

Underwriting comes **first**

Effectively **balance** risk and return

Operate **nimbly** through the cycle

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ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE 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**

# An established and successful market leader

**Lancashire is a provider of global specialty insurance and reinsurance products operating in Bermuda and London with rated, collateralised and Lloyd's balance sheets. 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 19.2% since inception in December 2005
- Total shareholder return of 435.6%<sup>(1)</sup> since inception, compared with 74.5%<sup>(1)</sup> for S&P 500, 131.2%<sup>(1)</sup> for FTSE 250 and 108.0%<sup>(1)</sup> for FTSE 350 Insurance Index
- Returned 193.0%<sup>(2)</sup> of original share capital raised at inception or 93.3%<sup>(2)</sup> of cumulative comprehensive income
- \$325.6m of capital returned in 2013, \$42.0m special dividend declared 12 February 2014
- 2013 combined ratio of 70.2%<sup>(3)</sup>
- 2013 growth in fully converted book value per share, adjusted for dividends, of 18.9%
- Lancashire Capital Management division Kinesis commenced and now has approximately \$300 million of limit bound from market capital raise and special draw
- Lancashire completed the acquisition of Cathedral in November 2013

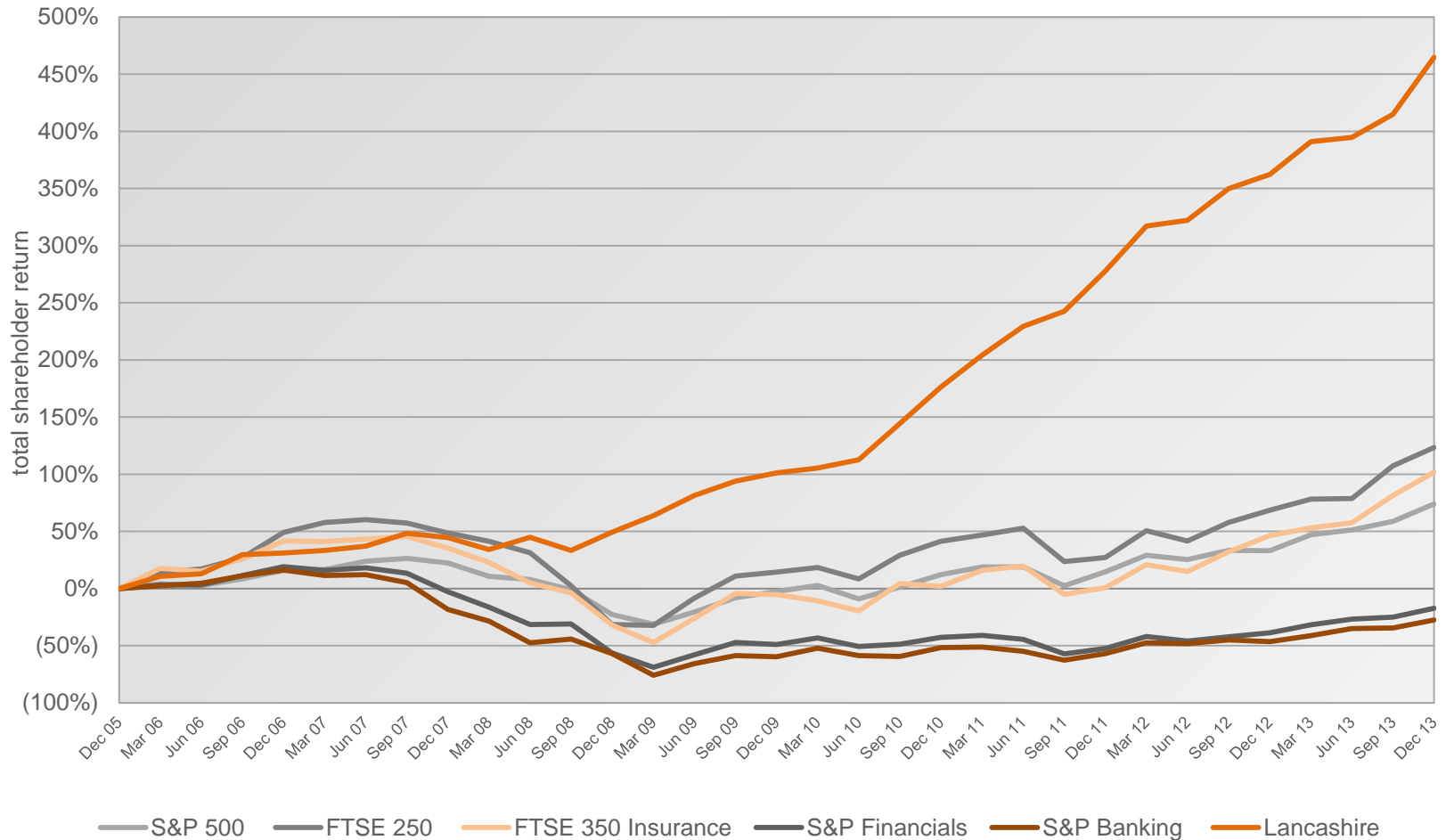
<sup>(1)</sup> Shareholder return from 12 December 2005 through 3 March 2014. LRE and FTSE returns in USD terms.

<sup>(2)</sup> This includes the dividends of approximately \$63.0 million that were declared in February 2014.

<sup>(3)</sup> Including G&A.

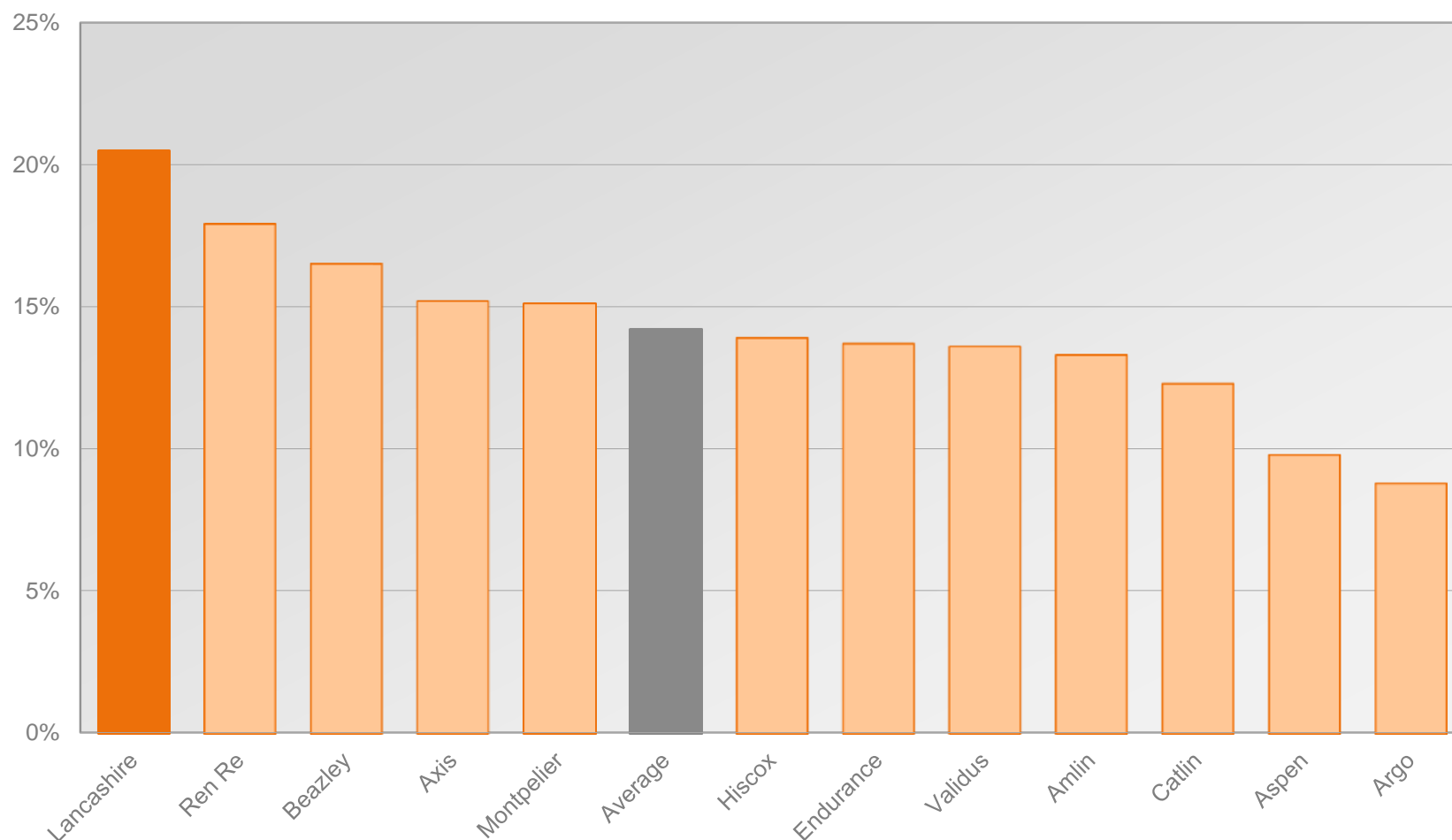
Our goal: to provide an attractive risk-adjusted total return to shareholders over the long-term

### Lancashire total shareholder return vs. major index returns



# Consistency: long-term performance vs peers <sup>(1)</sup>

## 5 year compound annual RoE <sup>(2)</sup>

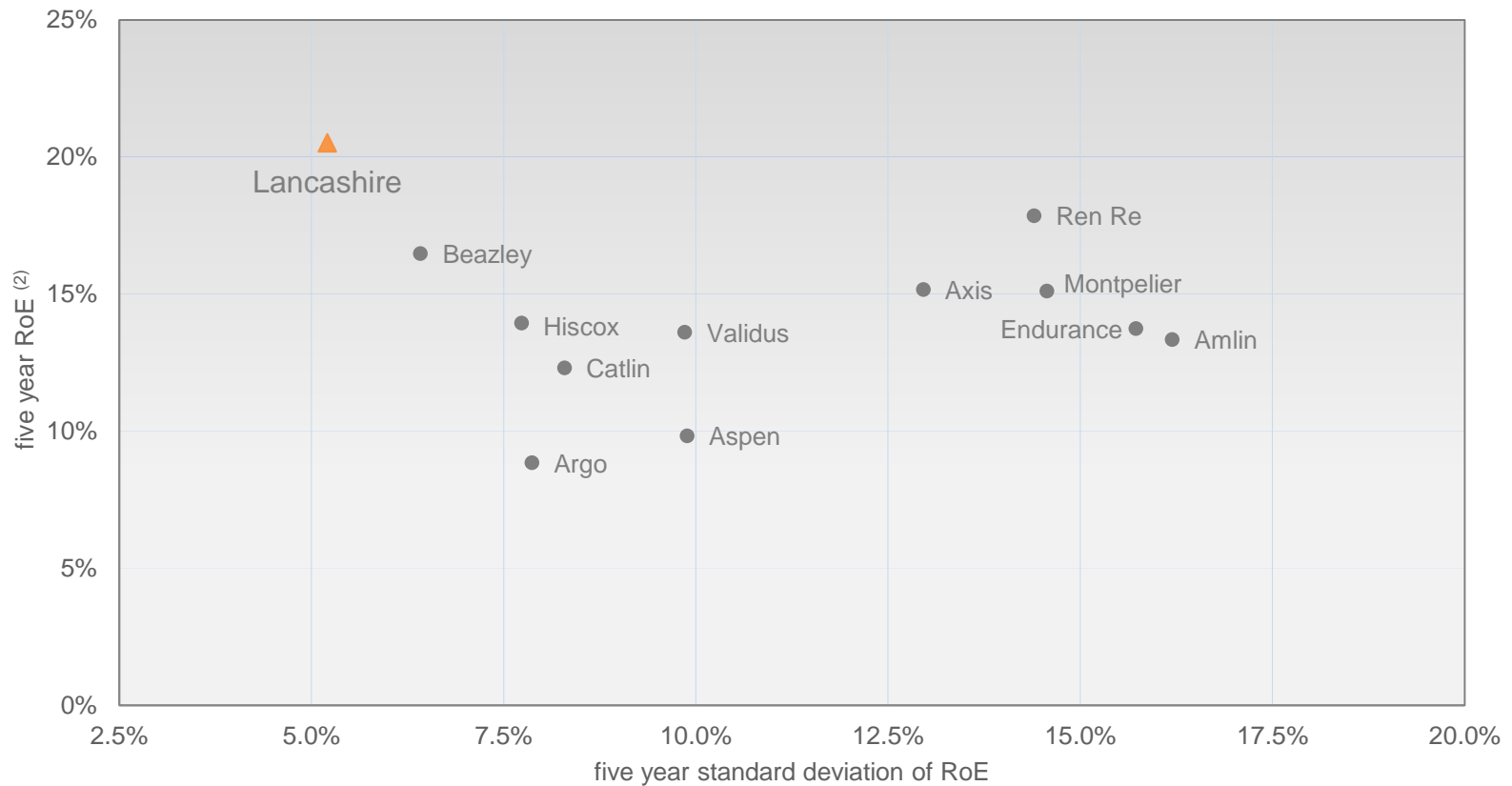


<sup>(1)</sup> Peer group as defined by the Board, and used for variable compensation calculations.

<sup>(2)</sup> Compound annual returns for Lancashire and sector are from 1 January 2009 through 31 December 2013. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. For Amlin, Beazley, Catlin, Hiscox and Ren Re basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports.

# Consistency: total value creation (TVC)

five year standard deviation<sup>(1)</sup> in TVC



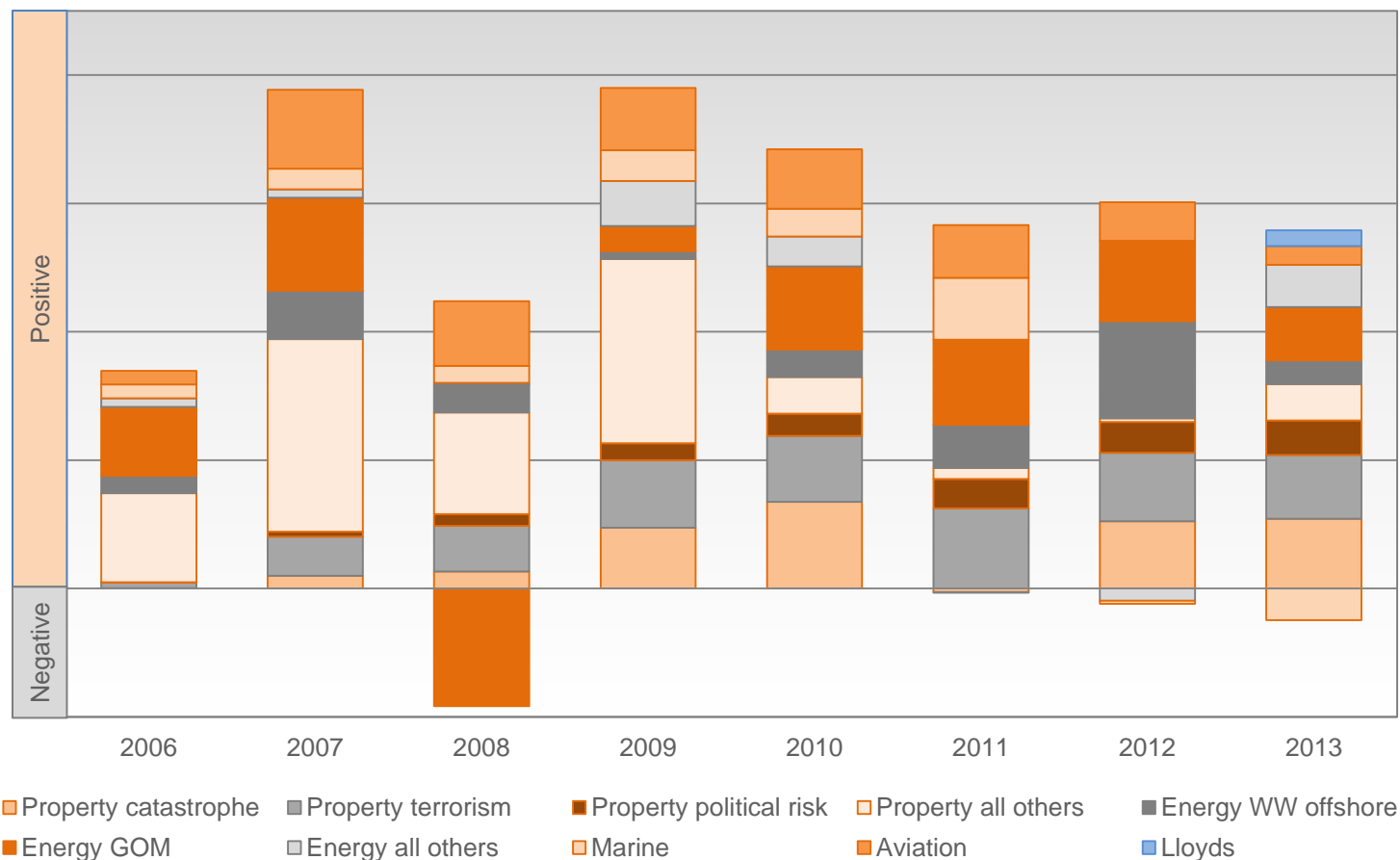
- Lancashire has one of the best performances and yet the lowest volatility versus peers
- Evidence of adherence to business plan and strong risk management

<sup>(1)</sup> Standard deviation is a measure of variability around the mean.

<sup>(2)</sup> Compound annual returns for Lancashire and sector are from 1 January 2009 through 31 December 2013. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. For Amlin, Beazley, Catlin, Hiscox and Ren Re, basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports.

# Consistent performance to date - exceptional underwriting performance

## Underwriting income by line of business

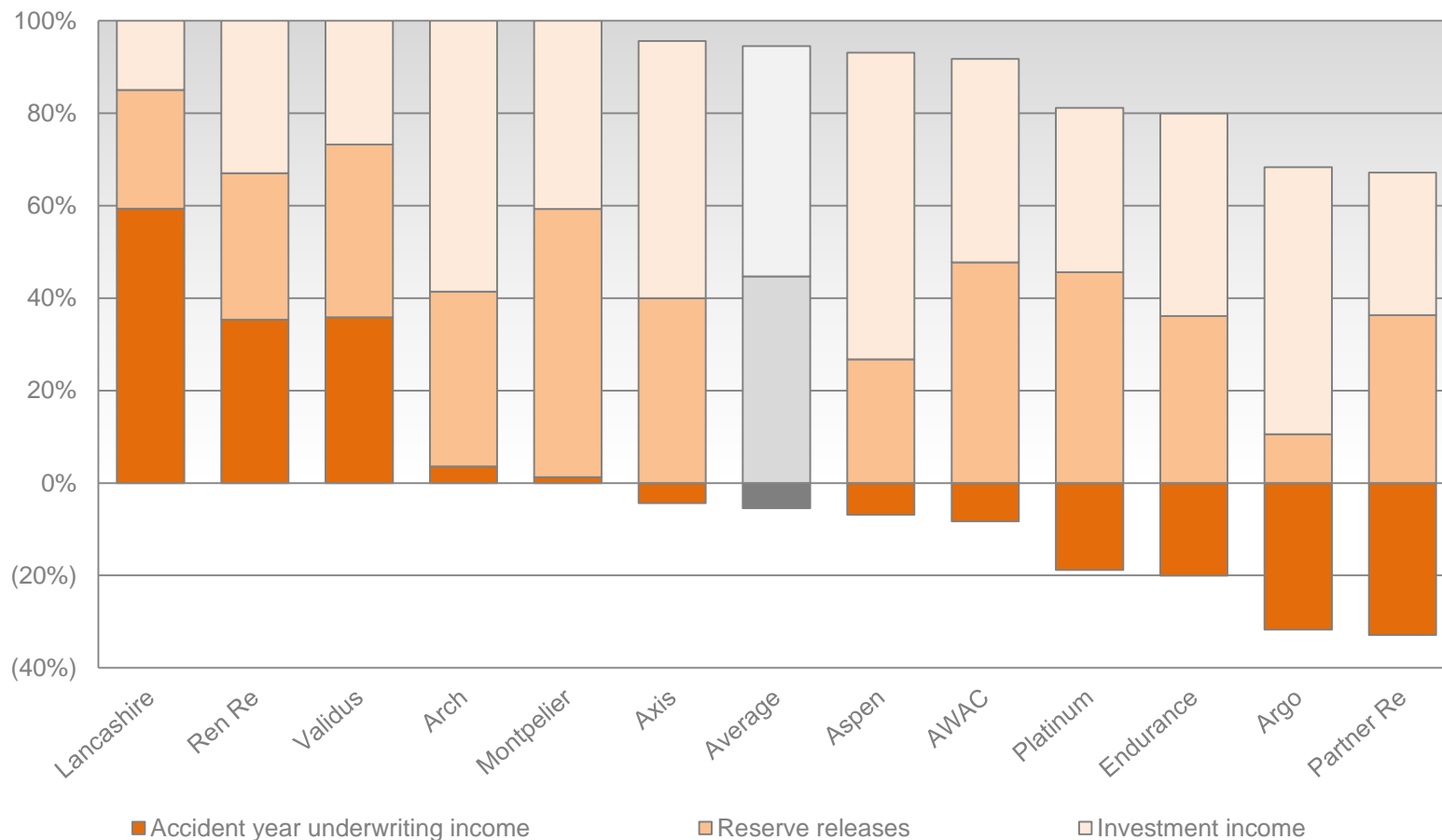


- Demonstrates that Lancashire has a broad base of profitable underwriting lines, not reliant on one line



# Consistent performance to date - Exceptional underwriting performance and conservative investment approach

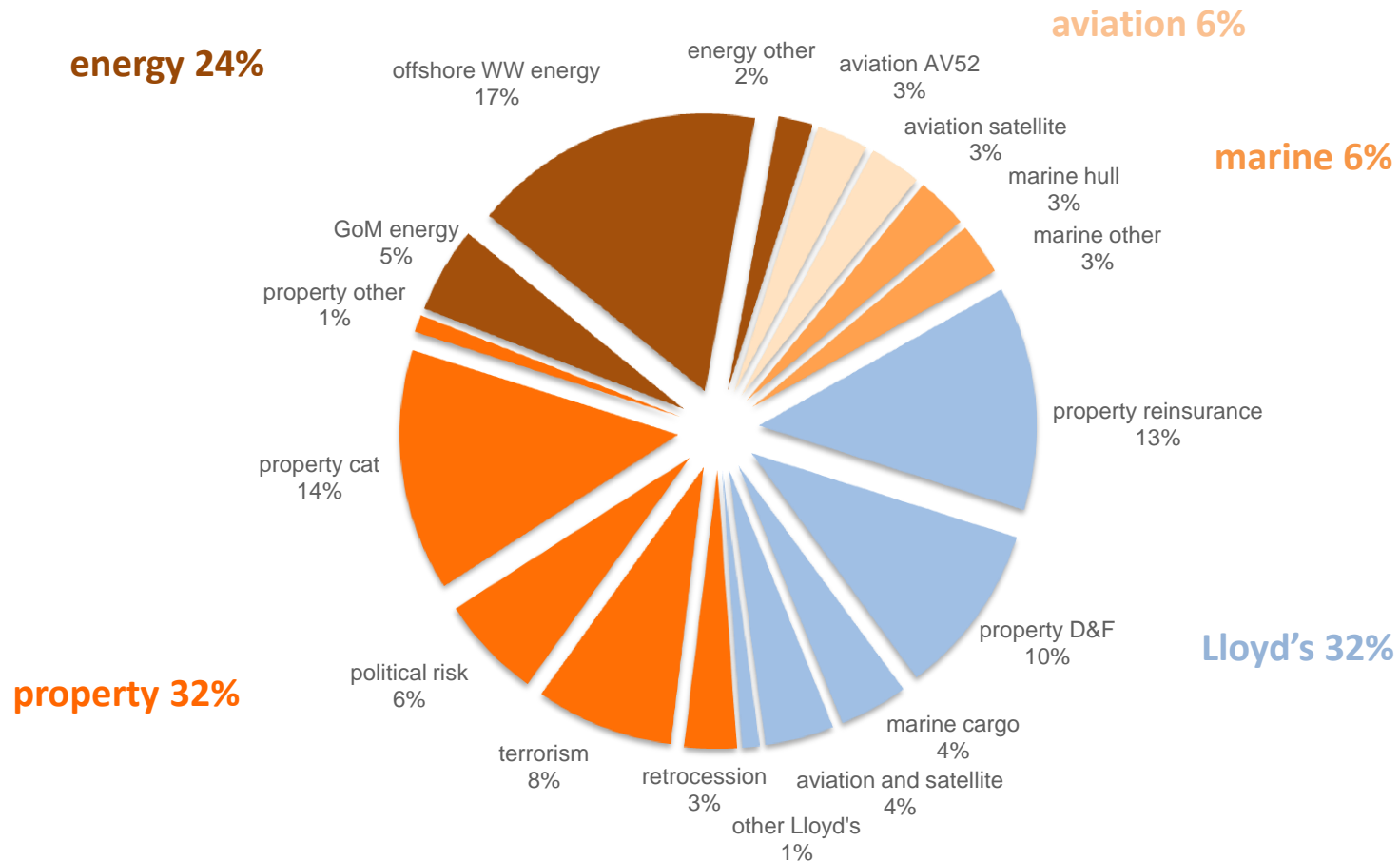
## Five year average split of investment & underwriting profit 2009 - 2013



**Underwriting comes first**

# Underwriting comes first

67% insurance 33% reinsurance 38% nat-cat exposed 62% other



Based on 2014 reforecast as of 12 February 2014. Estimates could change without notice in response to several factors, including trading conditions.

# LICL & LUK overview

## **Rebalanced Catastrophe exposures; GoM constant, Cat XL growing, Retro reducing, D&F reduced to minimal: WHY?**

- Lancashire D&F approach was too capital intensive in the tail, and had unacceptable parameter risk
- Property Retro prime area for TPC, marginal pricing no longer attractive to Lancashire
- Cat XL underdeveloped, as start up we deployed capacity in D&F/Retro in 2006/7
- GoM wind business, niche product, less competition, strong client broker relationship, great record on deep water assets, high relationship barriers to entry

## **Growing the core book with clients and brokers in our key lines**

- Terror brokers key to the market, work closely, substantial line and swift decisions
- Energy clients need lead markets to set price, agree wordings and claims
- In marine & aviation we have dominant shares of niche market segments
- In political & sovereign risk we have clearly defined appetite and expanded team
- Cat XL book doubled in size at 1/1/14
- Underwriting team has grown by 17 to 38 (including Cathedral and Kinesis) with new underwriters in energy, marine, terror, political risk and cat XL with more to come

## **How can we measure our performance?**

- In 2013 : 11% increase in submissions, but 36% absent the effect of the D&F reduction
- At 1/1/13 wrote cat XL to 10 brokers; at 1/1/14 wrote cat XL to 18 brokers

## **Bought more reinsurance:**

- Retro bought for first time to protect Cat XL book: \$100m x/s of \$100m in the agg
- Approx 25% more risk reinsurance for energy, marine and terrorism

# Cathedral overview

**Syndicate 2010 combined ratio = 2005-2012 - 87% against Lloyd's average of 95%**

## **Prepared for softening environment by leveraging outwards reinsurance opportunities**

- 1/1 renewal season saw top line marginally down on business plan BUT bottom line up
- Signing protected by key relationships – not the potential issue it has been for others
- Exposures broadly flat to marginally down
- More reinsurance purchased to reduce retentions further and protect against frequency

## **Development of Syndicate 3010**

- Initial application into Lloyd's to bring in energy and terror accounts utilising Lancashire expertise
- Lloyd's brings licensing in previously inaccessible territories such as Canada, Mexico, Brazil
- Plan to further build out by attracting additional market leading underwriters over time

## **Streamlining the business**

- Excess Funds at Lloyd's ("FAL") extracted
- 85% quota share of the Corporate Member put in place from 1<sup>st</sup> January 2014
- Cathedral representatives appointed to RRC and Executive Committee
- Underwriting synergies generated by cross-selling and referrals
- Integrated catastrophe aggregations at a Group level
- New office space in London to have everyone situated on one floor, Q3 2014

# Kinesis

**Kinesis Re is a special purpose insurer established in June 2013 to write multi-class reinsurance business on a fully collateralised basis**

## Summary

- Key individuals Darren Redhead (ex D.E. Shaw) & Mathieu Marsan (ex Pentelia Capital)
- Total limits deployed to date are close to \$300m, and targeting up to \$400-500m by the end of 2014
- Targeting underwriting fees approximately equal to 2% of assets under management with a profit commission of 16.5% once hurdles achieved
- Lancashire currently has an investment of 10% in Kinesis Holdings, and intends to maintain its 10% ownership in future offerings up to a maximum of \$100m
- Does not conflict with Lancashire's existing business
- Leverages Lancashire's expertise in short-tail speciality lines building unique, tailored products
- Substantial R&D has been carried out to understand what markets want to purchase, not just deploying capacity for the sake of fees only

## Core

- Saltire type product incorporating worldwide aggregate elemental and non-elemental bespoke covers with an expected loss of around 8 to 10%
- Mid-year energy solutions using Lancashire's distribution, data and pricing methodology
- Post-loss non-marine and marine retro, ability to upscale and expand products dramatically
- Post-loss specific single shot such as JIA & Sirocco on a special draw basis to profit from market dislocations and off cycle opportunities

# Market position, brand & distribution - Lancashire

## Lead and agreement party and market position by line of business

### Lead and agreement

Class	2013	2012
Property	83%	65%
Energy	75%	65%
Terrorism	91%	87%
Marine	63%	56%
Aviation	80%	68%
All classes	80%	68%

### Market position

Class	Renewing business <sup>(1)</sup>	New business <sup>(2)</sup>	Core business <sup>(3)</sup>	Opportunistic business <sup>(4)</sup>
Property	65%	35%	73%	27%
Energy	89%	11%	94%	6%
Marine	98%	2%	96%	4%
Aviation	91%	9%	70%	30%
All classes	78%	22%	82%	18%

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

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

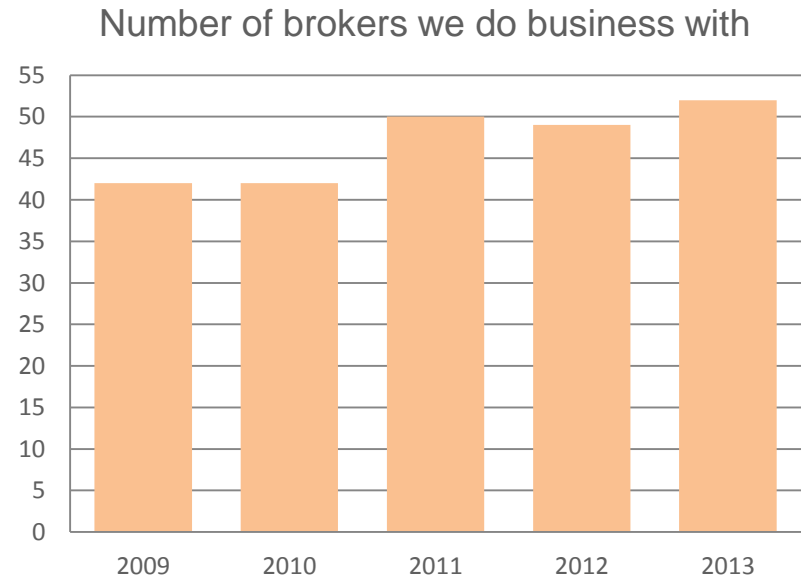
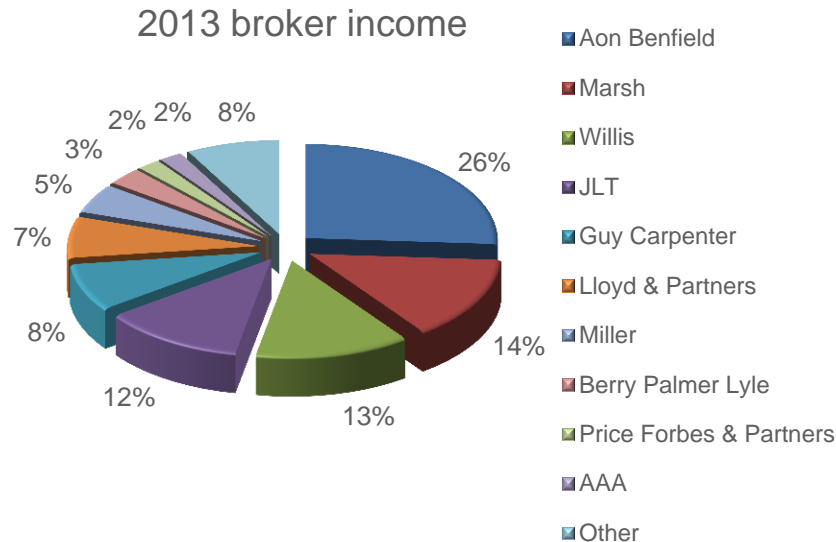
<sup>(3)</sup> Core business: Business that we expect to renew over the long term meeting our RoE hurdles through the cycle with a strong client relationship

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

Based on 2013 portfolio, excluding Lloyd's segment, as of 31<sup>st</sup> December 2013

# 2013: Market position, brand & distribution - Lancashire

Since inception, Lancashire has believed it is key that we are recognised as a major market and expert within our product lines



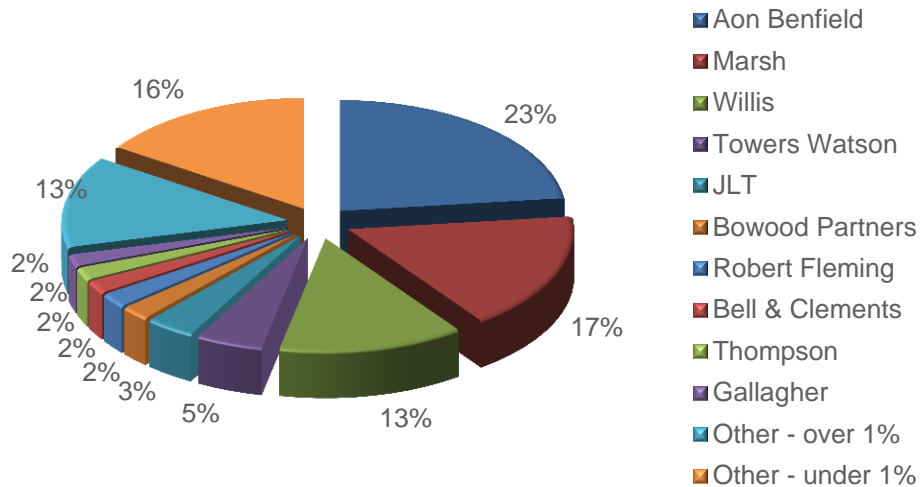
- Lancashire writes a limited number of classes with a well defined appetite in each e.g. energy – worldwide offshore and Gulf of Mexico wind; marine – high-value fleets, war, mortgagees cover, etc
- This means that Lancashire can focus on niche products and bring to bear market leading capacity and expertise
- Brokers will follow the line of least resistance, and Lancashire's capacity ensures that we see business early on when placements are being structured
- The Lancashire brand as a nimble, intelligent underwriter able to ignore emotion and focus on fundamentals means that we are the de facto leader of the post-loss market – demonstrated in New Zealand, Japan, Thailand, Canada



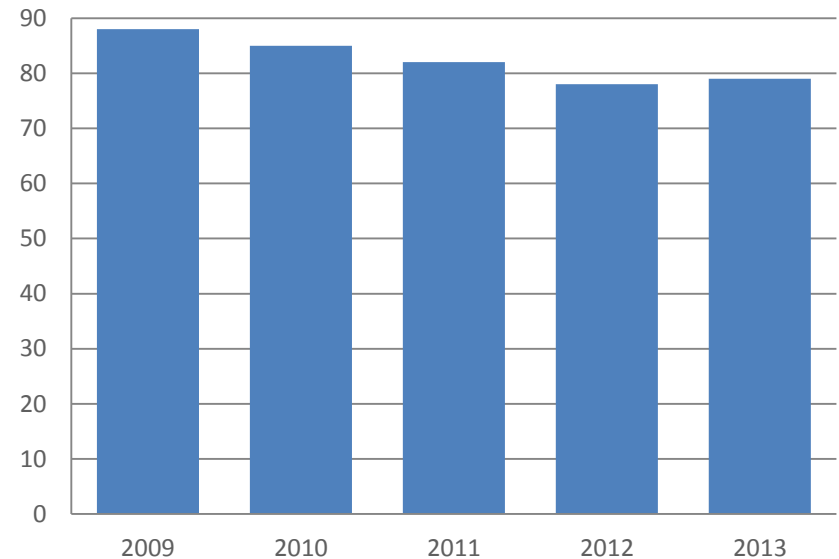
# 2013: Market position, brand & distribution - Cathedral

**Each line of business uses specialist niche brokers**

2013 broker income



Number of brokers we do business with



- Diversity of producers means Cathedral holds more power than if writing just Aon, Marsh, Willis books
- Niche focus of underwriting reflected in distribution channels

# Balance risk and return

# Risk and Return Committee (RRC)

- **What does it do**

- Co-ordinates strategy and ERM activities for the Group and Subsidiaries – LUK, LICL, Cathedral & Kinesis
- Underwriting risk; market and liquidity risk; reserve risk; operational risk
- Challenges the assumptions behind risk profiles, appetites and tolerances
- Optimisation of the portfolio including new business/product assessment, assessing capital requirements, synthetic portfolio analysis and outwards reinsurance assessment

- **Why do we do it**

- Risks are never static – change is a constant
- Senior representatives from LUK, LICL, Cathedral and Kinesis
- Brings together underwriting, actuarial, finance, capital management, operations and risk
- UMCC is the gatekeeper of tactics; RRC is the gatekeeper of strategy

- **Why is Lancashire different**

- Every two weeks – nimble
- Full portfolio – basic BLAST output
- Cross discipline challenge across all areas of risk at the heart of the business by senior management

# Effectively balance risk and return

zones	perils	100 year return period \$m (% of capital) <sup>(1)</sup>	250 year return period \$m (% of capital) <sup>(1)</sup>
Gulf of Mexico <sup>(2)</sup>	hurricane	287 (16%)	419 (23%)
California	earthquake	140 (8%)	227 (13%)
Pacific Northwest	earthquake	48 (3%)	151 (8%)
Pan-European	windstorm	167 (9%)	233 (13%)
Japan	earthquake	117 (7%)	175 (10%)
Japan	typhoon	91 (5%)	137(8%)

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.

<sup>(1)</sup> Estimated net loss as at 1 July 2013.

<sup>(2)</sup> Landing hurricane from Florida to Texas.

# Financial flexibility – capital management

## **Our capital level is driven by underwriting opportunities and our outlook**

- In Q3 underwriters begin projecting opportunities for the forthcoming year; we model various synthetic portfolios looking for real-world optimal risk and reward balance
- In Q4 we get a better sense for the opportunity, finalise budgets and plans, pay a special dividend but hold back some additional capital for a Q4 loss or January 1 opportunities, particularly if our outlook is uncertain due to market conditions
- In Q1 after January 1 book has been written and the majority of reinsurance bought, the business plan is updated and we rebalance capital again to reflect the opportunity, including an additional special dividend if warranted
- In Q2 we begin building up capital again through retained earnings

## **So when wouldn't Lancashire pay a special dividend?**

- After a major loss event where we can deploy additional capital opportunistically into dislocated markets for good returns. In 2011/12, after a series of worldwide cat losses, we held back capital in Q4 12, but then paid out an additional dividend in Q1 13. It would take a much bigger loss or series of losses to eliminate the special dividend.
- Financial chaos, as in 2008, where both equity and debt markets were effectively shut to us, so we need to retain capital in case of an opportunity.

**With Lancashire UK and Bermuda, Cathedral and Kinesis we have a full range of balance sheet options to deploy capital most effectively. But the commitment to repatriate surplus capital is unchanged. Conversely, we would raise capital in the right circumstances, as demonstrated by recent debt and equity issuances.**

# Operate nimbly through the cycle

## proven record of active capital management

	2007 \$m	2008 \$m	2009 \$m	2010 \$m	2011 \$m	2012 \$m	2013 \$m	2014 <sup>(4)</sup> \$m	total \$m
<b>share repurchases</b>	100.2	58.0	16.9	136.4	-	-	-	-	311.5
<b>special dividends <sup>(1)</sup></b>	239.1	-	263.0	264.0	152.0	172.6	295.9	42.0	1,428.6
<b>ordinary dividends – interim <sup>(1)</sup></b>	-	-	10.5	9.4	9.5	9.6	10.5	-	49.5
<b>ordinary dividends – final <sup>(1)</sup></b>	-	-	-	20.8	18.9	19.2	19.2	21.0	99.1
<b>total</b>	<b>339.3</b>	<b>58.0</b>	<b>290.4</b>	<b>430.6</b>	<b>180.4</b>	<b>201.4</b>	<b>325.6</b>	<b>63.0</b>	<b>1,888.7</b>
<b>average price of share repurchase <sup>(2)</sup></b>	102.2%	88.4%	98.5%	97.9%	n/a	n/a	n/a	n/a	97.6%
<b>weighted average dividend yield <sup>(3)</sup></b>	15.2%	n/a	18.1%	18.0%	8.4%	8.3%	12.3%	n/a	n/a

**193.0% of original IPO share capital has been returned to shareholders <sup>(4)</sup>**

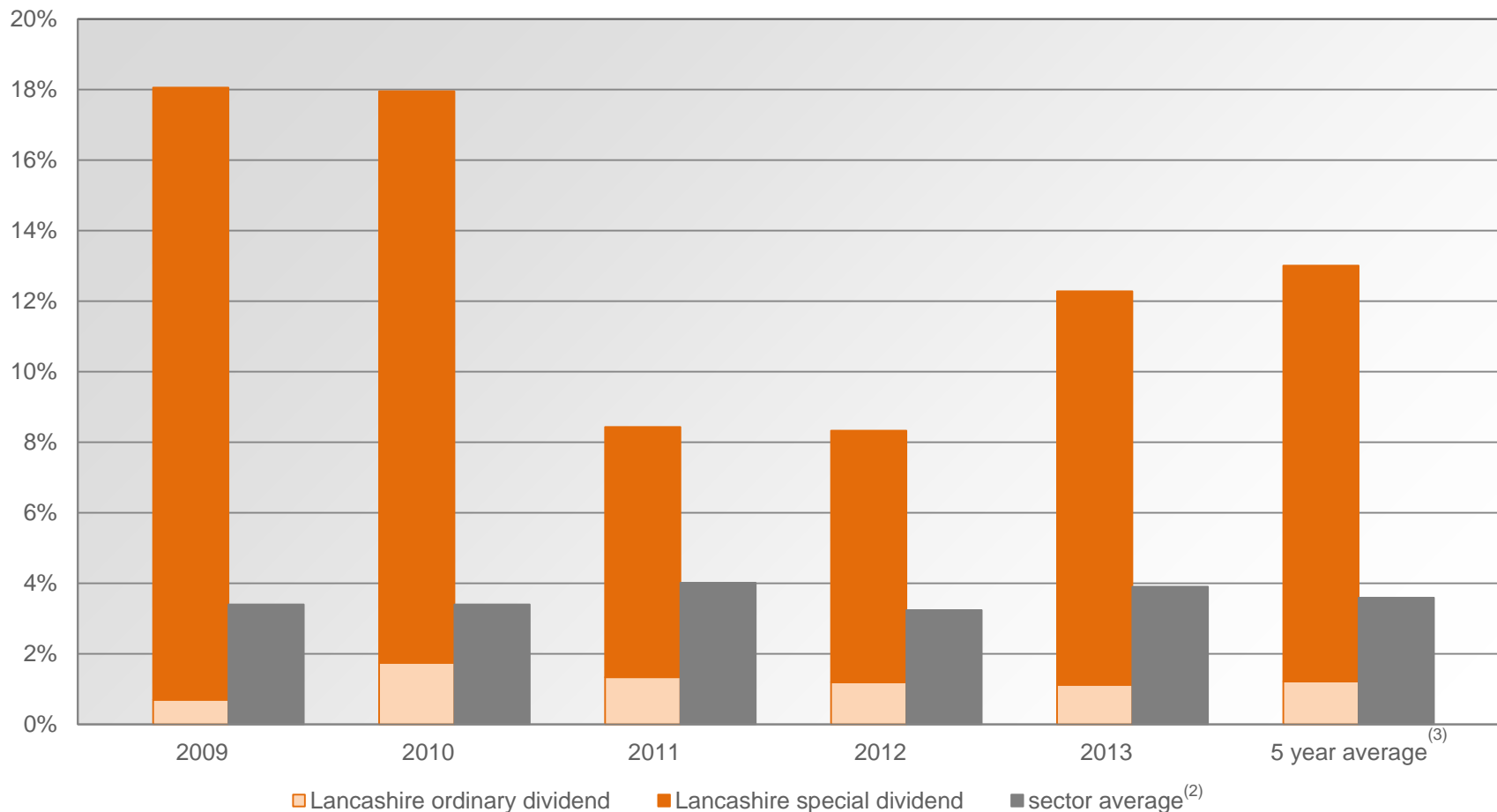
<sup>(1)</sup> Dividends included in the financial statement year in which they were recorded.

<sup>(2)</sup> Ratio of price paid compared to book value.

<sup>(3)</sup> Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price.

<sup>(4)</sup> This includes the dividends of approximately \$63.0 million that were declared in February 2014.

## 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. Source: Bloomberg.

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

(3) 5 year average based on the 2009 to 2013 reporting periods.

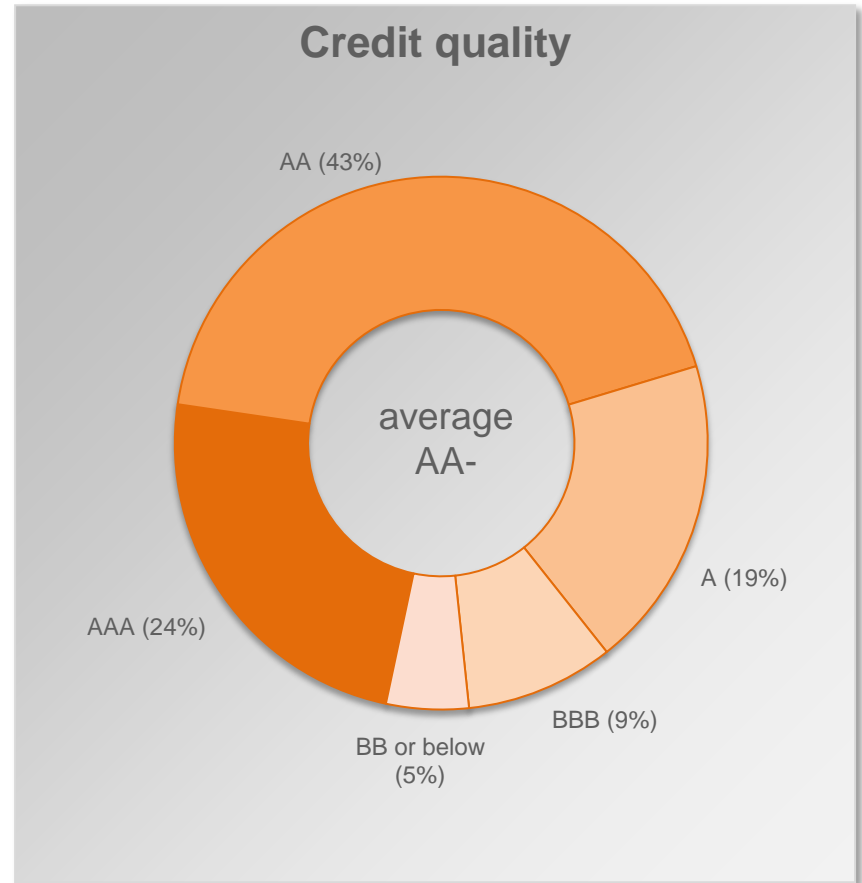
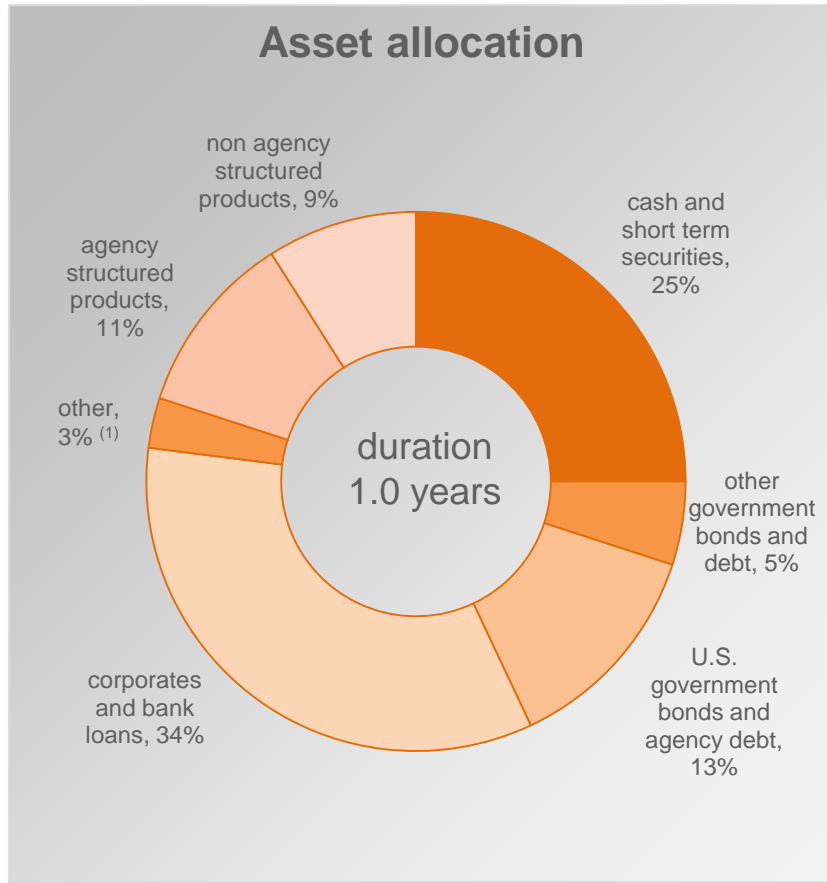
# Effectively balance risk and return: conservative investment philosophy

- **Our market outlook remains subdued:**
  - While the U.S continues to generate mostly positive economic data, global headline risk adds volatility in the market and once again we see a risk on/risk off environment.
  - China's lower expected growth continues to affect global growth and central bank policies around the world, leaving policy mistakes as considerable risk in the global economy.
- **Preservation of capital continues to be paramount and we will focus on interest rate risk**
  - Maintain reduced investment portfolio duration, despite low yields
  - Increased exposure to floating rate notes
  - Mitigate interest rate risk:
    - ✓ Increase exposure to floating rate notes and non-fixed income asset classes
  - Implementation of tail risk hedge:
    - ✓ In the first six months of 2013, derivative instruments were purchased and sold to protect the investment portfolio from a rapid rise in interest rates.
  - Continue 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
  - Look to add investments that will diversify the portfolio and mitigate losses in a rising interest rate environment.



# Effectively balance risk and return

## Capital preservation



- Total portfolio at 31 December 2013 = \$2,363m

<sup>(1)</sup> Other includes fixed income funds, fixed income - at fair value through profit and loss, equity securities and other investments.

# Conclusion

# Conclusion

- Lancashire has one of the **best performances** and yet the **lowest volatility** in the London and Bermudian markets.
- We have remained true to our business plan, while adapting to market changes. We have just completed an acquisition, but the Cathedral team are like-minded, disciplined underwriters, as evidenced by their track record
- Our management team is proven; the Cathedral management team is proven; the Kinesis management team is proven
- Cathedral expected to produce approximately one third of the group premium going forward
- Cross selling seen across D&F / Terror, Cargo, Property Catastrophe USA & worldwide, Kinesis
- People: Lancashire is attracting top performers
  - James Flude - Head of energy & marine - recognised lead, 13 years Lloyd's experience
  - Darren Redhead & Mathieu Marsan - Kinesis CEO and portfolio manager
  - Cathedral 7 "partners" including members of Lloyd's committees

# Appendix

# Lancashire: Property catastrophe reinsurance

## Mitigating impact of falling rates

- Utilising a modified line size matrix – weighted so that larger capacity deployed on bigger programmes
- New private layers
- New capacity only to those territories where pricing is still attractive
- Purchased \$100m retrocession limit excess of an aggregate of \$100m of applicable losses

## Ability to compete

- Multi year capacity / reinstatement
- Willing to offer more multi-layer support to the programme where pricing is adequate but always expose largest capacity to top layers
- Increased marketing efforts
- We provide transparency, good service, quick turnaround and excellent claims service

## Outlook

### Cat XL – USA

- New entrants into the regional U.S. market
- Limited Florida exposure
- The book has grown as expected by targeting key client relationships and nationwide accounts

### Cat XL – Asia

- After a solid April 2013 renewal season with additional regional development and relationships, aside from rate reduction, we expect an orderly renewal of the book at April 1, 2014 with rate reductions circa 10%
- Offering limited regional retrocession in Asia only when territorial scope is defined

### Cat XL – Rest of world

- Achieved our targeted growth in Europe with carefully selected partners at very good levels. Capacity now deployed in countries we previously did not have a footprint
- Australasia – top end capacity deployed regionally to avoid lines correlating in the same event – also avoid giving NZ aggregate away in Australian placements. Will renew this at July 1, 2014, should be straightforward and orderly

## Statistics

Property catastrophe reinsurance	2006	2007	2008	2009	2010	2011	2012	2013	ITD
Cumulative RPI	100	100	97	100	92	100	116	114	n/a
Combined ratio excl. G&A (%)	20.3	15.6	47.2	14.9	24.4	103.3	44.9	29.4	45.1
GWP (\$m)	0.6	19.3	23.4	76.3	98.1	82.0	96.8	97.5	494.0

# Lancashire: Energy

## Mitigating impact of falling rates

- We write the risks with large limit requirements which are more insulated from the lows of rating trend
- Relatively low attritional loss ratios
- Deepwater GOM portfolio demands high limits
- Organic growth within the industry helps maintain premium levels and replacement values increasing
- Increased reinsurance protection at January 1, 2014
- Berkshire exit from some quota share facilities assists market dynamics
- Mega projects with values up to \$6bn stretching capacity and maintaining strong rate levels

## Ability to compete

- Large lines make us relevant and dangerous to ignore as a quoting market to other brokers
- We have the ability and willingness to lead business
- We provide transparency, good service, quick turnaround and excellent claims service
- We have developed direct cross class client relationships that overarch broker relationships
- Market leader for Deepwater GOM and Excess Construction
- Offering excess third party liability capacity protects signings on risk packages
- Strengthened team with hire of James Flude as Head of Energy & Marine

## Outlook

### Gulf of Mexico

- Stable market outlook for deepwater assets
- Demand from deepwater clients remains strong
- 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 and rates close to historical highs
- Market capacity increased at January 1, 2014 which fuels competition

### Excess Third Party Liabilities

- A small selective portfolio with established known clients
- Good demand for excess layers which is in Lancashire's sweet spot
- Syndicate 3010 gives clients and brokers another access point to the Lancashire Group if approved

## Statistics

Energy GOM	2006	2007	2008	2009	2010	2011	2012	2013	ITD
Cumulative RPI	100	80	64	137	139	140	140	136	n/a
Combined ratio excl. G&A (%)	27.5	30.1	210.7	64.6	(8.7)	(19.2)	(9.7)	21.4	46.5
GWP (\$m)	171.8	157.5	74.3	53.8	87.4	60.7	65.5	34.4	705.4

Energy WW offshore	2006	2007	2008	2009	2010	2011	2012	2013	ITD
Cumulative RPI	100	80	68	84	88	97	100	97	n/a
Combined ratio excl. G&A	38.9	39.4	68.1	93.0	78.0	70.7	41.3	85.8	67.8
GWP (\$m)	42.3	72.7	76.3	100.6	123.1	140.3	148.9	149.2	853.4

# Lancashire: Property terrorism and political violence

Mitigating impact of falling rates	Ability to compete																																								
<ul style="list-style-type: none"><li>• TRIPRA uncertainty creating a lot more deal flow and increased demand in the US</li><li>• Incidents globally and uptick in lending creating new opportunities</li><li>• Deploy some smaller subscription capacity on lower layers for preferred business</li><li>• Being pragmatic and sticking with the core book</li><li>• Very low attritional loss ratio</li><li>• Increased reinsurance protection at January 1, 2014</li></ul>	<ul style="list-style-type: none"><li>• Large lines make us relevant and dangerous to ignore as a quoting market to other brokers</li><li>• We have the ability and willingness to lead business</li><li>• We provide transparency, good service, quick turnaround and excellent claims service</li><li>• We have developed direct cross class client relationships that overarch broker relationships</li><li>• We write our own layers not led by Lloyd’s or other capacity; in fact about 16% of our layers are “private” layers</li></ul>																																								
Outlook	Statistics																																								
<b>Terrorism</b> <ul style="list-style-type: none"><li>• More competition with new capacity BUT demand still strong with a good flow of new business opportunities</li><li>• Monitoring TRIPRA renewal negotiations later in 2014 for potential opportunities</li><li>• Syndicate 3010 gives clients and brokers another access point to the Lancashire Group and broadens opportunity, subject to Lloyd’s approval to add additional lines</li></ul>	<table><tr><th>Terrorism</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>ITD</th></tr><tr><td>Cumulative RPI</td><td>100</td><td>86</td><td>71</td><td>66</td><td>60</td><td>57</td><td>55</td><td>52</td><td>n/a</td></tr><tr><td>Combined ratio (%)</td><td>22.4</td><td>16.7</td><td>27.3</td><td>13.7</td><td>24.0</td><td>4.3</td><td>10.9</td><td>13.0</td><td>15.5</td></tr><tr><td>GWP (\$m)</td><td>18.9</td><td>56.6</td><td>75.5</td><td>69.1</td><td>77.8</td><td>68.4</td><td>62.9</td><td>67.8</td><td>497.0</td></tr></table>	Terrorism	2006	2007	2008	2009	2010	2011	2012	2013	ITD	Cumulative RPI	100	86	71	66	60	57	55	52	n/a	Combined ratio (%)	22.4	16.7	27.3	13.7	24.0	4.3	10.9	13.0	15.5	GWP (\$m)	18.9	56.6	75.5	69.1	77.8	68.4	62.9	67.8	497.0
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# Lancashire: Property political and sovereign risk

Mitigating impact of falling rates	Ability to compete																														
<ul style="list-style-type: none"><li>• Large demand for Political and Sovereign Risk products across territories represented by a continued strong submission flow</li><li>• Demand driven by increased perception of threat of Political and Sovereign Risk from events such as the Arab Spring</li><li>• Increased client awareness of the importance of the PR/Sovereign insurance products in providing regulatory and capital relief and balance sheet protection</li><li>• Growing client bases in areas such as the Asia-Pacific and Americas regions</li><li>• Economic recovery increases demand for sovereign products</li></ul>	<ul style="list-style-type: none"><li>• We have the ability and willingness to lead business</li><li>• We provide transparency, good service, quick turnaround and excellent claims service</li><li>• We have developed direct client relationships that overarch broker relationships</li><li>• We write our own layers not led by Lloyd’s capacity</li><li>• Lancashire's tenor and non-trade related capabilities are in demand from our clients and provide us with opportunities that other markets are unable to consider</li></ul>																														
Outlook	Statistics																														
<p><b>Political Risk / Sovereign Risk</b></p> <ul style="list-style-type: none"><li>• Strong demand especially Asia, Africa</li><li>• Capacity at same level but certain territories seeing aggregate pressures which are pushing rates up marginally</li><li>• Now on all key investment bank security lists and clearly defined appetite, expect good growth going forward</li></ul>	<table><tr><th>Political risk/ Sovereign risk</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>ITD</th></tr><tr><td>Combined ratio (%)</td><td>58.3</td><td>45.8</td><td>34.6</td><td>21.9</td><td>18.4</td><td>10.0</td><td>18.6</td><td>20.4</td><td>20.9</td></tr><tr><td>GWP (\$m)</td><td>9.4</td><td>16.9</td><td>28.1</td><td>15.5</td><td>29.1</td><td>20.4</td><td>41.1</td><td>66.4</td><td>226.9</td></tr></table>	Political risk/ Sovereign risk	2006	2007	2008	2009	2010	2011	2012	2013	ITD	Combined ratio (%)	58.3	45.8	34.6	21.9	18.4	10.0	18.6	20.4	20.9	GWP (\$m)	9.4	16.9	28.1	15.5	29.1	20.4	41.1	66.4	226.9
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# Lancashire: Marine

Mitigating impact of falling rates	Ability to compete																																								
<ul style="list-style-type: none"><li>• We write the risks with large limit requirements which are more insulated from the lows of rating trend in respect of Hull</li><li>• Generally for our portfolio rates are stable on a book of business centred around a loyal client base</li><li>• Increased reinsurance protection at January 1, 2014</li><li>• Focus on ancillary classes such as war, builders risk, MAP and MII with less competition</li></ul>	<ul style="list-style-type: none"><li>• Large lines make us relevant and dangerous to ignore as a quoting market to brokers</li><li>• We have an ability and willingness to lead business</li><li>• We provide transparency, good service, quick turnaround and excellent claims service</li><li>• Strengthened team with hire of an experienced former broker to ensure deal flow plus the addition of James Flude as Head of Energy &amp; Marine</li></ul>																																								
Outlook	Statistics																																								
<p><b>Marine</b></p> <ul style="list-style-type: none"><li>• Increased rating for P&amp;I renewals due to Costa Concordia adverse claims deterioration</li><li>• Hull market broadly flat with some softening for clean business</li><li>• Still too much capacity for small to medium tonnage</li></ul>	<table><tr><th>Marine</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>ITD</th></tr><tr><td>Cumulative RPI</td><td>100</td><td>88</td><td>80</td><td>82</td><td>80</td><td>79</td><td>86</td><td>89</td><td>n/a</td></tr><tr><td>Combined ratio (%)</td><td>55.3</td><td>76.6</td><td>81.4</td><td>68.3</td><td>67.4</td><td>37.7</td><td>104.5</td><td>140.1</td><td>78.6</td></tr><tr><td>GWP (\$m)</td><td>53.0</td><td>76.9</td><td>78.6</td><td>73.7</td><td>76.4</td><td>76.4</td><td>81.0</td><td>63.0</td><td>579.0</td></tr></table>	Marine	2006	2007	2008	2009	2010	2011	2012	2013	ITD	Cumulative RPI	100	88	80	82	80	79	86	89	n/a	Combined ratio (%)	55.3	76.6	81.4	68.3	67.4	37.7	104.5	140.1	78.6	GWP (\$m)	53.0	76.9	78.6	73.7	76.4	76.4	81.0	63.0	579.0
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# Lancashire: Aviation and satellite

## Mitigating impact of falling rates

### AV52

- No attritional losses ever
- Large line size therefore all opportunities made available and one stop shop makes brokers lives easier

### Satellite

- Track the market with small net lines
- Loss activity in early 2013 helped measure rate reductions

## Ability to compete

- Large lines on AV52 make us relevant and dangerous to ignore as a quoting market to other brokers
- We have the ability and willingness to lead business including lineslips
- We provide transparency, good service and quick turnaround

## Outlook

### Aviation

- Market still seeing downward pressure as capacity for AV52 remains at all time high
- Risk profile remains attractive and passenger numbers picking up so demand remains strong
- Possible non renewal of TRIPRA in the U.S. - potentially a new slug of demand coming to market late 2014

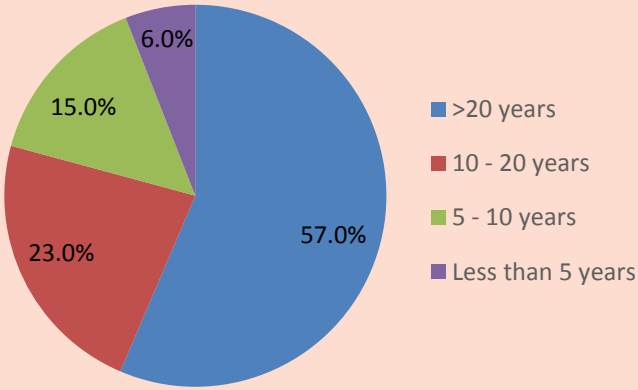
### Satellite

- Launch rates generally holding up well but pressure on in-orbit segment

## Statistics

Aviation	2006	2007	2008	2009	2010	2011	2012	2013	ITD
Cumulative RPI (AV52)	100	80	69	68	62	59	55	49	n/a
Combined ratio (%)	19.9	19.5	31.2	22.7	11.7	8.7	29.1	67.3	26.1
GWP (\$m)	64.5	84.2	71.6	61.2	50.8	47.1	45.9	48.9	474.2

# Cathedral: Property reinsurance

Core	Non-core / Opportunistic										
<p><b>US Portfolio –</b></p> <ul style="list-style-type: none"> <li>• US cat XL book made up entirely of Mutual Companies</li> <li>• Home owners</li> <li>• Farm owners</li> <li>• Automobile (physical damage)</li> <li>• Small commercial properties</li> </ul> <p><b>Nationwide exposure</b> - protects writings of farms, agricultural risks and churches</p> <p><b>Risk Excess US and Canadian book</b> - complements Mutual book and upper end of some of the national companies</p> <p><b>International book –</b></p> <ul style="list-style-type: none"> <li>• regional emphasis continued with focus on first world countries ranging from small to mega accounts</li> </ul>	<ul style="list-style-type: none"> <li>• Florida private reinsurance market (\$40m Aggregate)</li> <li>• Super Regional US accounts</li> <li>• Retro</li> <li>• Crop</li> </ul> <p>• All the above feature in the mix depending on market</p>										
Outlook	US Client relationship duration										
<p><b>US Portfolio:</b> under pressure risk adjusted rates down 5 to 10%, premium flat to slightly up as portfolio seeing rate increases</p> <p><b>International Portfolio:</b> book varied, downward pressure 0-5% with the exception of Europe where loss affected seeing rises</p>	 <table border="1"> <caption>US Client relationship duration</caption> <thead> <tr> <th>Duration</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>&gt;20 years</td> <td>57.0%</td> </tr> <tr> <td>10 - 20 years</td> <td>23.0%</td> </tr> <tr> <td>5 - 10 years</td> <td>15.0%</td> </tr> <tr> <td>Less than 5 years</td> <td>6.0%</td> </tr> </tbody> </table>	Duration	Percentage	>20 years	57.0%	10 - 20 years	23.0%	5 - 10 years	15.0%	Less than 5 years	6.0%
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# Cathedral: Property direct & facultative

## Core

**US open market** - Average line size circa \$2m

- Small to midsize 'soft' occupancy focus
- Low to mid level excess of loss
- Primary book targets low 'attritional' business

**US binding authorities** - Average line size < \$1m

- Long standing book of binding authorities with commercial bias
- True 'MGA' business produced by specialist brokers

**International open market** - Small to midsize general portfolio with current focus on Mexico, Caribbean and NZ

**International binding authorities**

- Targets low 'attritional' commercial business bias
- Stable, long standing book of binding authorities almost entirely driven by Canada, Australasia (mainly NZ) and the Caribbean

## Non-core / Opportunistic

**Will expand in to any class/territory** following significant losses resulting in distressed conditions and inflated pricing

**Equally importantly**, will withdraw from these same territories once inflated pricing disappears

**The team benefits from significant broker penetration** in the London market with no individual broker producing in excess of 10%. This allows rapid access to any opportunities

**As the market softens** the purchasing of opportunistic facultative reinsurance will expand.

**Current emphasis away from:** Primary Fortune 500

## Outlook

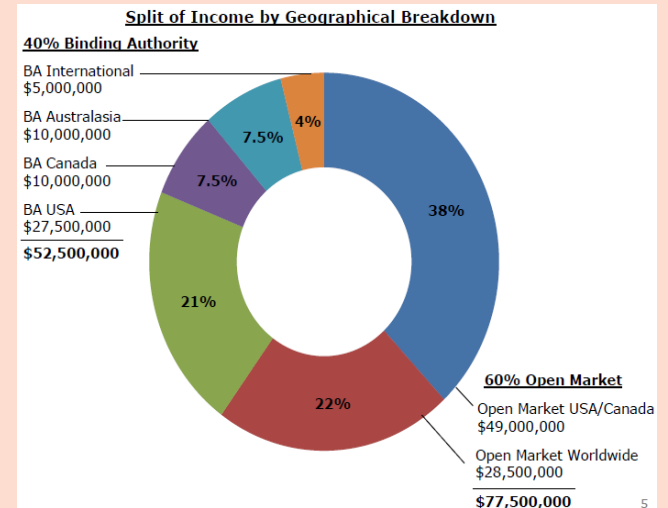
**US open market** - Rates generally under pressure, albeit from reasonably attractive levels

**US binding authorities** - Stable to gently improving conditions

**International open market** - Rates generally under pressure following increases in 2011/2012. Mexico should prove attractive following 2013 floods

**International binding authorities** - Canada, flat to gently improving (British Columbia), NZ under some pressure but rates still inflated following 2011/12 earthquakes - Caribbean, rates still reasonably attractive for some islands

## Geographical distribution



# Cathedral: Cargo & Contingency

Cargo Core	Contingency Core
<p><b>Marine Cargo</b></p> <ul style="list-style-type: none"> <li>Established, relationship driven, higher quality, marine cargo accounts with proven profitability and good risk management</li> <li>Complementary rather than clashing exposures and territories</li> <li>Non Catastrophe exposed transits of commodities and raw materials</li> <li>Loyal core book – many being renewals of 20+ years</li> <li>Globally diverse book with specific focus on non over-brokered territories</li> <li>Non 'large-broker' book of relationship business</li> </ul> <p><b>Fine Art</b> - Private collections and museums with good risk management in non catastrophe exposed areas</p> <p><b>Specie</b> –Vault</p>	<p><b>Contingency</b></p> <ul style="list-style-type: none"> <li>Established, market leader dealing in non –appearance mainly in the rock &amp; pop / entertainments industry</li> <li>Open Market placements of tours, festivals and events</li> <li>Direct dealing relationship to pick up smaller business from regional music circuits ( Manchester, Dublin)</li> <li>Long term business developed with promoters such as US West coast Prom circuit.</li> </ul>
Outlook	Outlook
<p><b>Marine Cargo</b></p> <ul style="list-style-type: none"> <li>Still too much capacity chasing large, high profile, catastrophe exposed accounts.</li> <li>Over developed markets remain flat but good opportunities remain in more challenging territories such as Africa</li> <li>Profitable niche opportunities for experienced traders</li> </ul>	<p><b>Contingency</b></p> <ul style="list-style-type: none"> <li>Succession of significant losses in market last year are resulting in pricing and terms moving upward</li> <li>A number of major tours coming into the market this year</li> </ul>

# Cathedral: Aviation reinsurance & satellite

## Core

**Proportional** - down to 3 direct clients that have a good track record in niche areas with long standing relationships

**General aviation XL** - Catastrophe reinsurance covering corporate and private jets, small local airports and small product makers

**General XL** - Core part of the account exposed to major catastrophes but aggregate focussed on small to medium size direct insurers enabling better portfolio management

**Aviation war** - covers both Hull and War Third Party. Different to Lancashire's 'AV52' book as the focus is on non major risk writers.

## Non-core / Opportunistic

### Bigger direct clients

- No pay back / do they need to buy?
- Market share

### Potential proportional clients

Take advantage of relationships if there is a capacity crunch in the future

**Whole account** – currently a very small account generally used as a fact finder exercise but could grow in a harder market

## Outlook

- Still too much capacity – cheap pricing and poor portfolio management will however accelerate the pain and the correction thereafter
- Companies with limited track record looking for market share
- Increased competition to lead as individuals have moved companies and are looking to make a mark
- Brokers becoming concerned about longevity of client base and revenue stream

## Portfolio management - Market rating index versus Cathedral net income / profitability

