lancashire HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation
Q2 2012

September 2012
www.lancashiregroup.com

safe harbour statements

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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; THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS; 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 HOLDINGS LIMITED 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 UK TEMPORARY PERIOD EXEMPTION UNDER THE 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); ANY CHANGE IN THE UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME.

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an established and successful market leader

Lancashire is a provider of global specialty insurance and reinsurance 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 19.3% since inception
- Total shareholder return of 322.2%[(1)] since inception, compared with 25.1%[(1)] for S&P 500, 39.2 %[(1)] for FTSE 250 and 14.4%[(1)] for FTSE 350 Insurance Index
- To date have returned 135.7%[(2)] of original share capital raised at inception or 78.2%[(2)] of cumulative comprehensive income to 30 June 2012
- H1 combined ratio of 67.2%[(3)] and total investment return of 1.7% [(4)]
- H1 growth in fully converted book value per share, adjusted for dividends, of 7.1% [(4)]
- H1 property retrocession premiums increased by 246% compared to H1 2011

(1) Shareholder return through 30 June 2012. LRE and FTSE returns in USD terms.
(2) Includes the 2012 interim dividend of approximately $9.6 million that was declared on 24 July 2012
(3) Including G&A.
(4) For the six months ended 30 June 2012.

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key messages

- **Now over 6 years of consistent performance**
- **We have remained true to our business plan, while adapting to market changes**
  - London and Bermuda remain our underwriting centres
- **Demonstrated excellent risk management through significant number of worldwide catastrophe and risk losses**
  - Minimal losses from non-market moving events e.g. Hurricane Irene, Thai floods
  - Tohoku earthquake & tsunami losses well within expectations, in line with PMLs
  - Continue to operate consistently in accordance with our risk profile and risk appetite
- **Strong balance sheet and profitability consistently proven**
- **Continue to manage the cycle effectively**
  - No broad market hardening yet, pockets of opportunity
  - No change in ordinary dividend policy, no progressive dividends
  - Accordion sidecar vehicle provided enhanced ability to define retro product
  - Exited D&F class to concentrate property exposures in reinsurance lines

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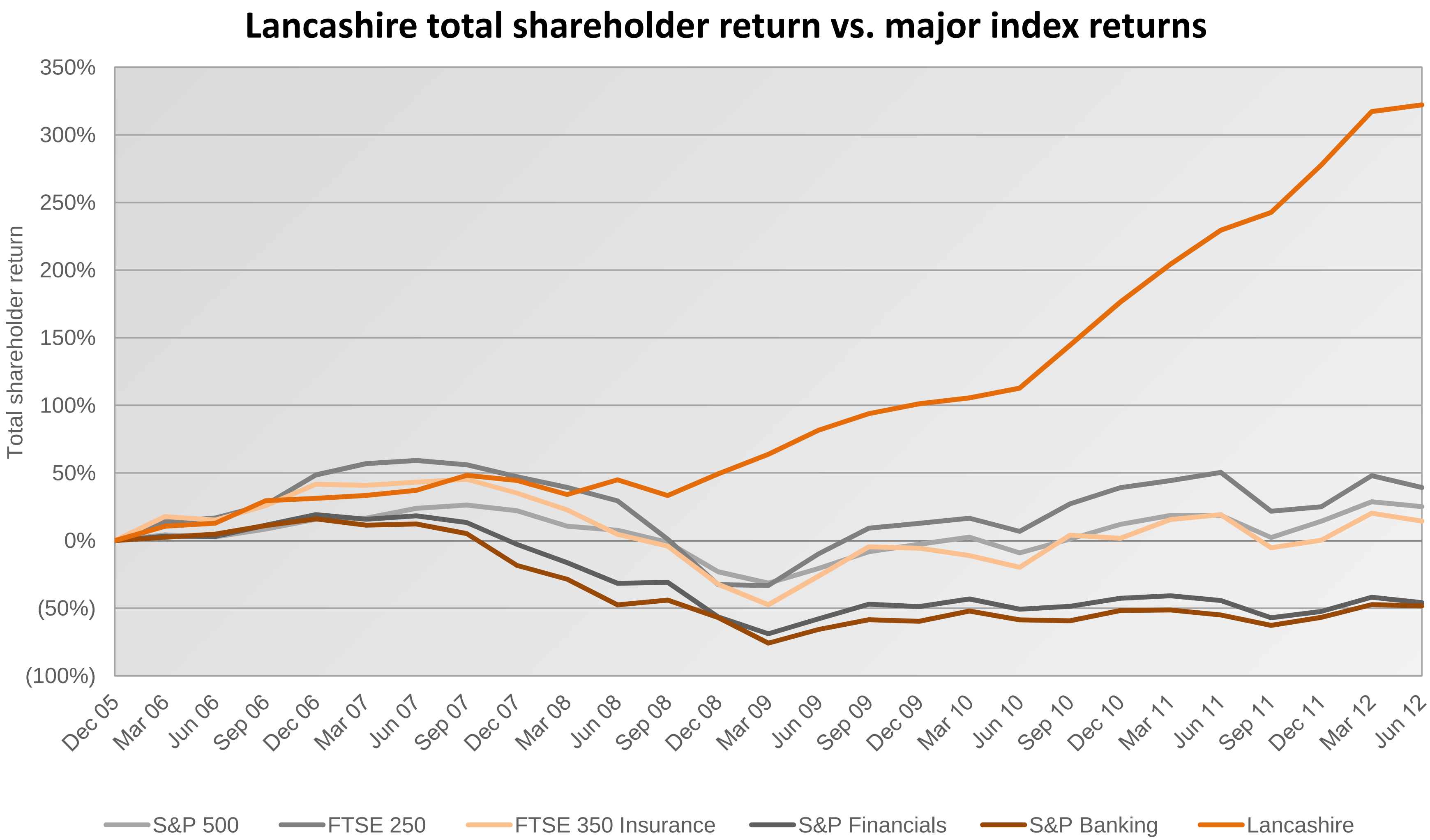
our goal: to provide an attractive risk-adjusted total return to shareholders over the long-term



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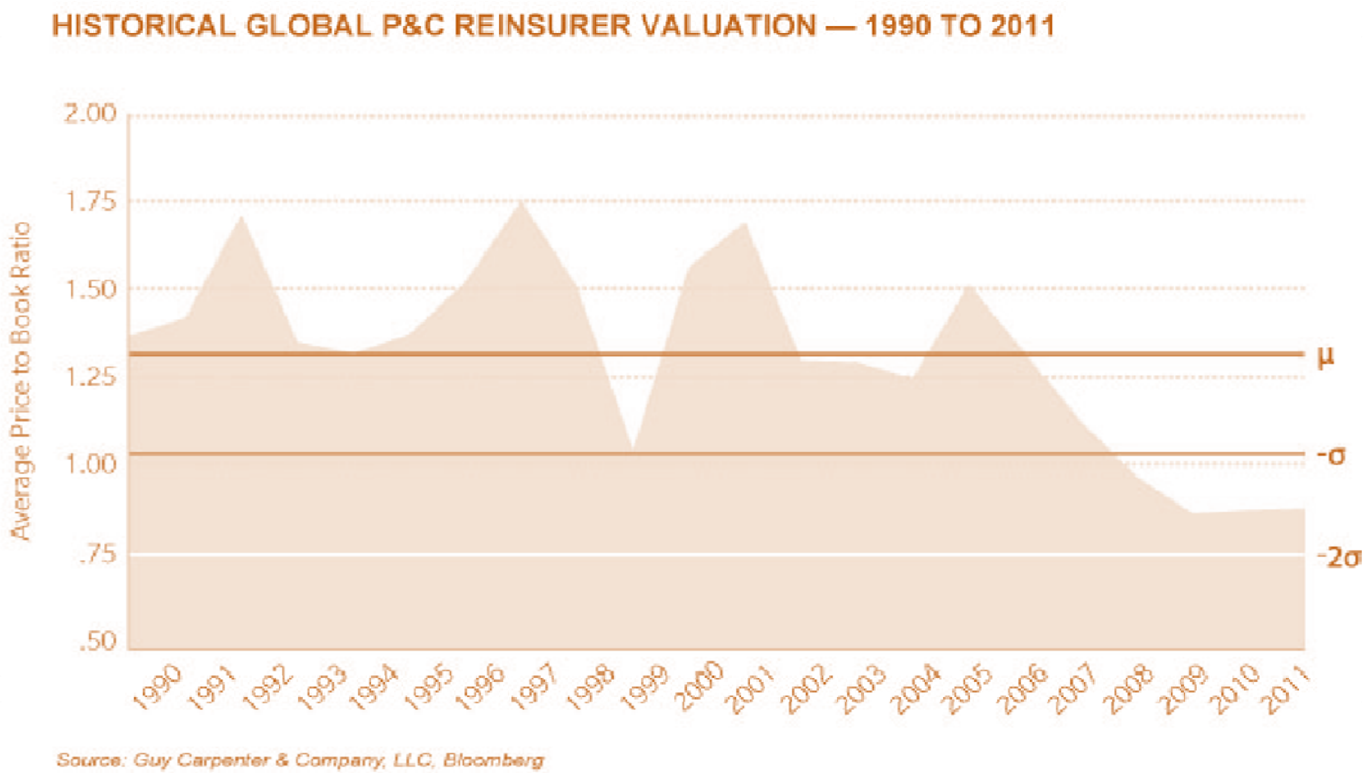
consistency – Valuations at historical lows



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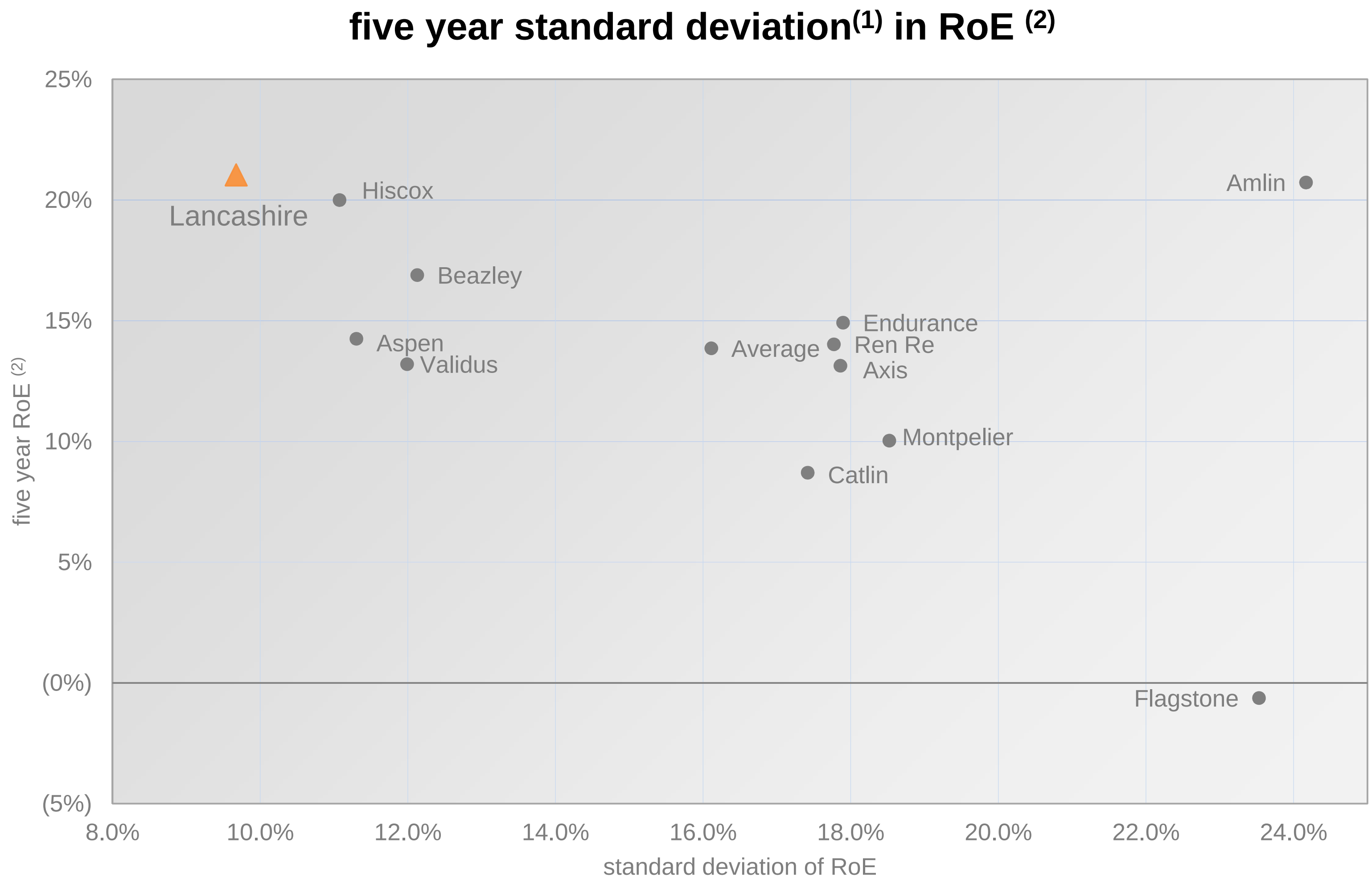
overview of Lancashire: lower volatility



- Lancashire has one of the best performances and yet the lowest volatility versus peers
- Evidence of adherence to business plan and strong risk management

(1) Standard deviation is a measure of variability around the mean
(2) RoE is the IRR of the change in FCBVS in the period plus accrued dividends. Compound annual RoE for Lancashire and sector are from January 1, 2007 through December 31, 2011. Source: Company reports.

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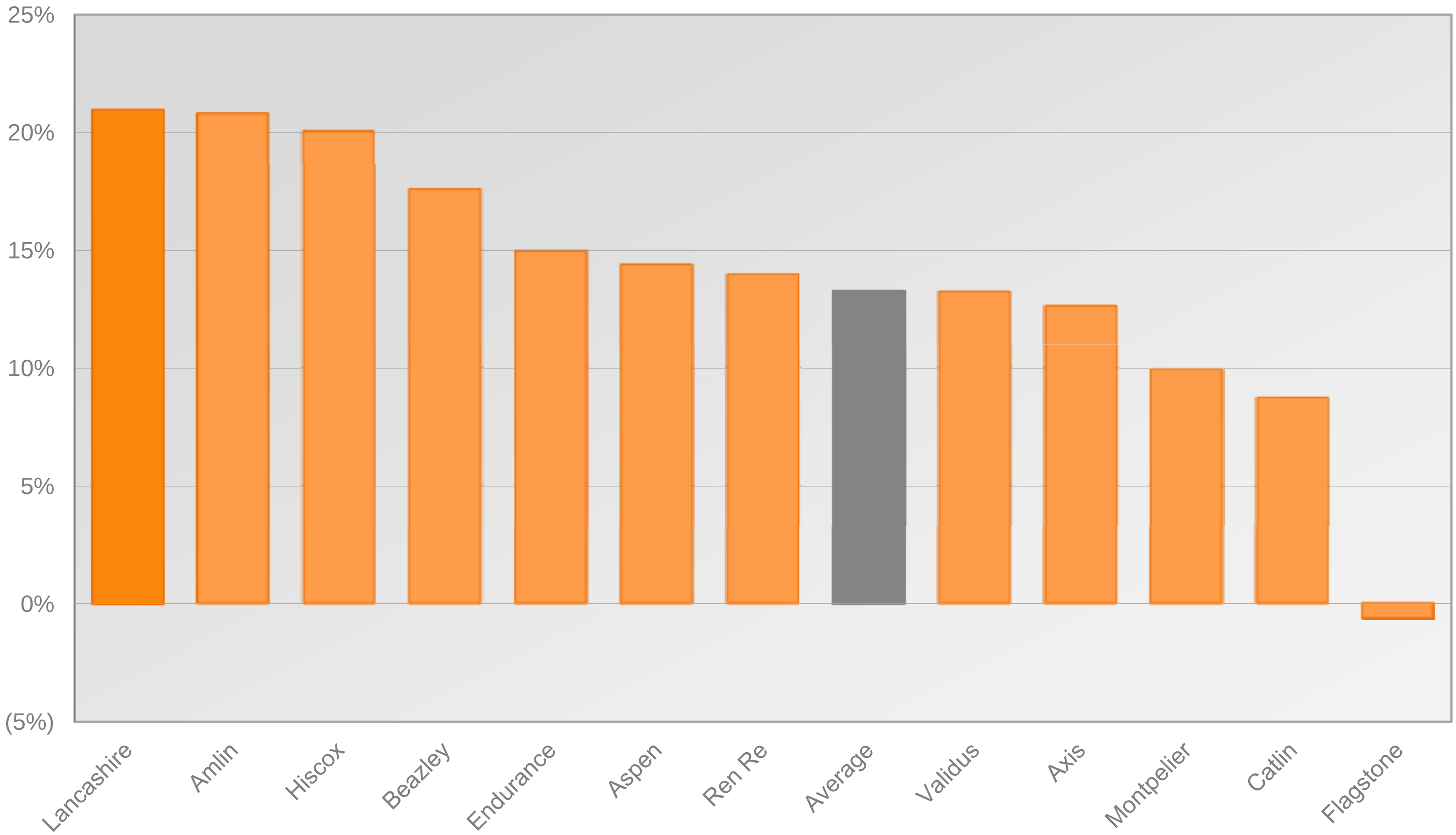
consistency: long-term performance vs peers (1)

5 year compound annual RoE (2)



(1) Peer group as defined by the Board.
(2) RoE is the IRR of the change in FCBVS in the period plus accrued dividends. Compound annual returns for Lancashire and sector are from 1 January 2007 through 31 December 2011. Source: Company reports.

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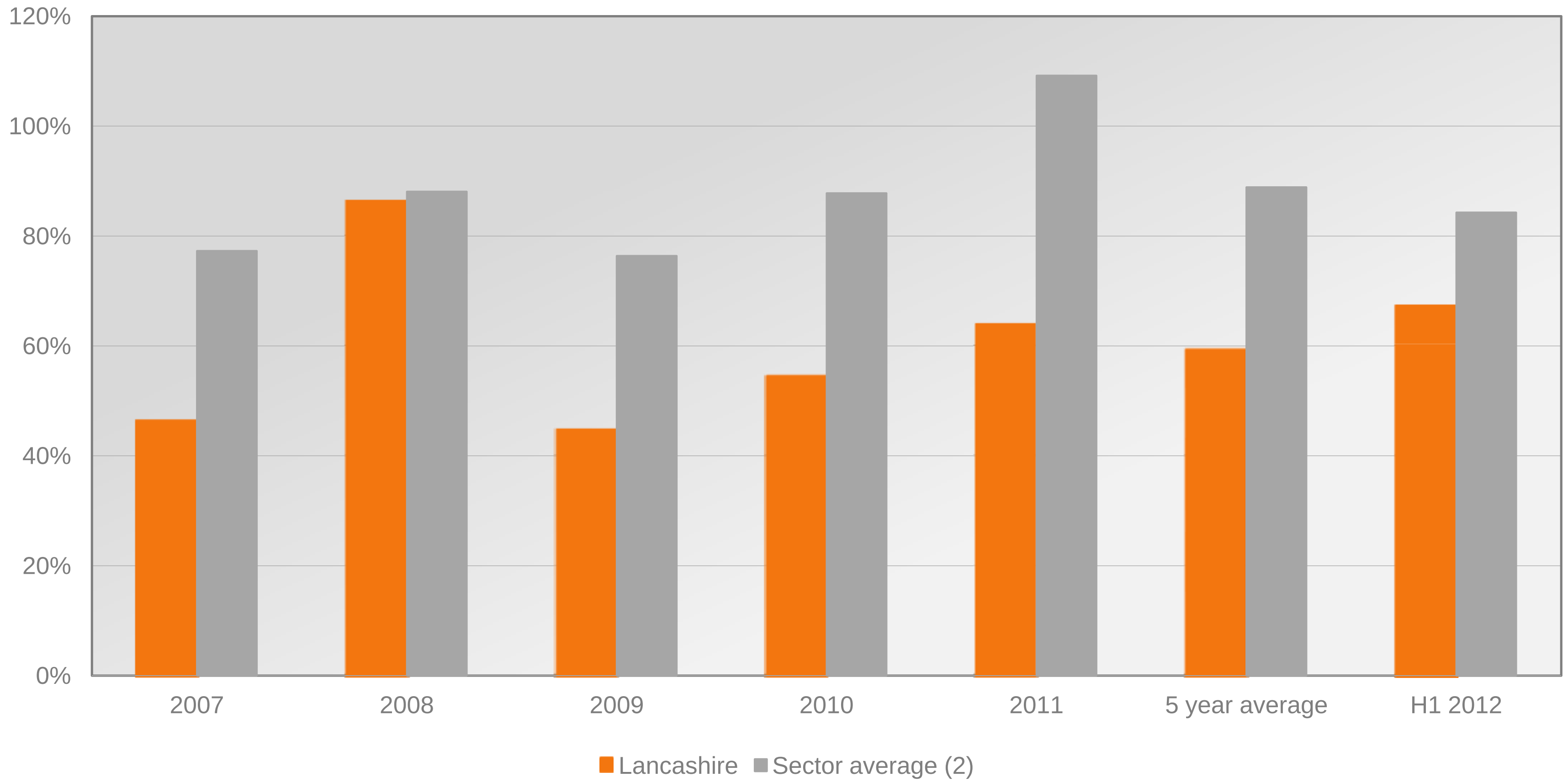
consistency: exceptional underwriting performance

combined ratio (1)



(1) 5 year average based on 2007 to 2011 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) Sector includes Amlin, Aspen, Axis, Beazley, Catlin, Endurance, Flagstone, Hiscox, Montpelier, RenaissanceRe and Validus. Source: Company reports. Source: Company reports.

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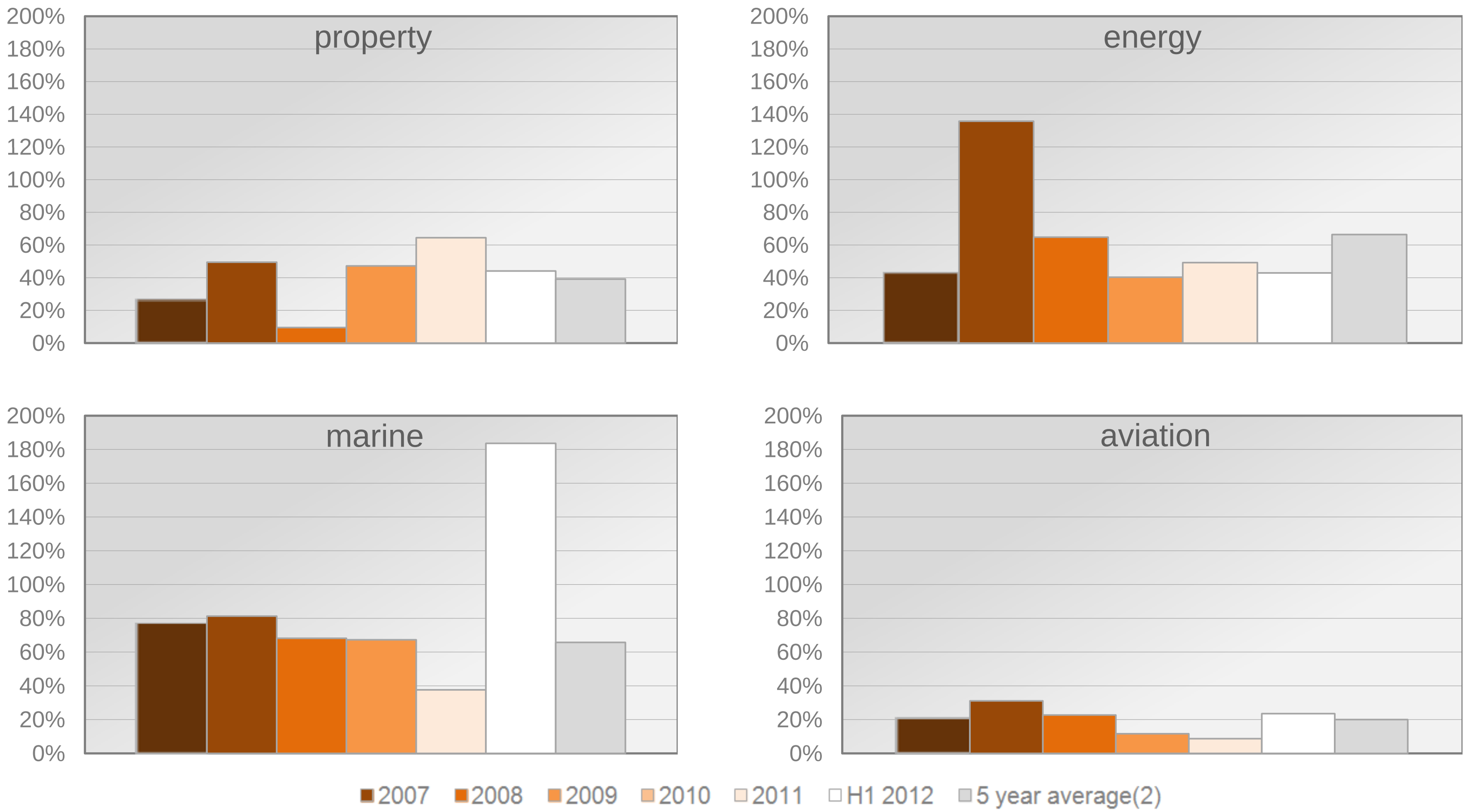
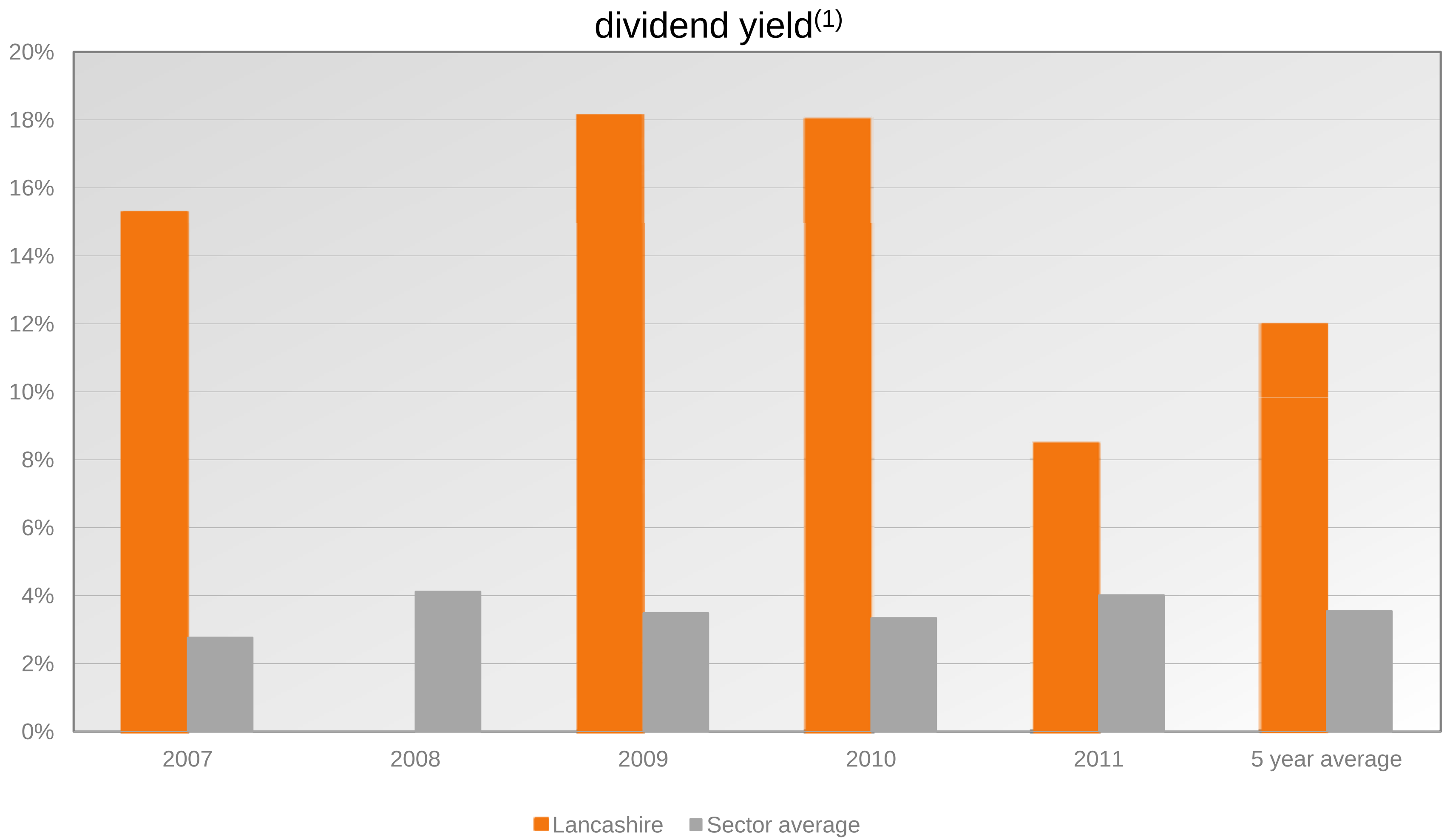
consistency: exceptional underwriting performance

combined ratio by operating segment [1]



(1) The combined ratio by operating segment is the net loss ratio plus the net acquisition cost ratio. The expense ratio is not included.
(2) The 5 year average is a weighted average of the combined ratios from January 1, 2006 to December 31, 2011.

consistency: matching capital to opportunity



(1) Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Dividends include recurring dividends, special dividends and B shares issuances.

(2) Sector includes Amlin, Aspen, Axis, Beazley, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus.

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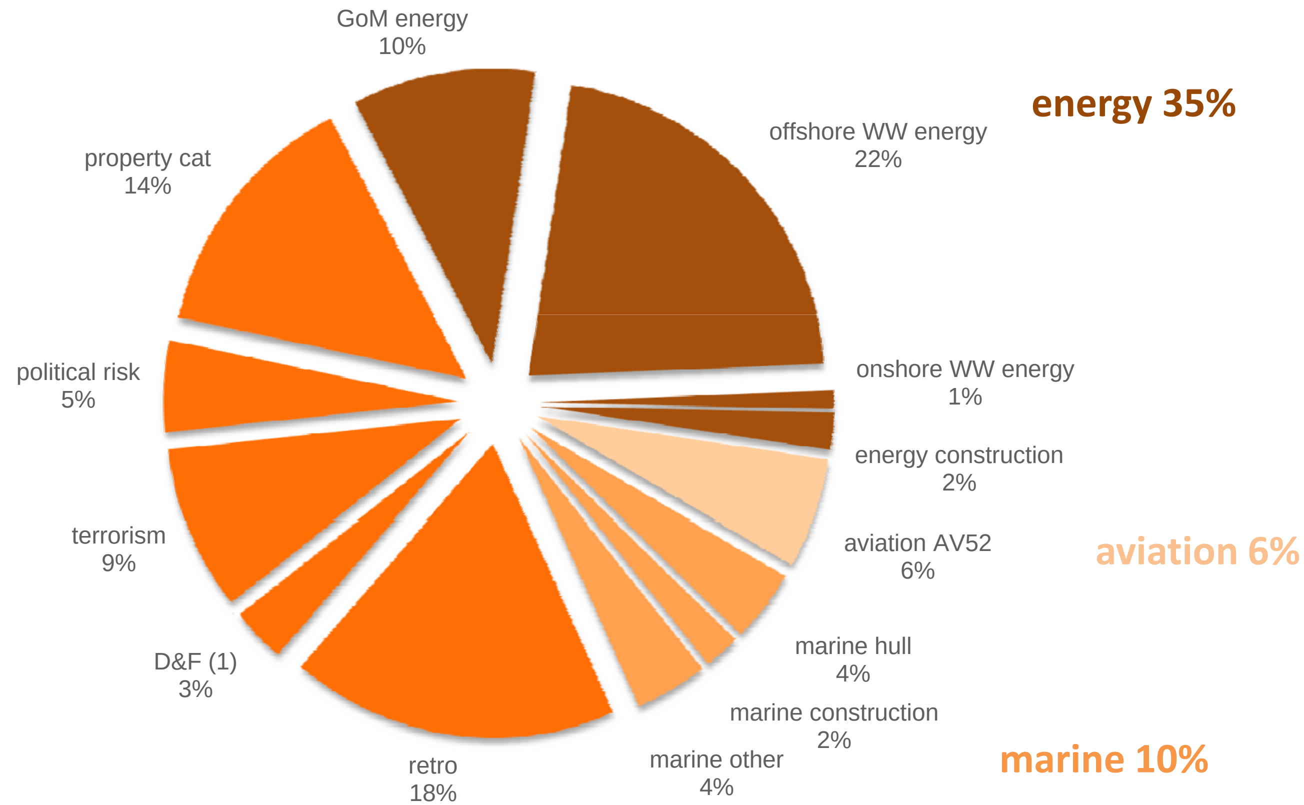
underwriting comes first

66% insurance 34% reinsurance   41% nat-cat exposed 59% other



Based on 2012 reforecast as of 13 July 2012. Estimates could change without notice in response to several factors, including trading conditions.

(1) Lancashire ceased writing new and renewal property D&F business during Q2 given current pricing and anticipated lower profitability for renewals.

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underwriting comes first: the daily call

appropriate mix of technology and culture

Micro – UMCC [1]

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

Macro – URRC [2]

- Fortnightly review with underwriters, finance, risk & actuarial departments
- Risk levels monitored regularly versus internal tolerances and preferences
- Simple platform structure enables frequent comprehensive analysis of risk and reward drivers
- "BLAST" internal model: ReMetrica platform with Lancashire custom features
- Optimization focus to improve risk:return of portfolio and allocate capital efficiently
- Cat and non-cat modeling performed

Reinsurance: buy risk protection to protect volatility in earnings and catastrophe protection on D&F which in place during run off. Opportunistic purchases where available.

[1] Underwriting & marketing conference call
[2] Underwriting risk & return committee

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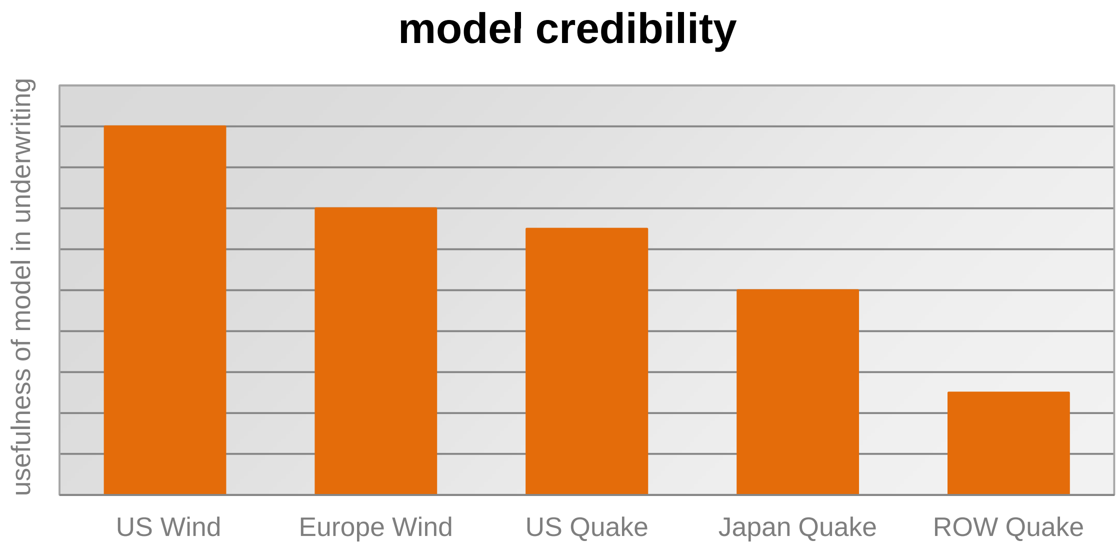
effectively balance risk and return



Natural catastrophe models are relied on more where:

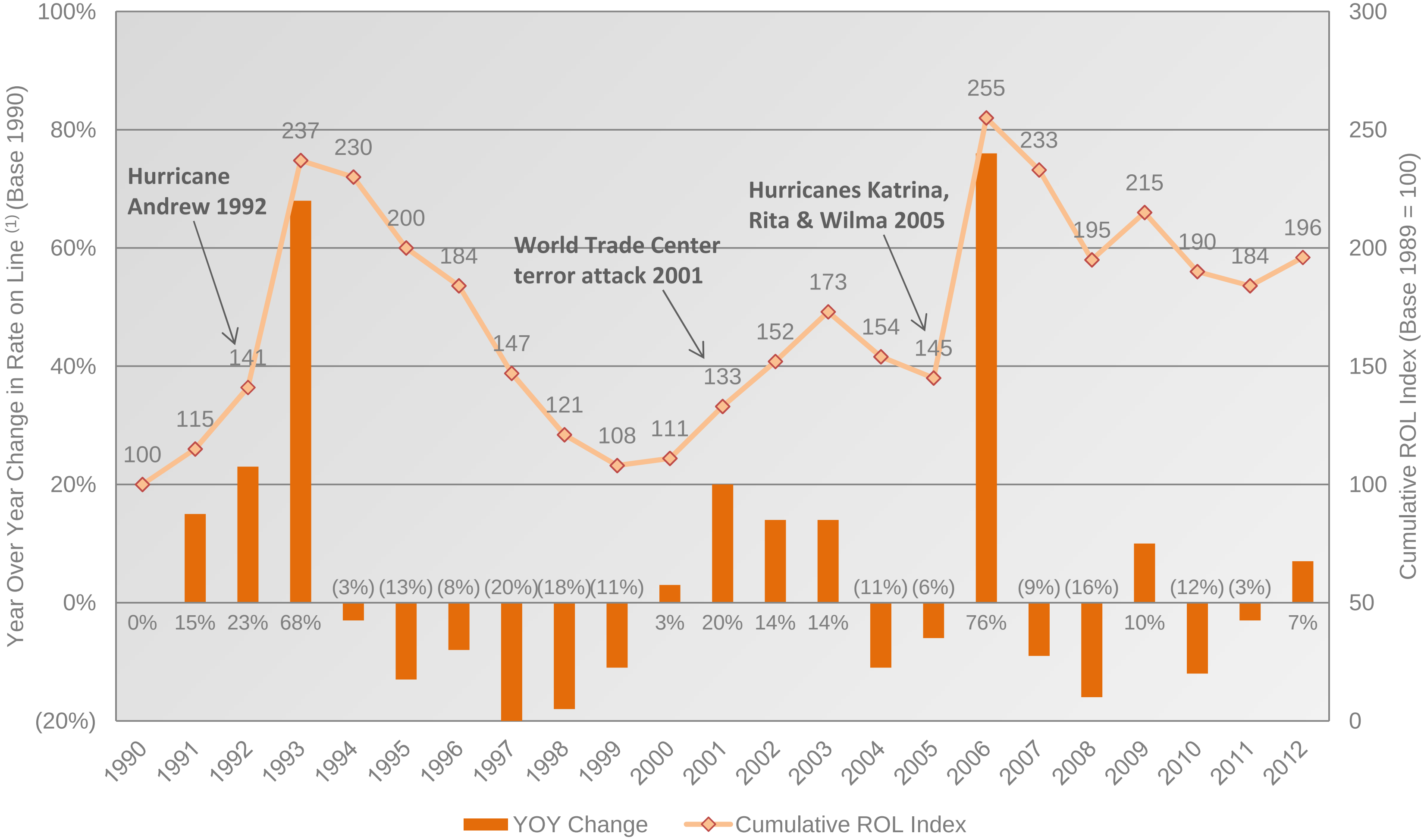
- Frequency of loss helps to validate them
- Data quality is higher

6 years on:

- Don't diversify for diversification's sake or blindly follow the model. Many tools used including common sense!
- UMCC still occurs on a daily basis. Best risk management and portfolio optimisation tool
- Only two underwriting platforms. No growth strategy per se. Allows nimble underwriting, first to market and strong broker relationships
- URRC meets on a fortnightly basis for comprehensive review of risk levels
- 104 employees. Business model still very scaleable to all parts of the cycle

market cycles

US property catastrophe ROL index



(1) Rate on Line is non-risk adjusted

Source: Guy Carpenter & Company, LLC

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underwriting comes first: direct and facultative

why exit?

- **Unmodeled losses such as SRCC[1], tsunami, hail, brush fire not being priced for elevated risk**
- **Weak data on tornado and flood models**
- **RMS 11 – impact of capital increase not being priced in**
- **Reinsurance costs significantly increased due to losses and more disciplined pricing and exposure control in reinsurance market**
- **Limited pay back on loss affected business**
- **D&F is an inordinately large contributor to both parameter and tail risk**
- **Property cycle management**
  - Softening market: Disciplined structured products such as Cat XL
  - Hard market: D&F and Retro opportunistically written

[1] SRCC = Strike, Riot or Civil Commotion

underwriting comes first: property reinsurance and retro

core

- Major market placements with limited exposure to non modeled perils
- U.S. - Regional
- Canada - High layer EQ
- Japanese portfolio

non-core / opportunistic

- Worldwide, lower layer and any aggregate programmes
- Retro (post-loss product for Lancashire)
- Distressed markets e.g. Asian Regional retro at 1 April 2012

outlook

Retro
- Stabilizing market for both worldwide and regional products
- Buyers from Lloyd's, Europe, U.S., Asia and Bermuda
- Pricing and terms and conditions showing signs of softening

Cat XL – USA
- Pricing adequate overall, but don't think risk-adjusted RPI is as strong as some participants are suggesting
- Continue exposure of core writings
- Still no exposure directly to FL Specialists

Cat XL – Asia
- Japan development of key relationships and core clients
- Opportunities in other Asian territories

Cat XL – Rest of world
- Look to develop European footprint at 1/1
- Overall more verticalisation of pricing and private layers in all geographies

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	**2012**
Property reinsurance	100	97	96	127	121	131	**164**

Year to date RPI observations
- Regional retro RPI’s for our product 120% to 150%
- RPI’s for Accordion product up to 150% to 180%
- U.S./Canada rates up 5% to 15%; U.S. mid west rates up between 120% to 160%; nationwide rates flat. Japan 120% to 160%, earthquake rates have now doubled since the event.
- Asian regional retro RPI’s for our product 300% to 500%

underwriting comes first: energy

core

Offshore operating risks

- Focus on internationally recognised operators and contractors
- Deepwater Gulf of Mexico wind product

non-core / opportunistic

Onshore operating risks

- Will entertain in a cyclical broad market hardening

Offshore construction risks

- Prefer excess of loss policies and projects run by internationally recognised operators and contractors

outlook

Gulf of Mexico

- Stable market outlook
- Deepwater drilling is picking up slowly which helps demand from exploration clients.
- Demand from producing assets remains stable.
- Looking to lock in pricing with a limited number of selected longer term contracts at historic highs

Worldwide offshore

- Still very profitable for Lancashire as a class
- Over $3bn of major industry losses in 2011 but thus far 2012 relatively benign
- Capacity remains at all time highs but so do limit requirements
- 2012 rate rises disappointing BUT rates close to 2006 rates following 4 years of rises

Worldwide onshore

- Exited stand alone portfolio

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	**2012**
Energy Gulf of Mexico	100	80	64	137	139	140	**140**
Energy Worldwide Offshore	100	80	68	84	88	97	**100**

Year to date RPI observations

- Gulf of Mexico stable
- Offshore rating environment remains positive - seeing 0% to 5% rate increases but unlikely to see more than this absent significant market loss or retraction of capacity

underwriting comes first: property terrorism and political risk

core

Terrorism
- Construction risks
- Closed access risks e.g. restricted public access

Political Risk/Sovereign Risk
- Transparent assureds with a long standing positive experience and excellent relationships in the territories they operate
- Projects of strategic importance in territories which demonstrate a long standing record of transparency and stability

non-core / opportunistic

Terrorism
- Heavy retail accounts with exposures across the U.S.
- Open access risks e.g. unrestricted public access

Political Risk/Sovereign Risk
- Risks with opaque and unknown insured's without a track record
- Territories which are not transparent and are unstable

outlook

Terrorism
- Seeing some marginal pressure upwards for MENA territories
- Continued focus on attractive benign risks

Political Risk / Sovereign Risk
- Risk selection crucial in this line exemplified by very low binding ratios.

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	**2012**
Terrorism and Political Risk	100	86	71	66	60	57	**55**

Year to date RPI observations
- Rates generally flat to down 5%

underwriting comes first: marine and aviation

core

Marine Hull
- Larger, higher quality marine hull fleets which offer newer tonnage, which historically performs significantly better than older tonnage; LNG's, cruise liners and high profile market risks
- No loss on LNG since hull re-design

Marine Builders Risk
- Target the most reputable yards which are surveyed and graded by Braemar Technical Services (formerly known as the BMT Group)

AV52
- Aviation terrorism third party liability product

non-core / opportunistic

Marine Hull
- Bulker fleets, container fleets, ferries, general old/low valued vessels
- Cargo

Marine Builders Risk
- Avoid building risks where prototypical technology/methods are being undertaken

Aviation Hull
Do not write due to pricing and excess capacity

outlook

Marine
- Attractive niche opportunities
- Expect marginal increases for larger risks following losses and Costa Concordia
- Still too much capacity for small to medium tonnage increases

Aviation
- Market still seeing downward pressure as capacity for AV52 remains at all time high
- Risk profile remains attractive and passenger numbers picking up
- Re-entering satellite market with new launch/extended orbit coverage

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	**2012**
Marine	100	88	80	82	80	79	**91**
Aviation (AV52)	100	80	69	68	62	59	**56**

Year to date RPI observations - Marine
- Market stable with small rises on capacity risks
- P&I rates increased

Year to date RPI observations – Aviation
- Market stable
- Main renewal season in November

underwriting comes first: lessons learned

	What did we do; what did we learn?
Australia, New Zealand and Chile 2010 & 2011	• Confirmed our view not to diversify because the model dictates it; pricing is key; we stick to the "single peril" higher layers to avoid flood, brushfire and hail losses; these perils are not adequately understood, modeled or rated • Confirmed our view that aggregate products involving weakly modeled / unmodeled perils are very hard to underwrite successfully
Japan 2011	• Confirmed our small presence in the region pre loss was appropriate; we increased presence significantly post loss as we had increased confidence in actual exposures calibrated by the loss, coupled with favourable pricing increases; translates into a willingness to take on increased risk • Exited D&F class • Our modeling proved robust – roughly a 1/100 year loss for Lancashire
USA 2006 to 2012	• Above all confirmed our "single peril" approach to the U.S.; we generally prefer higher layers of regional programs where you can avoid the flood, brush fire, hail and tornado losses • Calibrated our exposures on some of the Mid-Atlantic programs where we participate on higher layers; no appetite to move lower • Opened up the Farm Bureau business where clients bought a lot more cover • Exited D&F class
Thailand 2011	• Improved tracking of CBI and Flood exposures added to our underwriting system • Exited D&F class • Wrote JIA renewals at large rate rises and with restrictions on coverage
Ike 2008	• Don't over rely on models: Shelf loss approximately 20% of actual loss, deepwater assets performed as expected. F.L.O.A.T. implemented. Exited majority of the shelf insurance assets • Engineers as well as modelers under-estimated the wave duration impact, Business Interruption drives volatility

capital tools

Equity raise	• LSE listing provides easier opportunity for rights issues – very effective means to replenish capital quickly that does not exist in the U.S. Market. Current directive allows equity issuance of up to 10% on a non pre-emptive basis • Share price multiple approximately 1.6 x fully converted book value – highest in peer group • Returned 135.7% of original share capital raised at inception and total shareholder return of 322.2% from inception to 30 June 2012 = strong shareholder support
Debt issuance	• Existing debt forms part of Lancashire's overall capital for both internal and external purposes • Low debt to capital ratio of 8.2% leaving room for further issuance if desired • Ratio of earnings to fixed charges at 30 June 2012 is 39.3x[1]
3rd party capital	• Accordion sidecar launched in 2011, rolled over in 2012 to take advantage of favourable rates and dislocation in the property retrocession market. Utilises capital draw down feature to ensure capital efficiency • Sirocco sidecar launched in 2006 and 2007 to take advantage of Gulf of Mexico energy opportunities • Sidecars can provide maximum flexibility in relation to underwriting opportunities and further use possible should market opportunities present themselves
Reinsurance	• Actively used by Lancashire to manage exposures or take advantage of favourable pricing • Use of traditional and non-traditional reinsurance products, such as ILWs • Will vary from year to year depending on exposures and opportunities
Special dividends	• Lancashire has issued special dividends 4 out of 5 years from 2007 to 2011 • Since inception have paid out $918.1m in special dividends • Provides an easy and fast method for returning significant capital
Share repurchases	• Timing is flexible, enhances future growth in book value per share and EPS • Current repurchase program has authority to repurchase up to a maximum of 16.9m shares • No repurchases made since 2010 - price to book value multiple in recent years has made special dividends more accretive to RoE

[1] For purposes of computing this ratio, earnings consist of net income before tax, excluding interest expense. Fixed charges consist of interest expense grossed up at the effective rate of tax.

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	326 (21%)	464 (30%)
california	earthquake	114 (7%)	267 (17%)
pacific northwest	earthquake	43 (3%)	198 (13%)
pan-european	windstorm	190 (12%)	253 (16%)
japan	earthquake	161 (10%)	289 (19%)
japan	typhoon	161 (10%)	360 (23%)

(1) Estimated net loss as at 1 July 2012.

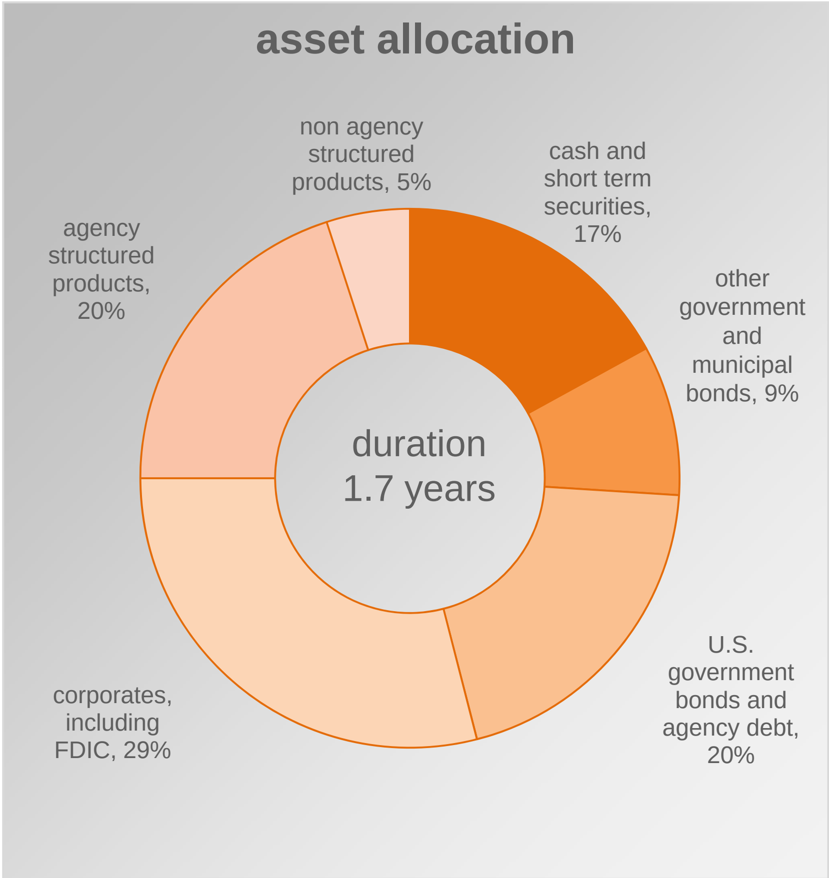
THE GROUP HAS DEVELOPED THE ESTIMATES OF LOSSES EXPECTED FROM CERTAIN CATASTROPHES FOR ITS PORTFOLIO OF PROPERTY AND ENERGY CONTRACTS USING COMMERCIALLY AVAILABLE CATASTROPHE MODELS, WHICH ARE APPLIED AND ADJUSTED BY THE GROUP. THESE ESTIMATES INCLUDE ASSUMPTIONS REGARDING THE LOCATION, SIZE AND MAGNITUDE 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.

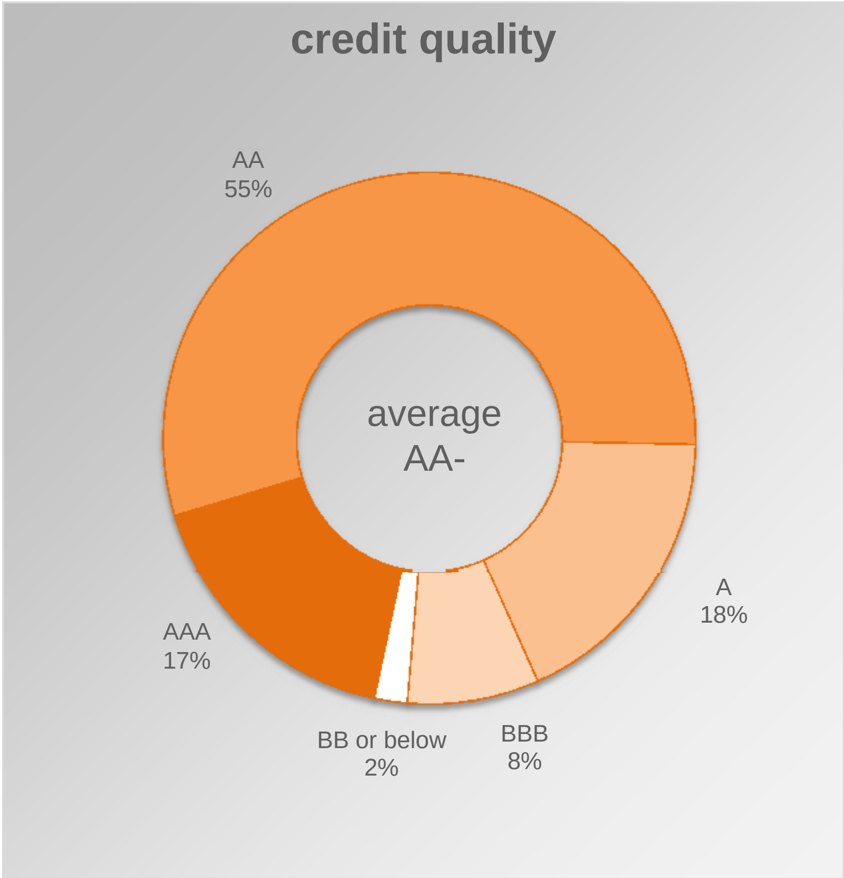
GROSS LOSS ESTIMATES ARE NET OF REINSTATEMENT PREMIUMS AND GROSS OF OUTWARD REINSURANCE, BEFORE INCOME TAX. NET LOSS ESTIMATES ARE NET OF REINSTATEMENT PREMIUMS AND NET OF OUTWARD REINSURANCE, BEFORE INCOME TAX.

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.

effectively balance risk and return

capital preservation





- Total portfolio at June 30, 2012 = $2,046m
- 4.3% of the portfolio is allocated to emerging markets. There is no exposure to European peripheral sovereign debt and minimal exposure to European corporate debt.

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effectively balance risk and return: conservative investment philosophy

- **Our market outlook remains subdued:**
  - Continued concerns about Europe and it's potential contagion
  - Continued elevated global volatility, lower growth environment
  - Continued concerns about the U.S. election and budgetary constraints

- **Therefore, preservation of capital is paramount and we will keep a very low risk profile:**
  - Maintain reduced investment portfolio duration, despite low yields
  - Maintain diversification in cash holdings
  - Reduced exposure to high volatility assets:
    - ✓ Reduced allocation to emerging market debt portfolio
    - ✓ Negligible foreign currency exposure in emerging market debt portfolio
    - ✓ No equity or alternative asset holdings
    - ✓ Added bank loans
  - Increased monitoring of risk/return trade off in the portfolio:
    - ✓ Maintain a balance between interest rate duration and credit spread duration to neutralise the movements between the risk on/risk off trade environment
  - Implemented investment "Realistic Loss Scenarios" ("RLS")
    - ✓ Monitor "risk on" and "risk off" performance
    - ✓ Market neutral positioning
    - ✓ Define risk appetite and preferences
    - ✓ Adjust portfolio when results diverge significantly

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operate nimbly through the cycle

proven record of active capital management

	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $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	-	918.1
ordinary dividends – interim [(1)]	-	-	10.5	9.4	9.5	9.6 [(3)]	39.0
ordinary dividends – final [(1)]	-	-	-	20.8	18.9	19.2	58.9
total	**339.3**	**58.0**	**290.4**	**430.6**	**180.4**	**28.8**	**1,327.5**
average price of share repurchase [(2)]	102.2%	88.4%	98.5%	97.9%	n/a	n/a	97.6%
weighted average dividend yield [(1)]	15.2%	n/a	18.1%	18.0%	8.4%	1.2%	n/a

135.7% of IPO capital has been returned to shareholders [(3)]

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

[(2)] Ratio of price paid compared to book value.

[(3)] This includes the 2012 interim dividend of approximately $9.6 million that was declared on 24 July 2012.

lancashire HOLDINGS LIMITED

conclusion

- **Lancashire has one of the best performances and yet the lowest volatility in the London and Bermuda markets**
- **We have provided shareholders with superior returns vs. major indices**
- **We have remained true to our business plan, while adapting to market changes**
- **We have exhibited the best underwriting discipline in our peer group**
- **Our financial strength and risk management are excellent, we don't diversify because the model tells us to**
- **Our management team is proven**

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