

Underwriting comes **first**

Effectively **balance** risk and return

Operate **nimbly** through the cycle

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 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; 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 OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CURRENT CFC REGIME FAILING TO REMAIN IN FORCE FOR THE PERIOD INTENDED; THE FAILURE OF THE UK GOVERNMENT TO BRING BEFORE PARLIAMENT LEGISLATION CONTAINING A SUITABLE NEW CFC REGIME IN LINE WITH THE PROPOSALS OUTLINED IN THE CONSULTATION DOCUMENT; THE OMISSION FROM THE NEW CFC REGIME OF A SUITABLE EXCLUSION (E.G. RELATING TO LARGE RISKS WRITTEN IN THE INTERNATIONAL INSURANCE MARKET); ANY CHANGE IN UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE TEMPORARY PERIOD EXEMPTION, THE ANTICIPATED TERRITORIAL BUSINESS EXEMPTION OR OTHER ASPECTS OF THE NEW CFC REGIME; AND THE IMPLEMENTATION OF THE CHANGE IN TAX RESIDENCE OF LANCASHIRE NEGATIVELY IMPACTS STAKEHOLDERS OF LANCASHIRE IN A MATERIAL WAY.

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 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 19.4% since inception
- Total shareholder return of 334.6%⁽¹⁾ since inception, compared with 26.7%⁽¹⁾ for S&P 500, 51.0%⁽¹⁾ for FTSE 250 and 22.7%⁽¹⁾ for FTSE 350 Insurance Index
- Returned 134.7% of original share capital raised at inception or 80.4% of cumulative comprehensive income, \$180.4m of capital returned in 2011, \$19.2m in 2012 Q1
- Q1 combined ratio of 74.0%⁽²⁾ and total investment return of 1.1%⁽³⁾
- Q1 growth in fully converted book value per share, adjusted for dividends, of 3.4%⁽³⁾
- Q1 property retrocession premiums increased by 252.1% quarter on quarter

⁽¹⁾ Shareholder return through 1 May 2012. LRE and FTSE returns in USD terms.

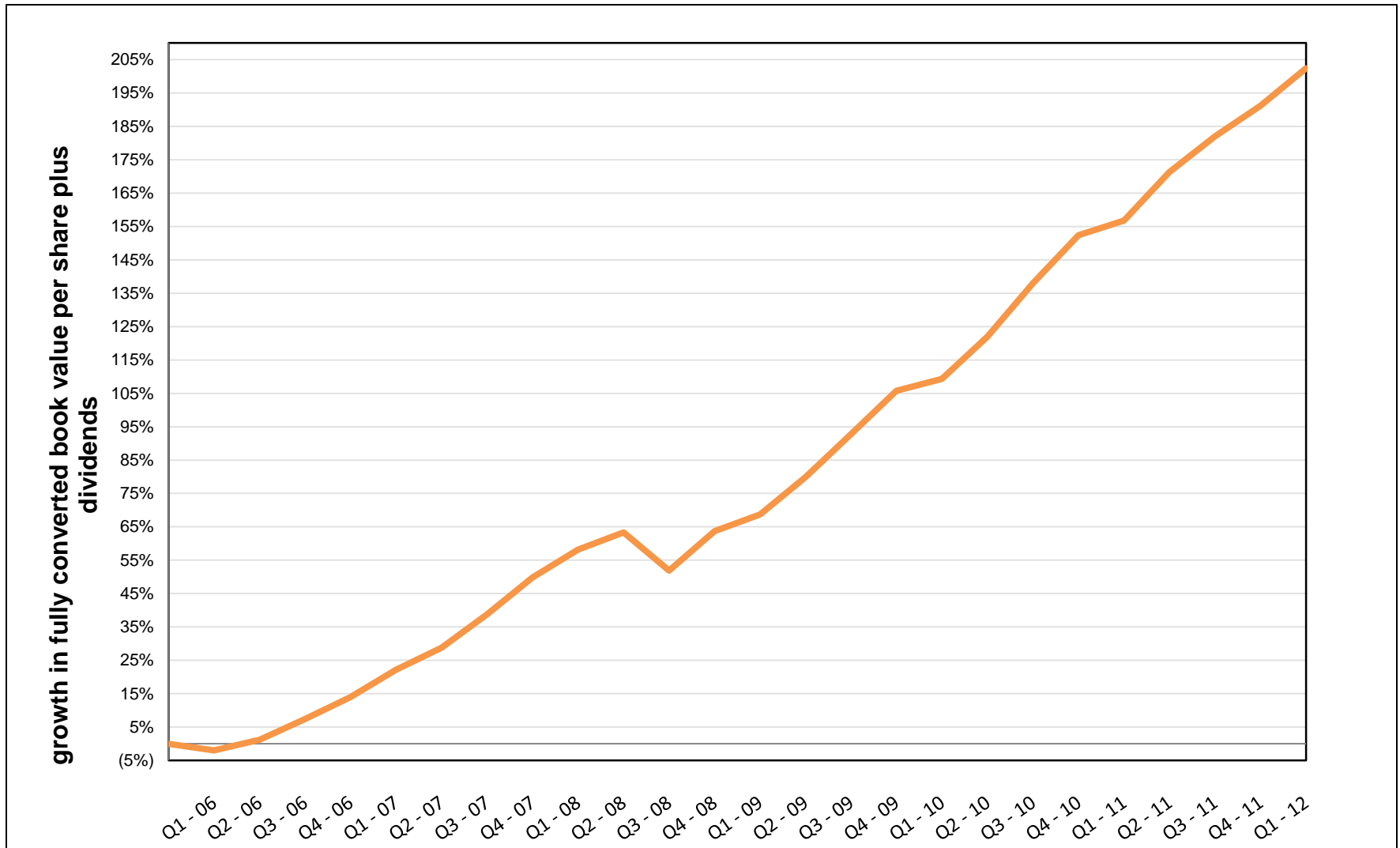
⁽²⁾ Including G&A.

⁽³⁾ For the quarter ended 31 March 2012.

key messages

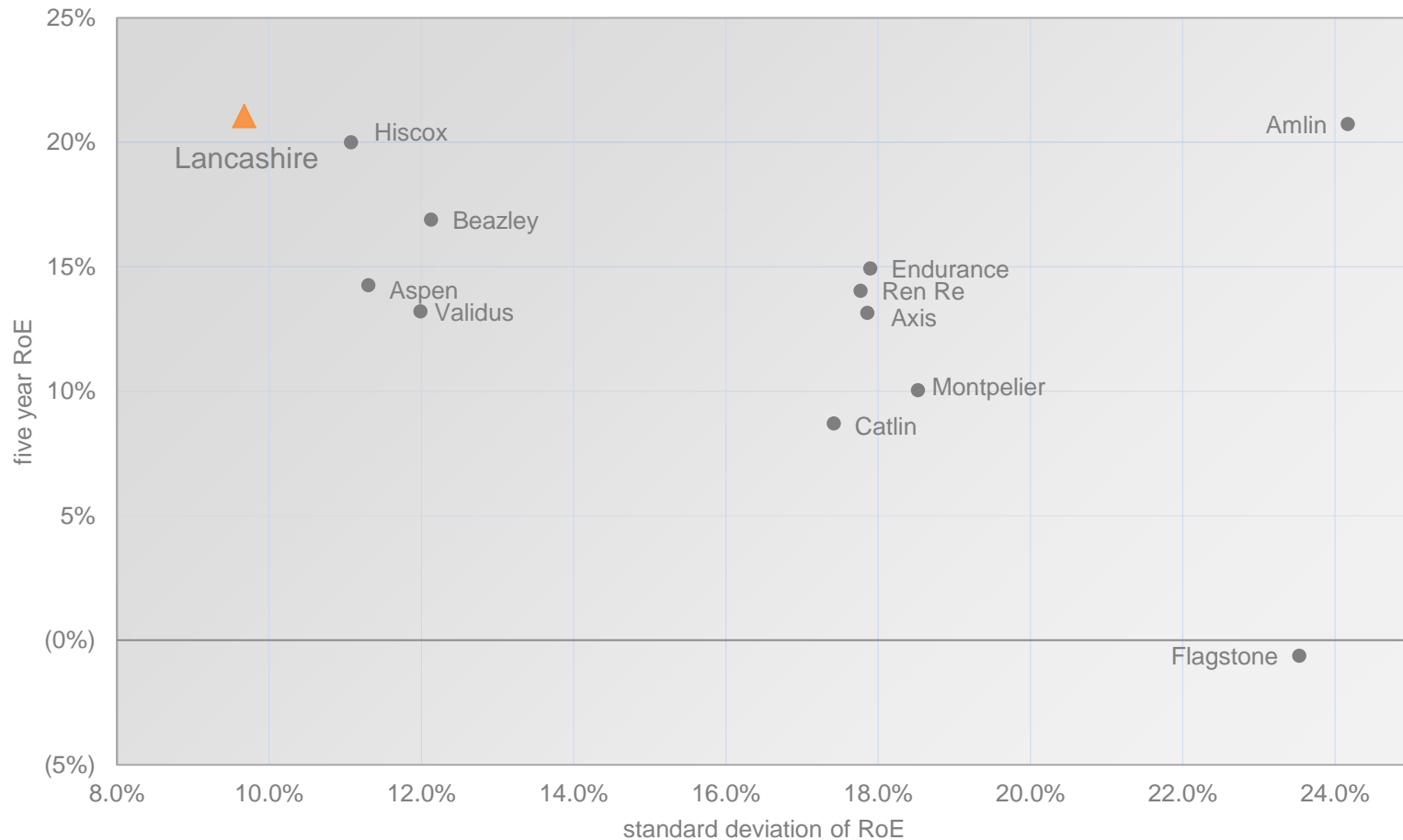
- **Now 6 years of consistent performance**
- **We have remained true to our business plan, while adapting to market changes**
 - London and Bermuda remain our underwriting centres
- **Demonstrated excellent risk management through significant number of worldwide catastrophe and risk losses**
 - Minimal 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

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



consistency: total value creation (TVC)

five year standard deviation⁽¹⁾ in TVC

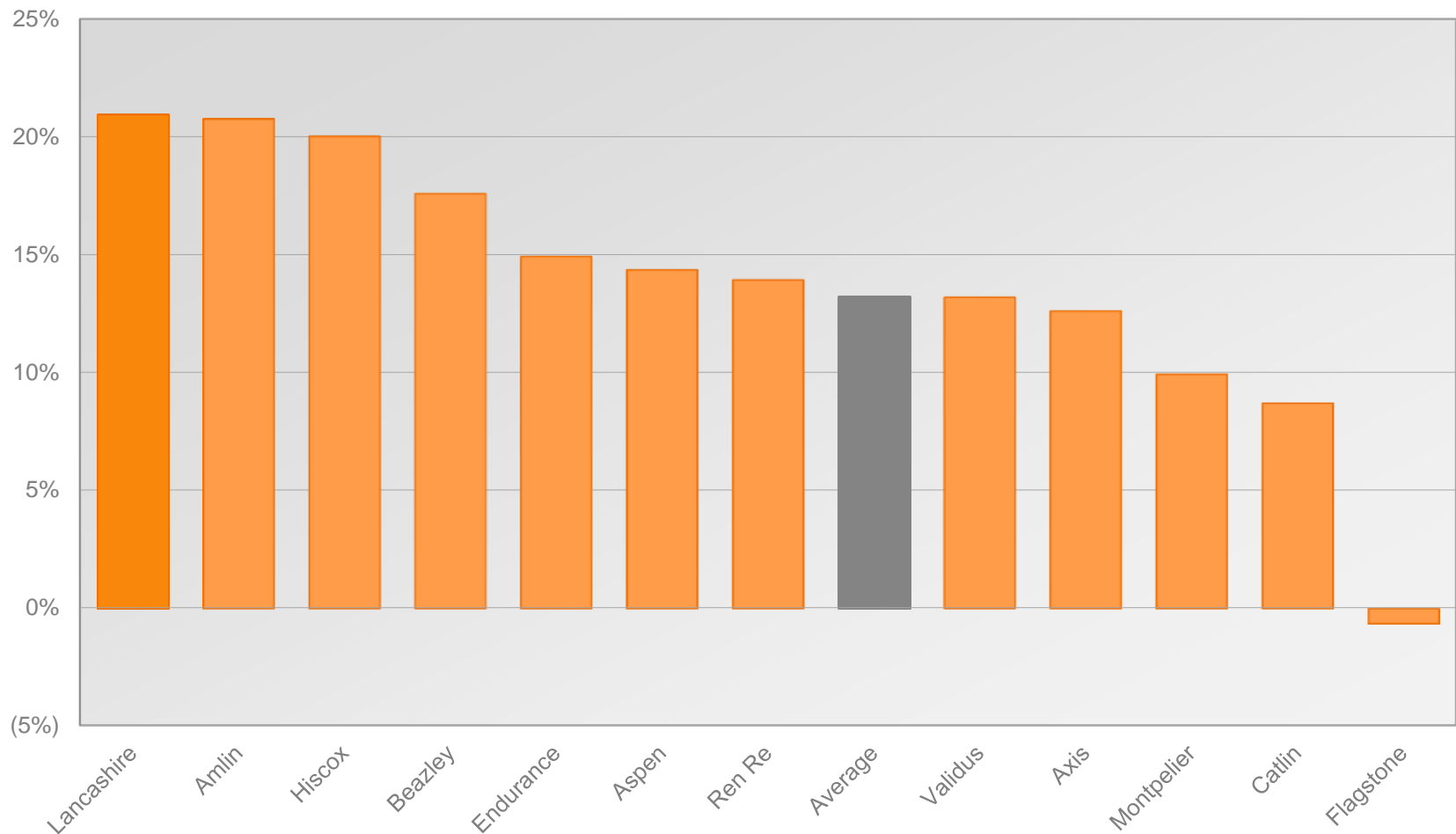


- Lancashire has one of the best performances and yet the lowest volatility versus peers
- Evidence of adherence to business plan and strong risk management

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

consistency: long-term performance vs peers ⁽¹⁾

5 year compound annual RoE ⁽²⁾



⁽¹⁾ Peer group as defined by the Board.

⁽²⁾ Compound annual returns for Lancashire and sector are from 1 January 2007 through 31 December 2011. Source: Company reports.

consistency: exceptional underwriting performance

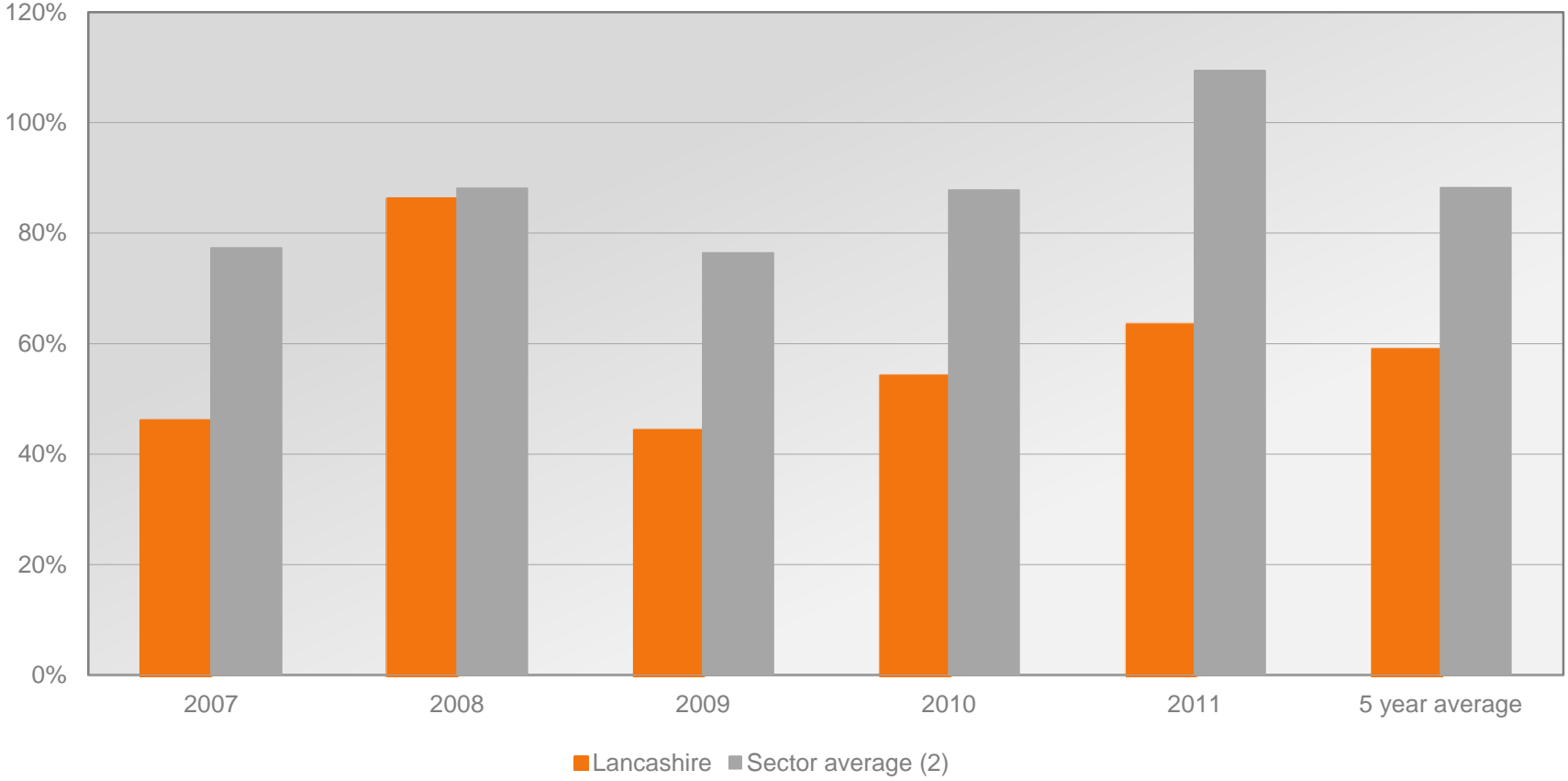
	2007	2008	2009	2010	2011	5 year average ⁽¹⁾	Q1 2012
loss ratio	23.9%	61.8%	16.6%	27.0%	31.7%	32.3%	35.7%
acquisition cost ratio	12.5%	16.4%	17.8%	17.3%	19.6%	16.7%	21.1%
expense ratio	9.9%	8.1%	10.2%	10.1%	12.4%	10.1%	17.2%
combined ratio	46.3%	86.3%	44.6%	54.4%	63.7%	59.1%	74.0%
sector combined ratio ⁽²⁾	77.3%	88.1%	76.4%	87.8%	109.2%	88.9%	84.6%
Lancashire out-performance	31.0%	1.8%	31.8%	33.4%	45.5%	29.8%	10.6%

⁽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 Aspen, Axis, Endurance, Flagstone, Montpelier, RenaissanceRe and Validus. Results to 31 March 2012 for Amlin, Beazley, Catlin and Hiscox not available at time of report. Source: Company reports.

consistency: exceptional underwriting performance

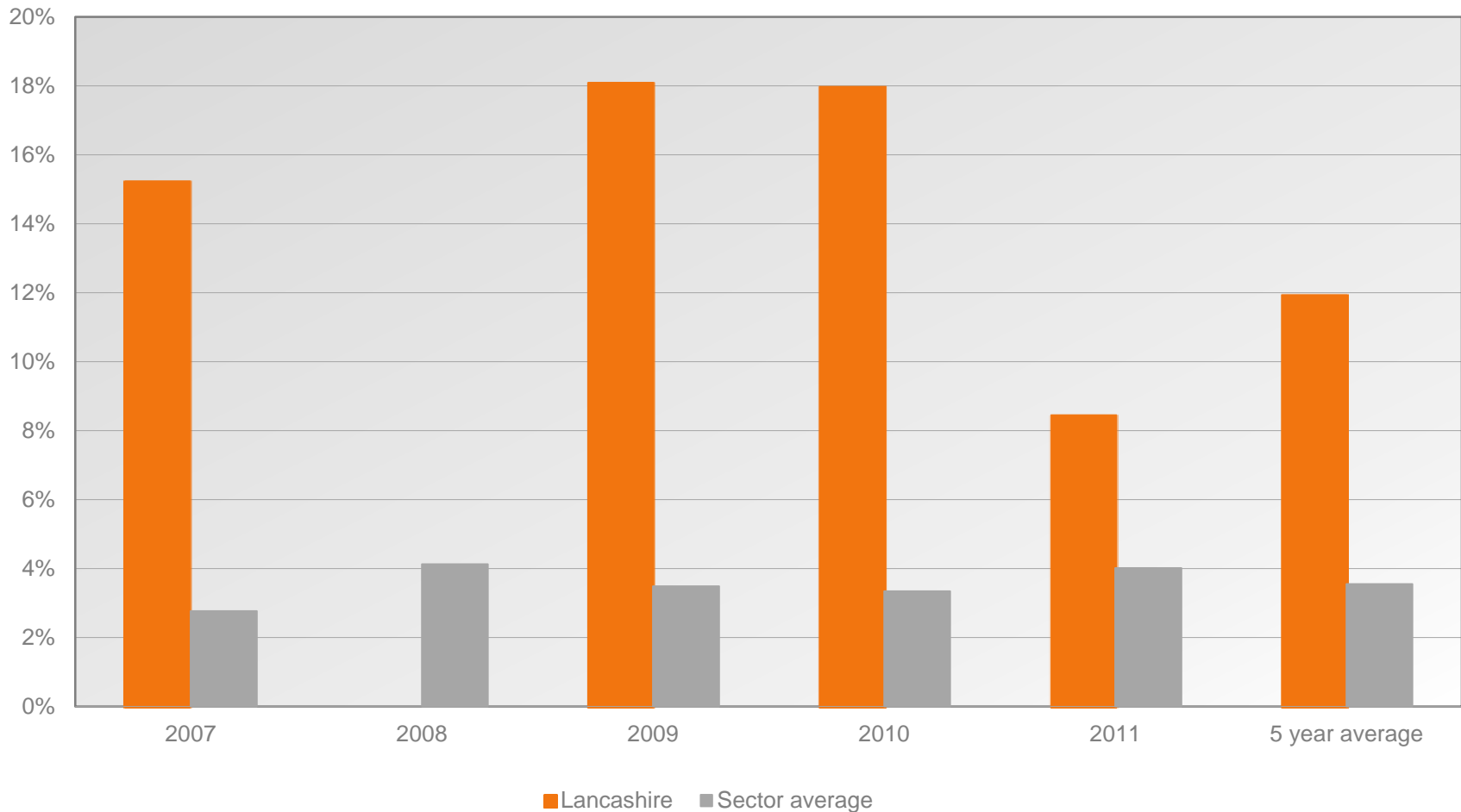
combined ratio (1)



(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, Renaissance Re and Validus for the years 2007 to 2011. Source: Company reports.

consistency: dividend yield (1)

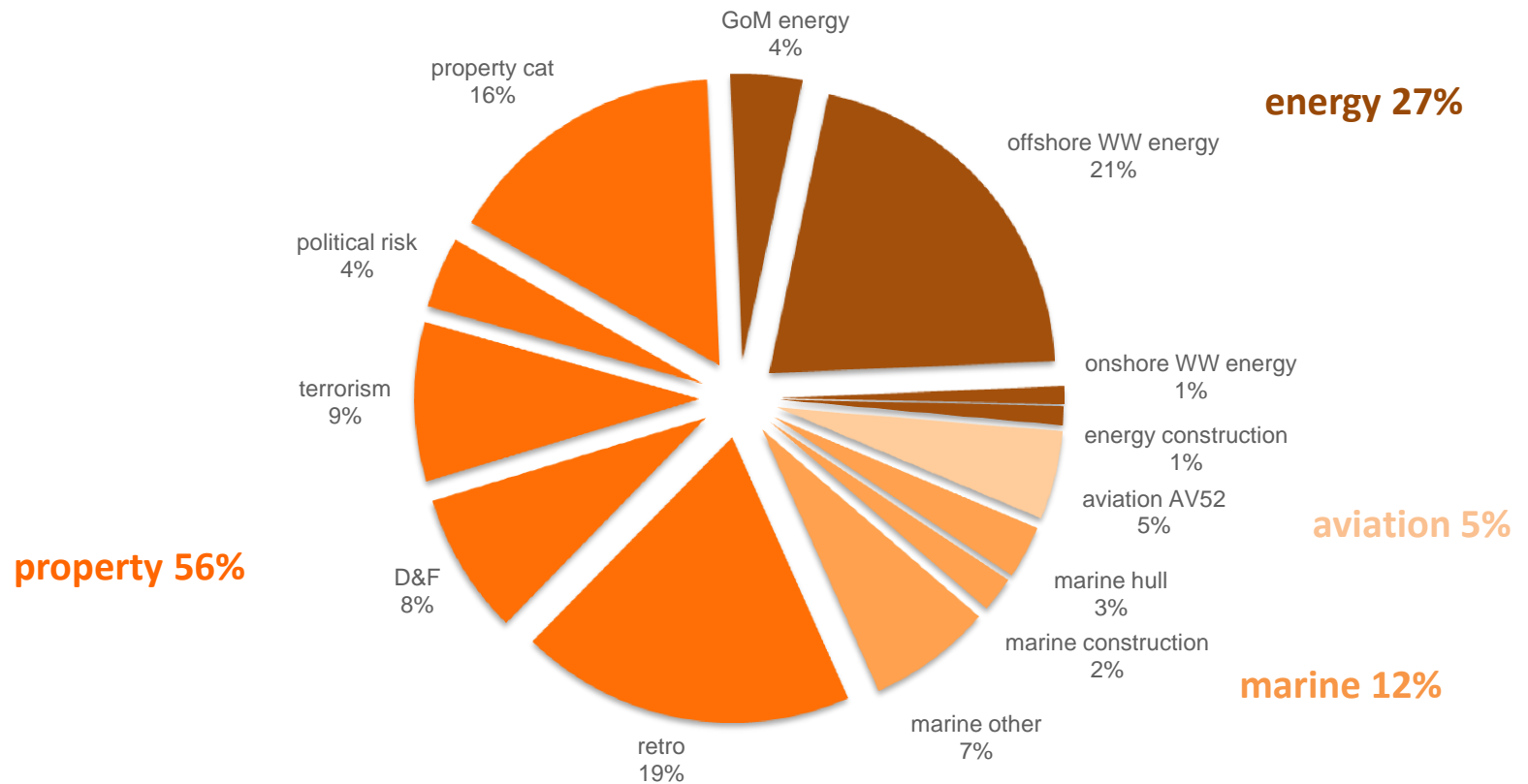


(1) Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Dividends include recurring dividends, special dividends and B shares issuances.

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

underwriting comes first

63% insurance 37% reinsurance 43% nat-cat exposed 57% other



Based on 2012 business plan as of 22 February 2012. Estimates could change without notice in response to several factors, including trading conditions.

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 underwriters, finance, risk & modeling departments

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

underwriting comes first: property reinsurance and retro

core	non-core / opportunistic																
<ul style="list-style-type: none"> Higher layers with "single-peril" exposures U.S. - Regional Canada - High layer EQ 	<ul style="list-style-type: none"> Worldwide, lower layer and any aggregate programmes Retro (post-loss product for Lancashire) Distressed markets e.g. Asian Regional retro @ 1 April 2012 																
outlook	RPIs																
<p>Retro</p> <ul style="list-style-type: none"> Strong demand for both worldwide and regional products Buyers from Lloyd's, Europe, U.S., Asia and Bermuda Pricing and terms and conditions strong <p>Cat XL – USA</p> <ul style="list-style-type: none"> Pricing adequate overall, but don't think risk-adjusted RPI is as strong as some participants are suggesting Good opportunities on some regional placements e.g. Farm Bureaus post-2011 losses Don't expect to find anything attractive in Florida market <p>Cat XL – Asia</p> <ul style="list-style-type: none"> Good market in Japan - pricing has gone from inadequate to adequate in the last two renewals; we believe the new XL layers will continue to be bought with good pricing and will therefore be core business Limited number of other Asian distressed opportunities but these will be short term <p>Cat XL – RoW</p> <ul style="list-style-type: none"> Europe still disappointing and so reducing aggregates Canada finding a few new opportunities on high level EQ layers Overall more verticalisation of pricing and private layers in all geographies 	<table border="1" data-bbox="996 475 1804 582"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Property Reinsurance</td> <td>100</td> <td>97</td> <td>96</td> <td>127</td> <td>121</td> <td>131</td> <td>146</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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 	Class	2006	2007	2008	2009	2010	2011	2012	Property Reinsurance	100	97	96	127	121	131	146
Class	2006	2007	2008	2009	2010	2011	2012										
Property Reinsurance	100	97	96	127	121	131	146										

underwriting comes first: energy

core	non-core / opportunistic																								
<p>Offshore operating risks</p> <ul style="list-style-type: none"> • Focus on internationally recognised operators and contractors • Deepwater Gulf of Mexico wind product 	<p>Onshore operating risks</p> <ul style="list-style-type: none"> • Focus on excess of loss policies <p>Offshore construction risks</p> <ul style="list-style-type: none"> • Prefer excess of loss policies and projects run by internationally recognised operators and contractors 																								
outlook	RPIs																								
<p>Gulf of Mexico</p> <ul style="list-style-type: none"> • Stable market outlook • Drilling is picking up, although demand for Lancashire GOM wind product was largely unaffected by drilling slowdown • Looking to lock in pricing with a limited number of selected longer term contracts at historic highs <p>Worldwide offshore</p> <ul style="list-style-type: none"> • Still very profitable for Lancashire as a class • Over \$3bn of major industry losses in 2011 • Reinsurers increasing insurers' retentions and premiums at 1 January 2012 • We feel market should be better than it is; no real withdrawal of capacity therefore unlikely to see expansion in class other than "super cycle" driven projects but still moving in the right direction <p>Worldwide onshore</p> <ul style="list-style-type: none"> • Market now stable following a run of medium to large losses • Prices increasing on loss affected business and capacity limits placements 	<table border="1" data-bbox="1008 522 1800 696"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Energy Gulf of Mexico</td> <td>100</td> <td>80</td> <td>64</td> <td>137</td> <td>139</td> <td>140</td> <td>140</td> </tr> <tr> <td>Energy Worldwide Offshore</td> <td>100</td> <td>80</td> <td>68</td> <td>84</td> <td>88</td> <td>97</td> <td>98</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Gulf of Mexico stable • Offshore rating environment remains positive - seeing 5% to 10% rate increases but unlikely to see more than this absent significant market loss or retraction of capacity 	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	98
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	98																		

underwriting comes first: property direct and facultative

core	non-core / opportunistic																
<p>Low process hazard</p> <ul style="list-style-type: none"> • i.e. Office building, municipality, hotel <ul style="list-style-type: none"> • Attachment point greater than 15% of T.I.V • Clients with strong risk management – high quality external and internal loss prevention and asset valuation programmes 	<p>High process hazard</p> <ul style="list-style-type: none"> • i.e. Mining, steel, heavy fabrication <ul style="list-style-type: none"> • Primary, Quota Share • Clients with weaker risk management – basic internal loss prevention and asset valuation programmes 																
outlook	RPIs																
<ul style="list-style-type: none"> • Realignment of property account to reflect lessons learnt from 2010/11 non peak losses. • Pricing in general has been weak, both in absolute terms and certainly relative to reinsurance. Tornado and un-modelled perils, such as Contingent Business Interruption, continue to be ignored from a pricing perspective despite losses and as a result we have reduced written premium by 37% in Q1 and expect to continue reducing • Using UMCC to best align capital/aggregate between direct and reinsurance • US Wholesale market and domestic still aggressive on pricing and market share 	<table border="1" data-bbox="994 554 1789 661"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Property Direct & Facultative</td> <td>100</td> <td>92</td> <td>83</td> <td>90</td> <td>84</td> <td>88</td> <td>94</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • U.S. RMS catastrophe driven accounts up 10% to 15% • International disappointing as non peak rates only reflected in loss affected territories • Risk only (excluding natural catastrophe) flat to plus 5% 	Class	2006	2007	2008	2009	2010	2011	2012	Property Direct & Facultative	100	92	83	90	84	88	94
Class	2006	2007	2008	2009	2010	2011	2012										
Property Direct & Facultative	100	92	83	90	84	88	94										

underwriting comes first: property terrorism and political risk

core	non-core / opportunistic																
<p>Terrorism</p> <ul style="list-style-type: none"> • Construction risks • Closed access risks e.g. restricted public access <p>Political Risk/Sovereign Risk</p> <ul style="list-style-type: none"> • 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 	<p>Terrorism</p> <ul style="list-style-type: none"> • Heavy retail accounts with exposures across the U.S. • Open access risks e.g. unrestricted public access <p>Political Risk/Sovereign Risk</p> <ul style="list-style-type: none"> • Risks with opaque and unknown insured's without a track record • Territories which are not transparent and are unstable 																
outlook	RPIs																
<p>Terrorism</p> <ul style="list-style-type: none"> • Seeing some marginal pressure upwards for MENA territories • Continued focus on attractive benign risks <p>Political Risk / Sovereign Risk</p> <ul style="list-style-type: none"> • Risk selection crucial in this line exemplified by very low binding ratios. 	<table border="1" data-bbox="1012 715 1804 815"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Terrorism and Political Risk</td> <td>100</td> <td>86</td> <td>71</td> <td>66</td> <td>60</td> <td>57</td> <td>55</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Rates generally flat • Risk appetite remains low 	Class	2006	2007	2008	2009	2010	2011	2012	Terrorism and Political Risk	100	86	71	66	60	57	55
Class	2006	2007	2008	2009	2010	2011	2012										
Terrorism and Political Risk	100	86	71	66	60	57	55										

underwriting comes first: marine and aviation

core	non-core / opportunistic																
<p>Marine Hull</p> <ul style="list-style-type: none"> • 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 <p>Builders Risk</p> <ul style="list-style-type: none"> • Target the most reputable yards which are surveyed and graded by Braemar Technical Services (formerly known as the BMT Group) 	<p>Marine Hull</p> <ul style="list-style-type: none"> • Bulker fleets, container fleets, ferries, general old/low valued vessels • Cargo <p>Builders Risk</p> <ul style="list-style-type: none"> • Avoid building risks where prototypical technology/methods are being undertaken 																
outlook	RPIs																
<ul style="list-style-type: none"> • Attractive niche opportunities • Expect marginal increases for larger risks following losses and Costa Concordia • Still too much capacity for small to medium tonnage increases 	<table border="1"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Marine</td> <td>100</td> <td>88</td> <td>80</td> <td>82</td> <td>80</td> <td>79</td> <td>82</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Market stable with small rises on capacity risks • P&I rates increased 	Class	2006	2007	2008	2009	2010	2011	2012	Marine	100	88	80	82	80	79	82
Class	2006	2007	2008	2009	2010	2011	2012										
Marine	100	88	80	82	80	79	82										

core	non-core / opportunistic																
<p>AV52</p> <ul style="list-style-type: none"> • Aviation terrorism third party liability product 	<ul style="list-style-type: none"> • Aviation Hull – Do not write due to pricing and excess capacity 																
outlook	RPIs																
<ul style="list-style-type: none"> • Market still seeing downward pressure as capacity for AV52 remains at all time high • Risk profile remains attractive and passenger numbers picking up 	<table border="1"> <thead> <tr> <th>Class</th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Aviation (AV52)</td> <td>100</td> <td>80</td> <td>69</td> <td>68</td> <td>62</td> <td>59</td> <td>54</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Market stable • Main renewal season in November 	Class	2006	2007	2008	2009	2010	2011	2012	Aviation (AV52)	100	80	69	68	62	59	54
Class	2006	2007	2008	2009	2010	2011	2012										
Aviation (AV52)	100	80	69	68	62	59	54										

underwriting comes first: market position, brand and distribution

Class	Renewing business ⁽¹⁾	New business ⁽²⁾	Core business ⁽³⁾	Opportunistic business ⁽⁴⁾
Property	73%	27%	69%	31%
Energy	67%	33%	88%	12%
Marine	81%	19%	87%	13%
Aviation	97%	3%	100%	0%
Overall	73%	27%	80%	20%

- “Brokers are our clients” – our brokers are our distribution base; we don’t create conflicts for brokers by operating U.S. retail offices that compete with their production
- In softer markets we may choose to continue to support critical “core” relationships by remaining on a program, but with a smaller line or a higher attachment
- As a recognised leader in our specialty insurance lines, our brokers and clients appreciate our creative thinking, flexible line size and commitment to our core business lines
- Lead or agreement party on 68% of our business, demonstrating broker confidence

⁽¹⁾ Renewing business: All renewals including like for like and those with substantive changes to layers, terms and conditions.

⁽²⁾ New business: Business not written in the prior policy period which can include new layers/ sections on renewal accounts.

⁽³⁾ Core business: Business that we expect to renew over the long term meeting our RoE hurdles through the cycle with a strong client relationship.

⁽⁴⁾ Opportunistic business: Business that may or may not renew and is written because of favourable current pricing, terms and conditions.

Based on 2011 portfolio as at 31 December 2011.

underwriting comes first: lessons learned

	What did we do; what did we learn?
Australia and New Zealand	<ul style="list-style-type: none">• Confirmed our view that 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 are very hard, if not impossible, to price given the lack of clarity on exposures
Japan	<ul style="list-style-type: none">• Increased confidence in actual exposures calibrated by the loss, coupled with favourable pricing increases, translates into a willingness to take on increased risk• Eliminated the bulk of D&F exposure as payback was negligible• Our modelling proved robust – roughly a 1/100 year loss for Lancashire
USA	<ul style="list-style-type: none">• Above all confirmed our “single peril” approach to the U.S.; we generally prefer higher layers of regional programmes where you can avoid the flood, brush fire, hail and tornado losses• Calibrated our exposures on some of the Mid-Atlantic programmes where we participate on higher layers; no appetite to move lower• Opened up the Farm Bureau business where clients bought a lot more cover
Thailand	<ul style="list-style-type: none">• Improved tracking of CBI and Flood exposures added to our underwriting system• Updated the sub limits definition on D&F to improve the wording where possible• Wrote JIA and regional retro renewals at large rate rises and with restrictions on coverage

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	360 (24%)	499 (33%)
california	earthquake	121 (8%)	283 (19%)
pacific northwest	earthquake	33 (2%)	191 (13%)
pan-european	windstorm	205 (14%)	277 (19%)
japan	earthquake	162 (11%)	294 (20%)
japan	typhoon	151 (10%)	347 (23%)

⁽¹⁾ As at 1 April 2012.

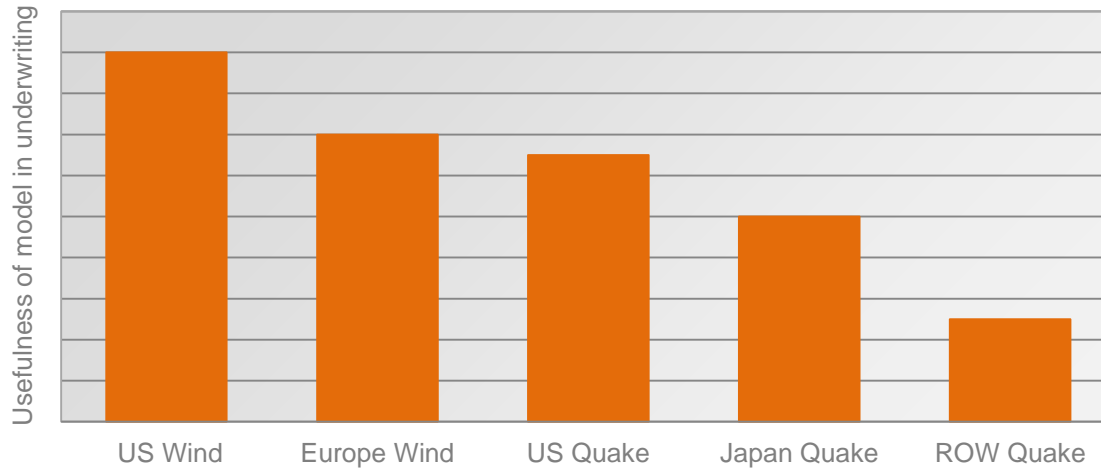
THE GROUP HAS DEVELOPED THE ESTIMATES OF LOSSES EXPECTED FROM CERTAIN CATASTROPHES FOR ITS PORTFOLIO OF PROPERTY AND ENERGY CONTRACTS USING COMMERCIALY AVAILABLE CATASTROPHE MODELS, WHICH ARE APPLIED AND ADJUSTED BY THE GROUP. THESE ESTIMATES INCLUDE ASSUMPTIONS REGARDING THE LOCATION, SIZE AND MAGNITUDE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

model credibility



Natural catastrophe models are relied on more where:

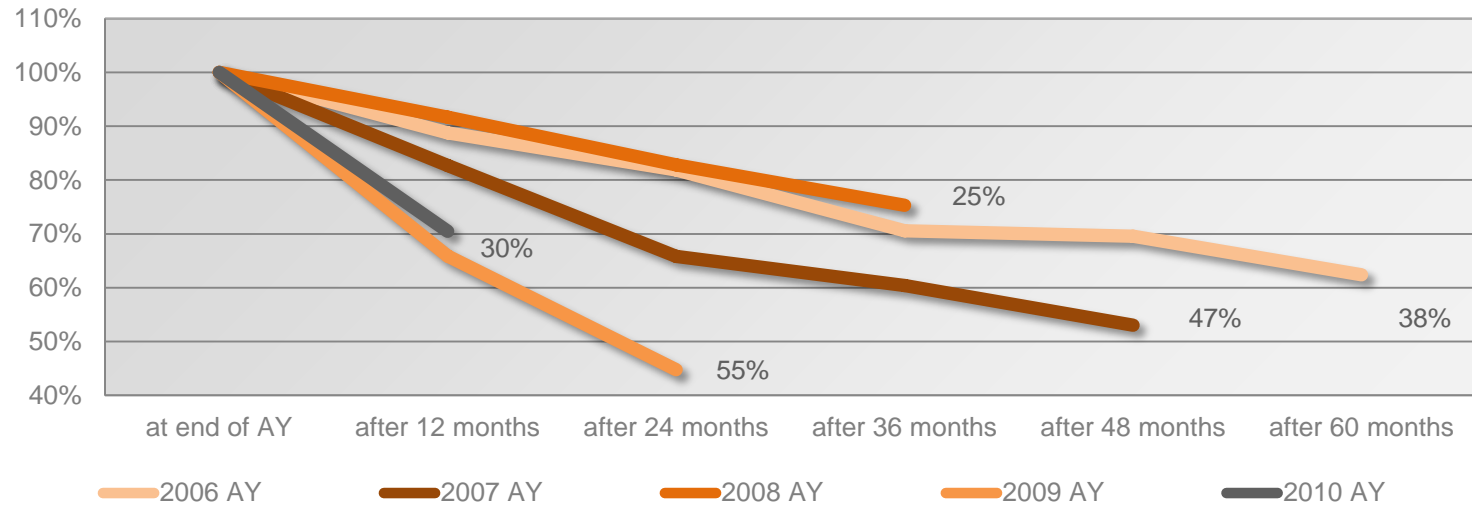
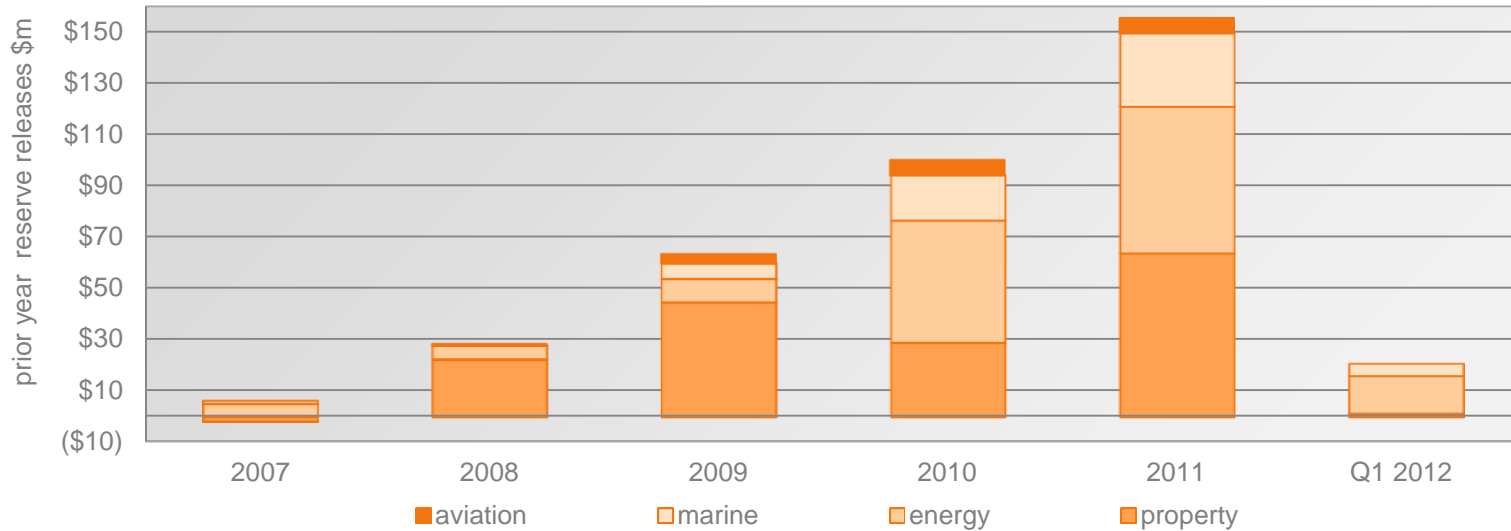
- Frequency of loss helps to validate them
- Data quality is higher

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
- 115 employees. Business model still very scalable to all parts of the cycle

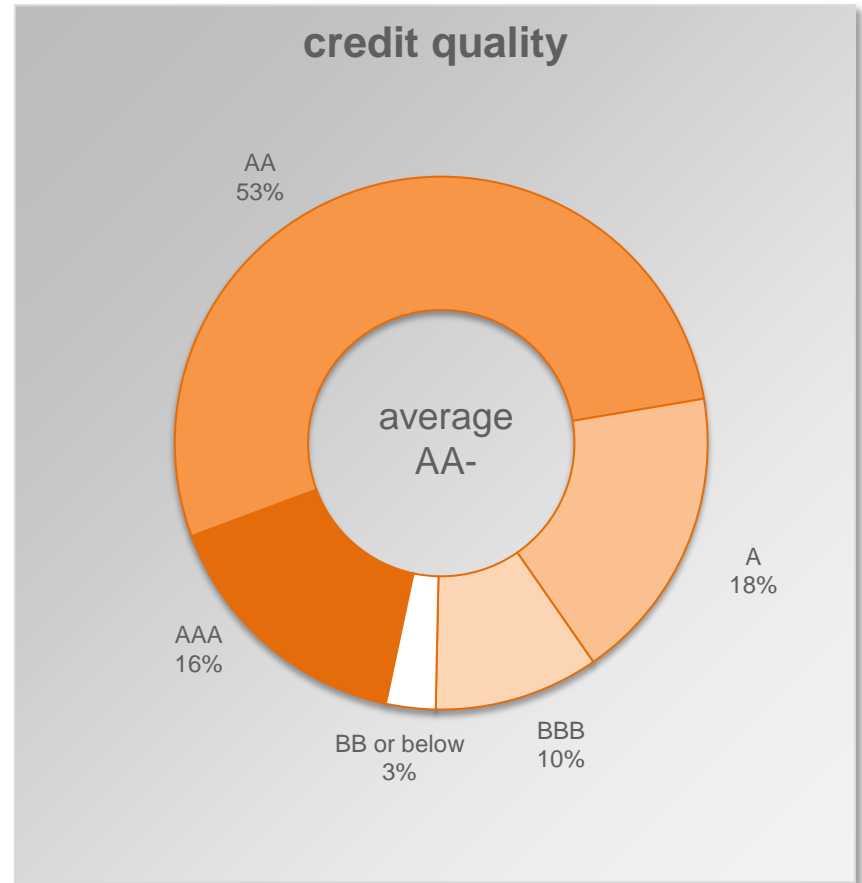
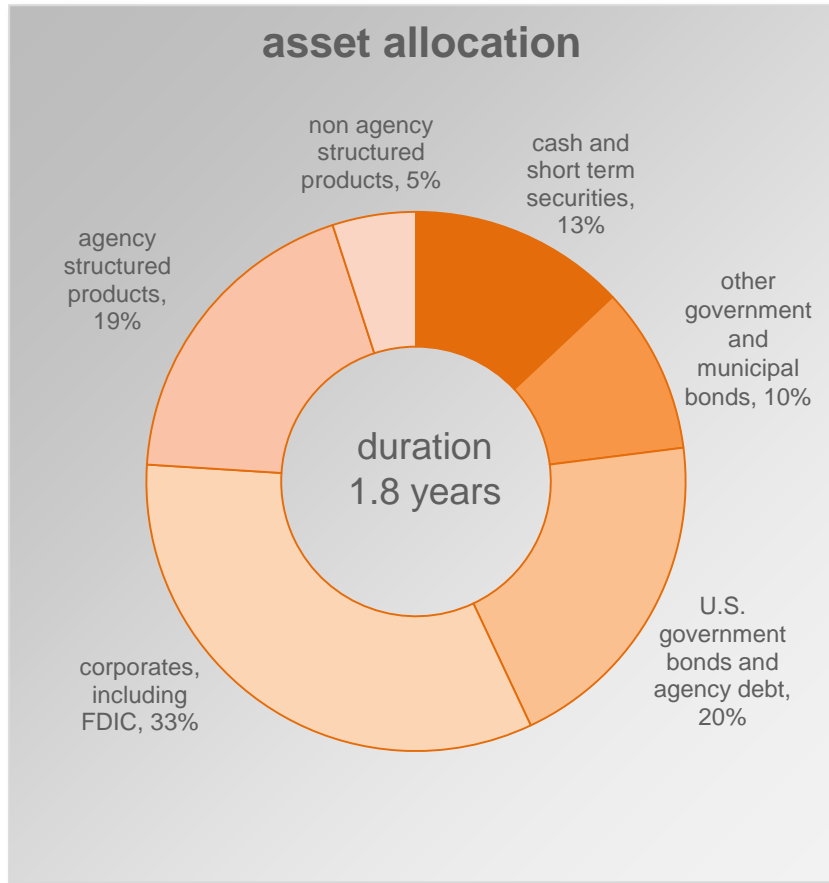
effectively balance risk and return

consistent favourable reserve development



effectively balance risk and return

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



- Total portfolio at 31 March 2012 = \$2,034m

effectively balance risk and return

- **Our market outlook remains subdued:**
 - Continued concerns about Europe and it's potential contagion
 - Continued elevated global volatility
- **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:
 - ✓ No equity or alternative asset holdings
 - ✓ Negligible foreign currency exposure in emerging market debt portfolio
 - 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

operate nimbly through the cycle

- **How are we being influenced by current opportunities?**
 - Significant improvements in pricing and terms and conditions for property retrocession business
 - Increase leverage in market via sidecar, Accordion
 - Significant improvements in post loss Japanese market
 - Increase leverage in market through opportunistic purchasing of reinsurance
- **Capital tools available, and actively used:**
 - Debt and equity markets – longer term tool
 - Contingent capital markets – shorter term tool
 - Alternative capital vehicles e.g. sidecars – mid term tool
 - Special dividends – shorter term tool
 - Share repurchases – mid term tool
 - Reinsurance – shorter term tool
- **Capital decisions are driven by opportunities and risk appetite**

operate nimbly through the cycle

proven record of active capital management

	2007	2008	2009	2010	2011	2012	total
	\$m	\$m	\$m	\$m	\$m	\$m	\$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	-	29.4
ordinary dividends – final ⁽¹⁾	-	-	-	20.8	18.9	19.2	58.9
total	339.3	58.0	290.4	430.6	180.4	19.2	1,317.9
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%	0.8%	n/a

134.7% 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 2011 final dividend of \$19.2 million that was paid on 18 April 2012.

conclusion

- Lancashire has one of the best performances and yet the lowest volatility in the London and Bermuda markets
- 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



www.lancashiregroup.com

Bermuda - (1) 441 278 8950

London - 44 (0)20 7264 4000