Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Lancashire Investor Day Presentation 2013

November 2013
www.lancashiregroup.com

safe harbour statements

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Lancashire
the power of three

Lancashire: 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 19.0% since inception
- Total shareholder return of 436.7%(1) since inception, compared with 65.3%(1) for S&P 500, 115.1%(1) for FTSE 250 and 96.6%(1) for FTSE 350 Insurance Index
- Returned 186.6%(2) of original share capital raised at inception or 92.9%(2) of cumulative comprehensive income
- $105m(2) returned in Q3 2013 including $94.5m special dividend
- 9 month combined ratio of 69.7%(3)
- 9 month growth in fully converted book value per share, adjusted for dividends, of 14.7%
- Kinesis capital management launched in Q1 2013 and incorporated Kinesis Re in Q2
- Lancashire acquisition of Cathedral

(1) Shareholder return from 12 December 2005 through 28 October 2013. LRE and FTSE returns in USD terms.

(2) This includes the special dividend of approximately $94.5 million that was declared on November 5th 2013 and will be paid in Q4 2013

(3) Including G&A.

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The drivers of Lancashire's success since inception?

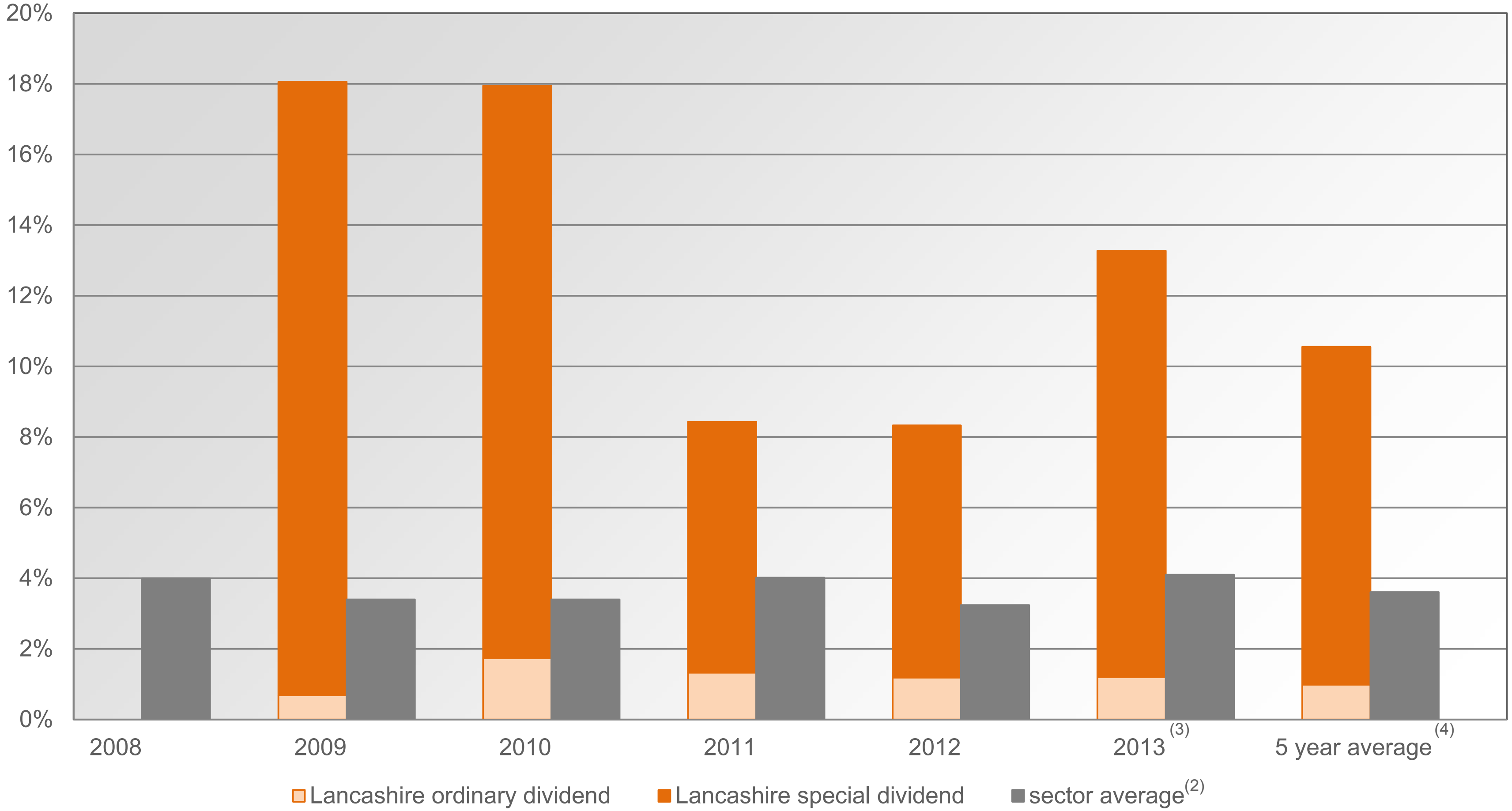
- **Underwriting comes first** – we recognise that the key to success for a specialty (re)insurer is underwriting. Over time combined ratio and growth in fully converted book value per share correlate strongly, so we focus unrelentingly on underwriting through the UMCC for risk adjusted return not volume.

- **Discipline** – we endeavour to match capital to opportunities and not the other way round, leading to a continual analysis of resources and markets, and the use of buybacks and dividends.

- **Nimble reactions supported by a solid core of business** – we understand that you have to be relevant to brokers and clients at all stages of the cycle, including a first responder capability after a shock loss.

- **Balancing risk and reward** – an open-minded approach to assessing exposures including a sceptical approach to stochastic modeling, with a bottom-up analysis of under-modeled exposures such as offshore energy.

Lancashire: consistent 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, Argo, Aspen, Axis, Beazley, Catlin, Endurance, Hiscox, Montpelier, Renaissance Re and Validus.

(3) Estimated 2013 dividend yield is calculated as the total dividends declared in 2013 divided by the share price at 30 September 2013. Source: Bloomberg.

(4) 5 year average based on the 2008 to 2012 reporting periods.

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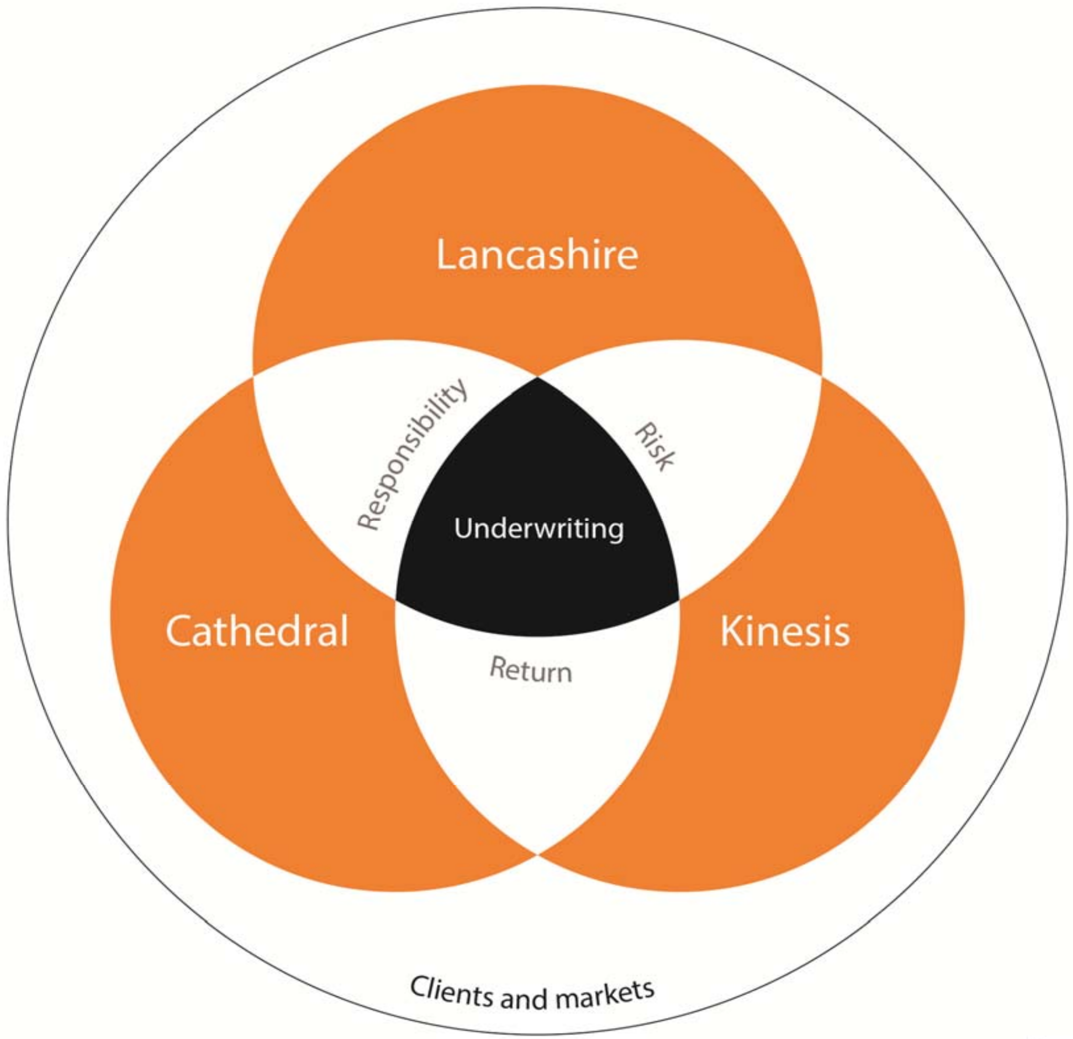
Lancashire: the power of three platforms within one business



Cathedral

The drivers of Cathedral's success since inception?

- **Underwriting comes first** – a partnership led by underwriters with a combined ratio that puts it on the top rung of Lloyd's syndicates.

- **Discipline** – written premium reflects the state of the market, for example aviation shrinking as competition drives price reduction. Capital held at highly conservative levels to allow for growth opportunities. Had the discipline not to write against all the capital they had just "because they had it".

- **Nimble reactions supported by a solid core of business** – a very solid core portfolio of "sticky" business but ability to respond quickly to opportunities for example in New Zealand and Chile.

- **Balancing risk and reward** – a conservative emphasis to risk analysis weighted towards aggregate and damage ratio measures rather than stochastic modeling.

Sound familiar?

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Cathedral

Why sell Cathedral ?

- ✓ Team recognised changing market environment
- ✓ The existing ownership structure did not readily permit access to additional cost effective capital
- ✓ Team felt they could better leverage the talents existing in the business on a bigger balance sheet and more appropriate structure for the future

Why Lancashire?

- ✓ Lancashire is underwriter focused
- ✓ It allows Cathedral underwriters to trade in their current model with additional leverage from Lancashire's balance sheet when opportunities present themselves
- ✓ The combined Lancashire / Cathedral / Kinesis structure provides an attractive platform to allow Cathedral to build out its 100% owned syndicate

Why stay?

- ✓ Part retention of sale proceeds
- ✓ Generous allocation of RSS scheme as part of the Lancashire team going forward
- ✓ We chose to go there instead of a wide selection of potential buyers
- ✓ It's an exciting move for the enlarged group and we want to be part of it

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Cathedral: underwriting expertise and track record

✓ **Track record of superior underwriting performance**

- Combined ratio since 2005 of 87% for Syndicate 2010 Lloyds average of 95%
- In 2012, Syndicate 2010 combined ratio of 77% Lloyds average 91%

✓ **Proven outperformance in challenging times**

- Despite WTC Syndicate 2010 made a profit in its first year, compared to Lloyd's loss of $3.11bn
- Katrina, did not exceed the limits of their reinsurance and Syndicate 2010 CR 91% for 2005

✓ **Exceptional underwriting team with long standing client & broker relationships**

- Lead underwriters of each segment over 20 years experience in the market
- Fourteen senior underwriters with excellent track records and strong market reputations
- With experience comes relationships; over 60% of US mutual portfolio are clients of 20 years

✓ **Strict exposure management and proprietary risk modelling and aggregation**

- Based on a combination of it's underwriters' own analysis, judgement and experience.
- Supported by the company's proprietary risk modelling and aggregation capabilities
- Highly regarded exposure management team

✓ **Effective reinsurance management**

- A wide panel of specialist reinsurers and brokers, core/opportunistic purchases, limiting risk/catastrophe net retentions.

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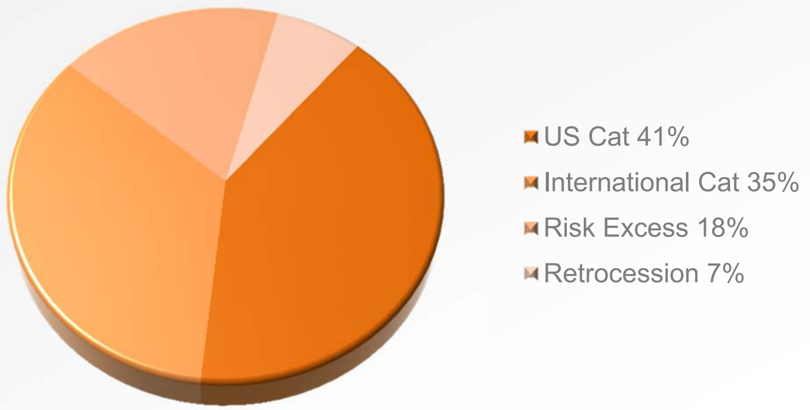
Cathedral
underwriting portfolio

Cathedral – property reinsurance

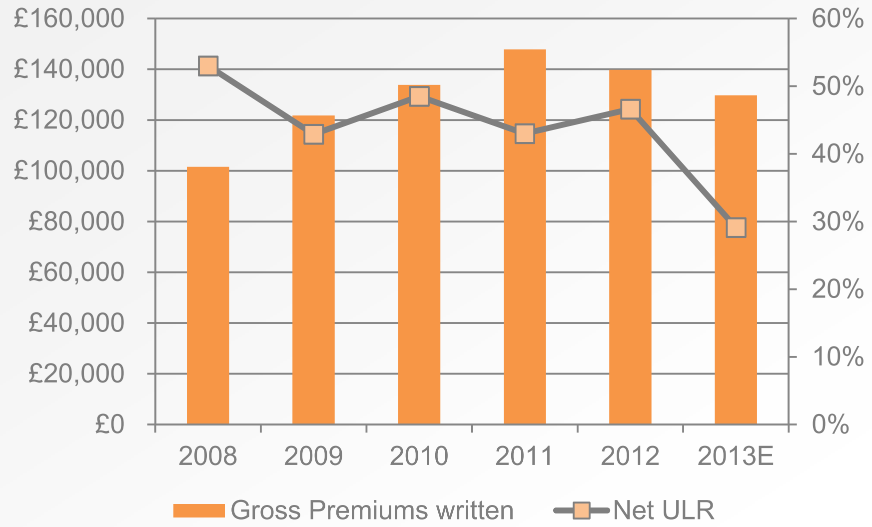
Key Highlights

- The 4 underwriters each have 20+ years in the market
- Well diversified portfolio including core book of small regional clients
  - Client relationships extend back 25+ years
- Average net loss ratio since 2004 of 62%
- Lead or co-lead majority of the US book
- Significant reinsurance purchased for both frequency and severity
- Conservative exposure management
  - Highest net loss ratio in any calendar year of 102%

Breakdown By Line of Business (2012 GWP)



Gross Written Premium and Net Loss Ratio



Cathedral – Property Reinsurance

Core	Non-core / Opportunistic
US Portfolio – Small to medium Mutuals • Home owners • Farm owners • Automobile (physical damage) • Small commercial properties **Nationwide exposure -** protects writings of farms, agricultural risks and churches **Risk Excess US and Canadian book -** complements Mutual book and upper end of some of the national companies **International book -** focuses on first world countries ranging from small to mega accounts	• US Nationwide mega accounts • Florida private reinsurance market prefer D&F • Super Regional US accounts • Retro

Outlook

US Portfolio: under pressure risk adjusted down 5 to 10, premium flat to small up as portfolio seeing rate increases

International Portfolio: book varied, downward pressure 0-5% with the exception of Europe where loss affected seeing rises

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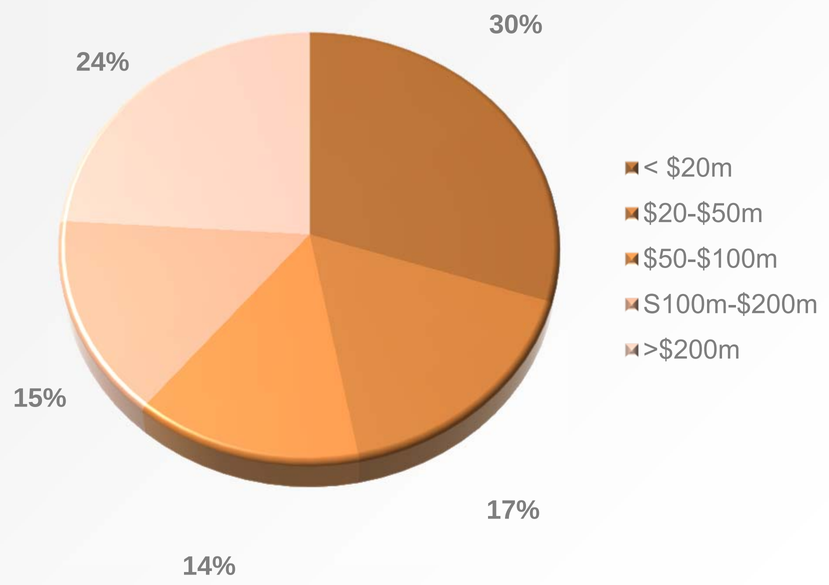
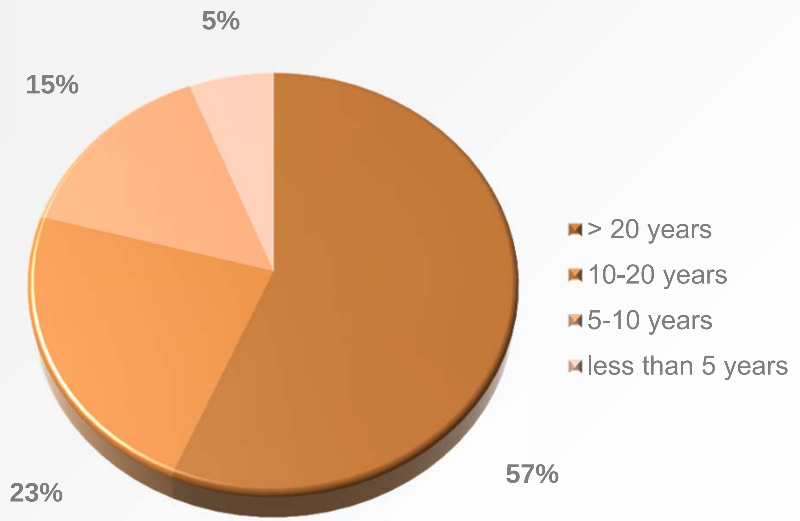
Cathedral: US regional client overview

US Regional Clients

By Client's Own Premium



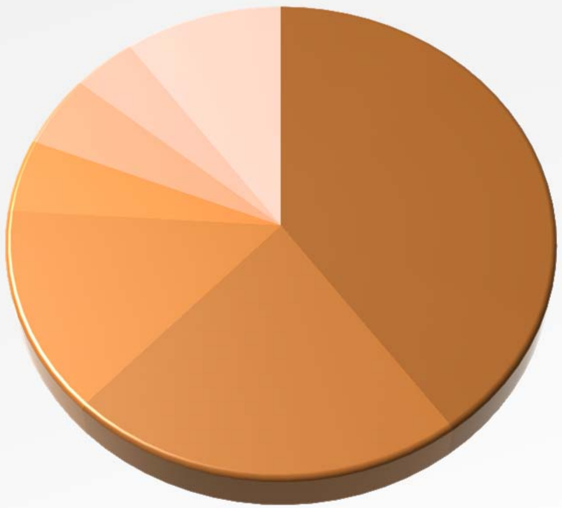
By Relationship Duration



Cathedral: International Property Catastrophe

- **Uses Lloyd's global distribution network to write a diversified book of international property catastrophe risk**
  - Focus primarily on small cedants; limited heavy industrial exposure
- **Approximately one third of portfolio premium income from UK and Northern Europe**
  - 25% from Japan / Australasia, 10% from Canada
- **Opportunistic approach to portfolio management and risk management**
  - Limited exposure to international markets where competitors are willing to under price risks
- **Core reinsurance relationships long term but opportunistically buy down retentions and frequency**

Non-Marine International Exposures



South America Wind	1.4
South America Quake	1.4
Caribbean Quake	1.3
Caribbean Wind	1.2
Mid. East / Turkey EQ	1.1
Mid. East / Turkey Wind	1.1
Africa	1.1
Central America Wind	0.7
Central America Quake	0.7

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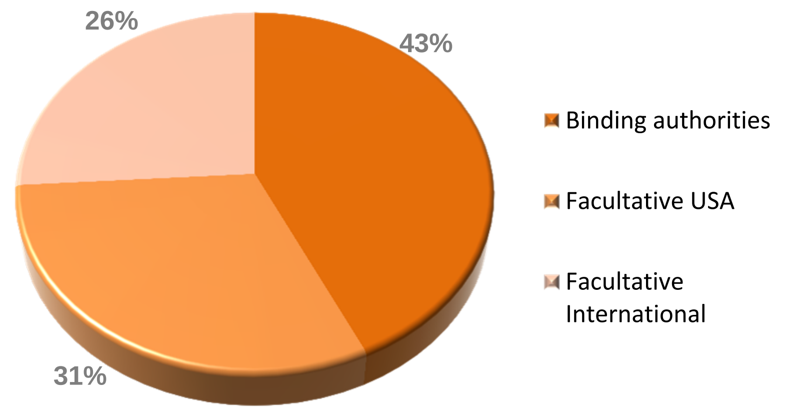
Cathedral: direct and facultative

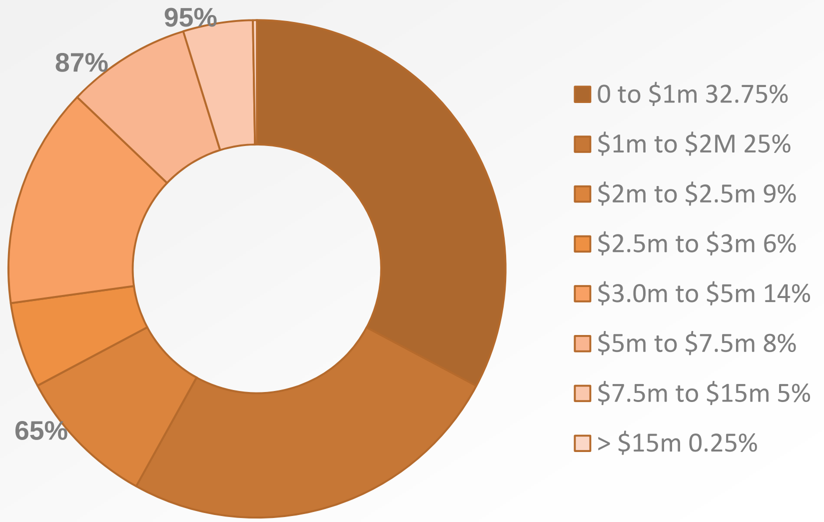
Key Highlights

- Top 2 underwriters each have 25+ years in the market
- Targets primarily small to mid-sized businesses
  - ~90% business written with program lines under $5m
- Opportunistic portfolio management approach e.g. programme lines exceeding $10m: October 2005 was 249 today 20
- Binding authorities represents 43% of income
  - Primarily small commercial E&S MGA business, sticky business 2007 154 accounts written, today 140

Breakdown By Line of Business (2012 GWP)

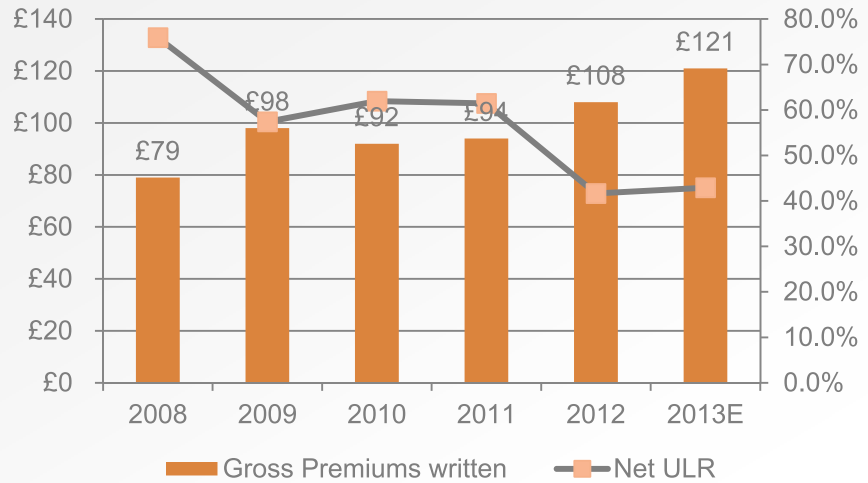


Breakdown By line size



(£ in millions)

Gross Written Premium and Net Loss Ratio



Cathedral – direct & facultative

Core

US open market - Average line size circa $2m
- Small to midsized ‘soft’ occupancy focus
- Low to mid level excess of loss
- Primary book targets low ‘attritional’ business
- Primary coal mining .

US binding authorities - Average line size < $1m
- Long standing book of binding authorities commercial bias
- True ‘MGA’ business produced by specialist brokers

International open market - Small to midsized general portfolio with 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

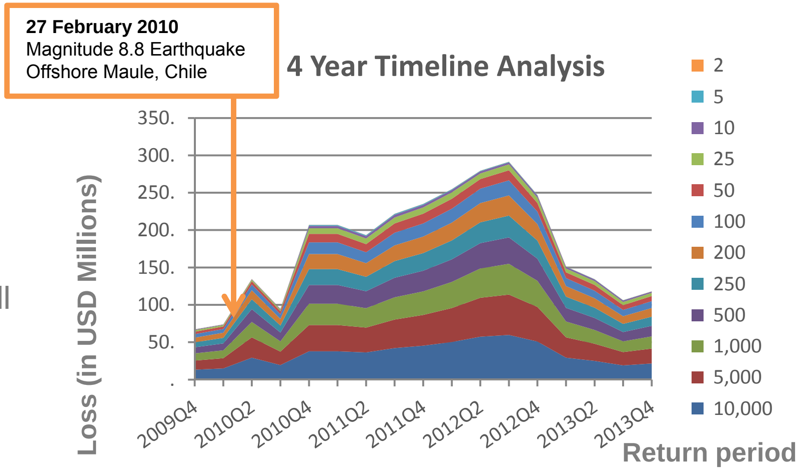
US open market - Rates generally under pressure, albeit from reasonably attractive levels

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

Chile post loss portfolio management

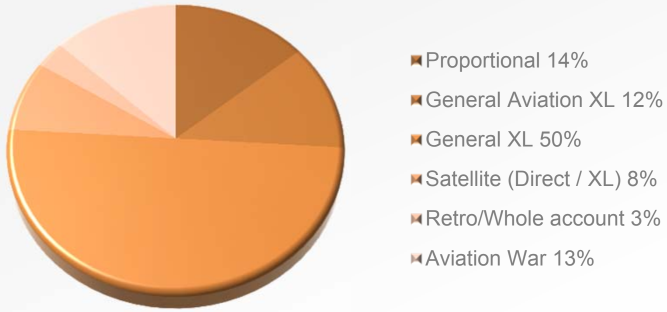


Cathedral: aviation reinsurance & satellite

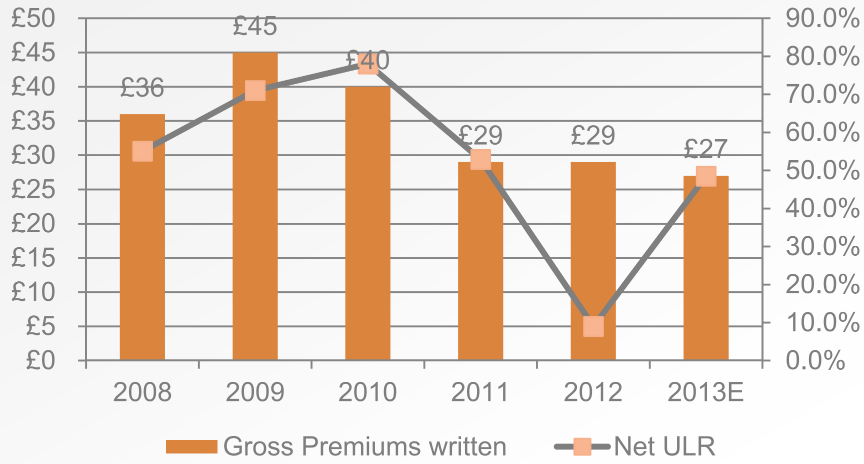
Commentary

- **One of only three major aviation leaders worldwide**
  - Leads more than 60% of portfolio, only 3% market share
- **Focus on smaller, non-US focused portfolios**
  - Enables exposure management away from US
- **Detailed data-driven exposure management system**
- **Satellite business written through SATEC**
  - Relationship with underwriters extends over 15 years

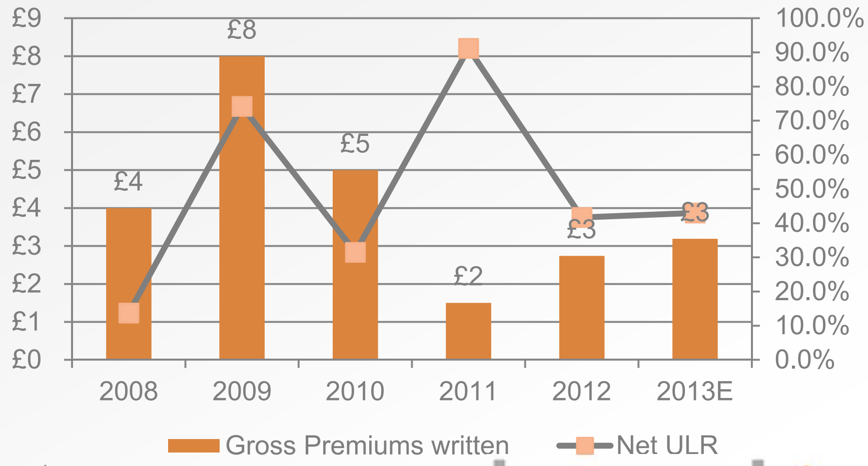
Portfolio Breakdown



Aviation Gross Written Premium and Net Loss Ratio



Satellite Gross Written Premium and Net Loss Ratio



(In millions)

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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

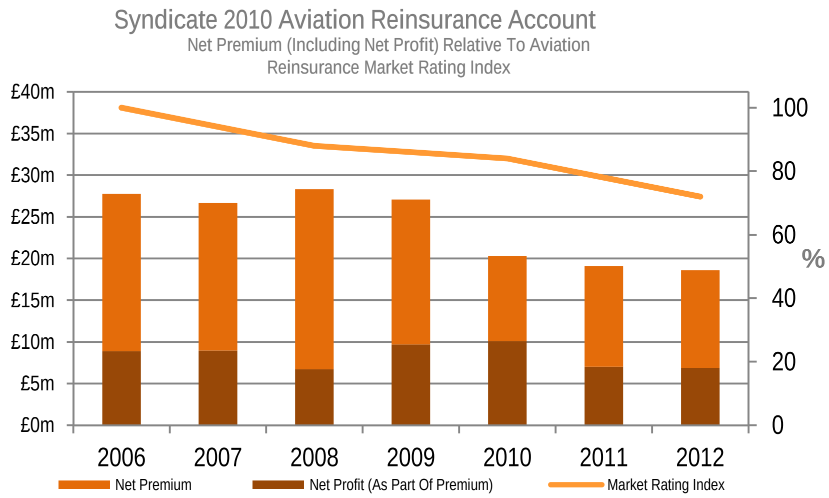
Take advantage of relationships if there is a capacity crunch in the future

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

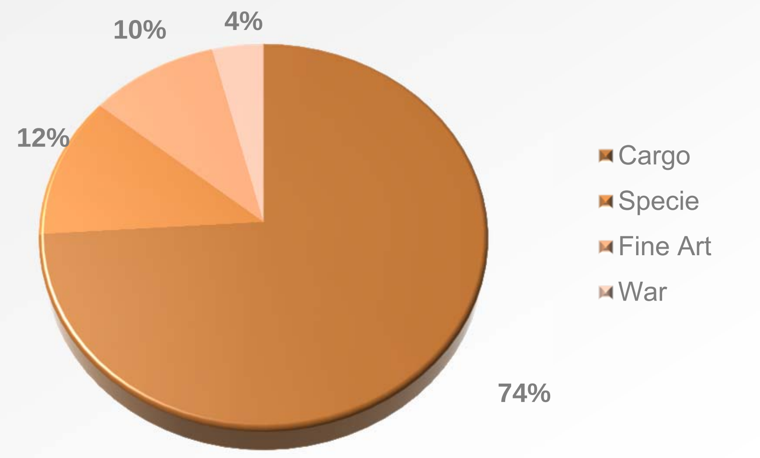


Cathedral: cargo

Commentary

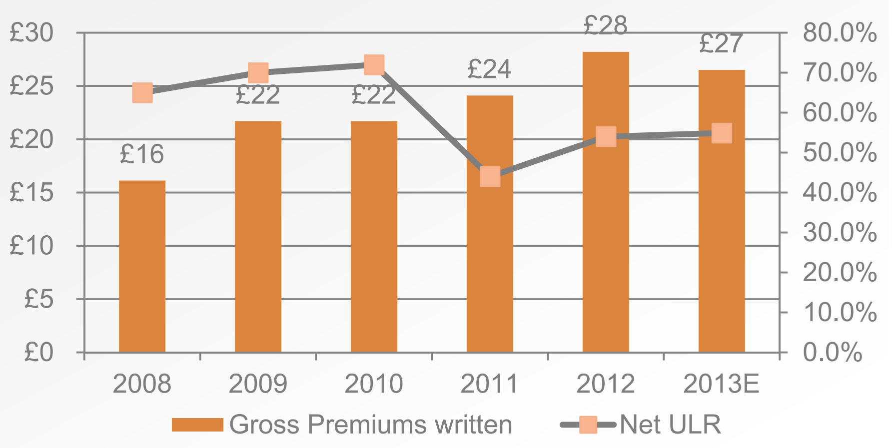
- Cargo account launched in mid-year 2007
- Worldwide direct and reinsurance portfolio
- Pure cargo business is ~80% of the account
- 61% general, 15% oil, 8% commodities, 16% other
- Specie, fine art and war make up ~20% of account
- Business primarily placed through open covers
- Senior underwriter has 20 years of experience

Portfolio Breakdown



Gross written premium / Net loss ratio

(In millions)



Cathedral – cargo

Core

Marine Cargo

- Established, relationship driven, higher quality, marine cargo accounts with proven profitability and good risk management
- Complementary rather than clashing exposures and territories
- Non Catastrophe exposed transits of commodities and raw materials
- Loyal core book – many being renewals of 20+ years
- Globally diverse book with specific focus on non over-broked territories
- Non 'large-broker' book of relationship business

Fine Art - Private collections and museums with good risk management in non catastrophe exposed areas

Specie –Vault

Non-core / Opportunistic

Marine Cargo

- Cargo stock-throughput – where non catastrophe exposed
- Cargo consequential loss
- War on land and cargo insurance in territories of civil unrest
- Logging equipment in Canada and Australia.

Specie

- Excess cash in transit (typically excess of any transit exposure)

Outlook

Marine Cargo

- Still too much capacity chasing large, high profile, catastrophe exposed accounts.
- Over developed markets remain flat but good opportunities remain in territories such as Africa
- Profitable niche opportunities

RPIs

Class	2008	2009	2010	2011	2012	Q2 2013
Cargo	100	99	98	97	95	95

Year to date RPI observations

- Values and volumes of commodities shipped continue to rise
- Over capacity continues to prevent strengthening of pricing
- Slight tightening of Fine Art market - but hampered by London offering competing facilities and direct placements

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Cathedral: contingency

Commentary

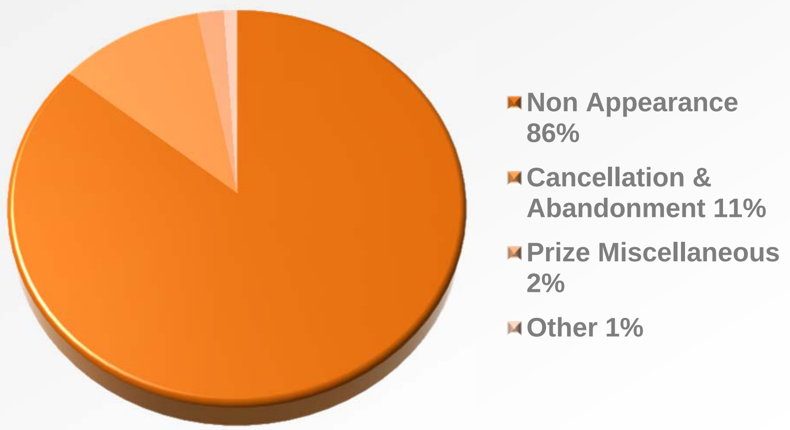
Core:

- Primarily event cancellation for music events
- Primarily management, promoters and venues
- Worldwide book of business
- Exposure mapped and managed on a daily basis
- Cathedral leads 90% of the business

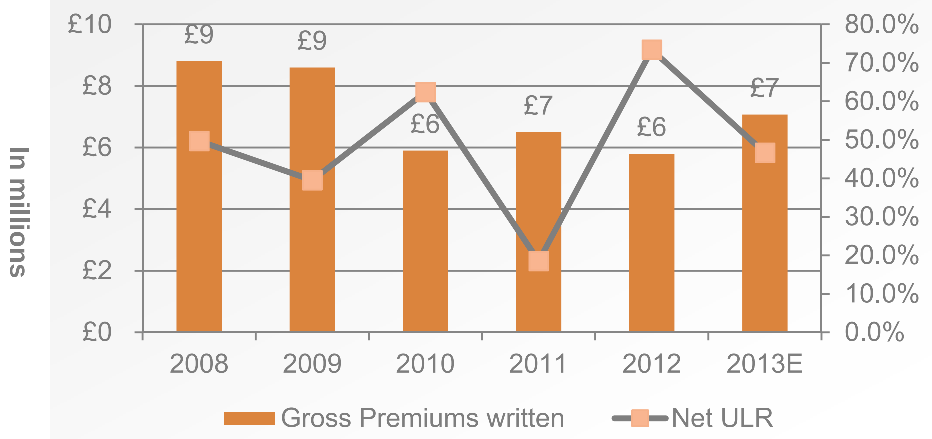
Non Core:

- Prize indemnity, lotteries, conferences and exhibitions will look at all opportunities but market too competitive at present
- Cautiously positive outlook

Portfolio Breakdown



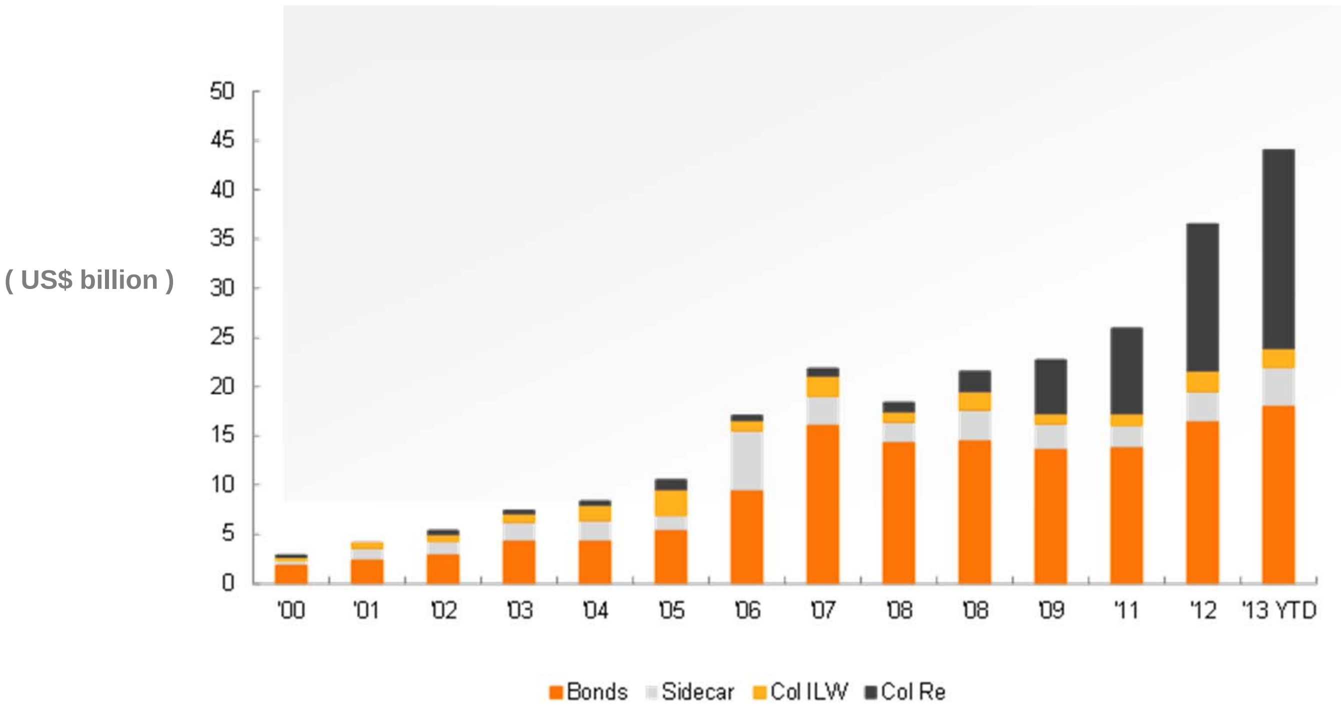
Gross written premium/ Net loss ratio



Kinesis

Kinesis: bond and collateralised market development

- Approximately USD44 billion of capital today comes from alternative markets
- Highest growth has been seen in asset management through collateralised reinsurance
- While insurance linked securities or catastrophe bonds have played a role in the industry historically (especially in peak regions), insurers are becoming increasingly aware of the competitive rates offered by these products



Total Alternatives
USD44 billion

Collateralised Reinsurance
USD20 billion

Collateralised ILW
USD2 billion
Sidecars
USD4 billion

Bonds
USD18 billion

Source: Aon Benfield Analytics

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what will be the drivers of Kinesis' success?

- **Underwriting comes first** – not just another collateralised ILW writer, but an experienced team leveraging Lancashire and Cathedral expertise to build unique, tailored products.

- **Discipline** – not seeking to deploy capacity for the sake of fees only. Thorough research of product and opportunity over the last eight months.

- **Nimble reactions supported by a solid core of business** – core product is a long-term part of reinsurance protection but there is the ability to upscale and expand products dramatically following a shock loss.

- **Balancing risk and reward** – multiple analyses of exposures with comparison to historic events and own data.

Sound familiar?

Kinesis

Kinesis Re is a newly formed special purpose vehicle established to write reinsurance business on a fully collateralised basis.

The Vehicle

- Key individuals Darren Redhead (Ex DE Shaw) & Mathieu Marsan (Ex Pentelia Capital Management)
- Funding expected to be between $300m to $500m during 2014
- Targeting fees similar to Saltire
- Lancashire will have an investment
- Will not conflict with existing business
- Leverage Lancashire's expertise in speciality lines
- Huge amount of R&D done to understand what markets want to purchase

Core

- Saltire type product incorporating aggregate elemental and non elemental bespoke covers with EL of 8 to 10%
- Mid year energy solutions using Lancashire's distribution and pricing methodology
- Post loss non marine and marine retro
- Reinsurance of Lancashire on multi line basis
- Post loss specific single shot such as JIA & Sirocco on a special draw down basis

Kinesis

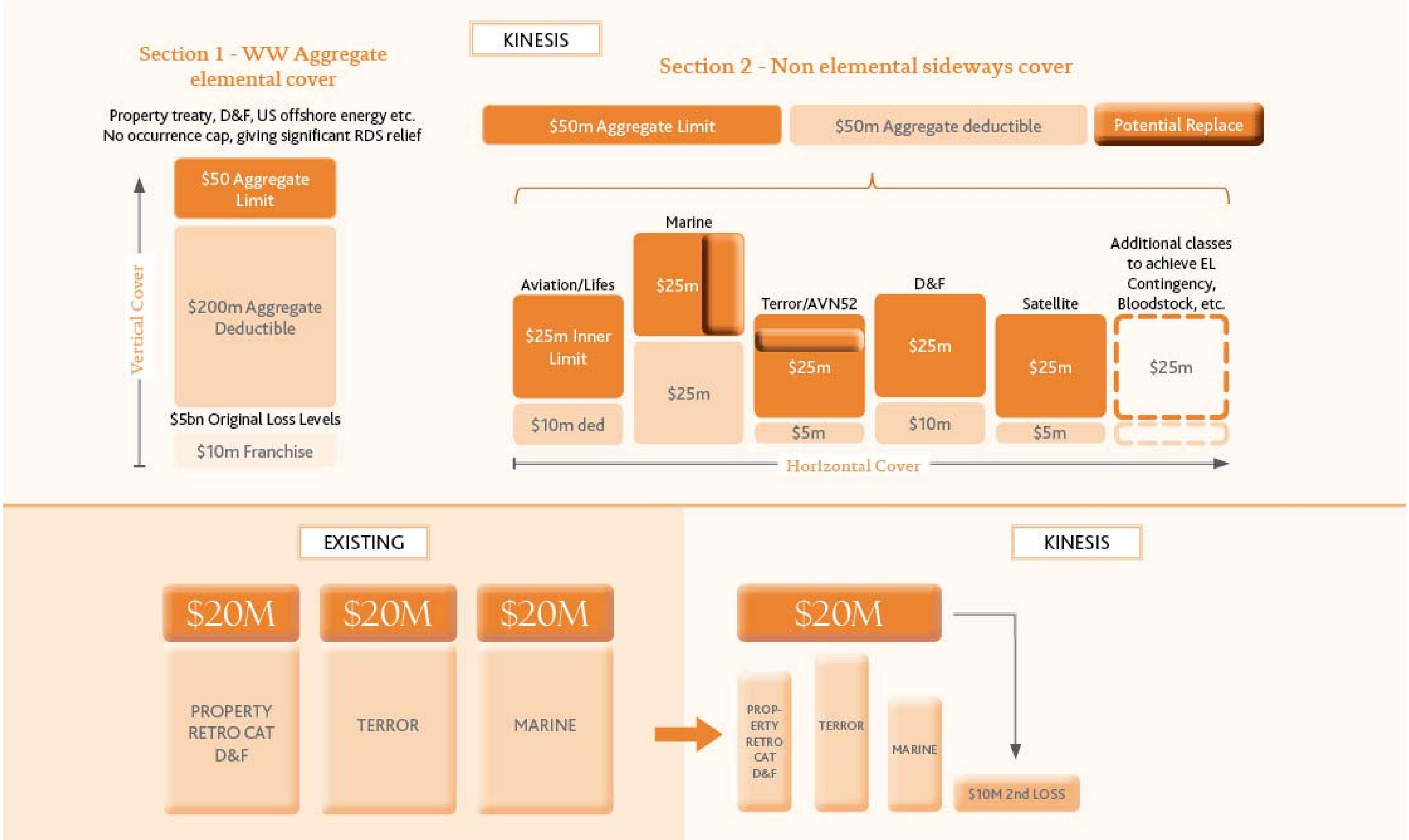
Multi class solutions

- Flexible to adapt to client’s risk appetite
- To fit around existing programme or replace existing layers
- Short tail / medium tail lines where event known. Including but not limited to: Property Direct, Reinsurance, Aviation, Marine, Terror, D&F, Satellite, Offshore Energy, Engineering, Political Violence, War
- Normal expected max line $50m - $75m, average deal size $20m - $30m
- Target ROL 20% - 25%
- Add value in helping structure more efficient solutions to save cost in current climate.
- To complement current purchasing

Potential solutions

- Worldwide aggregate elemental cover with non-elemental coverage around existing protections
- Combine higher layers into one limit, possibly with a proportion of limit available for second or third event at a lower level
- Frequency cover at lower end of protections e.g. four covers at 25% ROL, buy three losses excess one loss, or clash of retentions
- Retain a share of whole programme. Protect with an aggregate cover to limit exposure to balance sheet

Kinesis



KINESIS
Section 1 - WW Aggregate elemental cover
Property treaty, D&F, US offshore energy etc.
No occurrence cap, giving significant RDS relief
$50 Aggregate Limit
$200m Aggregate Deductible
$5bn Original Loss Levels
$10m Franchise
Vertical Cover
Section 2 - Non elemental sideways cover
$50m Aggregate Limit
$50m Aggregate deductible
Potential Replace
Aviation/Lifes
$25m Inner Limit
$10m ded
Marine
$25m
$25m
Terror/AVN52
$25m
$5m
D&F
$25m
$10m
Satellite
$25m
$5m
Additional classes to achieve EL Contingency, Bloodstock, etc.
$25m
Horizontal Cover
EXISTING
$20M
$20M
$20M
PROPERTY RETRO CAT D&F
TERROR
MARINE
KINESIS
$20M
PROP-ERTY RETRO CAT D&F
TERROR
MARINE
$10M 2nd LOSS

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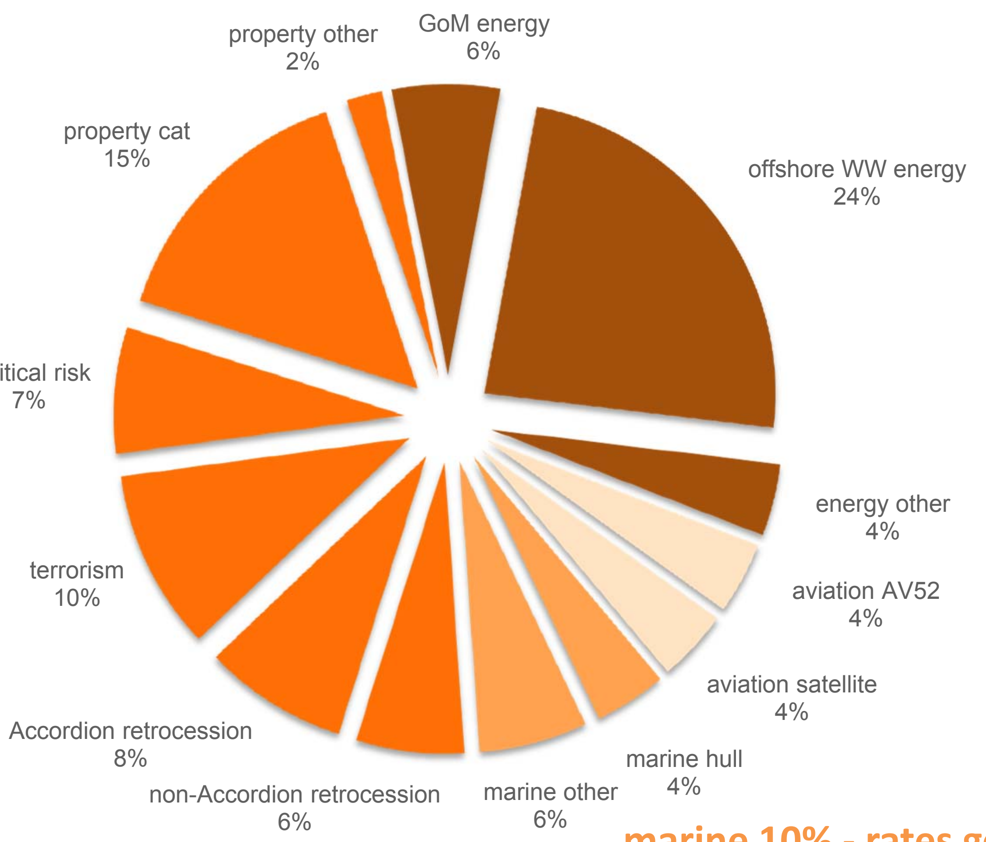
what’s new?

underwriting comes first

70% insurance 30% reinsurance 34% nat-cat exposed 66% other



property 48% - rates under pressure on terror as always, property cat downward pressure dependent on territory

energy 34% - rates down 5 % further pressure expected ex liabilities

aviation 8% - rates under pressure, expect further reductions

marine 10% - rates generally flat but expect upwards pressure on P&I clubs

Based on 2013 reforecast as of 18 July 2013. Estimates could change without notice in response to several factors, including trading conditions.

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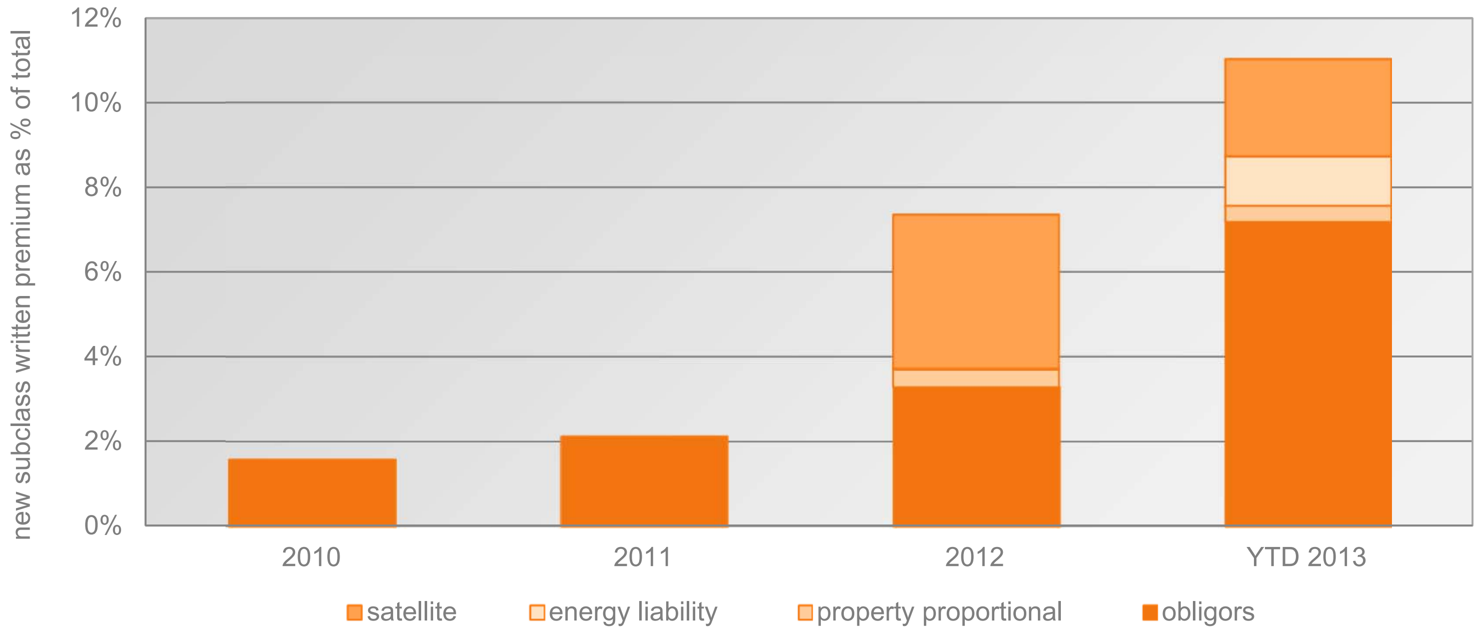
underwriting comes first: we stick to our knitting BUT we can adapt our expertise to new lines



- Obligors - uses same analysis elements as political risk; country, counterparty, industry, geo-political
- Property proportional - allied to and supports the same clients as the Japanese Cat XL portfolio
- Energy liability - same client base as risk portfolio and attaching in Deepwater-type scenario
- Satellite - same broking houses/teams as aviation, previously written up to 2008
- Energy – James Flude
- Syndicate 3010

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Direct & Facultative – different approaches, different consequences

Cathedral approach	Lancashire approach
• Small average line size used on full value, primary and middle excess layer • Targets small to mid size business with focus away from Fortune 500 • Binding Authorities give access to small commercial portfolio • Reinsurance purchased to limit frequency from risk and very conservative catastrophe buying to multiples of average line size • World wide exposure with US slant	• Large line predominantly used on high excess layers • Substantial exposure to large clients buying big limits • Reinsurance hard to buy/expensive at low attachment point due to line size deployed, so substantial net retention • Heavy US client base and exposure, but international exposures from multi-nationals
Cathedral consequences	**Lancashire consequences**
• Solid core portfolio but ability to flex portfolio up and down e.g. Chile and New Zealand • Individual risk and cat losses limited by strong reinsurance programme so little significant net impact • Capital requirements limited by line size and reinsurance programme • Actual cat losses in Katrina, Tohoku, Thailand all contained within reinsurance programme • Profitable across the cycle	• Ability to grow quickly in dislocated, post-loss market • Substantial impact on capital due to the parameter risk (modeling of rare events is speculative) and tail risk (potential for big losses in very large events) • Substantial contributor to losses in Sandy, Tohoku, Thailand • Profitable across the cycle, but “spiky” exposures lead to volatile results • Cost of capital impact due to model changes

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Lancashire summary

Attractive value proposition in a changing market environment

- **Cathedral represents a rare opportunity to acquire a high-quality Lloyd's business with short-tail focus, strong business model fit and robust underwriting performance**
- **The acquisition will create value for our shareholders, at a time of change in the market**
  - Strengthens and diversifies our core underwriting business, highly complementary to our existing book
  - Financially compelling: expected to be earnings accretive and enhance long term shareholder returns
  - Provides us with access to the Lloyd's platform, ratings security and capital efficiencies and continues our track-record of financial flexibility and efficient capital management
- **We have adapted our business plan to changes in the market BUT haven't compromised our core values**
  - Underwriting always comes first
  - Effectively balance risk and return
  - Operate nimbly through the cycle
- **We are building a third party capital management company "Kinesis" to compete and flourish in the collateralised space**
- **Management team proven and ability to add new underwriting talent demonstrated**

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Lancashire evolution

- **Market environment provides opportunities but also significant challenges**
- **Lancashire culture proactive, not passive**
- **Market distribution capability required.**
- **"Three platforms within one business to respond"**
  - LICL/LUK – established company market in London and Bermuda able to react very quickly to market changes
  - KCM – leveraging Saltire relationships & Lancashire's expertise to take advantage of opportunities in the collateralised space
  - Cathedral – established Lloyd's syndicates with favourable capital model and third party contribution from Names

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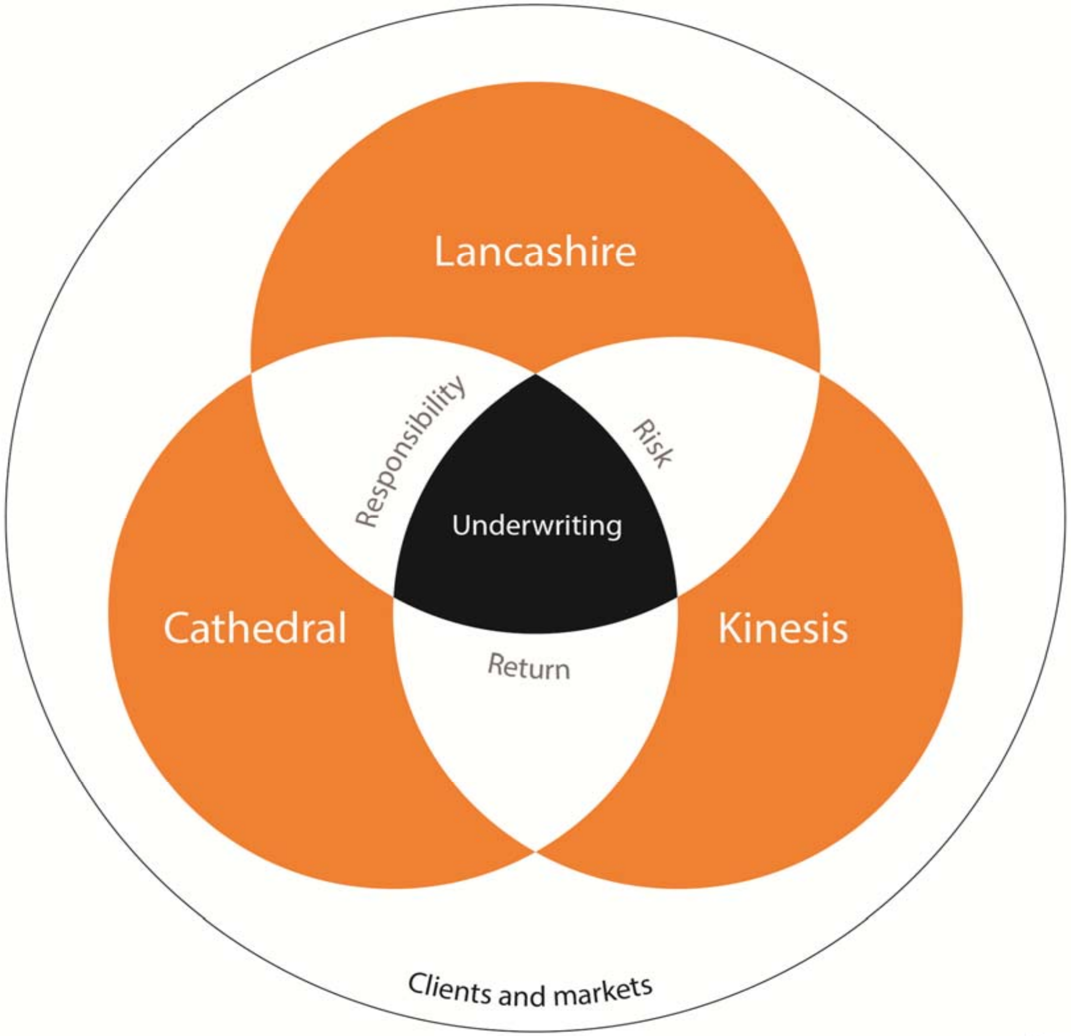
Lancashire: The power of three platforms in one business



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www.lancashiregroup.com

Bermuda - (1) 441 278 8950

London - 44 (0)20 7264 4000

jcc@lancashiregroup.com

charles.mathias@lancashiregroup.com