Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation

Q1 2013

May 2013

www.lancashiregroup.com

safe harbour statements

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE, INCLUDING, WITHOUT LIMITATION, STATEMENTS 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 TAX RESIDENCY OF THE COMPANY AND ITS SUBSIDIARIES (THE “GROUP”), ITS 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 THE GROUP WRITES; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP’S TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP’S 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 THE GROUP’S 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 THE GROUP’S LOSS LIMITATION METHODS; LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP’S 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 THE GROUP’S INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; LANCASHIRE HOLDINGS LIMITED OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CFC REGIME FAILING TO REMAIN IN FORCE FOR THE PERIOD INTENDED; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE NEW UK CFC REGIME; ANY CHANGE IN THE UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME; AND THE NEGATIVE IMPACT IN ANY MATERIAL WAY OF THE CHANGE IN TAX RESIDENCE OF LANCASHIRE HOLDINGS LIMITED ON ITS STAKEHOLDERS.

THESE FORWARD-LOOKING STATEMENTS 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.

an established and successful market leader

Lancashire is a provider of global specialty insurance and reinsurance products operating in Bermuda and London. Lancashire focuses on short-tail, mostly direct, specialty insurance risks under four general categories: property, energy, marine and aviation.

- Fully converted book value per share plus accumulated dividends has grown at a compounded annual rate of 19.3% since inception
- Total shareholder return of 417.2%[1] since inception, compared with 46.9%[1] for S&P 500, 82.5%[1] for FTSE 250 and 64.0%[1] for FTSE 350 Insurance Index
- Returned 175.9% of original share capital raised at inception or 90.5% of cumulative comprehensive income
- $220.6m returned in Q1 2013
- Combined ratio of 51.2%[2] and total investment return of 0.1%
- Q1 2013 growth in fully converted book value per share, adjusted for dividends, of 4.7%
- Saltire ILS fund launched in November 2012, Lancashire Capital Management division launched in Q1 2013

(1) Shareholder return from 12 December 2005 through 1 May 2013. LRE and FTSE returns in USD terms.
(2) Including G&A.

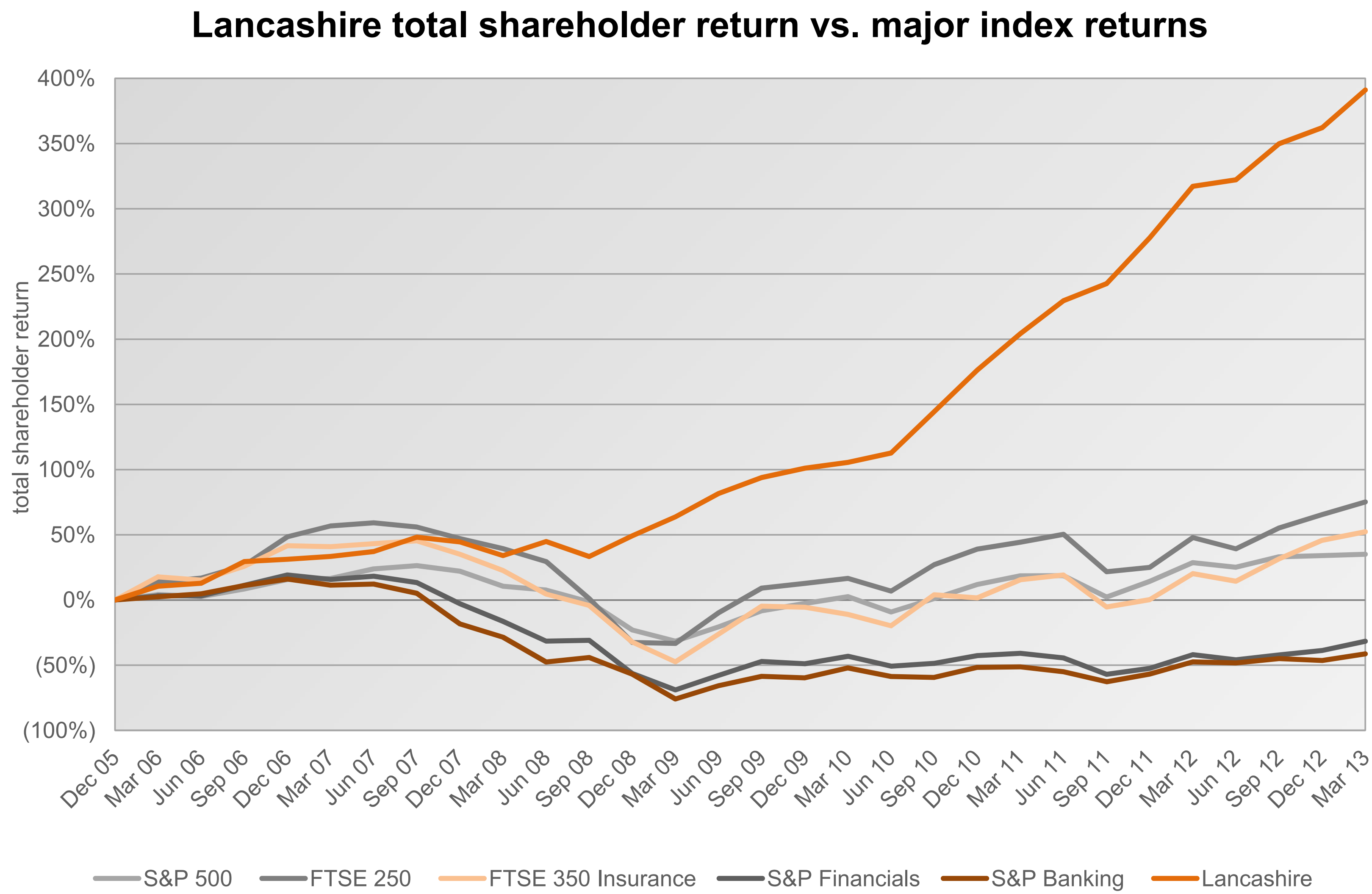
lancashire
HOLDINGS LIMITED

key messages

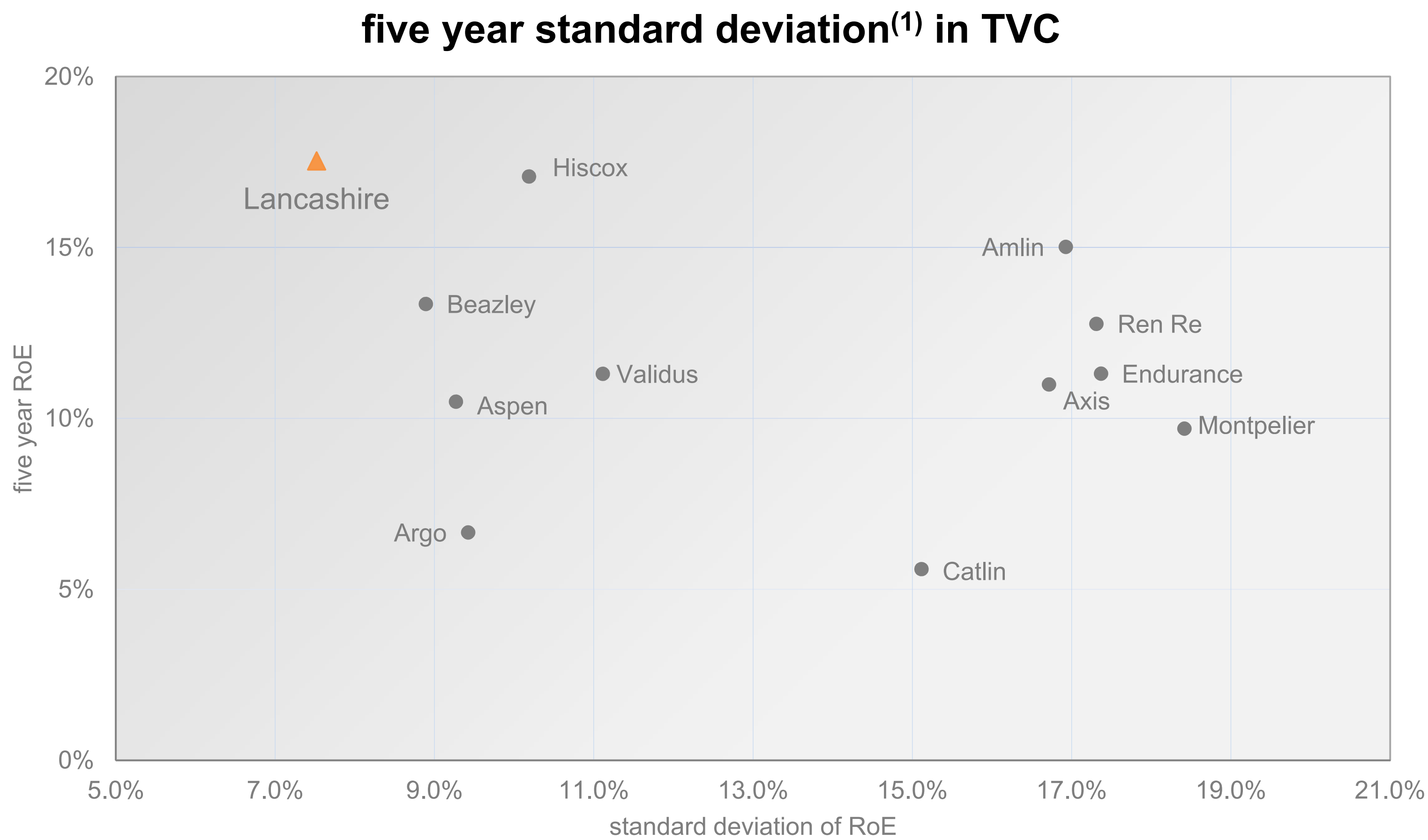
- **Now over 7 years of consistent excellent performance**
- **We have remained true to our business plan, while adapting to market changes**
  - London and Bermuda remain our underwriting centres
- **Demonstrated excellent risk management through significant number of worldwide catastrophe and risk losses**
  - Minimal losses from non-market moving events e.g. crop, tornado and hailstorm
  - Sandy losses well within expectations, a Q4 earnings event. North East ILW cover settled in Q1 2013
  - Costa Concordia – less than 5% market share in largest ever marine hull loss
  - Manage exposures strategically in accordance with our risk profile and risk appetite to optimise portfolio
- **Strong balance sheet and profitability proven**
- **Continue to manage the cycle effectively**
  - Still no broad market hardening yet, pockets of opportunity remain
  - No change in ordinary dividend policy, no progressive dividends, significant special dividends to right size balance sheet and manage excess capacity
  - Accordion sidecar vehicle provided enhanced ability to define retrocession product
  - Saltire ILS fund – creative product, future demand likely to increase
  - Lancashire Capital Management division launched in Q1 2013 to further develop third party capital strategy

lancashire HOLDINGS LIMITED

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



consistency: total value creation (TVC)

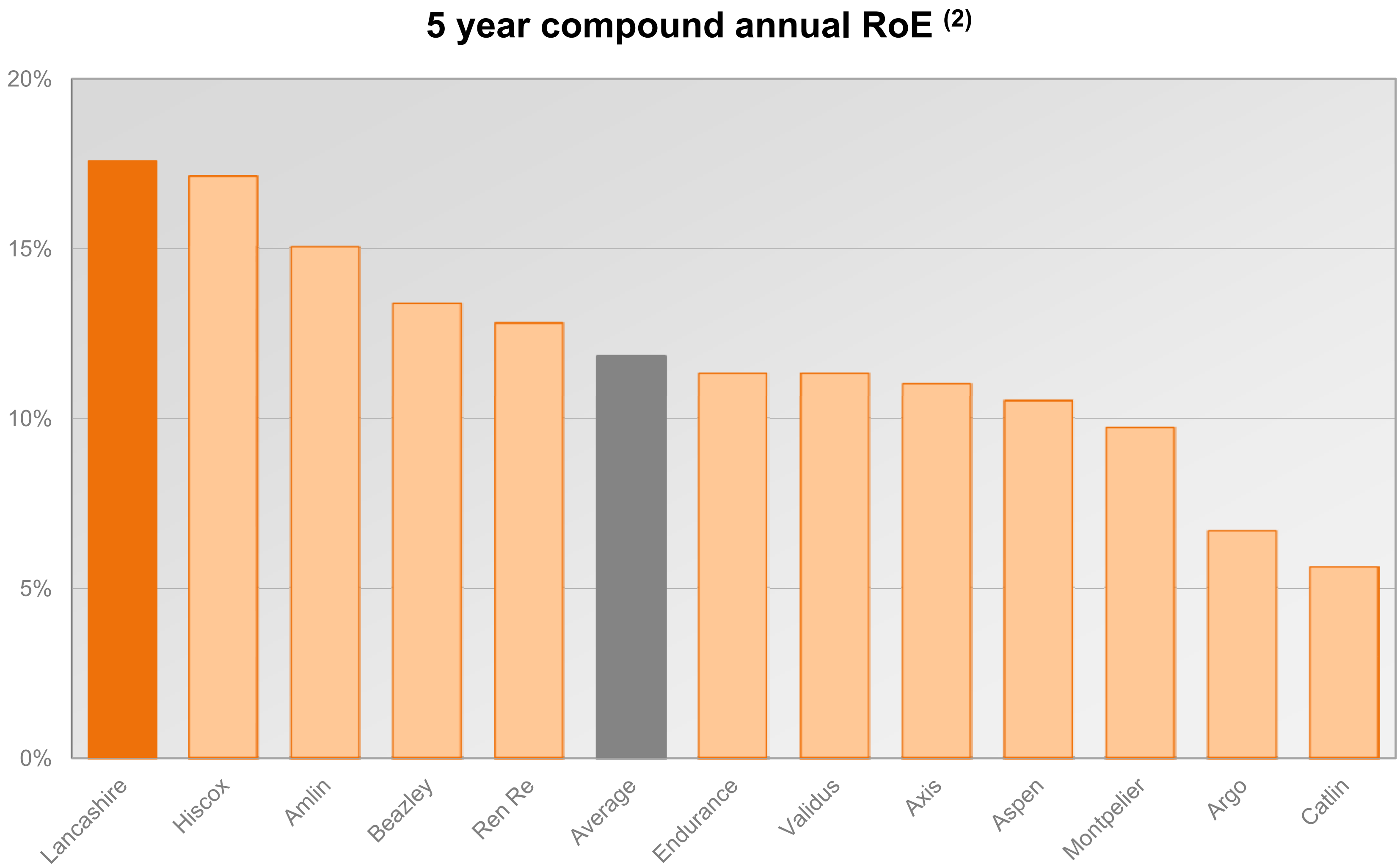


- Lancashire has one of the best performances and yet the lowest volatility versus peers
- Evidence of adherence to business plan and strong risk management

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

(2) Compound annual returns for Lancashire and sector are from 1 January 2008 through 31 December 2012. 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: long-term performance vs peers (1)



(1) Peer group as defined by the Board.

(2) Compound annual returns for Lancashire and sector are from 1 January 2008 through 31 December 2012. 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.

lancashire HOLDINGS LIMITED

consistency: exceptional underwriting performance

	2008	2009	2010	2011	2012	5 year average (1)	Q1 2013
Loss ratio	61.8%	16.6%	27.0%	31.7%	29.9%	33.5%	17.2%
Acquisition cost ratio	16.4%	17.8%	17.3%	19.6%	20.5%	18.3%	21.3%
Expense ratio	8.1%	10.2%	10.1%	12.4%	13.5%	10.8%	12.7%
Combined ratio	86.3%	44.6%	54.4%	63.7%	63.9%	62.6%	51.2%
Sector combined ratio(2)	88.8%	78.3%	88.2%	108.6%	90.7%	91.7%	76.4%
Lancashire out-performance	2.5%	33.7%	33.8%	44.9%	26.8%	29.1%	25.2%

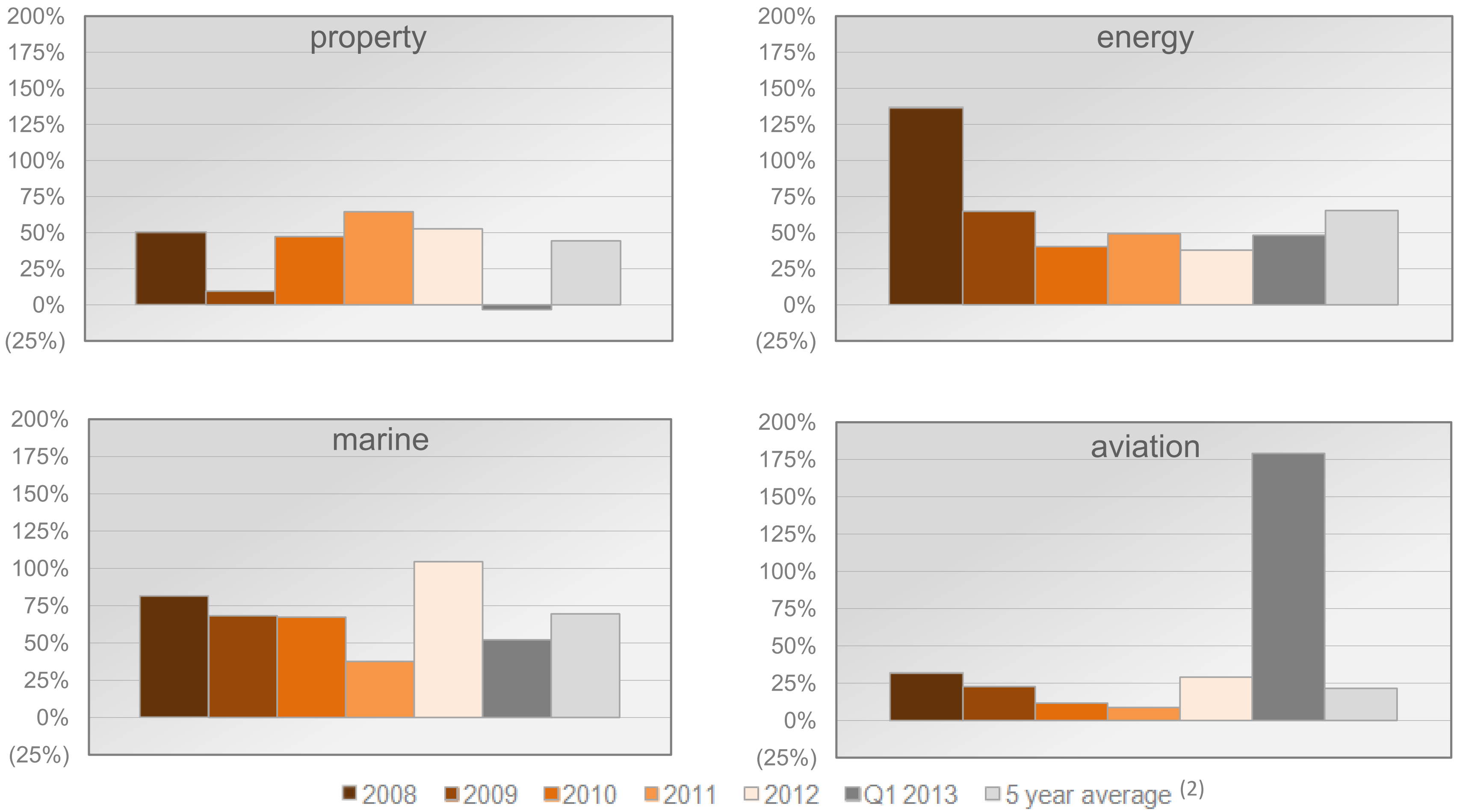
(1) 5 year average based on 2008 to 2012 reporting periods. Lancashire ratios weighted by annual net premiums earned. Annual sector ratios are weighted by annual net premiums earned for the companies reported over five years.

(2) Sector includes Amlin, Argo, Aspen, Axis, Beazley, Catlin, Endurance, Hiscox, Montpelier, Renaissance Re and Validus. Q1 2013 combined ratios for Amlin, Beazley, Catlin and Hiscox not available at time of report. Source: Company reports.

lancashire HOLDINGS LIMITED

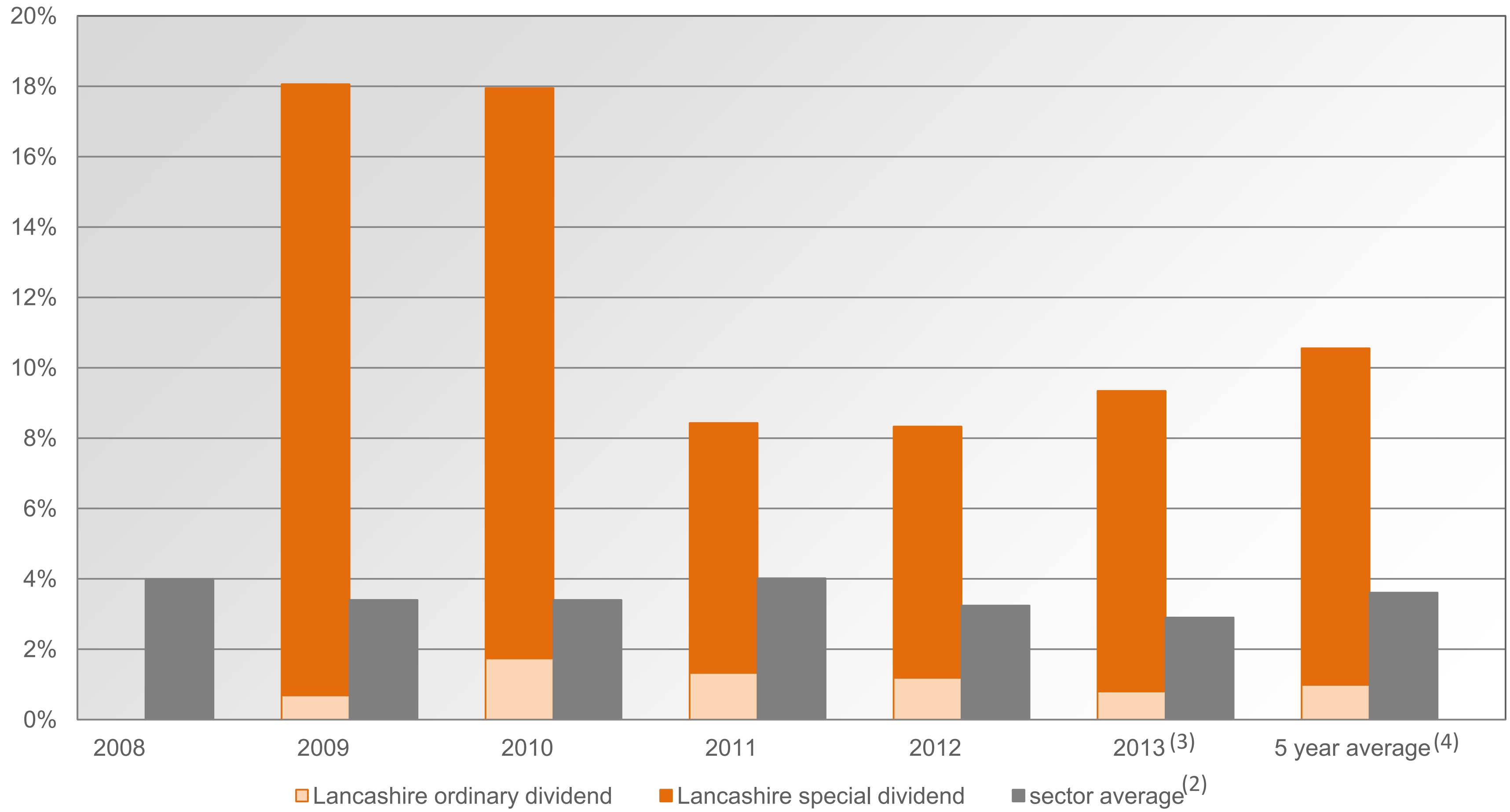
consistency: exceptional underwriting performance

combined ratio by operating segment [(1)]



[(1)] The combined ratio by operating segment is the net loss ratio plus the net acquisition cost ratio. The expense ratio is not included.
[(2)] The 5 year average is a weighted average of the combined ratios from 1 January 2008 to 31 December 2012.

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

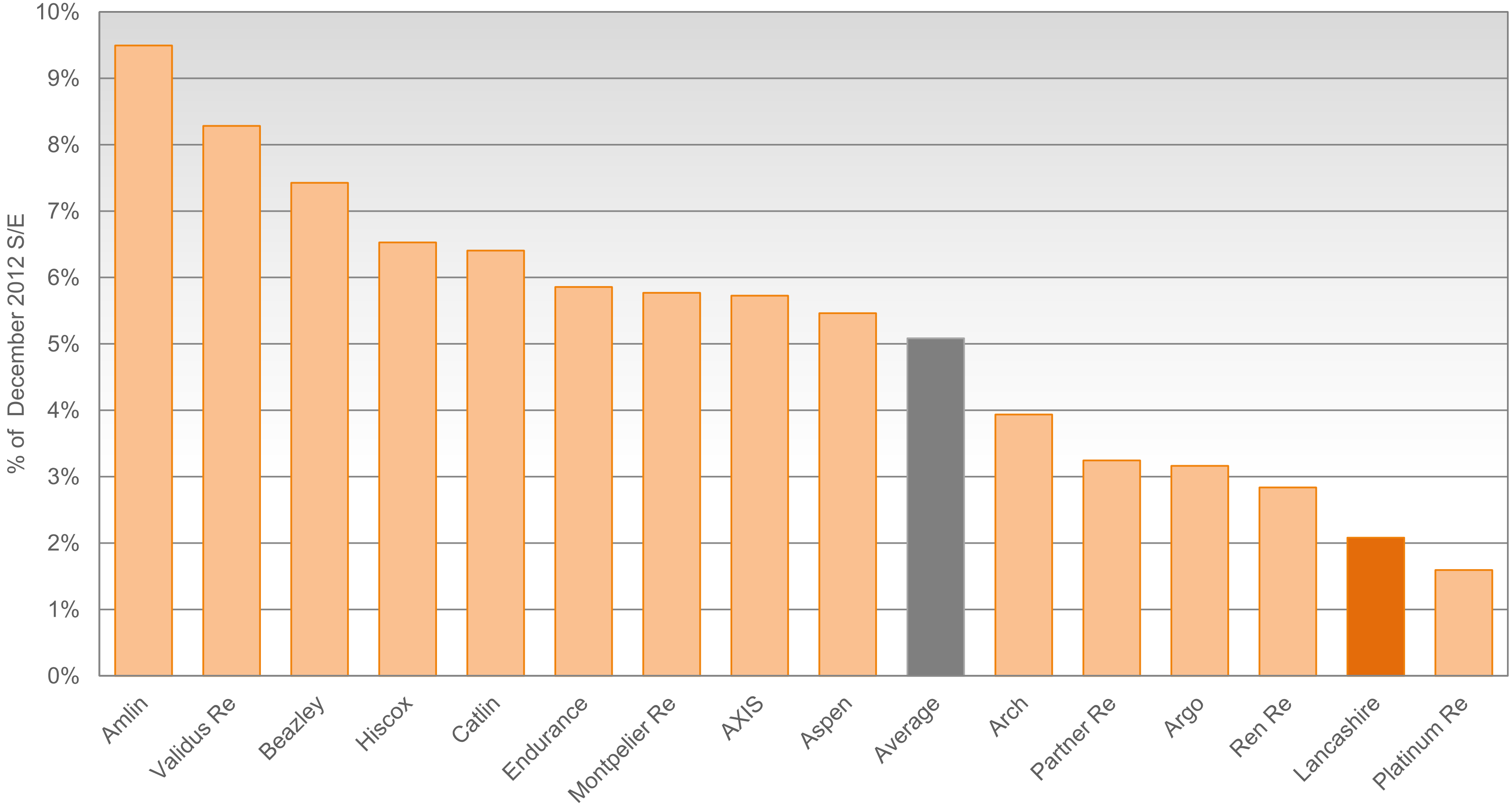
[3] Estimated 2013 dividend yield is calculated as the total dividends declared in Q1 2013 divided by the share price at 28 March 2013. Source: Bloomberg.

[4] 5 year average based on the 2008 to 2012 reporting periods.

lancashire
HOLDINGS LIMITED

performance in recent cat events

Sandy loss as a % of 2012 shareholders equity [(1)]

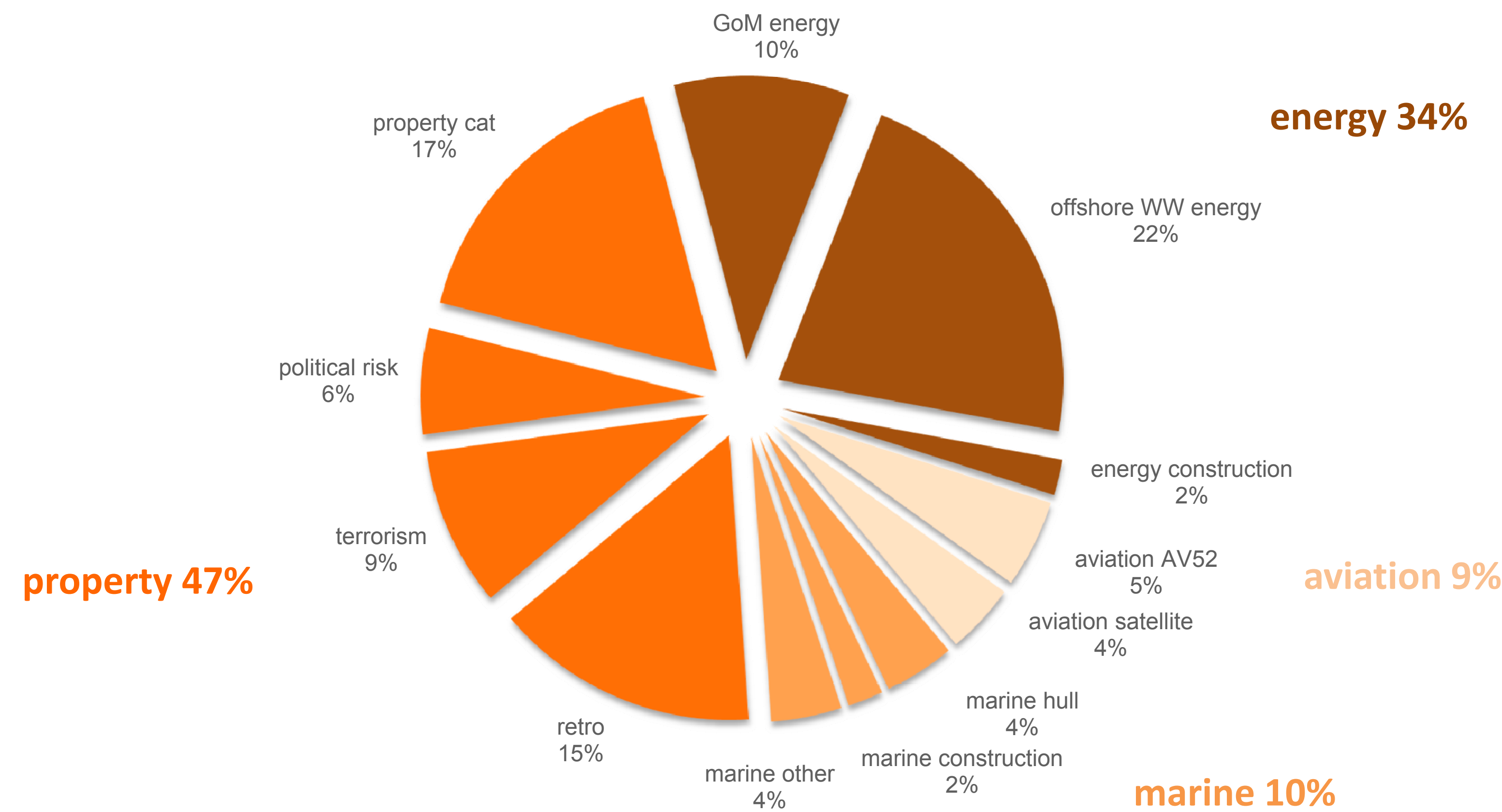


(1) As of 1 May 2013. Source: Company reports.

lancashire
HOLDINGS LIMITED

underwriting comes first

67% insurance 33% reinsurance   40% nat-cat exposed 60% other



Based on 2013 business plan as of 20 February 2013. Estimates could change without notice in response to several factors, including trading conditions.

lancashire HOLDINGS LIMITED

underwriting comes first

appropriate mix of technology and culture

Micro – UMCC [(1)]

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

Macro – RRC [(2)]

- Fortnightly review with underwriters, finance, operations, risk & actuarial departments
- Risk levels monitored regularly versus internal tolerances and preferences
- Simple platform structure enables frequent comprehensive analysis of risk and reward drivers, strategic realignment on a real time basis
- “BLAST” internal model: ReMetrica platform with Lancashire custom features
- Optimisation focus to improve risk:return of portfolio and allocate capital efficiently
- Cat and non-cat modeling performed

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

(1) Underwriting & marketing conference call
(2) Risk & return committee

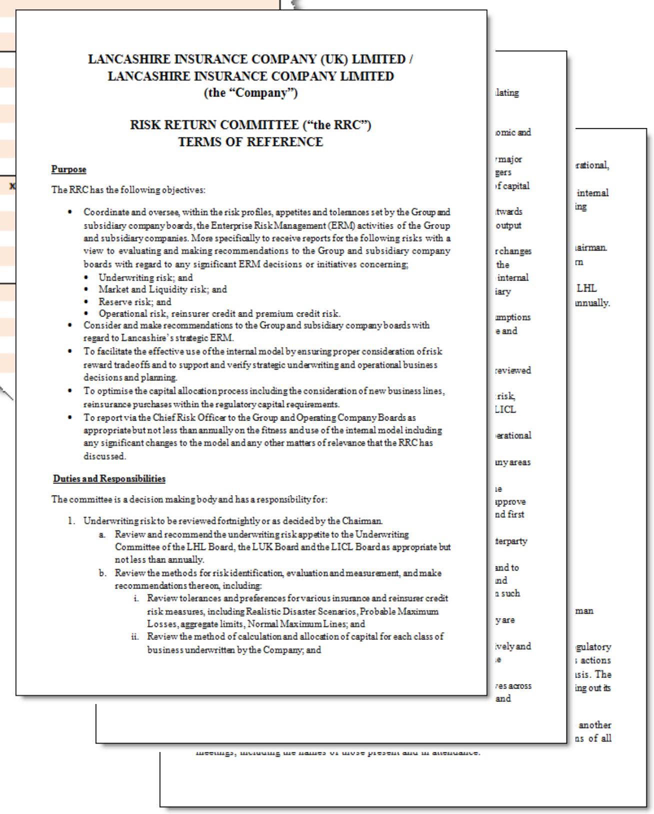
lancashire HOLDINGS LIMITED

underwriting comes first

RRC – terms

Risk Return Committee
2013 Agenda timetable

	Standard pack	ToR + timetable	RDS/PML prefs and tol, NMLs, risk appetite & agg limits.	Investment & resv cttee reports	3 year strategy	Capital allocation/ RoC method	Renewal strategy	Budget & dividend strategy	Outwards RI incl. security & broker credit limits	Risk register, operational risk, emerging risk	BLAST assumptions: Attr losses	Large losses	Correlations	Credit/ Gp risk	Model blending/ loading & non modelled risks	Resv volatility
10-Jan	x	x														
24-Jan	x							x								
7-Feb	x															
21-Feb	x								x							
7-Mar	x		x													
21-Mar	x			x	x											
4-Apr	x					x										
18-Apr	x						x									
2-May	x								x							
16-May	x										x	x				
30-May	x							x								
13-Jun	x			x												
27-Jun	x									x						
11-Jul	x												x			
25-Jul	x															
8-Aug	x															
22-Aug	x		x													
5-Sep	x								x							
19-Sep	x			x			x									
3-Oct	x															
17-Oct	x							x								
31-Oct	x									x						
14-Nov	x					x										
28-Nov	x			x			x									
12-Dec	x								x			x				



LANCASHIRE INSURANCE COMPANY (UK) LIMITED /
LANCASHIRE INSURANCE COMPANY LIMITED
(the "Company")

RISK RETURN COMMITTEE ("the RRC")
TERMS OF REFERENCE

Purpose

The RRC has the following objectives:

- Coordinate and oversee, within the risk profiles, appetites and tolerances set by the Group and subsidiary company boards, the Enterprise Risk Management (ERM) activities of the Group and subsidiary companies. More specifically to receive reports for the following risks with a view to evaluating and making recommendations to the Group and subsidiary company boards with regard to any significant ERM decisions or initiatives concerning;
  - Underwriting risk; and
  - Market and Liquidity risk; and
  - Reserve risk; and
  - Operational risk, reinsurer credit and premium credit risk.
- Consider and make recommendations to the Group and subsidiary company boards with regard to Lancashire's strategic ERM.
- To facilitate the effective use of the internal model by ensuring proper consideration of risk reward tradeoffs and to support and verify strategic underwriting and operational business decisions and planning.
- To optimise the capital allocation process including the consideration of new business lines, reinsurance purchases within the regulatory capital requirements.
- To report via the Chief Risk Officer to the Group and Operating Company Boards as appropriate but not less than annually on the fitness and use of the internal model including any significant changes to the model and any other matters of relevance that the RRC has discussed.

Duties and Responsibilities

The committee is a decision making body and has a responsibility for:

1. Underwriting risk to be reviewed fortnightly or as decided by the Chairman.
   a. Review and recommend the underwriting risk appetite to the Underwriting Committee of the LHL Board, the LUK Board and the LICL Board as appropriate but not less than annually.
   b. Review the methods for risk identification, evaluation and measurement, and make recommendations thereon, including:
      i. Review tolerances and preferences for various insurance and reinsurer credit risk measures, including Realistic Disaster Scenarios, Probable Maximum Losses, aggregate limits, Normal Maximum Lines; and
      ii. Review the method of calculation and allocation of capital for each class of business underwritten by the Company; and

- Full Terms of Reference covering all Group ERM activities
- Major agenda items scheduled throughout the year
- Includes BLAST model assumption reviews and sensitivity testing
- Minutes and actions circulated and shared on the system

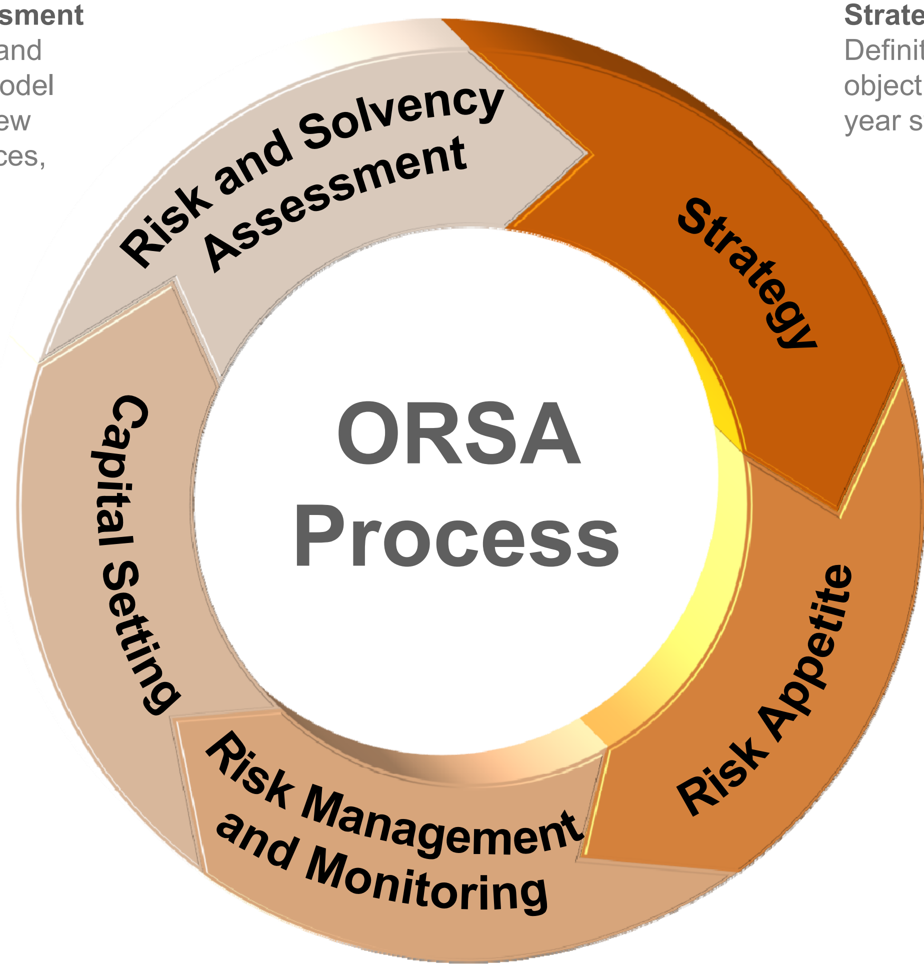
lancashire
HOLDINGS LIMITED

underwriting comes first

Lancashire's ERM: ORSA process

Risk and Solvency Assessment
Ongoing monitoring of risk and capital by the RRC using model outputs to analyse and review areas including risk tolerances, portfolio optimisation, economic capital, reinsurance optimisation, stress and scenario testing, capital allocation, ROEC, capital planning and emerging risk management.

Capital setting
Calculating regulatory and economic capital requirements through the use of the internal model (BLAST) taking into account all types of risks faced by the Group and subsidiaries



Strategy
Definition of strategic goals and objectives – Board approves three year strategy for the Group.

Risk appetite
The setting of risk appetites and tolerances using the Risk Profile set out in the business plans and strategy.

Risk management and monitoring
Management and oversight of risks through the use of risk measures / tolerances / preferences / controls and the Risk Register using ERM.

lancashire
HOLDINGS LIMITED

underwriting comes first: property reinsurance and retrocession

core

- Major market placements with limited exposure to non modeled perils.
- U.S. – Regional Wind and EQ
- Canada – defensive low attritional EQ products
- Japanese – Wind / EQ portfolio

non-core / opportunistic

- Worldwide and attritional layers
- Traditional retrocession (post-loss product for Lancashire)
- Distressed markets e.g. Asian Regional retrocession at April 1, 2013 / NE loss affected layers post Sandy

outlook

Retrocession
- Stabilising market for both worldwide and regional products – Sandy facilitated in holding the market.
- Buyers from Lloyd's, Europe, U.S., Asia
- Still demand for the worldwide product – Accordion
- Demand to whole account risk/cat product – Saltire

Cat XL – USA
- Pricing adequate overall and was helped by Sandy
- New entrants into the regional U.S. market.
- Pockets of limited opportunity post Sandy – Regional NE
- Still no exposure directly to FL Specialists

Cat XL – Asia
- Japan – development of key relationships and core clients
- Solid April 2013 renewal season with additional regional development and relationships

Cat XL – Rest of world
- Continue a defensive European footprint
- Maintain strategic trades with specific clients in specific territories

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	2012	**Q1 2013**
Property reinsurance	100	97	96	127	121	131	157	**154**

Year to date RPI observations
- Q1 RPI's slightly down for retrocession but additional pressure expected later in year
- US primary RI rates; nationwide rates flat to off 5%. NE loss affected layers 120% otherwise stable
- April 2013 Japanese renewals orderly with minor reductions offset by new purchases

lancashire HOLDINGS LIMITED

underwriting comes first: energy

core

Offshore operating risks

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

non-core / opportunistic

Onshore operating risks

- Will entertain in a cyclical broad market hardening

Offshore construction risks

- Prefer excess of loss policies and projects run by internationally recognised operators and contractors
- Excess third party liabilities

outlook

Gulf of Mexico

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

Worldwide offshore

- Still very profitable for Lancashire as a class
- Over $3bn of major industry losses in 2011 but 2012 relatively benign
- Capacity remains at all time highs but so do limit requirements
- 2013 rates flat BUT rates close to 2006 rates following 4 years of rises

Worldwide onshore

- Exited stand alone portfolio

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	2012	**Q1 2013**
Energy Gulf of Mexico	100	80	64	137	139	140	140	**134**
Energy Worldwide Offshore	100	80	68	84	88	97	100	**99**

Year to date RPI observations

- Gulf of Mexico wind pricing coming under some slight pressure after several years of rises
- Worldwide offshore rating environment also under some pressure

lancashire HOLDINGS LIMITED

underwriting comes first: property terrorism and political risk

core

Terrorism
- Closed access risks i.e. restricted public access
- Excess of loss (average attachment $217m)
- Construction risks

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

non-core / opportunistic

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

Political Risk/Sovereign Risk
- Opaque risks and unknown insureds without a track record
- Territories which are not transparent and are unstable

outlook

Terrorism
- More competition with new capacity BUT demand still strong
- Monitoring TRIPRA renewal negotiations for potential opportunities

Political Risk / Sovereign Risk
- Strong demand especially Asia
- Capacity at same level but certain territories seeing aggregate pressures which are pushing rates up marginally

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	2012	**Q1 2013**
Terrorism and Political Risk	100	86	71	66	60	57	55	**53**

Year to date RPI observations
- Terrorism rates generally down but very variable as to quantum
- Political risk broadly flat

lancashire HOLDINGS LIMITED

underwriting comes first: marine

core

Marine Hull

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

Marine Builders Risk

- Target the most reputable yards which are surveyed and graded using JH143 surveys

Marine War

- Support market facilities and lineslips for both war and piracy

non-core / opportunistic

Marine Hull

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

Marine Builders Risk

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

outlook

Marine

- Attractive niche opportunities
- Expect increases for larger and loss affected risks
- Still too much capacity for small to medium tonnage increases
- P&I rates have increased substantially on loss affected accounts

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	2012	**Q1 2013**
Marine	100	88	80	82	80	79	86	**88**

Year to date RPI observations

- Hull and IV rates under competitive pressure
- P&I rates increased at February 2013 renewals
- Costa Concordia main reason for uptick in 2012

lancashire HOLDINGS LIMITED

underwriting comes first: aviation

core

AV52
- Aviation terrorism third party liability product

Satellite
- Launch and in orbit assets

non-core / opportunistic

Aviation Hull & Liabilities
Do not write due to pricing and excess capacity

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
- Re-entered satellite market with new launch/extended orbit coverage with stable outlook

cumulative rate index and RPIs

Class	2006	2007	2008	2009	2010	2011	2012	**Q1 2013**
Aviation (AV52)	100	80	69	68	62	59	55	**47**

Year to date RPI observations
- Moderate rate reductions continue in AV52
- Main renewal season in November

lancashire
HOLDINGS LIMITED

underwriting comes first: lessons learned

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

lancashire
HOLDINGS LIMITED

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 [2]	hurricane	239 (16%)	365 (24%)
california	earthquake	86 (6%)	194 (13%)
pacific northwest	earthquake	24 (2%)	125 (8%)
pan-european	windstorm	149 (10%)	206 (14%)
japan	earthquake	139 (9%)	257 (17%)
japan	typhoon	112 (7%)	259 (17%)

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.

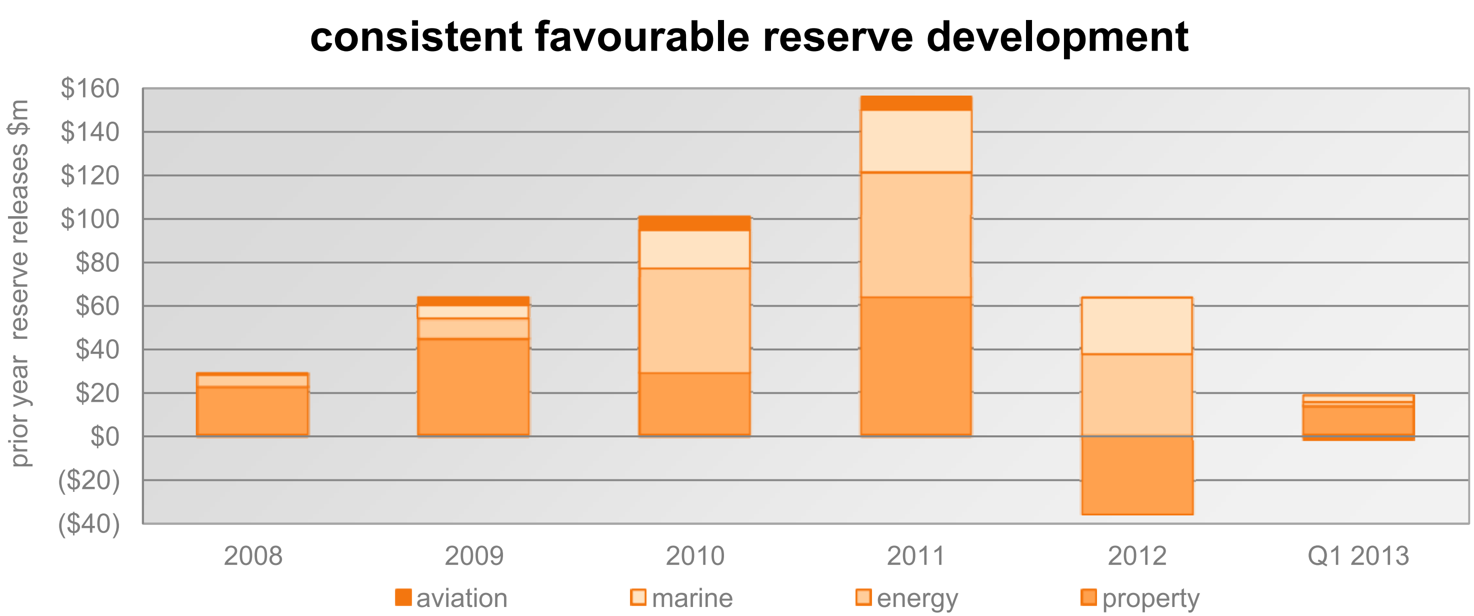
GROSS LOSS ESTIMATES ARE NET OF REINSTATEMENT PREMIUMS AND GROSS OF OUTWARD REINSURANCE, BEFORE INCOME TAX. NET LOSS ESTIMATES ARE NET OF REINSTATEMENT PREMIUMS AND NET OF OUTWARD REINSURANCE, BEFORE INCOME TAX.

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.

[1] Estimated net loss as at 1 April 2013.

[2] Landing hurricane from Florida to Texas.

effectively balance risk and return: reserve adequacy

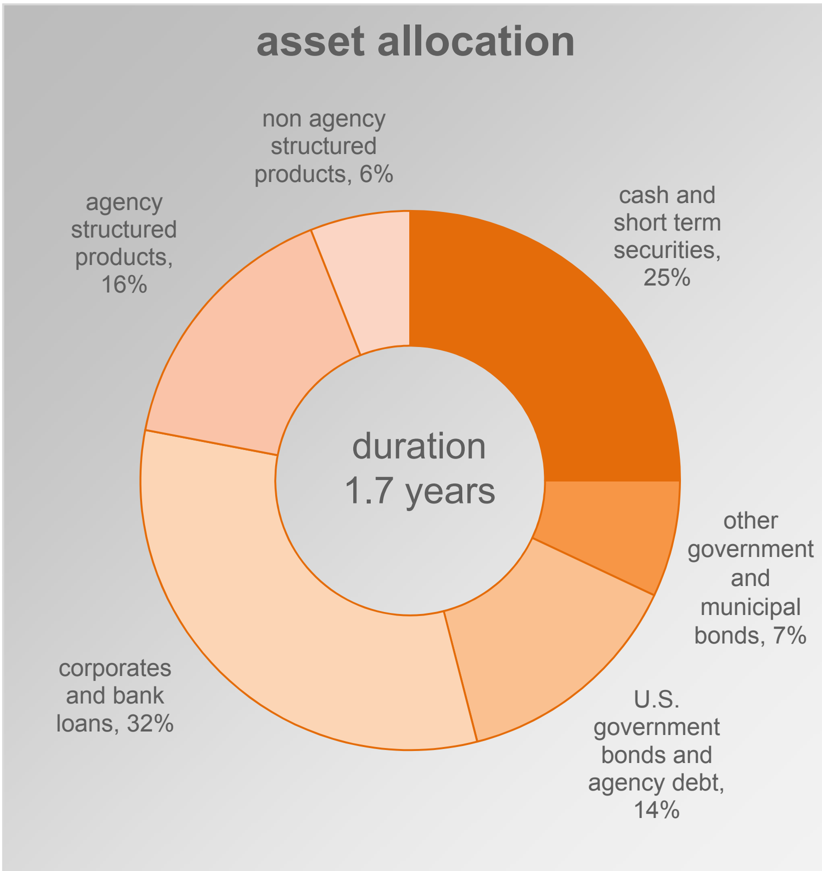


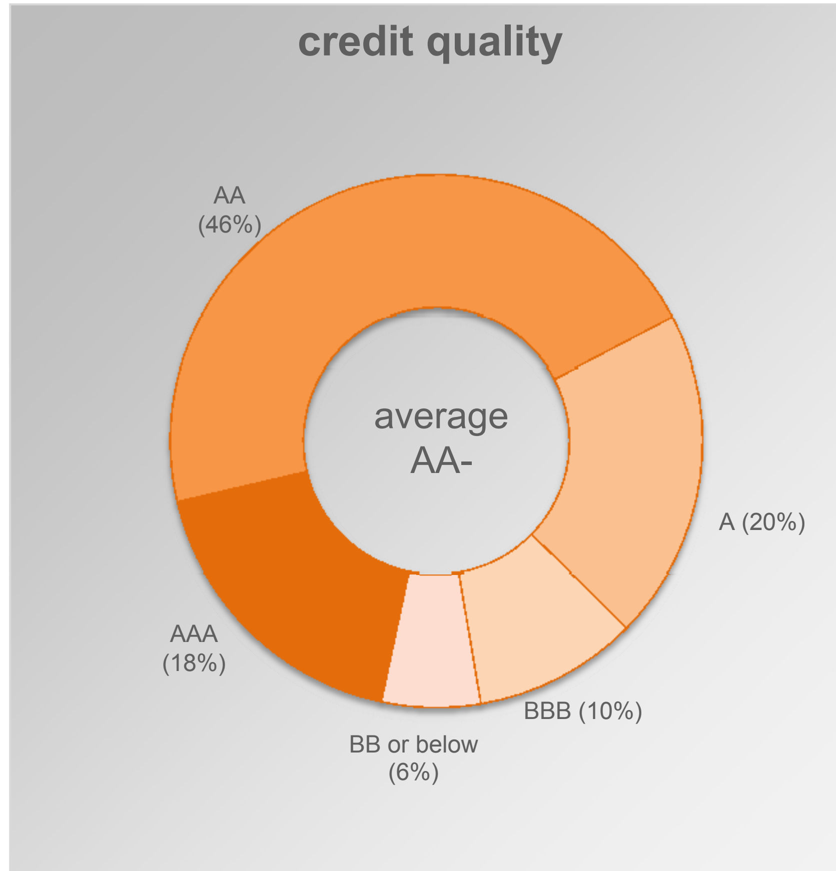
- Reserving record has demonstrated conservative reserving
  - 2006 accident year developed favourably by 35.3% so far
  - 2007 accident year developed favourably by 48.4% so far
  - 2008 accident year developed favourably by 24.5% so far
  - 2009 accident year developed favourably by 60.0% so far
  - 2010 accident year developed favourably by 32.5% so far
  - 2011 accident year developed favourably by 6.8% so far
  - 2012 accident year developed favourably by 13.5% so far
- Adverse property development in 2012 mainly due to Thailand flood loss development – further support for D&F exit
- Being an insurer (67% of forecast premium) rather than a reinsurer means we get much better loss data, in a more timely manner
- Towers Watson review reserves quarterly
- Reserve duration is approximately two years

lancashire HOLDINGS LIMITED

effectively balance risk and return

capital preservation





- Total portfolio at December 31 2012 = $2,136m

lancashire HOLDINGS LIMITED

effectively balance risk and return: conservative investment philosophy

- **Our market outlook remains subdued:**
  - Continued concerns about Europe and its effect on global growth.
  - Headwinds to growth remain in the U.S., although increasing positive economic data and sentiment have increased the risk of rising interest rates.

- **Preservation of capital continues to be paramount and we will focus on interest rate risk**
  - Maintain reduced investment portfolio duration, despite low yields
  - Maintain diversification in cash holdings
  - Mitigate interest rate risk:
    - ✓ Increase exposure to floating rate notes
    - ✓ Implement a tail risk hedge:
      - ➢ 'Cheap' insurance while volatility is low
  - 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
  - Continue to manage investment "Realistic Loss Scenarios" ("RLS")
    - ✓ Monitor "risk on" and "risk off" performance
    - ✓ Market neutral positioning
    - ✓ Define risk appetite and preferences

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	total $m
share repurchases	100.2	58.0	16.9	136.4	-	-	-	311.5
special dividends [(1)]	239.1	-	263.0	264.0	152.0	172.6	201.4	1,292.1
ordinary dividends – interim [(1)]	-	-	10.5	9.4	9.5	9.6	-	39.0
ordinary dividends – final [(1)]	-	-	-	20.8	18.9	19.2	19.2	78.1
total	**339.3**	**58.0**	**290.4**	**430.6**	**180.4**	**201.4**	**220.6**	**1,720.7**
average price of share repurchase [(2)]	102.2%	88.4%	98.5%	97.9%	n/a	n/a	n/a	97.6%
weighted average dividend yield [(3)]	15.2%	n/a	18.1%	18.0%	8.4%	8.3%	9.4%	n/a

175.9% of original share capital has been returned to shareholders

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

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

[(3)] Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. 2013 dividend yield is based on the share price at 28 March 2013.

lancashire HOLDINGS LIMITED

operate nimbly through the cycle

change in tax residency from 1 January 2012

- **Why have we done it?**
  - UK government aim to increase competitiveness of UK tax regime
  - Change in UK Controlled Foreign Corporation rules
  - Reduces operating risk, no impact on corporation tax liability for Bermuda operations

- **What does it mean?**
  - Increases management flexibility, ability to make decisions even faster
  - Less corporation tax, more employment tax – but not a significant impact
  - Applied and received exemption from HMRC to 31 December 2014

conclusion

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

lancashire

HOLDINGS LIMITED

www.lancashiregroup.com

Bermuda - (1) 441 278 8950

London - 44 (0)20 7264 4000

jcc@lancashiregroup.com

charles.mathias@lancashiregroup.com