [2]	4.7%	5.7%	(2.8%)	6.4%	3.9%	3.5%	1.4%
Lancashire out-performance	1.4%	0.5%	5.9%	(2.5%)	0.3%	1.2%	(0.2)%

[1] Total investment return = [net investment income + net realised gains or losses + impairments + change in unrealised gains or losses] divided by average invested assets.

[2] Sector includes Amlin, Axis, Beazley, Brit, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus for the years 2006 to 2010. In 2011 Brit was replaced by Aspen. Source: Company reports.

[3] 5 year cumulative annualised return based on 2006 to 2010 reporting periods.

[4] For the period ending 30 September 2011. Returns are YTD for all of sector except Amlin, Beazley and Catlin where ytd investment returns are through 30 June 2011.

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consistency: excellent return on equity[1]

	Lancashire	sector [2]	S&P 500
2006	17.8%	27.4%	15.8%
2007	31.4%	23.3%	5.5%
2008	7.8%	2.9%	(37.0%)
2009	26.5%	26.1%	26.5%
2010	23.3%	17.0%	15.1%
ytd 2011 [3]	10.4%	(5.9%)	(8.69%)
compound [4]	19.8%	15.7%	2.28%

[1] Return on Equity = growth in fully diluted/converted book value per share, adjusted for dividends.

[2] Sector includes Amlin, Axis, Beazley, Brit, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus for the years 2006 to 2010. In 2011 Brit was replaced by Aspen. Source: Company reports. Based on reported growth in fully converted or fully diluted book value per share, plus dividends. Methods of calculation can vary between companies.

[3] For the period ending 30 September 2011, except for Amlin, Beazley, Catlin and Hiscox, which are through 30 June 2011.

[4] Compound annual return from inception through 30 September 2011. The S&P 500 figures include effect of reinvested dividends.

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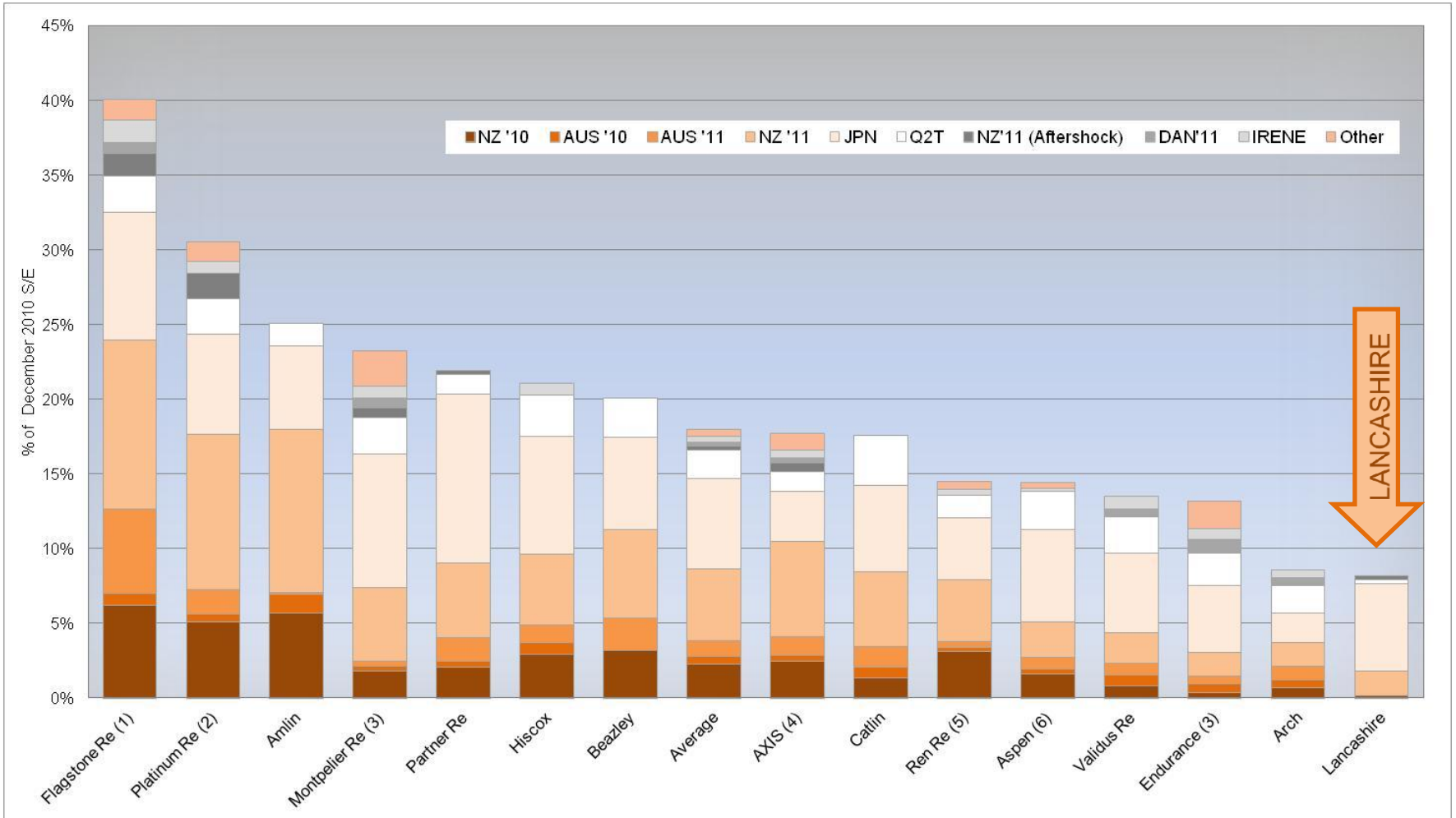
performance in recent cat events

Q4 2010 to Q3 2011 loss events as a % of 2010 shareholders equity



Other includes: (1) Melbourne floods (2) Attritional for Danish floods, Texas wildfires & US wind events (3) Texas wildfires & aggregate cover (4) Tropical Storm Lee & aggregate cover (5) Aggregate cover (6) US, Scandinavian, Asian weather related events

Still to report: Amlin, Beazley, Catlin

As of 8 November 2011. Source: Company reports and Aon Benfield

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strategy for long-term success

our goal

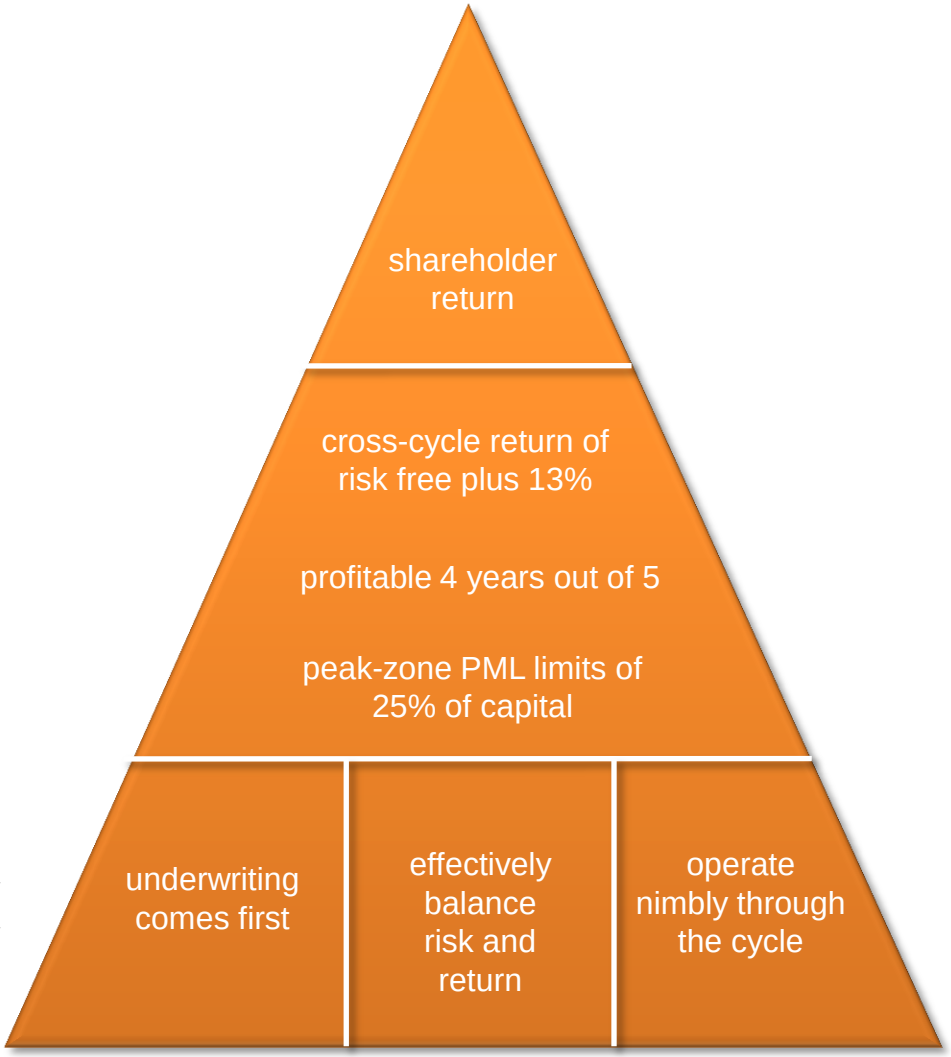
To provide an attractive risk-adjusted return to shareholders over the long-term

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



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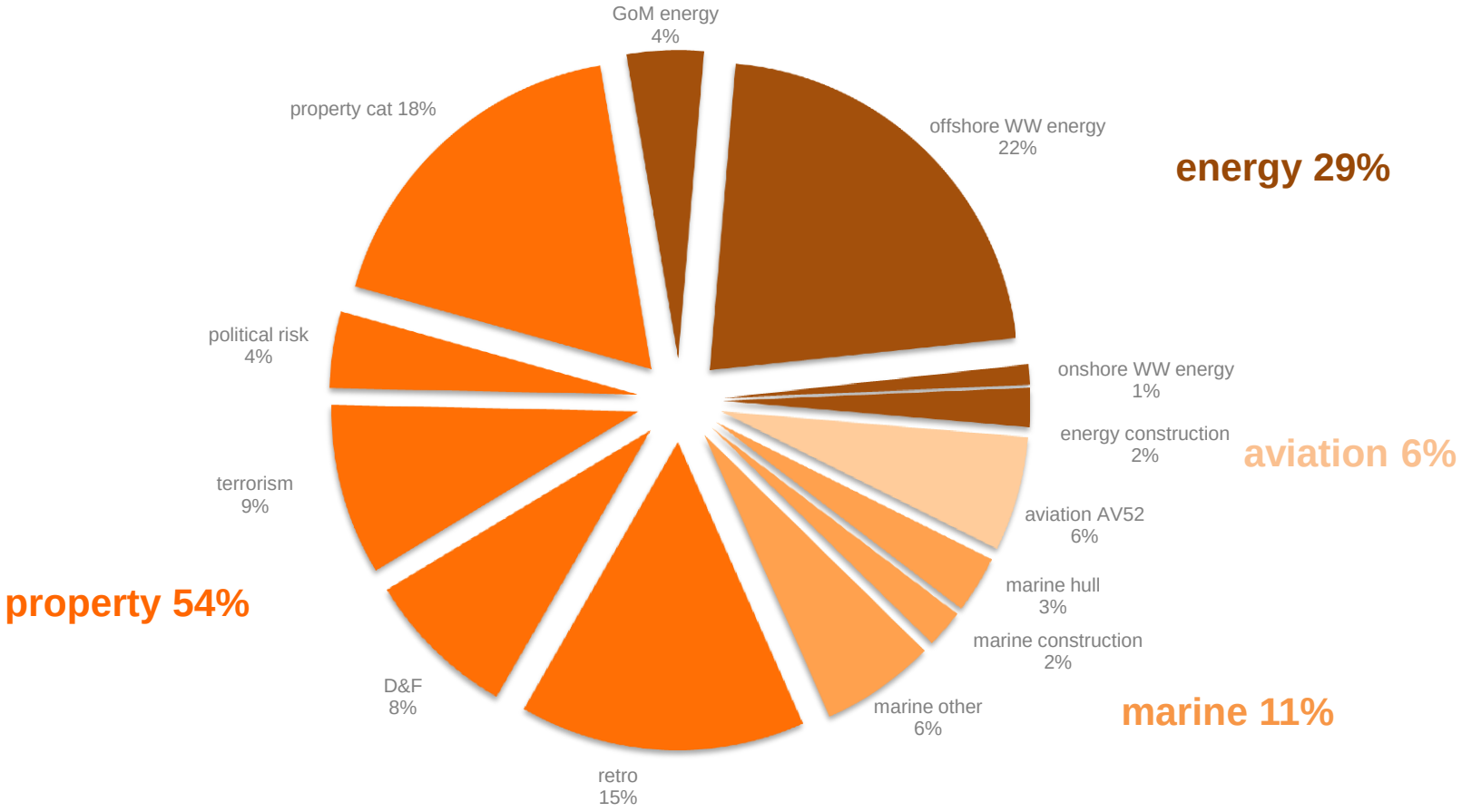
underwriting comes first

64% insurance 36% reinsurance 40% nat-cat exposed 60% other



Based on 2012 business plan as of 3 November 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 & modeling departments

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

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trading outlook: catastrophe positive no broad market turn - yet

Property	Insurance	RMS 11 positively impacting renewals for catastrophe driven accounts. Seeing a selection of international catastrophe exposed accounts with increased rates.
	Reinsurance	International property catastrophe rates Japan/NZ/Australia up significantly, claims creep and Thai floods adding further pressure. Retro increasingly distressed benefits Accordian vehicle, RPI 150-300%. Further hardening expected from RMS 11 implementation, accumulation of further losses and increased buying both vertically and horizontally.
	Terrorism/ 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 is 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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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

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

Risks: Profitable YTD 2011, global recession

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effectively balance risk and return

zones	perils	100 year return period $m (% of capital) [1]	250 year return period $m (% of capital) [1]
gulf of mexico	hurricane	251 (16%)	369 (24%)
california	earthquake	99 (6%)	189 (12%)
pacific northwest	earthquake	36 (2%)	123 (8%)
pan-european	windstorm	110 (7%)	167 (11%)
japan	earthquake	171 (11%)	266 (17%)
japan	typhoon	119 (8%)	250 (16%)

[1] As at 1 October 2011.

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, AMONG OTHER ASSUMPTIONS. 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 UPDATE OR REVISE SUCH INFORMATION TO REFLECT THE OCCURRENCE OF FUTURE EVENTS.

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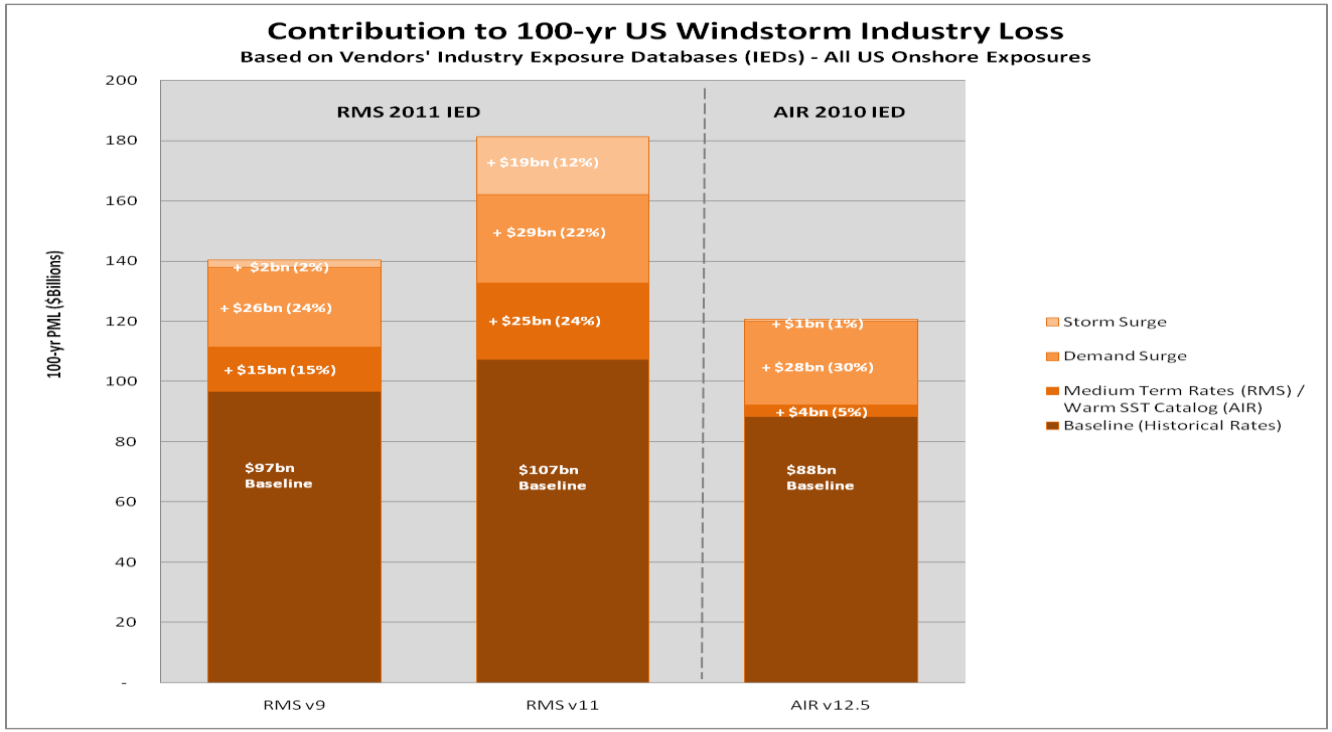

- Using the same exposure database, RMS and AIR give similar baseline results at the industry level
- We note two major differences between these models:
  - Medium term rates: RMS assumes that more hurricanes are likely to develop in the short run than AIR, to account for factors such as warmer sea 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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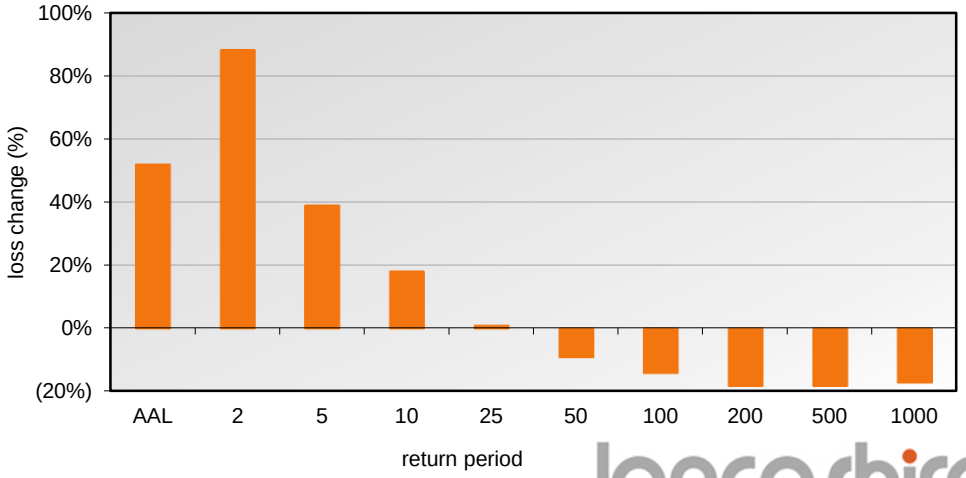
Lancashire response to RMS 11

- US wind
  - Dialogue with RMS and AIR began late 2008 for offshore risks and October 2010 for onshore
  - 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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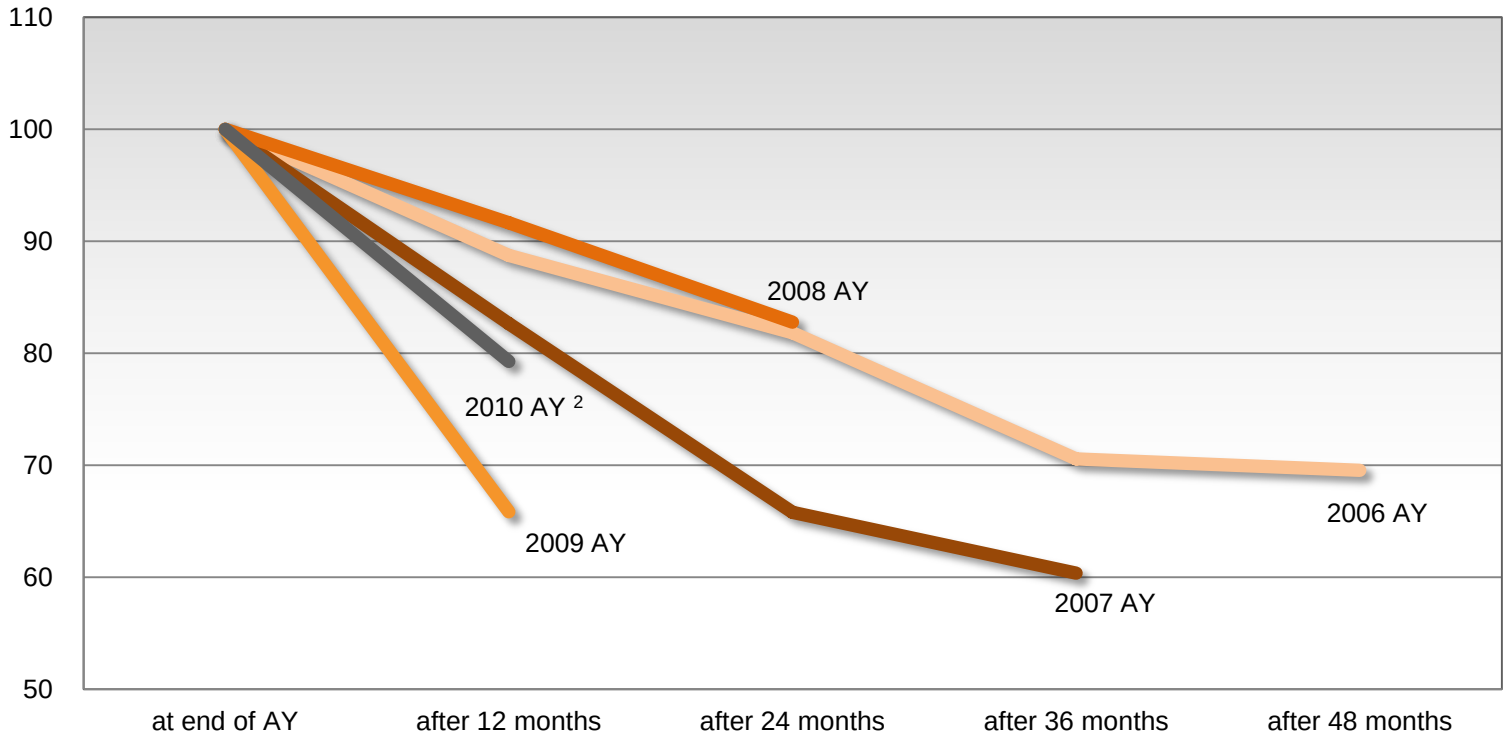
consistent positive reserve development [1]



- Further favourable reserve development in 2011 of $118m, $36.9m in Q1 from an independent reserve study to begin to incorporate our own experience over industry factors

[1] Net reserves at end of accident year = index of 100.
[2] 2010 AY development is for the 9 months to 30 September 2011.

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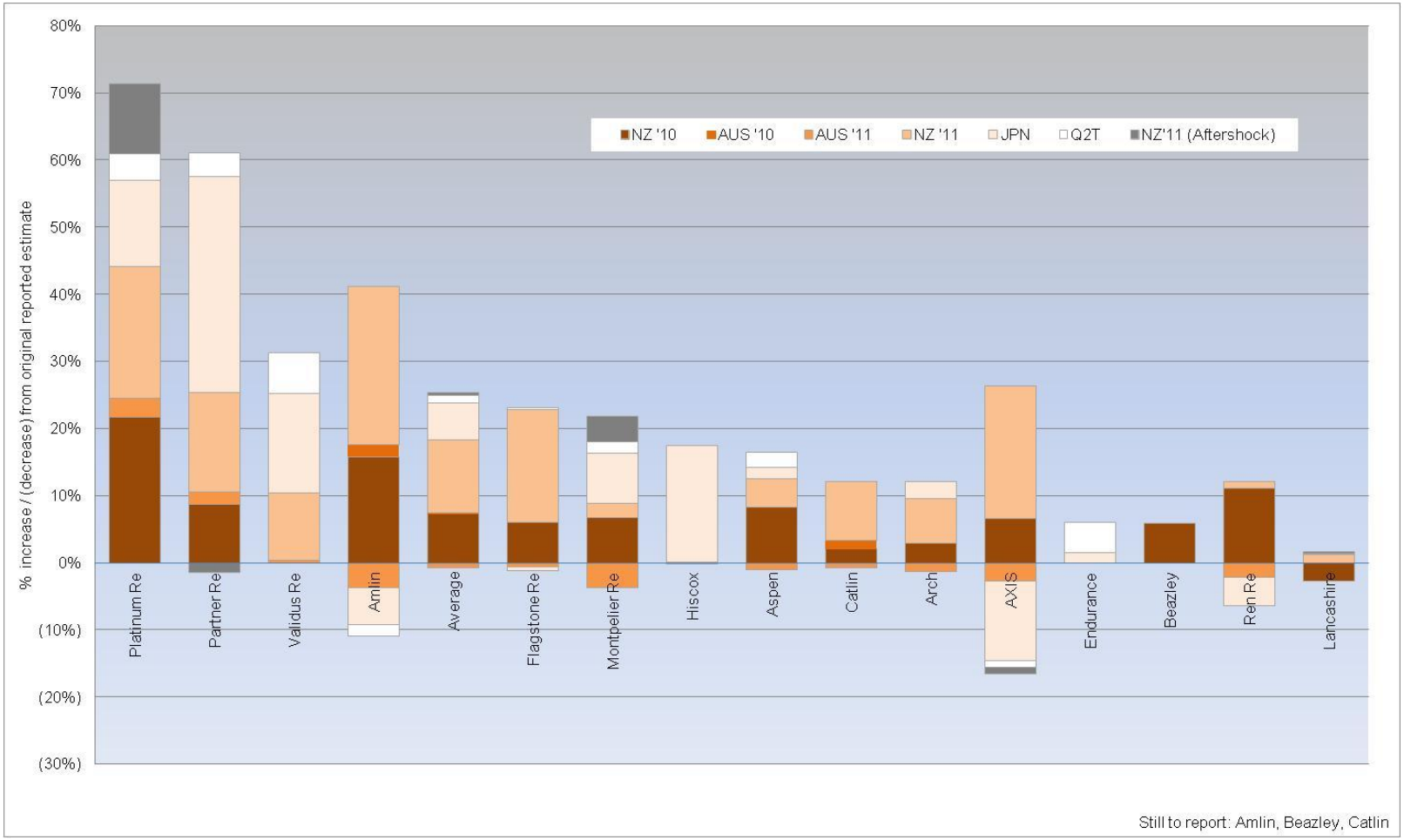
% increase / (decrease) of Q4 2010 & H1 2011 loss event estimates



Benefit of UMCC, risk selection and strong relationships

As of 8 November 2011. Source: Company reports

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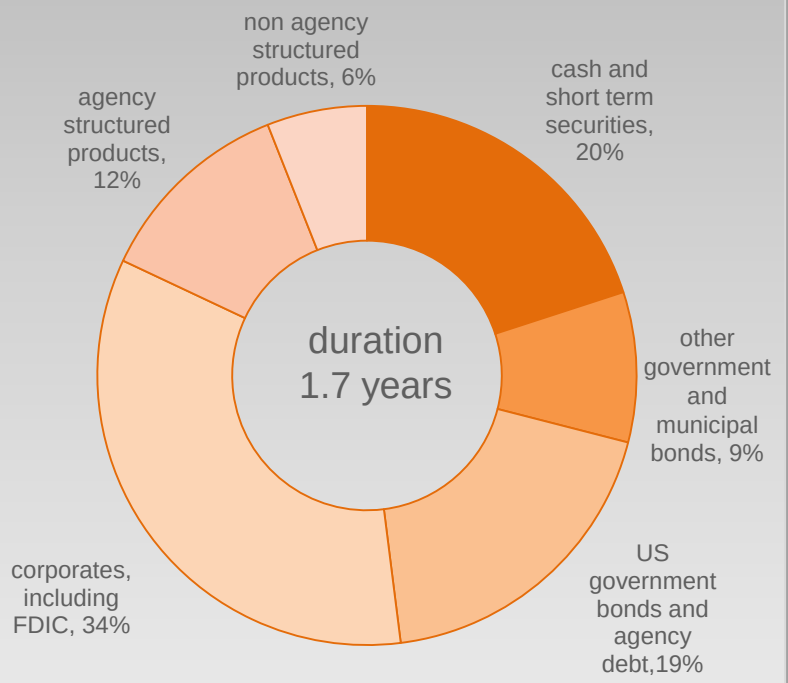
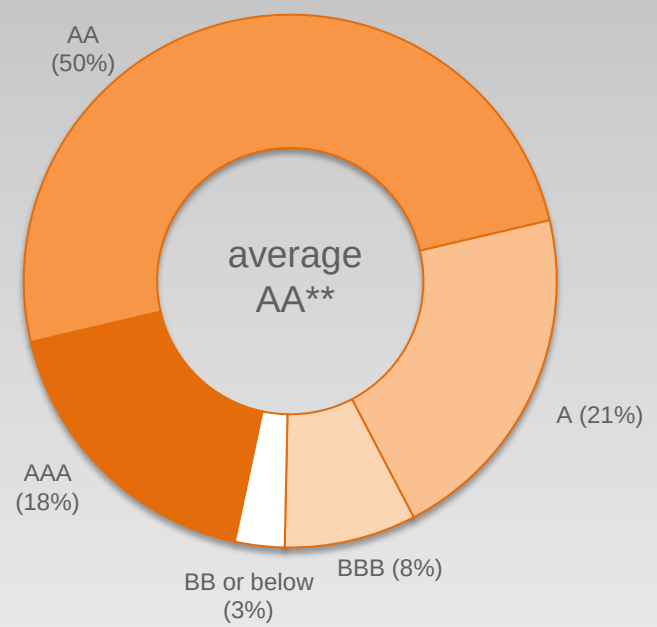
investments rule #1: 'Don't lose your money'

asset allocation



* Equity portfolio liquidated during Q3 2011.

credit quality



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

- Total portfolio at 30 September 2011 = $2,166m

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

- Our market outlook remains negative:
  - Continued concerns about Europe and it's potential contagion;
  - Continued elevated volatility; and
  - Continued weak economic data
- Therefore, preservation of capital is paramount and we will keep a very *low risk* profile:
  - Maintain reduced investment portfolio duration, despite low yields;
  - Reduce exposure to risk assets:
    - ✓ Liquidated equity portfolio
    - ✓ Reduced foreign currency exposure in emerging market debt portfolio; and
  - Maintain diversification in cash holdings.
- Key statistics as of 30 September 2011 are:
  - Duration of 1.7 years
  - Credit quality of AA
  - Book yield of 2.0%
  - Market yield of 1.5%

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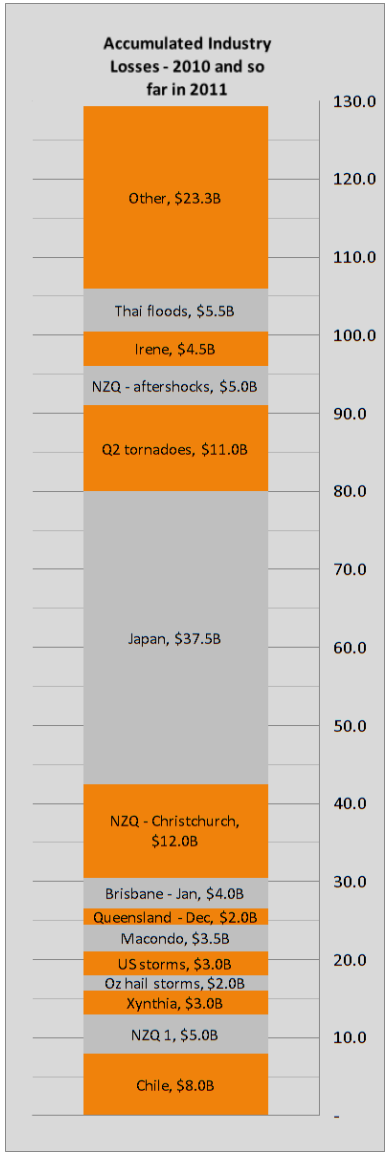
operate nimbly through the cycle

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% contingent profit commission
  - Capital draw-down feature to maximise market opportunities and investor returns
  - Ability to write approximately $345m of fully collaterised limit, approximately $50m sold to date
  - Lancashire have 20% equity in accordian
- **Risk to product business model**
  - None. No business = capital not called



As of 8 November 2011

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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 for Bermuda operations
  - Increases management flexibility, ability to make decisions even faster
- **How?**
  - Applied and received an exemption from HMRC to 31 December 2014
  - HMRC legislation for permanent exemptions is being drafted
- **When?**
  - Expected from 1 January 2012
- **What stays the same?**
  - Holding company domicile (Bermuda)
  - Bermuda operating platform

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operate nimbly through the cycle

proven record of active capital management

	2007 $m	2008 $m	2009 $m	2010 $m	ytd 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	152.0 [2]	918.1
ordinary dividends – interim [1]	-	-	10.5	9.4	9.5	29.4
ordinary dividends – final [1]	-	-	-	20.8	18.9	39.7
total	**339.3**	**58.0**	**290.4**	**430.6**	**180.4**	**1,298.7**
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%	6.7%	n/a

132.7% of IPO capital has been returned to shareholders [2]

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

[2] Special dividend of approximately $152.0 million authorised 3 November 2011.

[3] Ratio of price paid compared to book value.

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strategy for long-term success

our goal

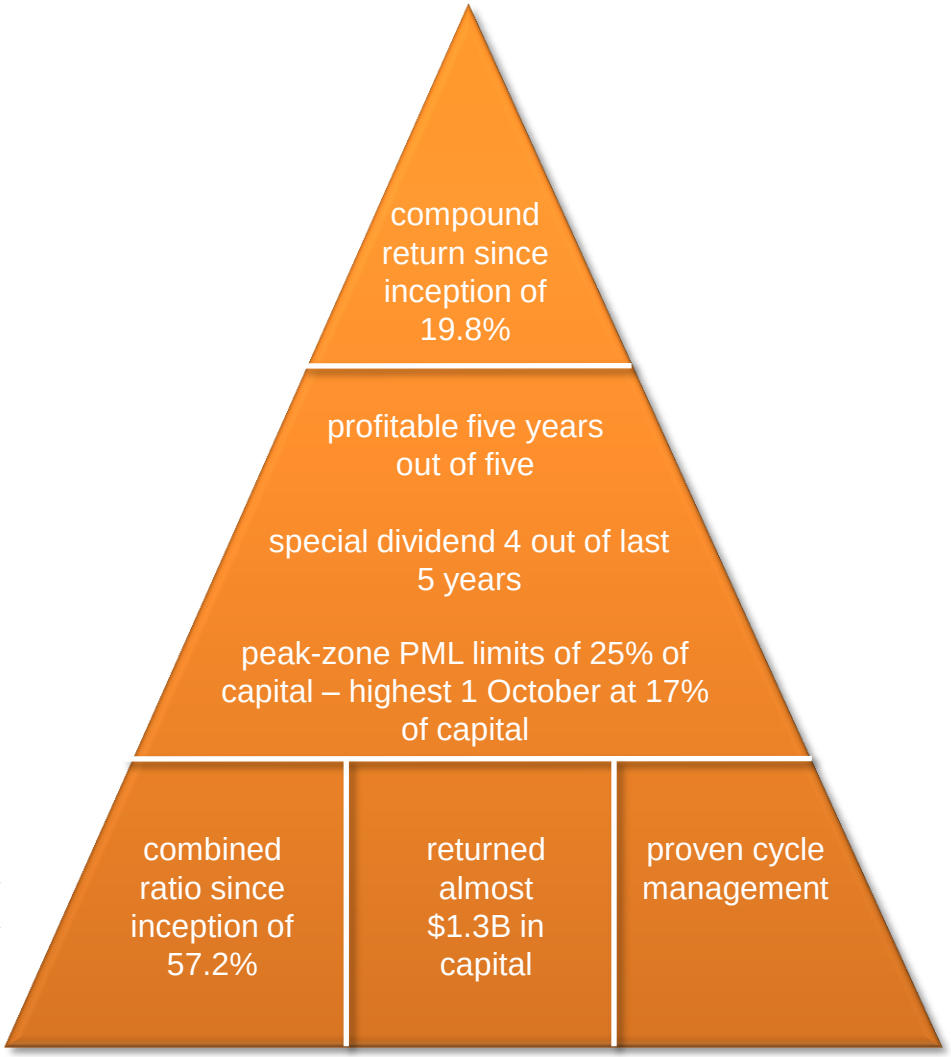
To provide an attractive risk-adjusted return to shareholders over the long-term

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



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