

Underwriting comes **first**

Effectively **balance** risk and return

Operate **nimbly** through the cycle

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# Lancashire Group

## Sticking to the Strategy, Managing the Cycle

- “Lancashire's strategy since day one has always been to write the most exposure in a hard market and the least in a soft one. There are now abundant reinsurance and retrocession opportunities that allow us to maintain our core insurance and reinsurance portfolios, whilst significantly reducing net exposures and enhancing risk adjusted returns. From our peak exposures in April 2012, when losses had driven substantial market hardening, we have reduced exposures across the board. We will stick to our strategy in the knowledge that when an event comes, we are well prepared through all three of our platforms to take advantage of subsequent opportunity”

*Alex Maloney, Q2 2014 results*

- Lancashire's strategy is designed to be robust across all phases of the market cycle and with the addition of the Kinesis and Cathedral platforms there are multiple ways to maintain or enhance the portfolio

# Sticking to the Strategy, Managing the Cycle

- Multiple platforms able to offer full spread of security to clients as they look to different options – rated company, Lloyd's, collateralised
- Diversified across classes and between specialist insurance/reinsurance classes - no reliance on a single dominant source of revenue or profit
- Disciplined underwriting – LICL/LUK have the daily UMCC call, Cathedral daily exception reporting, incentives linked to Group performance and profit
- Sticking to strategy – least net exposure in soft market – but able to retain most of core inwards portfolio through outwards optimisation
- Well placed to manage the cycle with volatile lines balanced by low attritional loss lines
- Investment stance still aiming to be neutral but with a bias to risk-on in current environment
- Special dividend of \$1.20 announced at Q3 results
- Nine month combined ratio of 74.5%

# An established and successful market leader

- Positive RoE in 34 out of 35 quarters, and in every financial year <sup>(6)</sup>
- Combined ratio below 100% in 34 out of 35 quarters, and in every financial year <sup>(6)</sup>

	Inception to date <sup>(1)</sup>	2012	2013	YTD 2014 <sup>(7)</sup>
<b>Return on equity</b>	18.9% <sup>(2)</sup>	16.7%	18.9%	8.1%
<b>Net premiums written</b>	\$589.3m <sup>(3)</sup>	\$576.1m	\$557.6m	\$632.5m
<b>Combined ratio (including G&amp;A)</b>	61.9%	63.9%	70.2%	74.5%
<b>Loss ratio</b>	31.9%	29.9%	33.1%	37.9%
<b>Total investment return</b>	3.6% <sup>(4)</sup>	3.1%	0.3%	0.6%
<b>Total shareholder return</b>	427.4%	21.6%	21.3%	(20.5%)
<b>Capital management</b>	\$2,156.9 m of capital returned; 220.4% of original IPO capital raised returned <sup>(5)</sup>	\$201.4m of dividends paid; \$130m of debt issued; No share repurchases	\$325.6m of dividends paid; Issued 16.8m common shares; No share repurchases	\$322.7m of dividends paid <sup>(5)</sup> ; 8.5m of share repurchases

<sup>(1)</sup> Period from December 13, 2005 to September 30, 2014 unless otherwise stated

<sup>(2)</sup> Compound annual rate of return on equity

<sup>(3)</sup> Average annual net premiums written to December 31, 2013

<sup>(4)</sup> Average annual return on investments to December 31, 2013

<sup>(5)</sup> Includes dividends of approximately \$249.1 million declared in November 2014

<sup>(6)</sup> Excludes period from the date of incorporation to December 31, 2005

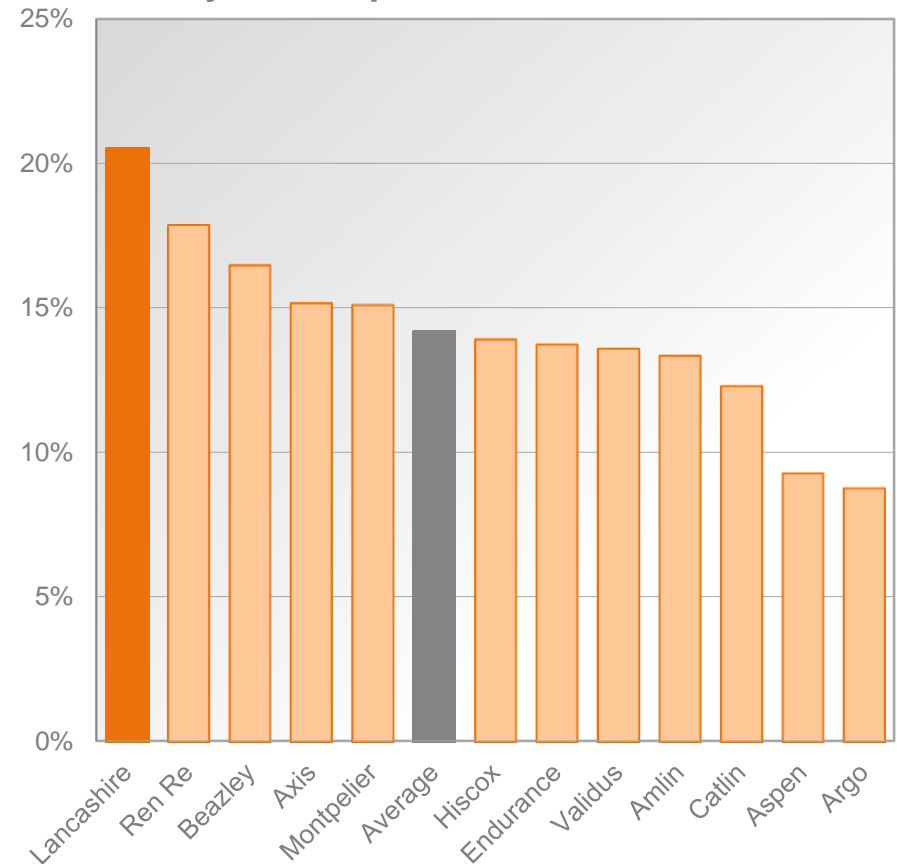
<sup>(7)</sup> Period from January 1, 2014 to September 30, 2014 unless otherwise stated

# Our cross-cycle performance is the most consistent in our peer group <sup>(1)</sup>

RoE ranking in peer group <sup>(1)</sup>

Company <sup>(2)</sup>	2009	2010	2011	2012	2013	5 yr avg
Lancashire	7	1	1	4	5	1
Ren Re	2	2	10	3	4	2
Beazley	12	5	2	1	1	3
Axis	4	4	7	5	9	4
Montpelier	3	6	11	2	6	5
Hiscox	10	8	3	7	3	6
Endurance	1	3	8	12	11	7
Validus	6	11	4	8	8	8
Amlin	5	9	12	6	2	9
Catlin	9	10	6	9	7	10
Aspen	8	7	5	11	12	11
Argo	11	12	9	10	10	12

5 year compound annual RoE <sup>(3)</sup>



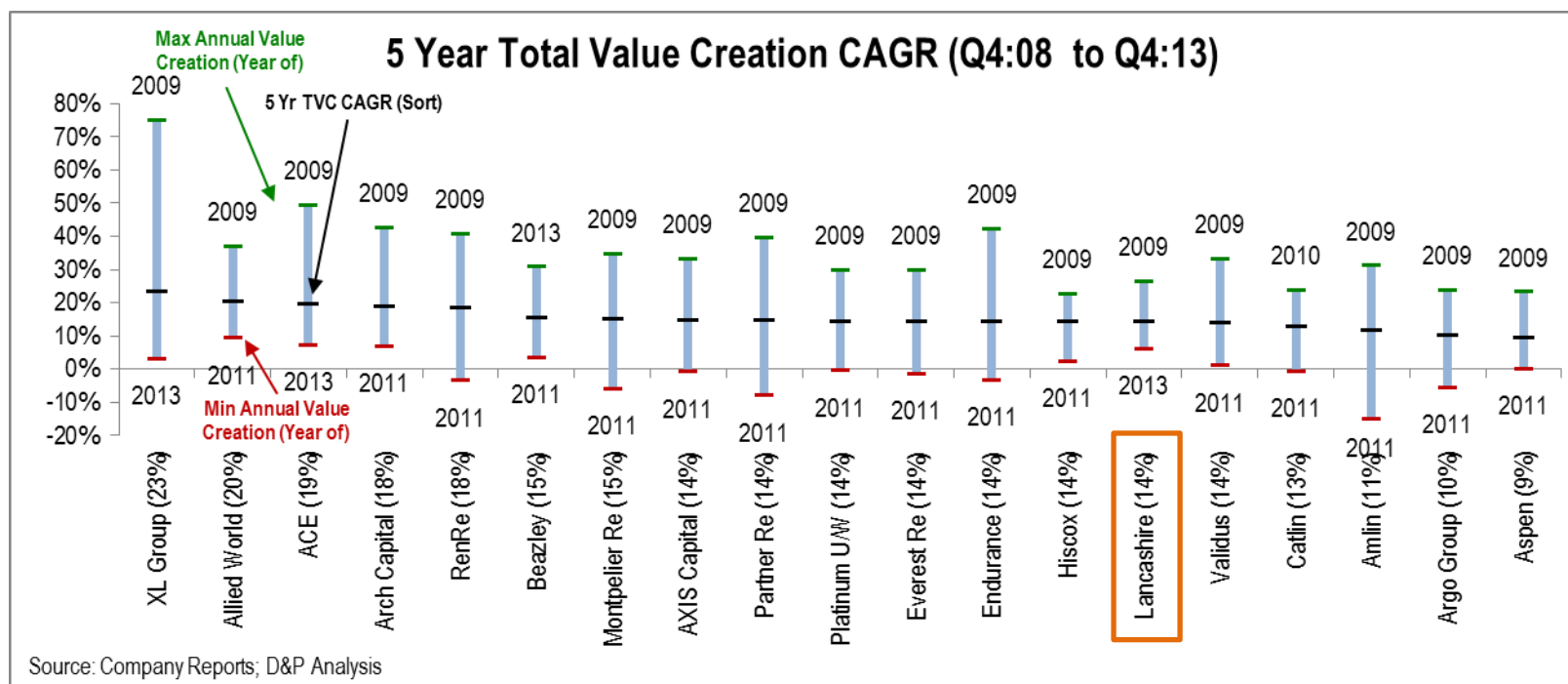
<sup>(1)</sup> Peer group as defined by the Board. Source: Company reports.

<sup>(2)</sup> Companies listed in order of average annual RoE ranking for the years 2009 - 2013. Average ranking calculated as the sum of annual rankings for each year divided by five years.

<sup>(3)</sup> Compound annual returns for Lancashire and peers are from January 1, 2009 through December 31, 2013.

# Compound Annual Growth Rate (CAGR) and volatility consistent across the cycle

- Lancashire shows limited volatility and strong consistency of results since 2008 including major loss years (2008, 2011) and benign years
- Risk averse investment stance means Lancashire missed the big swings of losses and subsequent gains in 2008 and 2009
- In 2008 with Hurricane Ike in the Gulf of Mexico and in 2011 with an unprecedented frequency of international property catastrophe losses, Lancashire still made profits

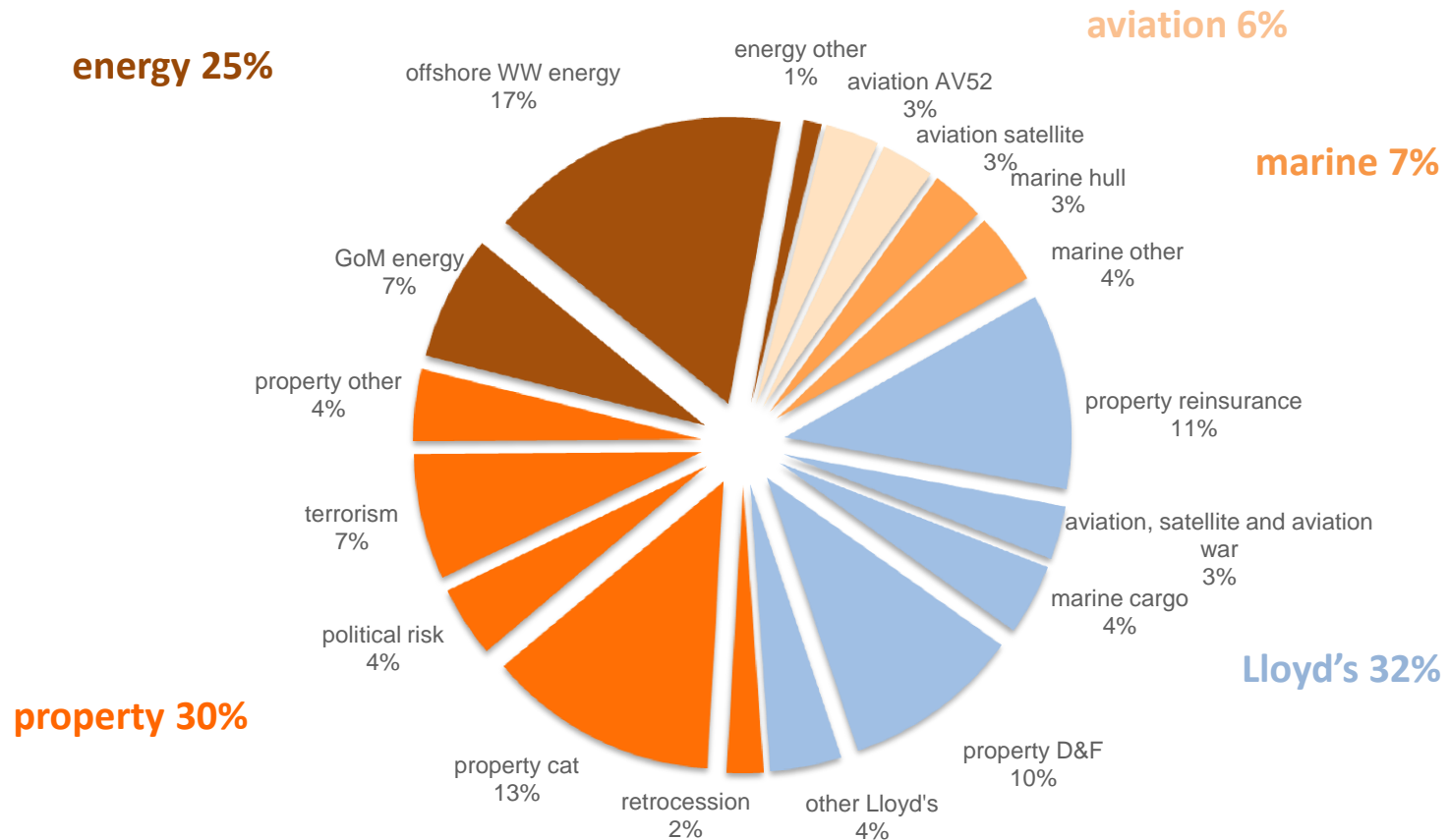


**Underwriting comes first**



# Diversified portfolio and platforms

70% insurance 30% reinsurance 37% nat-cat exposed 63% other



Based on 2014 reforecast as of November 3, 2014. Estimates could change without notice in response to several factors, including trading conditions.

# Consistency - strongly diversified base of underwriting profit

## Underwriting income by line of business

- Lancashire has a broad base of profitable lines with strong weightings to low attrition classes
- The Group has multiple uncorrelated sources of income and is able to smooth individual event impacts



# Consistency: exceptional underwriting performance

Market leading loss ratios and low headcount-led expense ratios drive profitability

	2009	2010	2011	2012	2013	5 year average <sup>(1)</sup>	YTD 2014
<b>Loss ratio</b>	16.6%	27.0%	31.7%	29.9%	33.1%	27.6%	37.9%
<b>Acquisition cost ratio</b>	17.8%	17.3%	19.6%	20.5%	22.1%	19.4%	21.0%
<b>Expense ratio</b>	10.2%	10.1%	12.4%	13.5%	15.0%	12.2%	15.6%
<b>Combined ratio</b>	44.6%	54.4%	63.7%	63.9%	70.2%	59.2%	74.5%
<b>Sector combined ratio<sup>(2)</sup></b>	78.3%	88.2%	108.6%	90.7%	83.8%	90.4%	84.4%
<b>Lancashire out-performance</b>	33.7%	33.8%	44.9%	26.8%	13.6%	31.2%	9.9%

<sup>(1)</sup> 5 year average based on 2009 to 2013 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

<sup>(2)</sup> Sector includes Amlin, Argo, Aspen, Axis, Beazley, Catlin, Endurance, Hiscox, Montpelier, Renaissance Re and Validus. Year to date 2014 combined ratios for Amlin, Beazley, Catlin and Hiscox not available at time of report. Source: Company reports

# Market position, brand & distribution – LICL & LUK

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

- Being a leader or agreement party allows Lancashire to shape its destiny and engage with brokers and clients
- Strong core portfolio across all insurance classes with excellent new opportunity flow

### 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	77%	23%	74%	26%
Energy	89%	11%	94%	6%
Terrorism	48%	52%	72%	28%
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

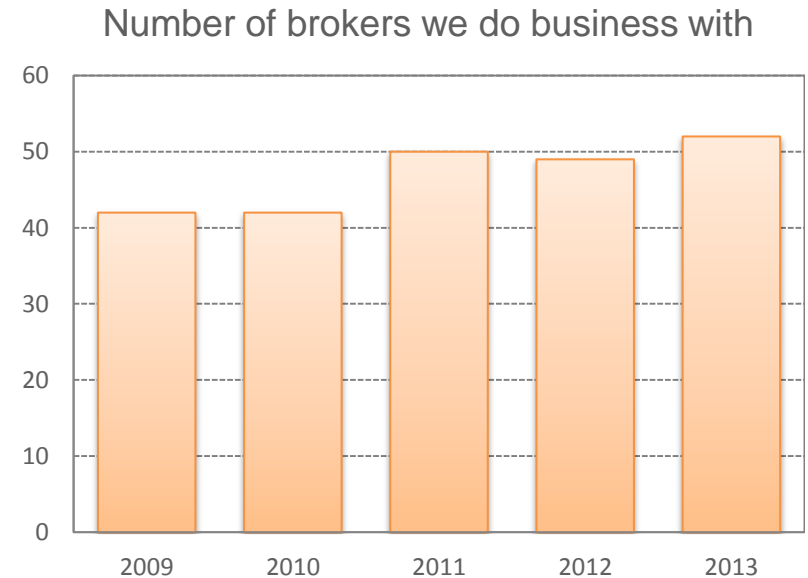
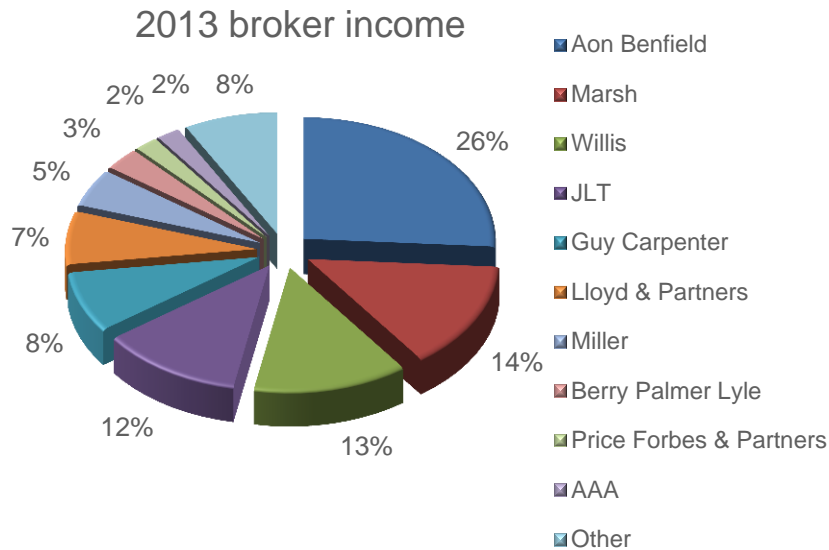
<sup>(3)</sup> Core business: Business that we expect to renew over the long term meeting our RoE hurdles through the cycle with a strong client relationship

<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 December 31, 2013

# 2013: Market position, brand & distribution – LICL & LUK

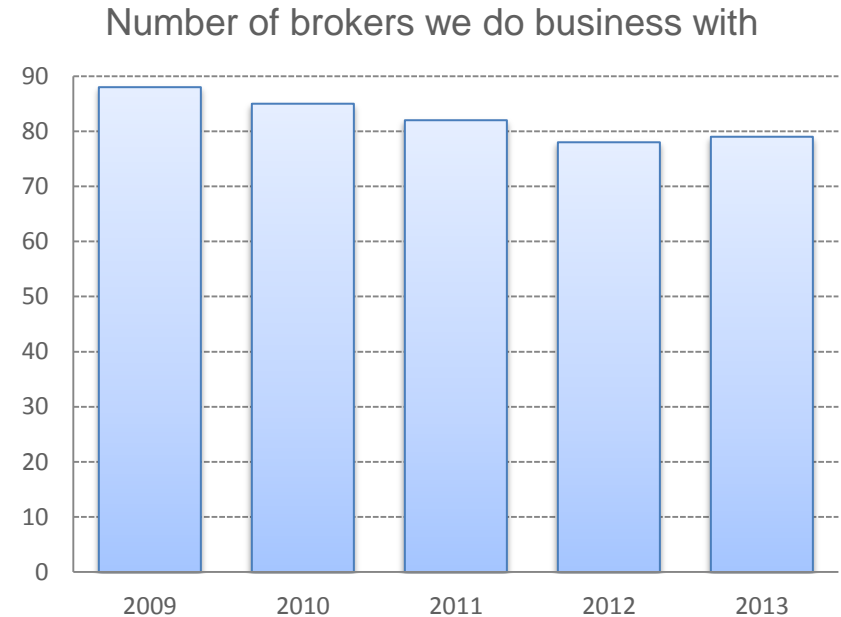
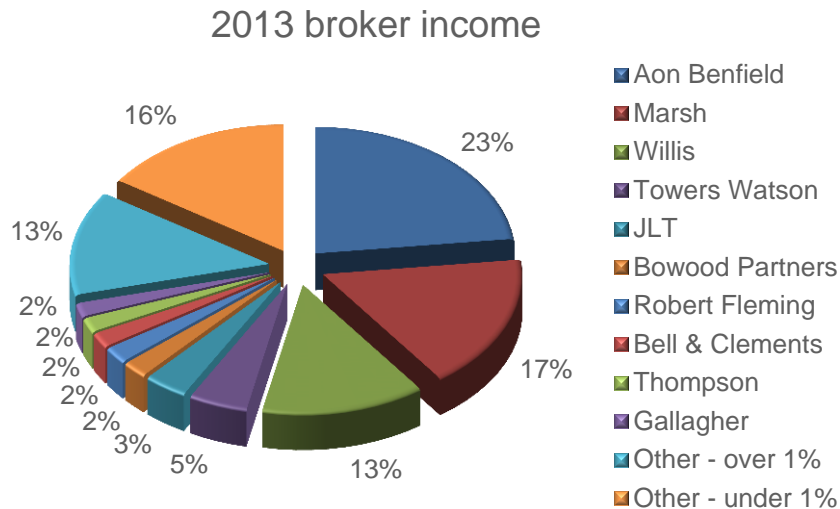
Since inception, Lancashire has believed it is key that we are recognised as a major market and expert within our product lines



- 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
- Cultivates strong relationships with leading brokers in its niche areas
- Brokers want to deal with market leaders, and Lancashire's capacity ensures that we see business early on when placements are being structured

# 2013: Market position, brand & distribution - Cathedral

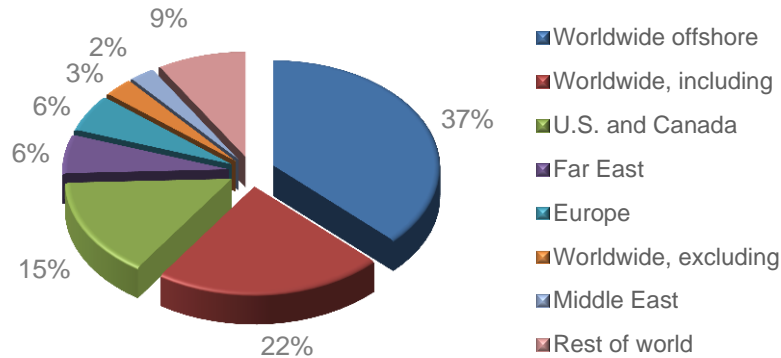
Each line of business uses specialist niche brokers



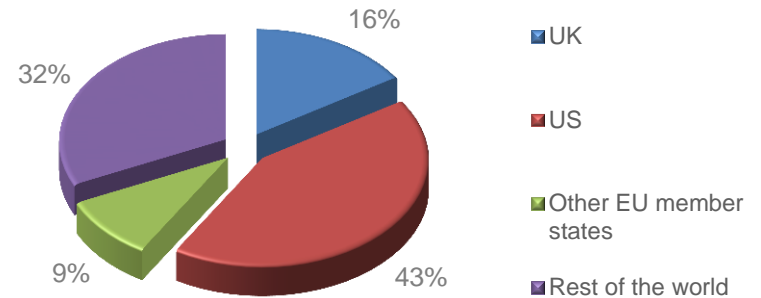
- Diversity of producers means Cathedral holds more power than if writing just Aon, Marsh, Willis books
- Niche focus of underwriting reflected in distribution channels
- Cathedral has historically had a wide base of brokers producing its business. Although the major brokers appear among the larger producers in many of the accounts, none have a controlling position on the portfolio

# 2013: Geographic distribution

Lancashire geographic premium analysis by risk location



Cathedral geographic premium analysis by risk location



- U.S. remains top source of income, as appropriate for market with largest insurance market and reinsurance spend
- Good spread of risk worldwide, especially with LUK energy offshore, terrorism, Cathedral D&F binder and developing LICL international property catastrophe excess of loss
- Lloyd's licensing will help Syndicate 3010 to support development of new areas such as Canada or Brazil for terrorism and energy

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

# Kinesis Capital Management Indicative Results

	Mean loss scenarios (10% EL)		No loss scenarios	
	Limit of \$500m <sup>(1)</sup>	Limit of \$1B <sup>(1)</sup>	Limit of \$500m <sup>(1)</sup>	Limit of \$1B <sup>(1)</sup>
Lancashire investment <sup>(2)</sup>	38.3	76.5	38.3	76.5
RoL (net)	23.5%	23.5%	23.5%	23.5%
RoE contribution, <u>excluding</u> PC <sup>(3)</sup>	0.5%	1.3%	0.7%	1.7%
RoE contribution, <u>including</u> PC <sup>(3)</sup>	0.9%	2.1%	1.7%	3.6%
<b><u>Current year earnings (\$m)</u></b> <sup>(1)</sup>				
Underwriting fees - 8.5% of NPW	9.4	18.8	9.4	18.8
G&A costs <sup>(4)</sup>	(5.7)	(6.8)	(6.1)	(7.7)
LHL equity pickup <sup>(5)</sup>	4.8	9.6	8.8	17.5
Net CY contribution to LHL, after NCI	7.6	19.6	11.2	26.7
<b><u>Subsequent year earnings (\$m)</u></b>				
Profit commissions <sup>(6)</sup>	6.3	12.7	14.6	29.2
Total profit contribution	13.9	32.3	25.8	55.9

<sup>(1)</sup> Assumes 75% written at 1/1 and 25% at 1/7 from a standing start ie. no run-off earnings from prior years. Earnings patterns reflect the underlying risks attaching ie. not straight line

<sup>(2)</sup> LHL's investment is 10%, up to a maximum of \$100m invested

<sup>(3)</sup> Indicative assuming LHL target cross cycle RoE of 13% over the risk free rate, actual contribution will vary depending on actual RoE produced

<sup>(4)</sup> Staff levels increase as limits increase; bonuses increase as total profit contribution increases: bonuses subject to caps

<sup>(5)</sup> NPW less UW fees less losses less PC x 10% investment (subject to cap). PC provision is included in Kinesis Re in year 1 but not recognised as income by KCM until year 2. Equity pickup ignores capital returns to LHL

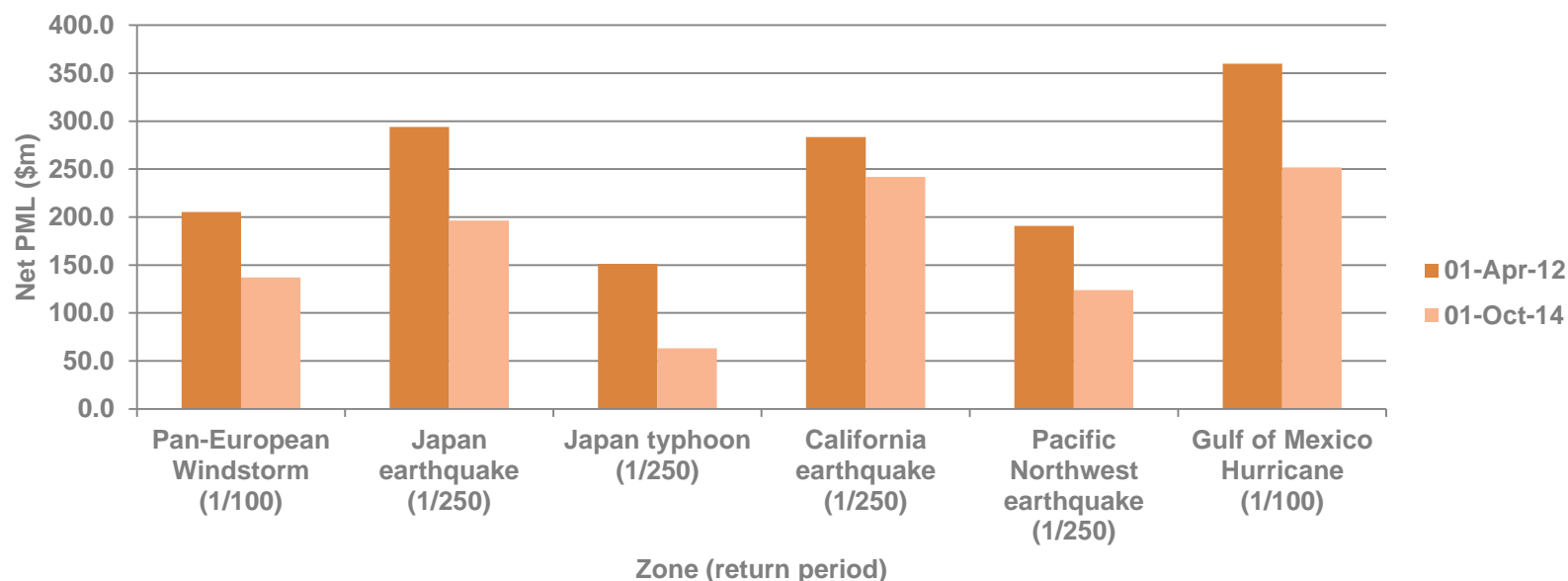
<sup>(6)</sup> Calculated as 16.5% after a 5% capital charge and recognised on a lag depending on loss experience



**Effectively balance risk and return**

# Managing the Cycle – reducing net exposures

- Since April 2012, which was the high-tide mark of the pricing cycle, the Group has reduced PMLs across all key exposures, in spite of the addition of Cathedral
- PMLs are not perfect predictors of losses but they do provide consistent measures of catastrophe risk levels



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.

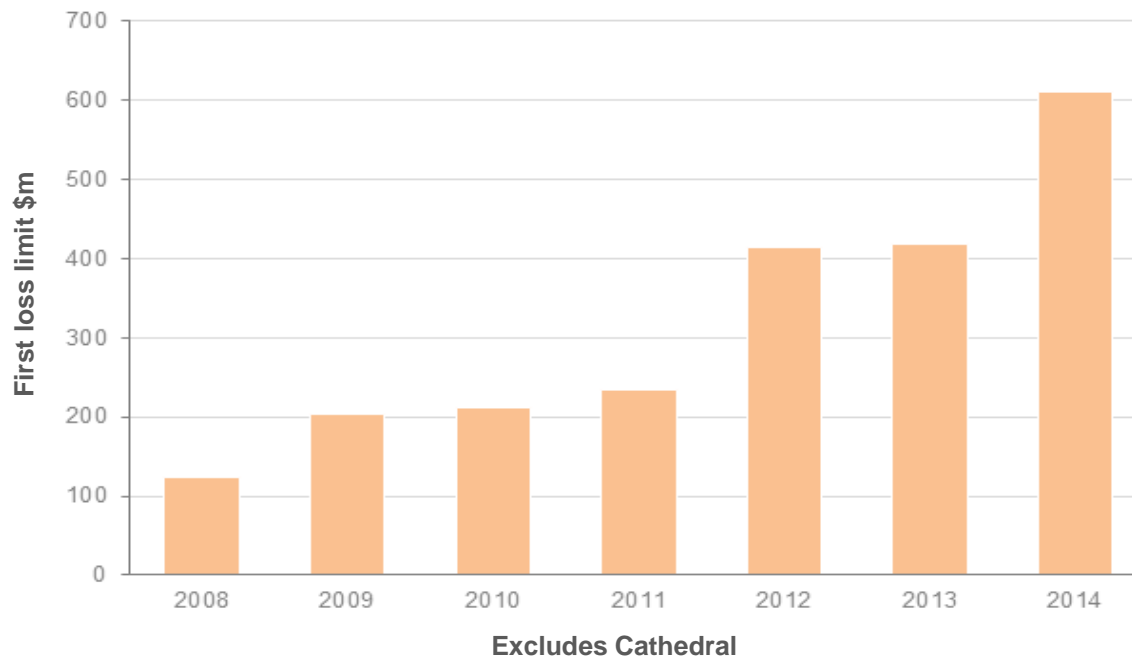
Gross loss estimates are net of reinstatement premiums and gross of outward reinsurance, before income tax. Net loss estimates are net of reinstatement premiums and net of outward reinsurance, before income tax.

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.

# Managing the Cycle – increasing outwards purchases

## Lancashire first loss XL limit purchased over time <sup>(1)</sup>

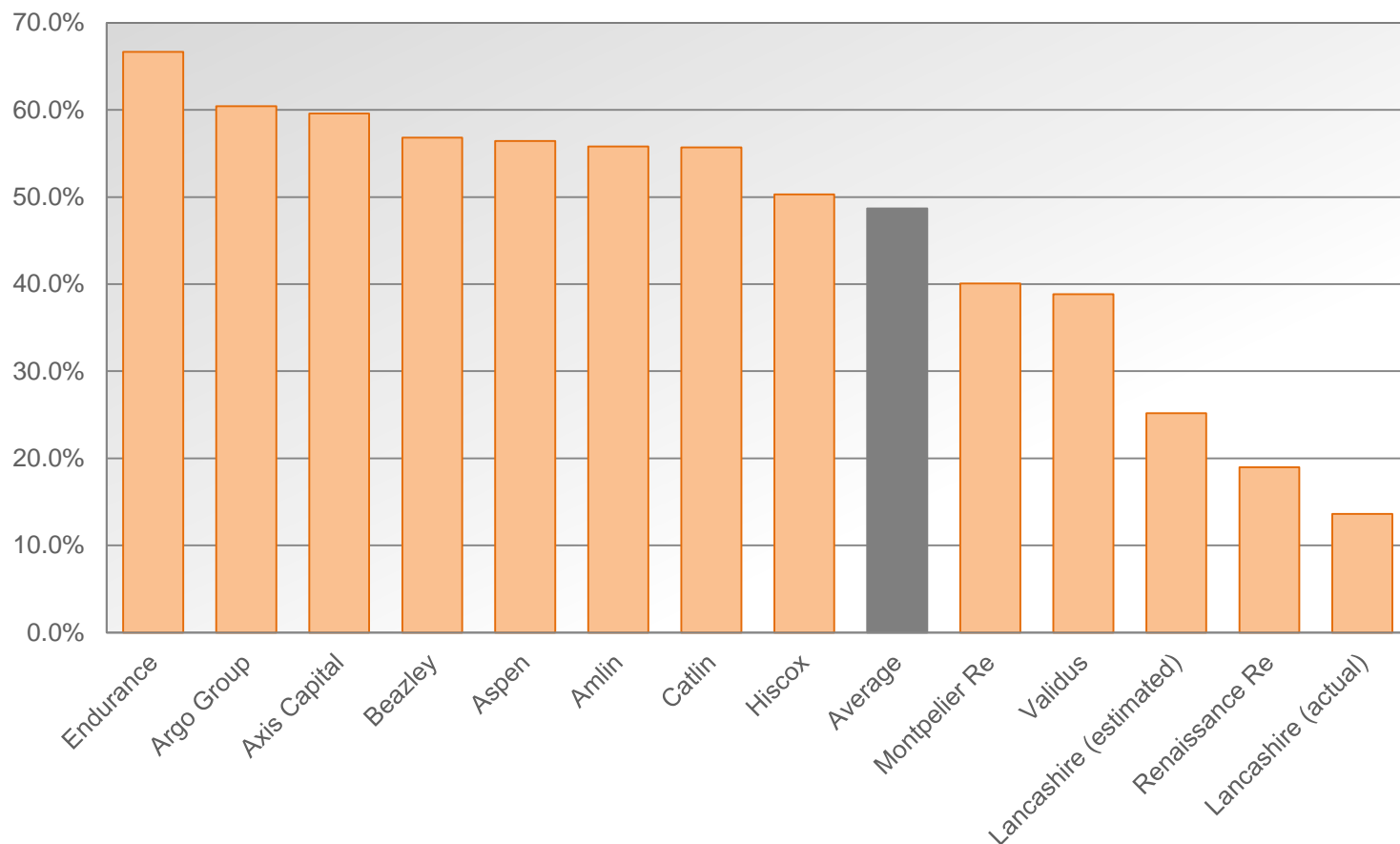
- Increased expenditure and decreased retentions on both risk and catastrophe exposures in 2014 as market softens
- Cathedral has historically bought significant vertical reinsurance commensurate with managing it's exposures
- In recent times Cathedral has been able to increase the breadth of cover to protect against frequency and reduce retentions for similar outward spend



<sup>(1)</sup> First loss limit purchased by Lancashire on an excess of loss and ILW basis, excluding quota shares, cessions to sidecars, facultative purchases and reinstatements. Excluding the property D&F class, in runoff since 2012. Excludes Cathedral's reinsurance.

# Managing the Cycle – strong weighting to low-attrition classes

## Accident year attritional loss ratios – 5 year average

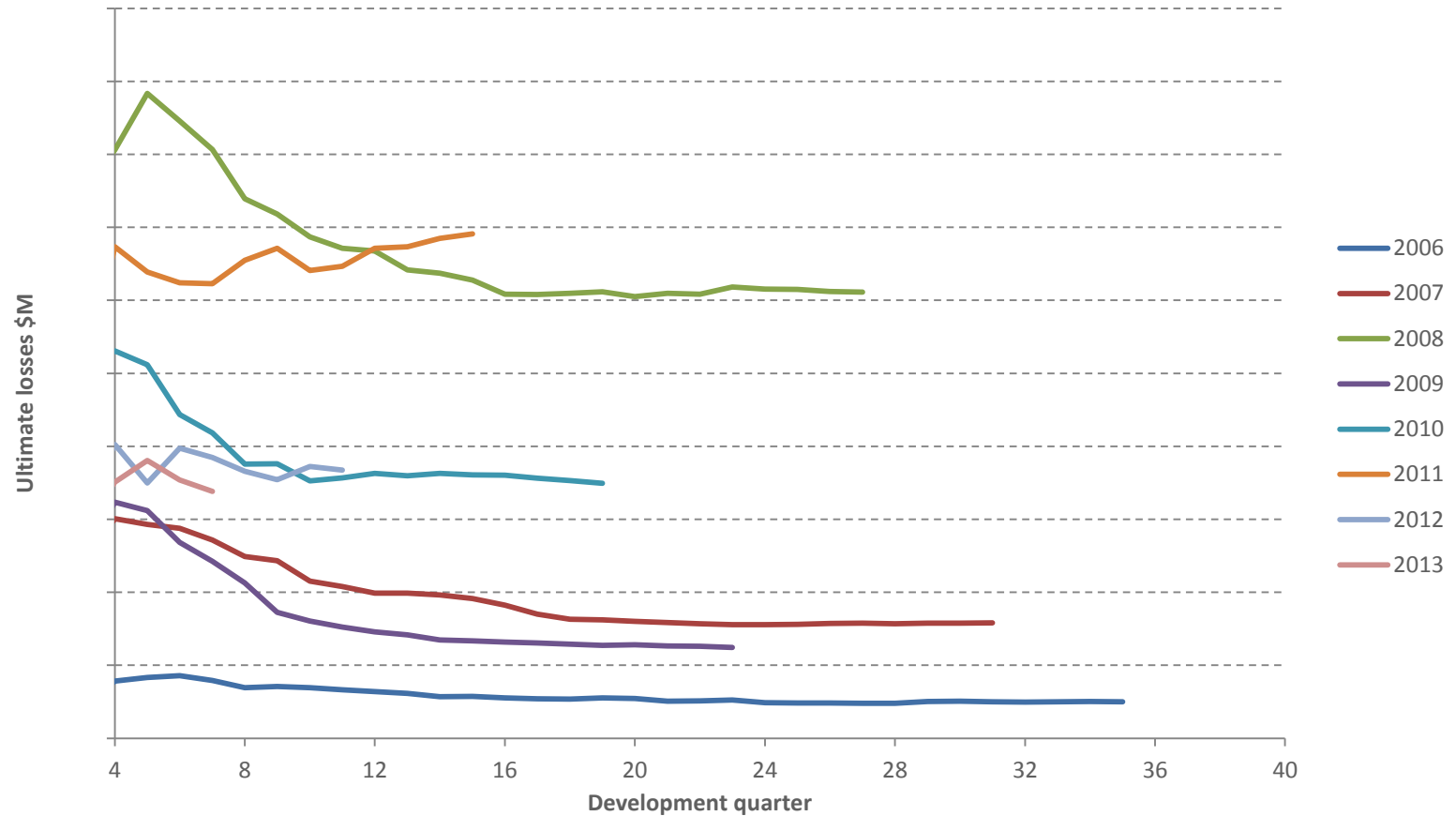


- Carefully balance classes with known attritional exposure (energy, marine, lower layer cat xl) with low attrition exposures (terrorism, AV52, higher layer cat xl)
- In a softening market Lancashire can absorb price deterioration better than its peers coming from such a low attritional base

Source: D&P and Numis analysis 2009-2013 ratios are as reported adjusted for disclosed catastrophe and prior year reserve development

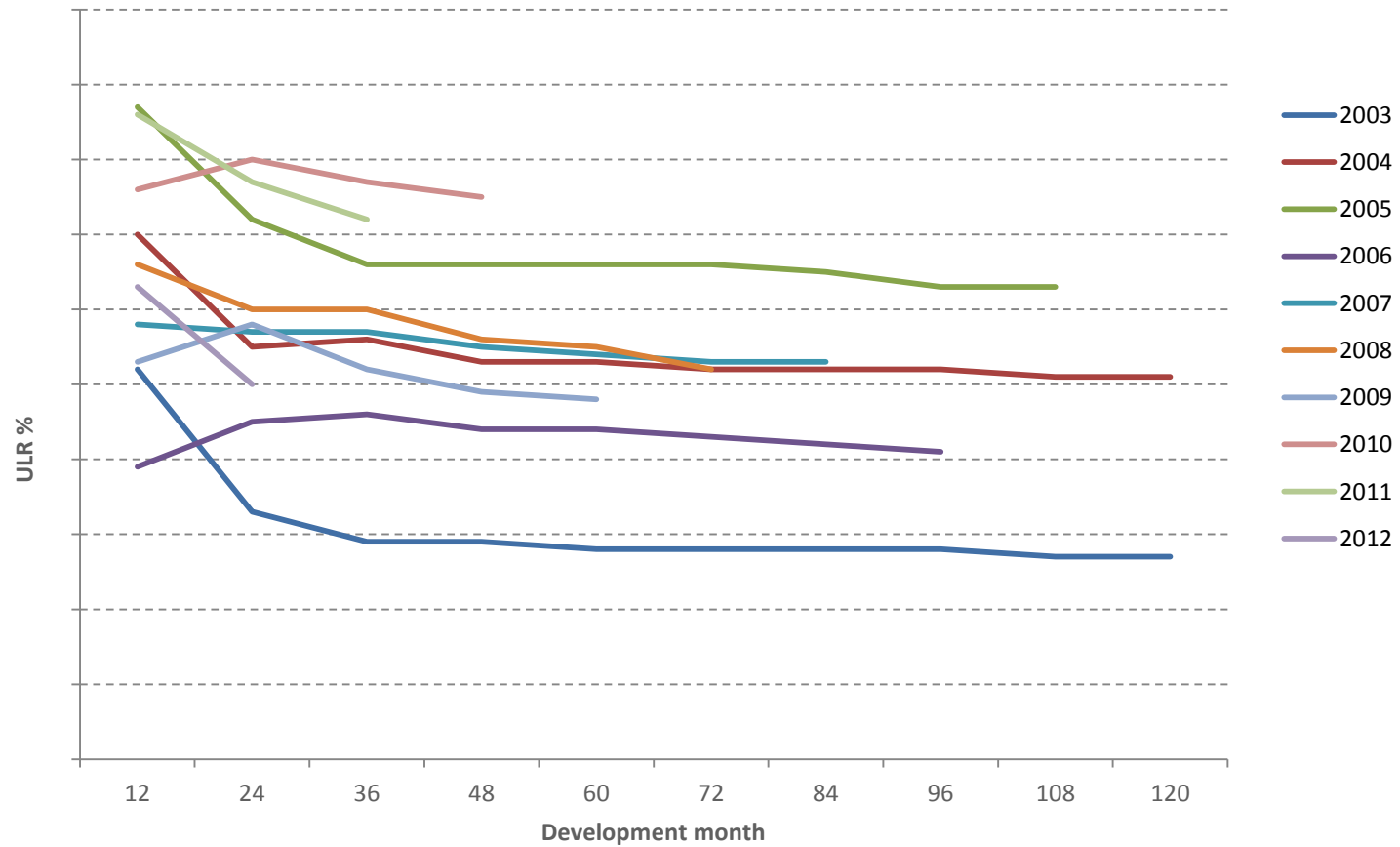
# Reserve adequacy

## Ultimate development by accident year – LICL & LUK



# Reserve adequacy

## Reserve development - Cathedral



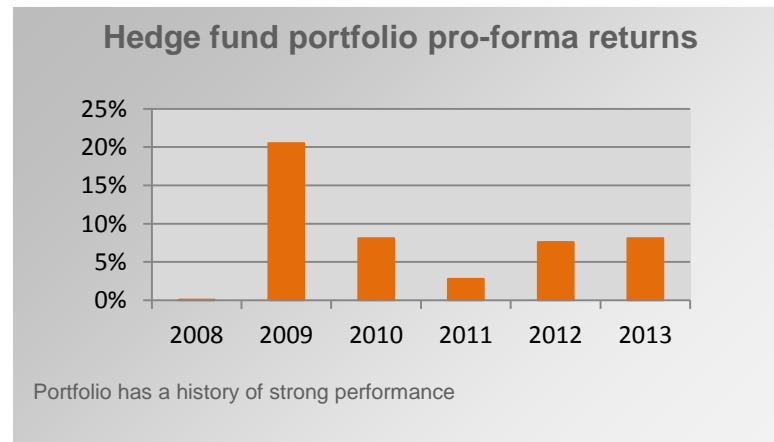
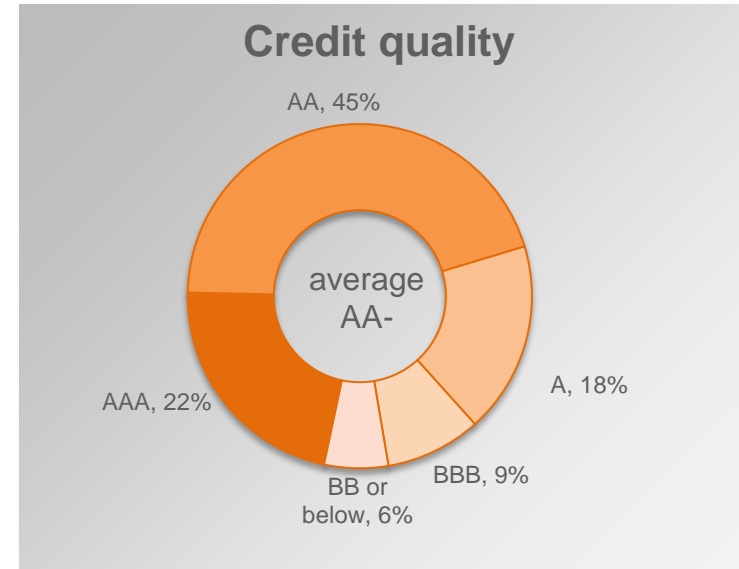
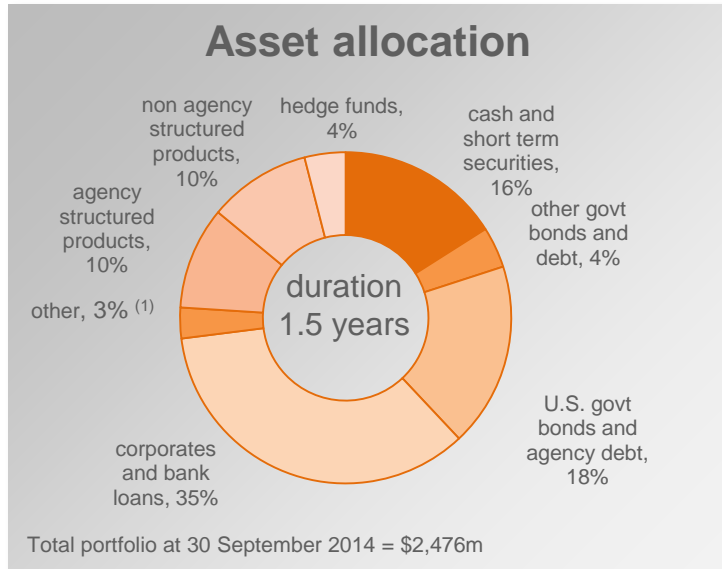
ULR = Underwriting year net ultimate loss ratio

# Effectively balance risk and return – conservative investment philosophy

- **Our market outlook remains subdued:**
  - While the U.S. continues to improve, the global growth picture is clouded, and geo-political tensions are adding volatility
  - The Federal Reserve has completed their bond purchase program, and is expected to begin raising interest rates next summer
- **Preservation of capital continues to be paramount and we will focus on interest rate risk**
  - Maintain reduced investment portfolio duration
  - Mitigate interest rate risk:
    - ✓ Increased exposure to floating rate notes
    - ✓ Hold a small allocation to a low volatility hedge fund portfolio, diversifying the overall investment portfolio
    - ✓ Derivative instruments used to protect the investment portfolio from a rise in short-term interest rates
  - Continue monitoring risk/return trade off in the portfolio:
    - ✓ Maintain a balance between interest rate duration and credit spread duration to neutralise the impact of the risk on /risk off trade

# Effectively balance risk and return

## Capital preservation and interest rate risk management



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



**Operate nimbly through the cycle**

# 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	YTD 2014 <sup>(5)</sup> \$m	total \$m
<b>share repurchases</b>	100.2	58.0	16.9	136.4	-	-	-	8.5	320.0
<b>special dividends <sup>(1)</sup></b>	239.1	-	263.0	264.0	152.0	172.6	295.9	291.2	1,677.8
<b>ordinary dividends – interim <sup>(1)</sup></b>	-	-	10.5	9.4	9.5	9.6	10.5	10.4	59.9
<b>ordinary dividends – final <sup>(1)</sup></b>	-	-	-	20.8	18.9	19.2	19.2	21.1	99.2
<b>total returned capital</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>331.2</b>	<b>2,156.9</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	128.7%	98.7%
<b>price to FCBVS <sup>(3)</sup></b>	1.1	0.9	1.0	1.1	1.5	1.6	1.8	1.3	n/a
<b>weighted average dividend yield <sup>(4)</sup></b>	15.2%	n/a	18.1%	18.0%	8.4%	8.3%	12.3%	13.3%	n/a

## 220.4% of original IPO share capital has been returned to shareholders <sup>(5)</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 fully converted book value per share

<sup>(3)</sup> Price to FCBVS is calculated as the year end share price divided by the year end fully converted book value per share. 2014 is based on the share price and fully converted book value at September 30, 2014.

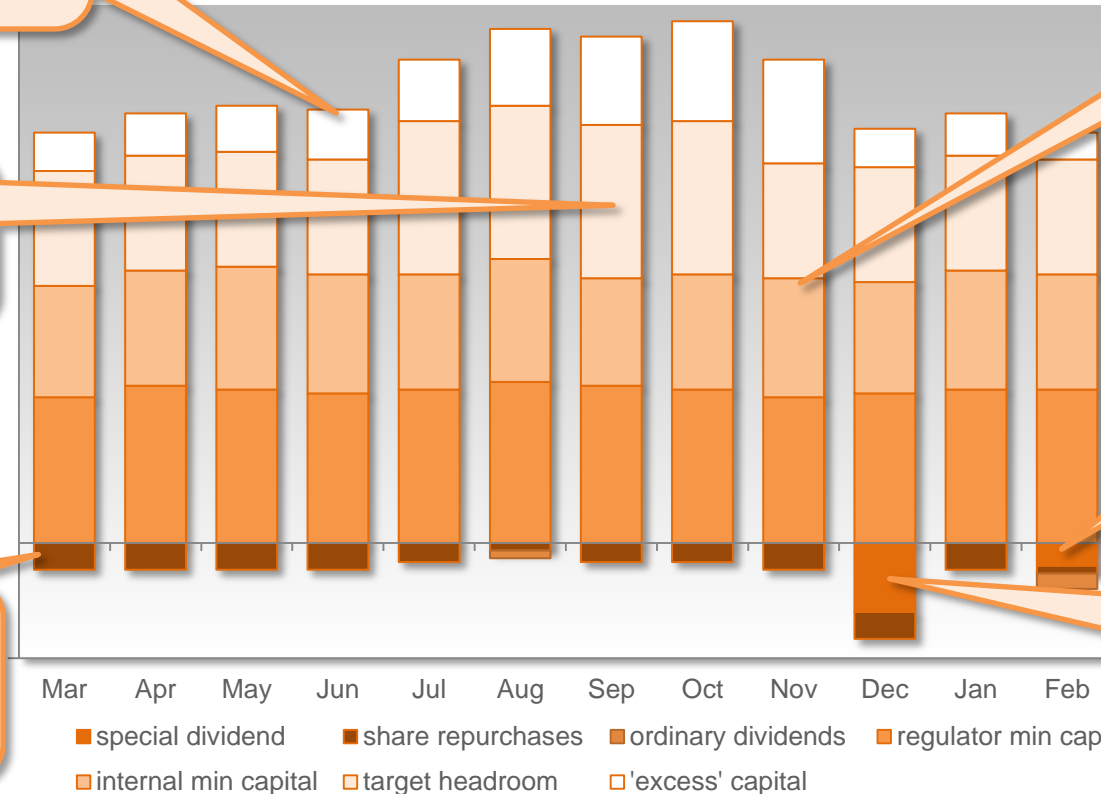
<sup>(4)</sup> Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. 2014 dividend yield is based on the share price at September 30, 2014 and includes the special dividend of \$1.20 per common share declared on November 5<sup>th</sup>, 2014.

<sup>(5)</sup> This includes the dividends of \$249.1 million that were declared in November 2014.

# Financial flexibility - Capital management

## Constant adjustment of capital

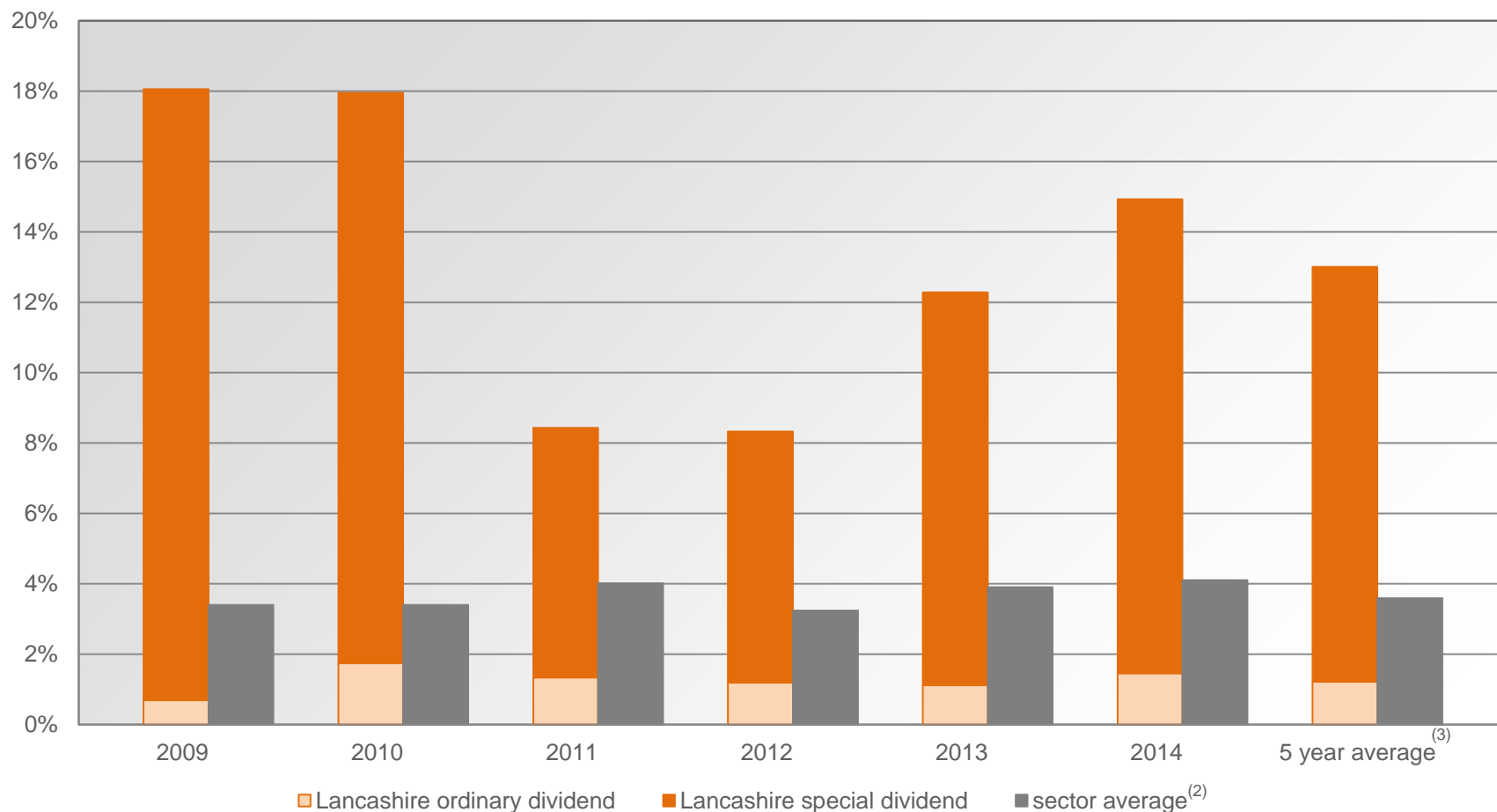
an example over 12 months



\* In the event of eg a major U.S. windstorm, we may raise equity to take advantage of post loss opportunities

**other factors: capital cost and availability, future opportunities, clarity of trading conditions, time of year, share price**

# Managing the cycle - dividend yield <sup>(1)</sup>



<sup>(1)</sup> Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. 2014 dividend yield is calculated as year to date dividends declared plus forecast Q4 2014 dividends, divided by the share price as at September 30, 2014. Dividends include recurring dividends, special dividends and B shares issuances. Source: Bloomberg.

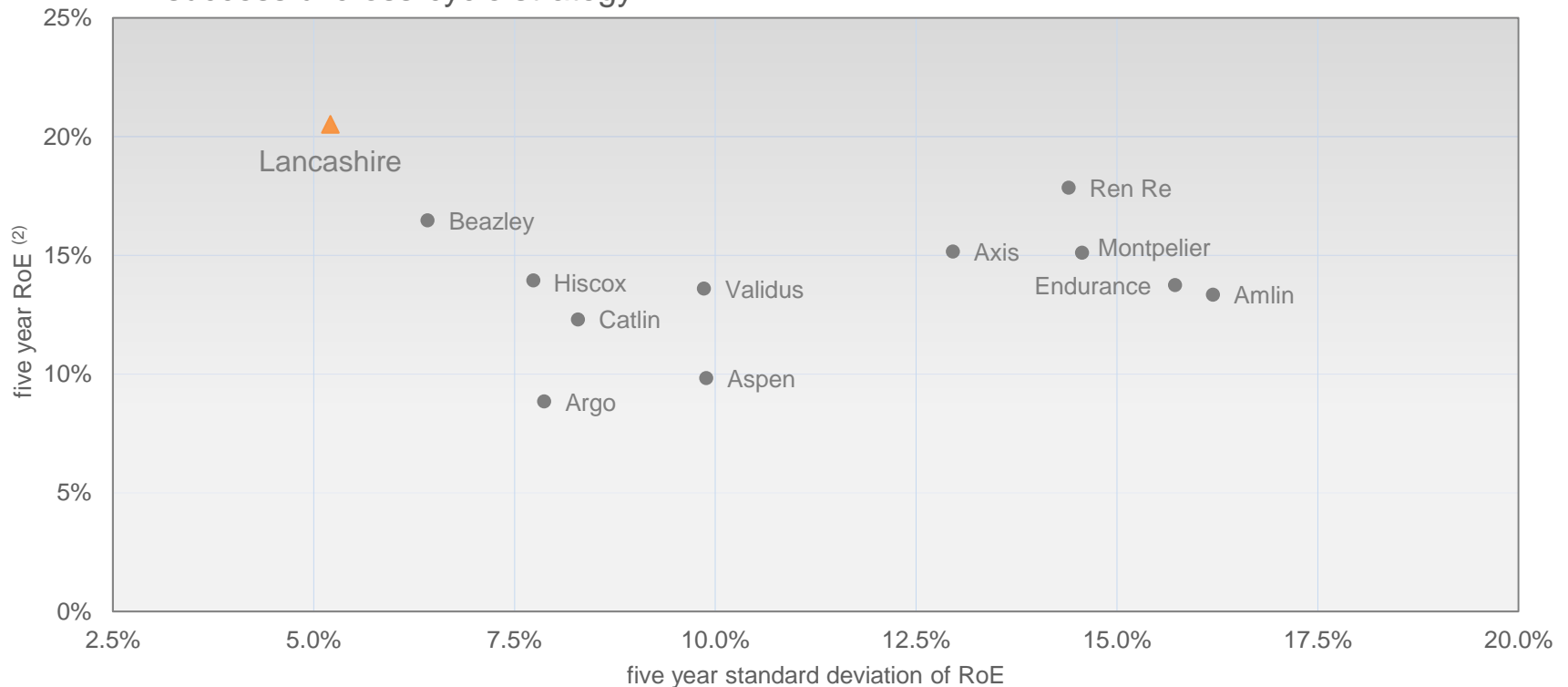
<sup>(2)</sup> Sector includes Amlin, Argo, Aspen, Axis, Beazley, Catlin, Endurance, Hiscox, Montpelier, Renaissance Re and Validus.

<sup>(3)</sup> 5 year average based on the 2009 to 2013 reporting periods.

# Cross cycle consistency - RoE

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

- Lancashire has one of the best performances and yet the lowest volatility versus peers
- Evidence of adherence to business plan and strong risk management and a proven,
- successful cross-cycle strategy



<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 January 1, 2009 through December 31, 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.

# Conclusion

# Conclusion

- Lancashire has one of the **best performances** and yet the **lowest volatility** in the London and Bermudian markets
- Our strategy is designed to cope with hard and soft markets, managing capital and exposures to provide superior risk-adjusted returns across the cycle
- Group management is fully integrated and has decades of experience in rated company, Lloyd's and collateralised markets
- Group profitability is not overly dependant on property reinsurance, with strong weightings to speciality classes with proven RoE potential
- A well diversified portfolio across multiple lines and geographies as a base to trade across the cycle
- Third party capital vehicle well established and growing assets under management
- Opportunities to grow in non or low correlated lines within Syndicate 3010
  - ✓ This year Lloyd's has approved and we are trading Lancashire led energy and terror lines in 3010
  - ✓ Lloyd's has approved and we are trading in specialty aviation and war (supported by the Lloyd's consortium) and general specialist aviation business, led by the market leading teams

# Appendices



# Property: Reinsurance

## Market Outlook

- **Retro** – very competitive market with competition from third party capital driving significant reductions in rates and terms and conditions broadening
- **Cat XL US Portfolio** – rates under continued downward pressure and expect pressure on policy terms and conditions at 1/1
- **Cat XL International Portfolio** – rates under pressure generally other in small pockets of loss affected regions, such as primary European layers, where rates are seeing small upwards movement
- **Risk Excess** – gradual softening of rates but underlying rating remains strong

## Lancashire Group Approach

### Lancashire Bermuda (LICL)

- **Cat XL US Portfolio** – Built up a core book of nationwide and regional clients attaching at the upper end of programmes
- **Cat XL International Portfolio** – Core book of excess layers. Will gradually reduce in opportunistic areas such as New Zealand and Asia as pricing reduces to less acceptable levels following post loss pricing
- **Retro** – Continue to exit portfolio as rating diminishes
- **Risk Excess** – Small portfolio complementing Cat XL core client portfolio

### Cathedral Syndicate 2010

- **Cat XL US Portfolio** – Lead a core portfolio of Mutual Companies of which half have more than a 20 year relationship with the underwriter(s)
- **Cat XL International Portfolio** – Emphasis on regional clients in first world countries from small to mega accounts
- **Risk Excess** – Complements the US Mutual portfolio focused and the upper end of programmes

## LICL Statistics

Property catastrophe reinsurance	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI	100	100	97	100	92	100	116	114	99	n/a
Combined ratio excl. G&A (%)	20.3	15.6	47.2	14.9	24.4	103.3	44.9	29.4	29.7	43.0
GWP (\$m)	0.6	19.3	23.4	76.3	98.1	82.0	96.8	97.5	122.9	616.9

# Property: Direct & Facultative

## Market Outlook

- **US Binding Authorities** – Stable with some marginal increases in some areas
- **International Binding Authorities** – Stable with rates a good levels. Some softening in areas such as NZ but coming off post loss peaks and some marginal improvements in areas such as Canada.
- **US Open Market** – Rates under pressure as competition intensifies albeit areas of the portfolio remain adequately priced
- **International Open Market** – In general rates under pressure other in than in small pockets of loss affected regions such as Mexico

## Lancashire Group Approach

### Cathedral Syndicate 2010

- **US Binding Authorities** – Core book of long standing binders with a commercial bias and an average line size < \$1m
- **International Binding Authorities** – Portfolio of low attritional commercial business in Canada, Australasia and the Caribbean
- **US Open Market** – Focus of 'soft' occupancies with low to mid level excess of loss portfolio and an average line of < \$2m. Preference away from typical Fortune 500 client base shielding portfolio from the worst of the rate softening
- **International Open Market** – Small to midsize general portfolio with a current focus on Mexico, Caribbean and NZ

### Lancashire Group

- Retain a small number risks to support terrorism and energy cross class relationship clients
- Retain the ability with the group to respond to market dislocations through syndicate 2010 leadership ability and reputation and Lancashire's nimbleness in deploying capital

# Property: Terrorism, Political Violence, Political & Sovereign Risk

## Market Outlook

- **Terrorism & Political Violence (PV)** – Increased competition softening rates but reductions remain manageable. Some areas of the world capacity constrained for PV which helps maintain market discipline in these regions. Demand for the product remains and new business flow is strong. Political uncertainty and uptick in global invest fuels demand for the product
- **Political & Sovereign Risk** – Relatively stable pricing environment with strong demand in regions such as Asia and Africa. Global unrest drives demand as does economic recovery

## Lancashire Group Approach

### Lancashire UK (LUK)

- **Terrorism & PV** – Market leader with a large portfolio of core clients with a preference for excess of loss position avoiding attrition and often writing 'private' layers
- **Political & Sovereign Risk** – Market leader with selective risk appetite not restricted by certain Lloyd's parameters providing a competitive edge

### Cathedral Syndicate 3010

- **Terrorism & PV** – Portfolio leveraged from the large Lancashire portfolio with addition share on existing business, including expanding those 'private' layers plus additional business via broader Lloyd's licensing and 'passing trade'

## LUK Statistics

<b>Terrorism</b>	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI	100	86	71	66	60	57	55	52	48	n/a
Combined ratio (%)	22.4	16.7	27.3	13.7	24.0	4.3	10.9	13.0	40.2	17.8
GWP (\$m)	18.9	56.6	75.5	69.1	77.8	68.4	62.9	67.8	50.8	547.8

<b>Political risk/ Sovereign risk</b>	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Combined ratio (%)	58.3	45.8	34.6	21.9	18.4	10.0	18.6	20.4	20.3	20.8
GWP (\$m)	9.4	16.9	28.1	15.5	29.1	20.4	41.1	66.4	29.8	256.7

## Market Outlook

- **Worldwide Offshore** – Rating under pressure with circa 10 to 15% reduction for clean business, albeit coming from a very strong base
- **Gulf of Mexico (GOM)** – Gradual softening of rates in the deep-water market albeit very close to historical highs
- **Excess Third Party Liabilities** – Broadly flat following 4 years of steady rate rises
- Market capacity at historic highs and outstripping energy industry inflation so absent any significant market losses softening will continue but good underwriting margins remain. Demand remains strong with continued organic growth across the portfolio aiding premium to the market

## Lancashire Group Approach

### Lancashire UK (LUK)

- **Worldwide Offshore** – Core portfolio of clients with strong organic growth. Leader or agreement party status on the majority of major accounts. Mega construction project still stretch market capacity
- **GOM** – Preeminent leader for the deep-water GOM wind product
- **Excess Third Party Liabilities** – Small portfolio of clients complementing the broader energy portfolio and skewed towards higher layers
- Direct client relationships overarching broker relationships

### Cathedral Syndicate 3010

- Additional capacity to support the larger Lancashire portfolio, accessing additional shares on existing portfolio and new business through broader licencing and Lloyd's 'passing trade'

## LUK Statistics

Energy GOM	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI	100	80	64	137	139	140	140	136	125	n/a
Combined ratio excl. G&A (%)	27.5	30.1	210.7	64.6	(8.7)	(19.2)	(9.7)	21.4	13.9	44.8
GWP (\$m)	171.8	157.5	74.3	53.8	87.4	60.7	65.5	34.4	69.6	775.0

Energy WW offshore	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI	100	80	68	84	88	97	100	97	92	n/a
Combined ratio excl. G&A	38.9	39.4	68.1	93.0	78.0	70.7	41.3	85.8	93.4	70.3
GWP (\$m)	42.3	72.7	76.3	100.6	123.1	140.3	148.9	149.2	120.3	973.7

# Aviation & Satellite

## Market Outlook

- **AV52** – Continued softening however recent market events could help improve rating environment during the upcoming renewal season. Organic growth from US airlines re-entering the commercial market given uncertainty around US government coverage
- **Aviation War** – Recent market losses have ‘turned’ the market. Extent of rate rises not yet known given uncertainty around loss quantum and a lack of significant renewals until Q3
- **Aviation Reinsurance** – Until recent loss activity rates had continued to soften given ample supply of capacity. Reaction to losses will be established later in the year
- **General Aviation** – More stable market for niche area of the market we target
- **Satellite** – Losses have yet to materially impact the market. Increases for launch vehicles with losses but softening on those without losses and in-orbit risks

## Lancashire Group Approach

### Lancashire UK (LUK)

- **AV52** – Established market leader with significant capacity writing excess layers
- **Satellite** – Follow market writing modest lines on open market placements for both launch and in-orbit risks

### Cathedral Syndicate 2010 & 3010

- **Aviation Reinsurance (2010)** – Established market leader with a portfolio of proportional, general aviation XL and aviation war
- **Satellite (2010)** – Provide capacity to market consortium SATEC
- **Aviation War (3010)** – New team are the market leaders for all open market war business in London. Backed by a consortium earning over rider and profit commissions.
- **General Aviation (3010)** – Market leader for small niche areas of the aviation Hull & Liability market with risks such as helicopters and private jets

## LUK Statistics

Aviation	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI (AV52)	100	80	69	68	62	59	55	49	44	n/a
Combined ratio (%)	19.9	19.5	31.2	22.7	11.7	8.7	29.1	67.2	98.5	32.5
GWP (\$m)	64.5	84.2	71.6	61.2	50.8	47.1	45.9	48.9	40.3	514.5

# Marine

## Market Outlook

- **Marine Hull & Builders Risk** – Small reduction for loss free hull clients with loss affected risks seeing respectable rate rises. Builders risks remain relatively well rated with good margins
- **Marine War** – Reduced frequency of losses softening rates
- **P&I** – Further deterioration of Costa Concordia and other prior year losses will assist market discipline for renewals in February 2015
- **Cargo** – Ample capacity softening rates for large high profile risks. Some small pockets and regions create niche areas of opportunity with stable rating

## Lancashire Group Approach

### Lancashire UK (LUK)

- **Marine Hull & Builders Risk** – Risk selection is paramount given rating environment. Focus on niche sector of the marine market being high value vessels such as LNG's and cruise ships and established yards for builders risk
- **Marine War** – Participate on all the major market line-slips with significant shares

### Lancashire Bermuda (LICL)

- **P&I** – Significant provider of capacity of the original placement with capacity skewed towards the top of the programme

### Cathedral Syndicate 3010

- **Cargo** – Established relationship driven portfolio with a diverse global spread providing complementary rather than clashing catastrophe exposure. Elements of special and fine art within the portfolio

## LUK & LICL Statistics

Marine	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	ITD
Cumulative RPI	100	88	80	82	80	79	86	89	92	n/a
Combined ratio (%)	55.3	76.6	81.4	68.3	67.4	37.7	104.5	140.2	93.7	79.8
GWP (\$m)	53.0	76.9	78.6	73.7	76.4	76.4	81.0	63.0	59.5	638.5

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

Lancashire total shareholder return vs. major index returns

