lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation
Q4 2014

March 2015
www.lancashiregroup.com

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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

- Lancashire’s strategy is designed to be robust across all phases of the market cycle and with 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 substantial weighting to low attritional loss ratio lines
- Investment stance still aiming to be neutral but with a bias to risk-on in current environment
- Special dividend of $0.50 announced at Q4 results, total capital return since inception of $2,295.1 million equal to 234.6% of original IPO capital raised [(1)]
- Full year combined ratio of 68.7% for 2014

[(1)] Based on an estimated pay-out at date of declaration of dividend

Changes from last year – what's new?

- **New CEO**
  - Alex Maloney took over from Richard Brindle as the CEO of the Group on April 30, 2014
  - Alex joined Lancashire in December 2005 and had led the Group's underwriting operations since May 2009
  - Paul Gregory named Group CUO and Hayley Johnston named CUO of Lancashire Insurance Company (UK), both internal appointments, longstanding employees
- **Integration of the Cathedral Group**
  - Incorporated CUL exposures in stochastic modeling of PMLs and aggregation of RDSs
  - Build out of Syndicate 3010, increased stamp capacity from £30 to £100 million
    - Added energy and terrorism lines using pre-existing LUK resources – gross premium written of $29.4 million in first nine months following Lloyd's approval
    - Added direct aviation hull and liabilities and aviation war lines written by two new underwriting teams hired in 2014 – gross premium written of $7.4 million in first nine months following Lloyd's approval
  - Co-ordinated approach to reinsurance buying across Lancashire and Cathedral
  - Lancashire UK and Cathedral now share one office location in London
  - 3 Cathedral partners sit on the Group Executive Committee, one on the RRC

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Changes from last year – what's new?

- **Restructured Lancashire reinsurance program for 2015**
  - Non-marine retrocession program moved from a single-limit, aggregate basis in 2014 to a more capital-efficient, reinstatible, occurrence based program in 2015, with an additional $20 million of limit and attaching $50 million lower down
  - Expanded our marine, energy and terrorism reinsurance facilities, buying more limit at lower attachment points. For the first time we were able to cover Gulf of Mexico wind for Energy
  - 2 new facilities added – a North East QS and a top layer wrap. These facilities allow us to maintain our inwards portfolio positions on our property catastrophe programme while reducing our exposure with over-riders
- **Kinesis renewals at January 1, 2015**
  - $262 million of limit written at January 1 renewals at average rate on line only marginally reduced from prior year
  - All January 2014 contracts were renewed; 2 new contracts added
  - 4 new investors added to the club
  - $5.8 million in profit commission earned by Lancashire in Q1 2015 from January and February 2014 underwriting cycles
- **Hedge fund portfolio and tail risk hedge**
  - Interest rate risk managed by further diversification – now 27.0% in floating rate and non-fixed income asset class versus 19.2% in 2013

Very strong results for 2013 and 2014…and since inception

	Inception to date [1]	2013	2014
Return on equity	18.9% [2]	18.9%	13.9% [8]
Net premiums written	$606.4m [3]	$557.6m	$742.8m
Combined ratio (including G&A)	61.5%	70.2%	68.7%
Loss ratio	31.2%	33.1%	31.7%
Total investment return [4]	3.3% [5]	0.3%	1.0%
Total shareholder return	426.5%	21.3%	(24.2)%
Capital management	$2,295.1m of capital returned; 234.6% of original IPO capital raised returned [6]	$325.6m of dividends paid Issued 16.8m common shares No share repurchases	$321.0m of dividends paid $25.0m of share repurchases

- Positive RoE in 35 out of 36 quarters, and in every financial year [7]
- Combined ratio below 100% in 35 out of 36 quarters, and in every financial year [7]

[1] Period from December 13, 2005 to December 31, 2014 unless otherwise stated
[2] Compound annual rate of return on equity
[3] Average annual net premiums written to December 31, 2014
[4] Net return on total investments including internal FX hedges
[5] Average annual return on investments to December 31, 2014
[6] Includes dividends of approximately $123.4 million declared in February 2015. Based on estimated pay-out at date of declaration of dividend
[7] Excludes period from the date of incorporation to December 31, 2005
[8] 2014 return on equity of 14.7% after adjusting for 2014 warrant exercises, 17.1% return on tangible equity

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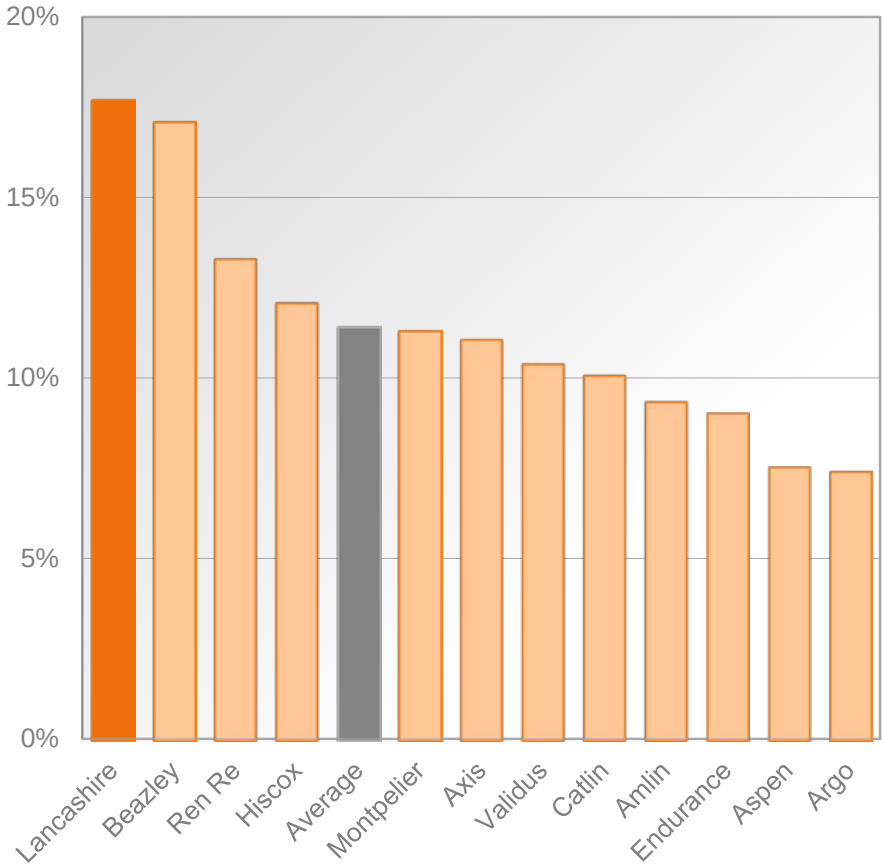
Our long-term performance is one of the most consistent in our peer group [1]

RoE ranking in peer group [1]

Company[2]	2010	2011	2012	2013	2014	5 yr avg
Beazley	5	2	5	1	1	1
Lancashire	**1**	**1**	**3**	**5**	**5**	**2**
Hiscox	7	3	6	3	2	3
Ren Re	2	10	2	4	6	4
Montpelier	6	11	1	6	3	5
Axis	4	7	4	9	8	6
Amlin	9	12	7	2	4	7
Validus	11	4	8	8	9	8
Endurance	3	8	12	11	7	9
Catlin	10	6	9	7	10	10
Aspen	8	5	11	12	11	11
Argo	12	9	10	10	12	12

5 year compound annual RoE [3]



[1] Peer group as defined by the Board. Source: Company reports.
[2] Companies listed in order of average annual RoE ranking for the years 2010 - 2014. Average ranking calculated as the sum of annual rankings for each year divided by five years.
[3] Compound annual returns for Lancashire and peers are from January 1, 2010 through December 31, 2014.

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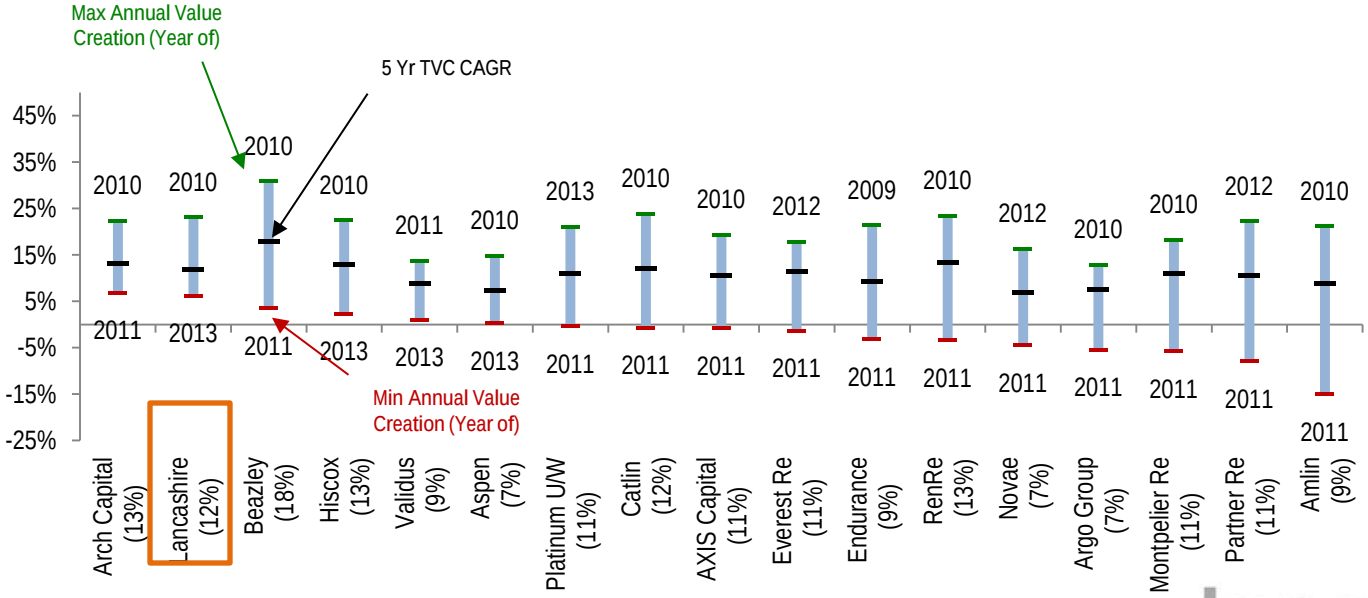
Consistent performance to date – TVC and volatility

Five year Total Value Creation CAGR (Q4:09 to Q4:14)

- From Dowling and Partners (D&P) analysis, Lancashire shows limited volatility and strong consistency of results
- Shows limited volatility on both sides of the balance sheet:
  - Most Bermuda catastrophe company averages are below ours, with more downside, less upside
  - UK Lloyd's companies are more leveraged therefore bigger spread of results – good years are good but bad years worse
- Lancashire missed the significant investment gains others made in 2009, as we didn't incur the losses our peers suffered in 2008. In 2011 with the magnitude of international property catastrophe losses, Lancashire fared substantially better than peers.



Source: Company Reports; D&P Analysis

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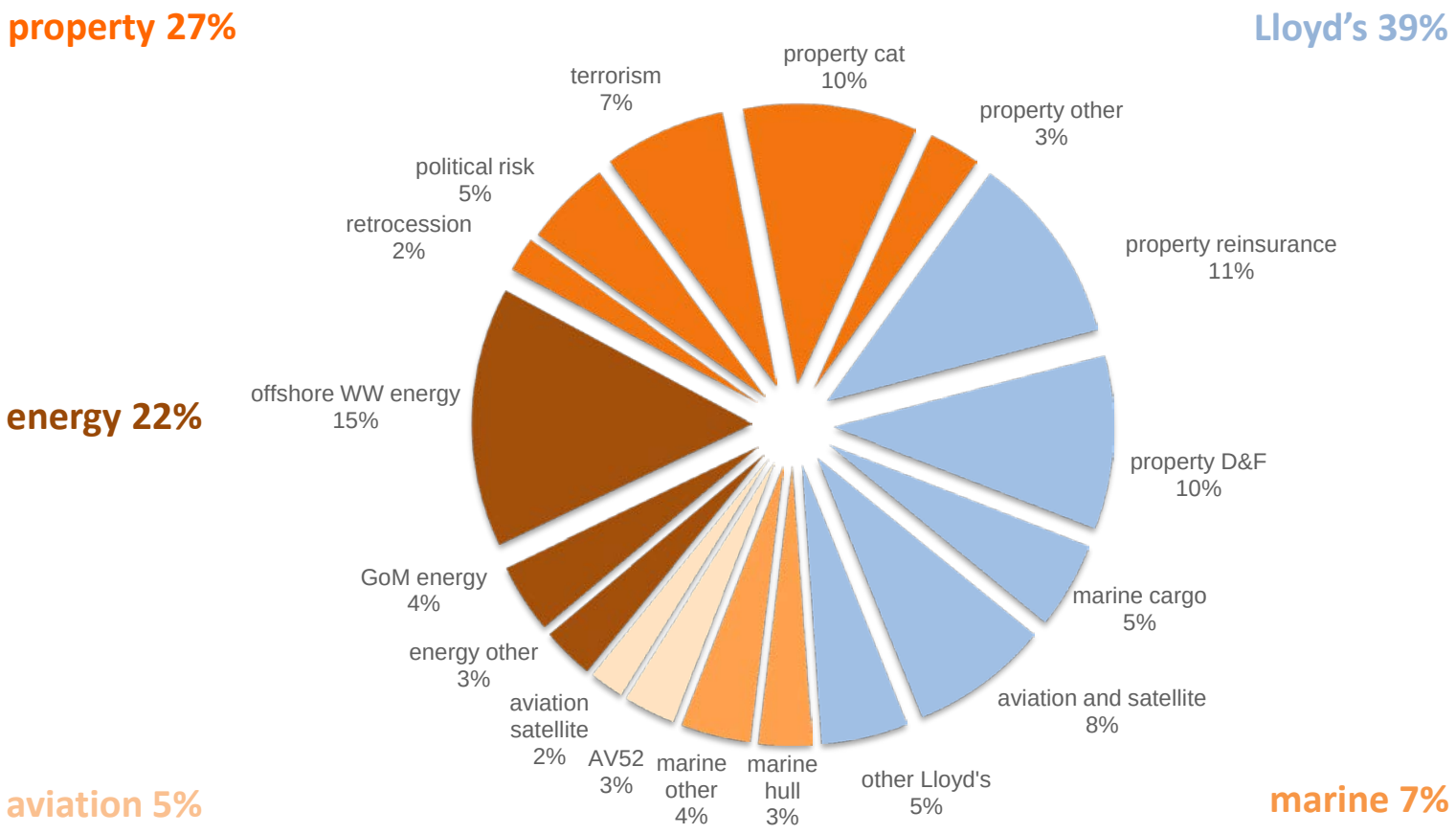
Underwriting comes first

Underwriting comes first

72% insurance 28% reinsurance 31% nat-cat exposed 69% other



Based on 2015 forecast of gross premiums written as of February 10, 2015. Estimates could change without notice in response to several factors, including trading conditions.

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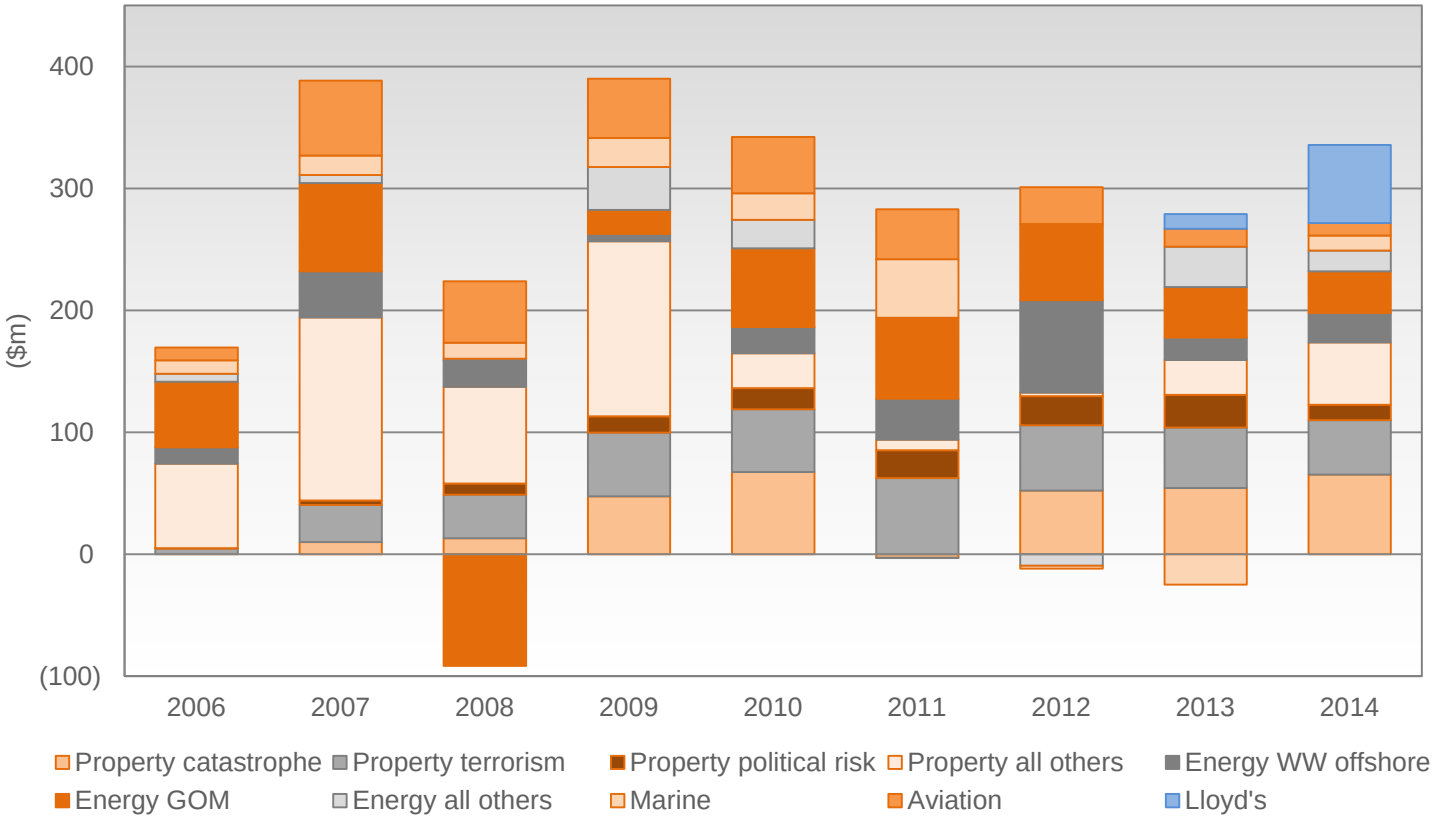
Consistency - strongly diversified base of underwriting profit

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



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Consistency: Exceptional underwriting performance

	2010	2011	2012	2013	2014	5 year average [1]
Loss ratio	27.0%	31.7%	29.9%	33.1%	31.7%	30.7%
Acquisition cost ratio	17.3%	19.6%	20.5%	22.1%	21.4%	20.2%
Expense ratio	10.1%	12.4%	13.5%	15.0%	15.6%	13.3%
Combined ratio	54.4%	63.7%	63.9%	70.2%	68.7%	64.2%
Sector combined ratio[2]	88.2%	108.6%	90.7%	83.8%	85.7%	91.1%
Lancashire out-performance	33.8%	44.9%	26.8%	13.6%	17.0%	26.9%

[1] 5 year average based on 2010 to 2014 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. Source: Company reports

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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	2014	2013
Property	73%	83%
Energy	76%	75%
Terrorism	97%	91%
Marine	56%	63%
Aviation	90%	80%
All classes	78%	80%

Market position

Class	Renewing business [1]	New business [2]	Core business [3]	Opportunistic business [4]
Property	54%	46%	87%	13%
Energy	88%	12%	96%	4%
Terrorism	87%	13%	98%	2%
Marine	60%	40%	63%	37%
Aviation	71%	29%	90%	10%
All classes	54%	46%	87%	13%

[1] Renewing business: All renewals including like for like and those with substantive changes to layers, terms and conditions
[2] New business: Business not written in the prior policy period which can include new layers/sections on renewal accounts
[3] Core business: Business that we expect to renew over the long term meeting our RoE hurdles through the cycle with a strong client relationship
[4] Opportunistic business: Business that may or may not renew and is written because of favourable current pricing, terms and conditions

Based on 2014 portfolio, excluding Lloyd's segment, as of December 31, 2014

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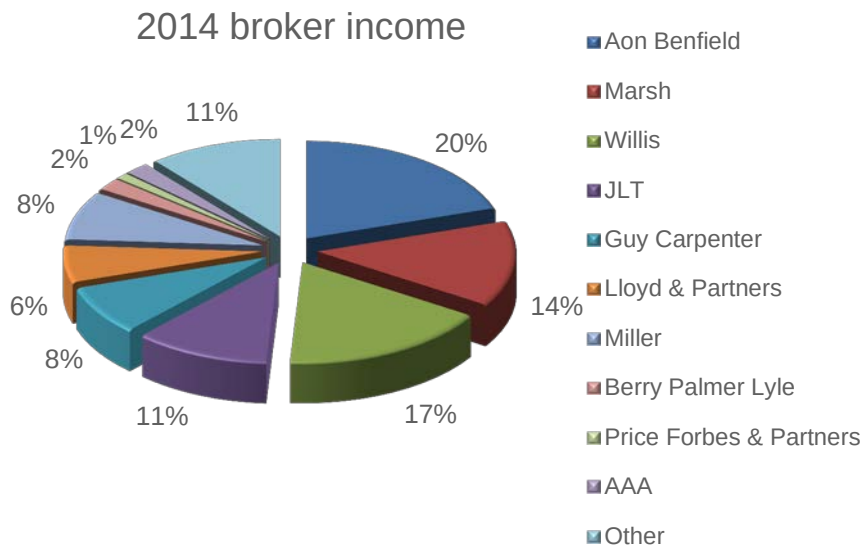
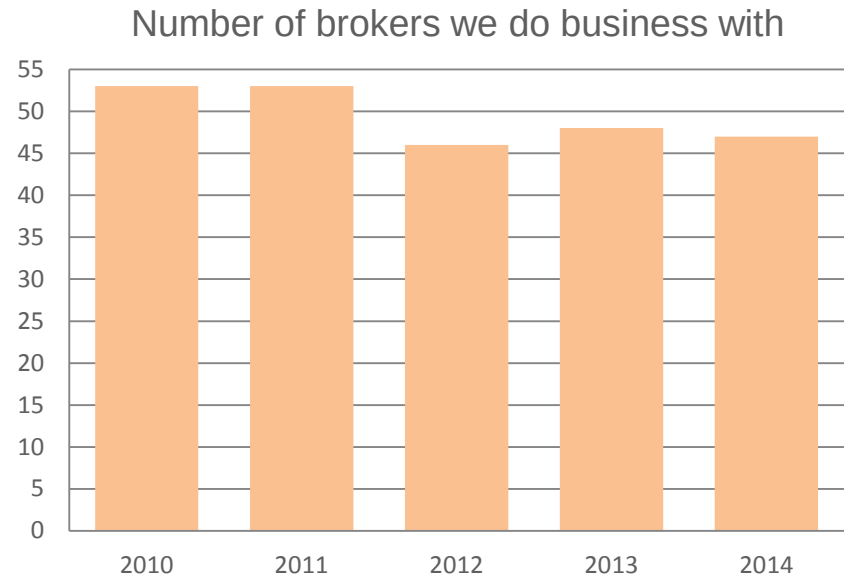
2014: Market position, brand & distribution - Lancashire

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





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

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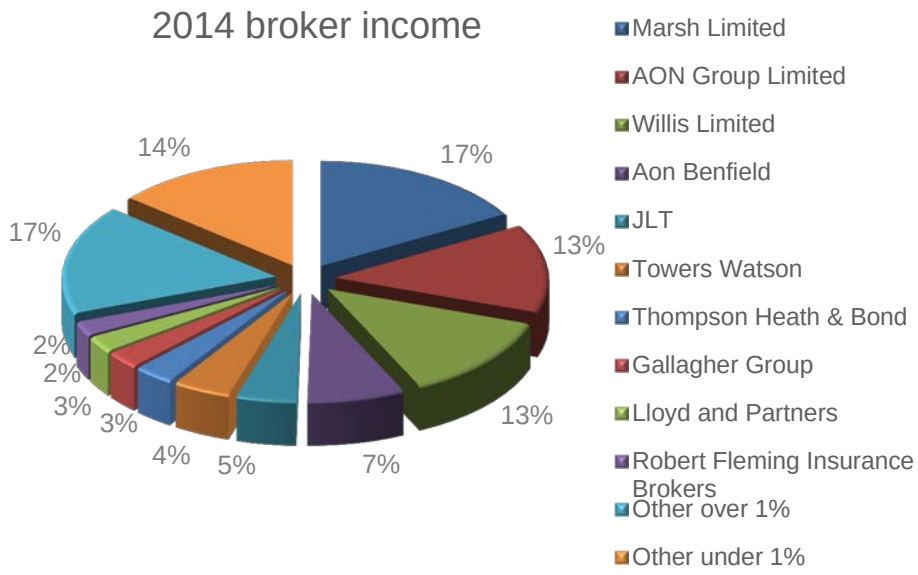
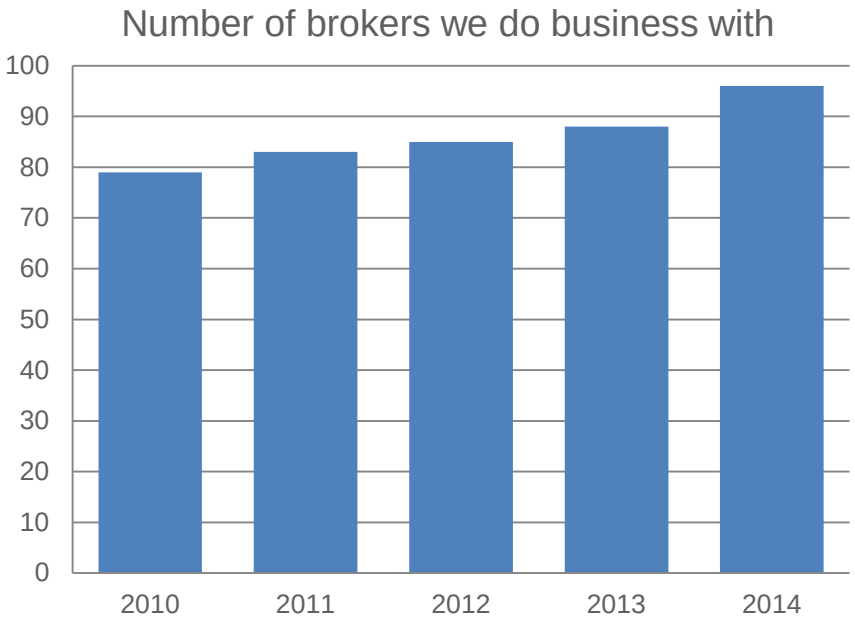
2014: Market position, brand & distribution - Cathedral

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
- Recognised underwriters with strong relationships often stretching back over decades

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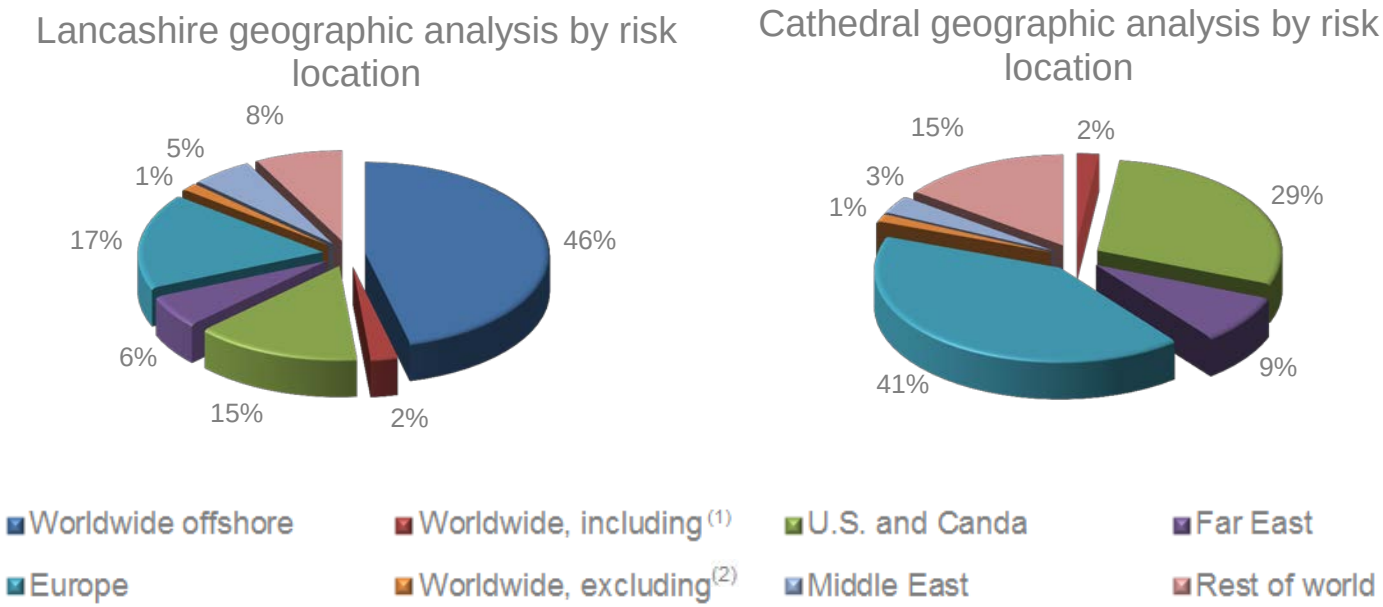
2014: Geographic distribution



- 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, Cathedral D&F and developing LICL international Property Catastrophe Excess of Loss

(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.

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Kinesis Capital Management Indicative Results

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

[1] 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

[2] LHL's investment is 10%, up to a maximum of $100m invested

[3] Indicative assuming LHL target cross cycle RoE of 13% over the risk free rate, actual contribution will vary depending on actual RoE produced

[4] Staff levels increase as limits increase; bonuses increase as total profit contribution increases: bonuses subject to caps

[5] 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

[6] Calculated as 16.5% after a 5% capital charge and recognised on a lag depending on loss experience

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Fee income

Kinesis

- Earned $6.2 million of underwriting fees in 2014 plus a $4.7 million equity pick-up on our 10% investment in Kinesis Holdings
- Profit commissions of $5.8 million earned in Q1 2015 on January and February 2014 underwriting cycles.
- $4.8 million of underwriting fees booked on January 2015 underwriting cycle on limit sold of $262 million.
- Assuming a mean loss scenario on 2015 contracts this would result in approximately $3.1 million of profit commission in 2016. A no loss scenario would equate to $8.7 million.

Cathedral

- Cathedral earned profit commissions and managing agent fees of $10.2 million in 2014

Accordion

- Profit commission of $6.7 million received in 2014, recorded as commission income

Saltire

- Profit commission of $3.0 million was received in early 2014

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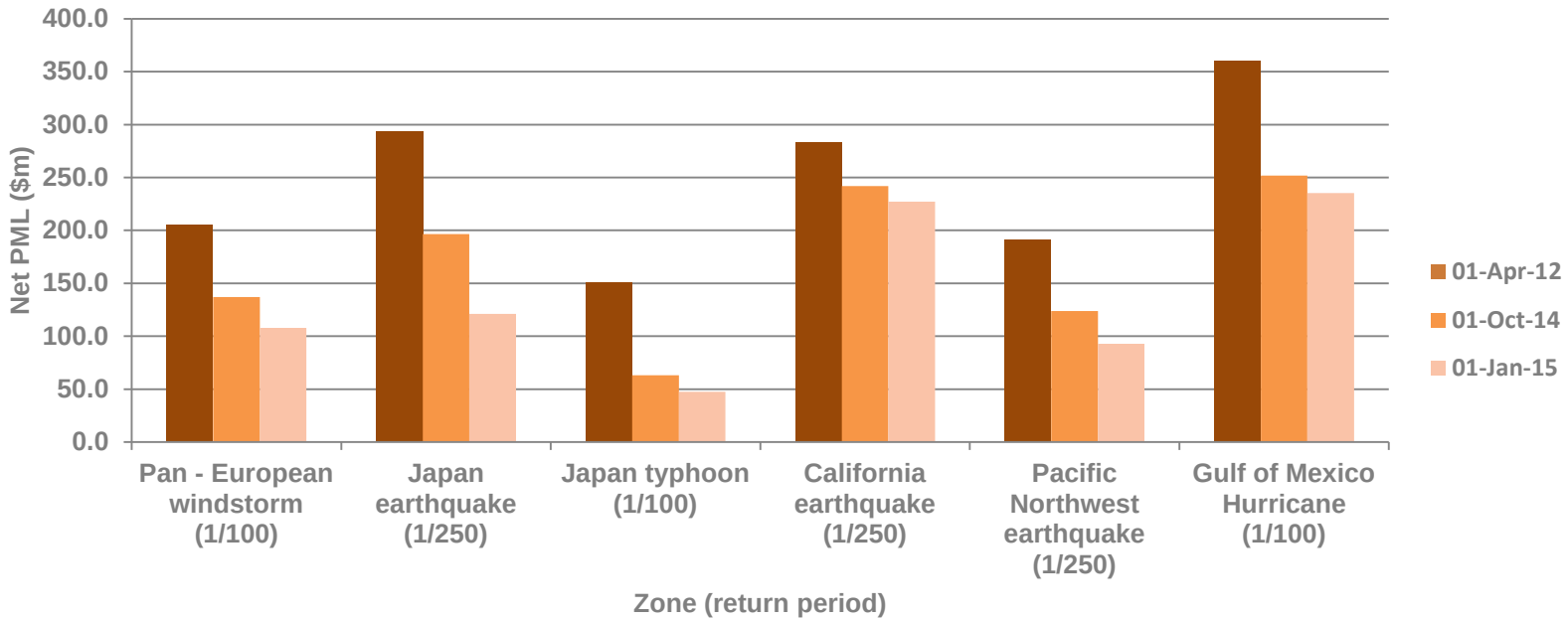
Effectively balance risk and return

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.

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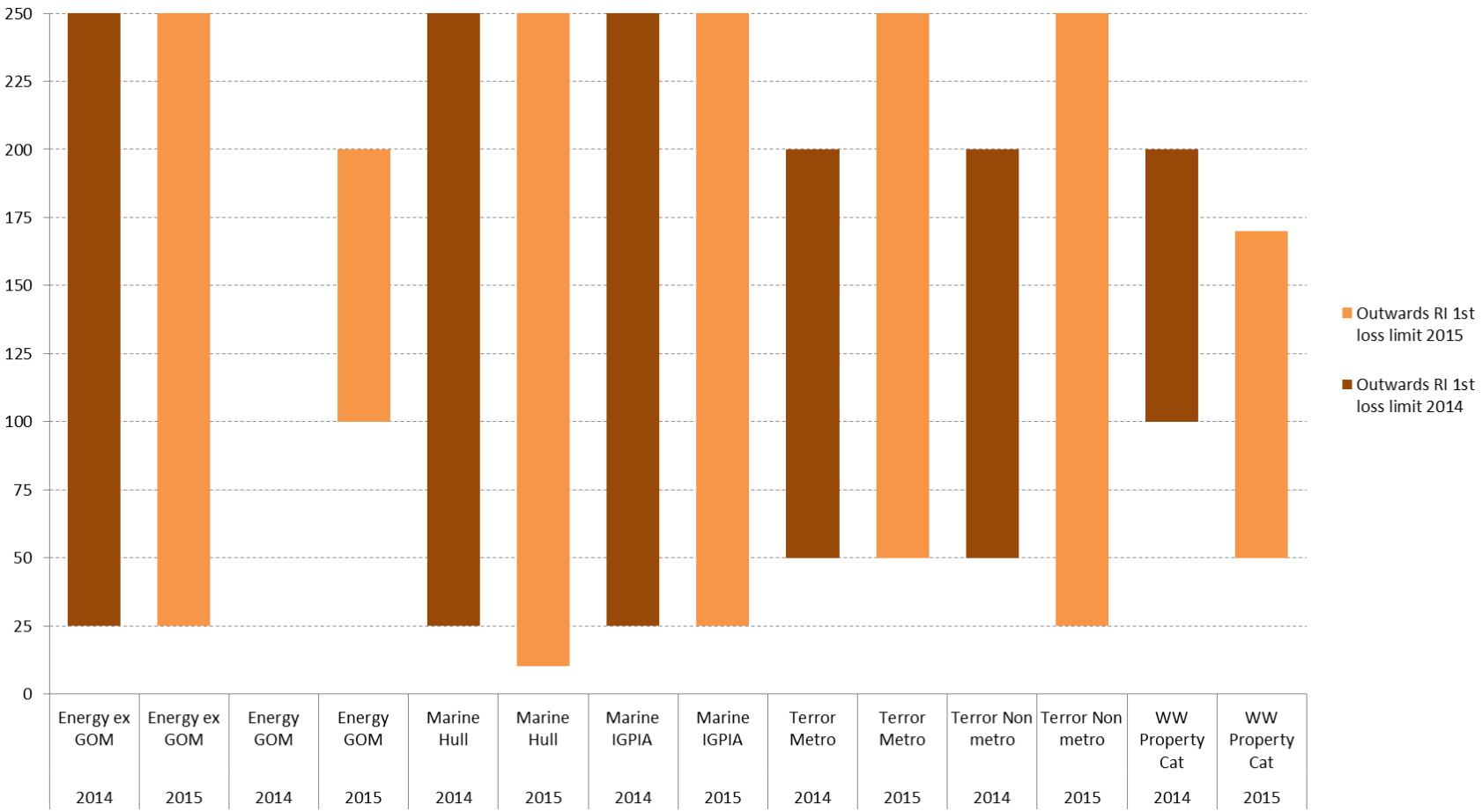
Exposure management – Increasing RI purchases

Lancashire first loss XL limit 2014 vs 2015



First loss limit purchased by Lancashire on an excess of loss basis, excluding ILWs, quota shares, cessions to sidecars, facultative purchases and reinstatements.
Excludes Cathedral's reinsurance

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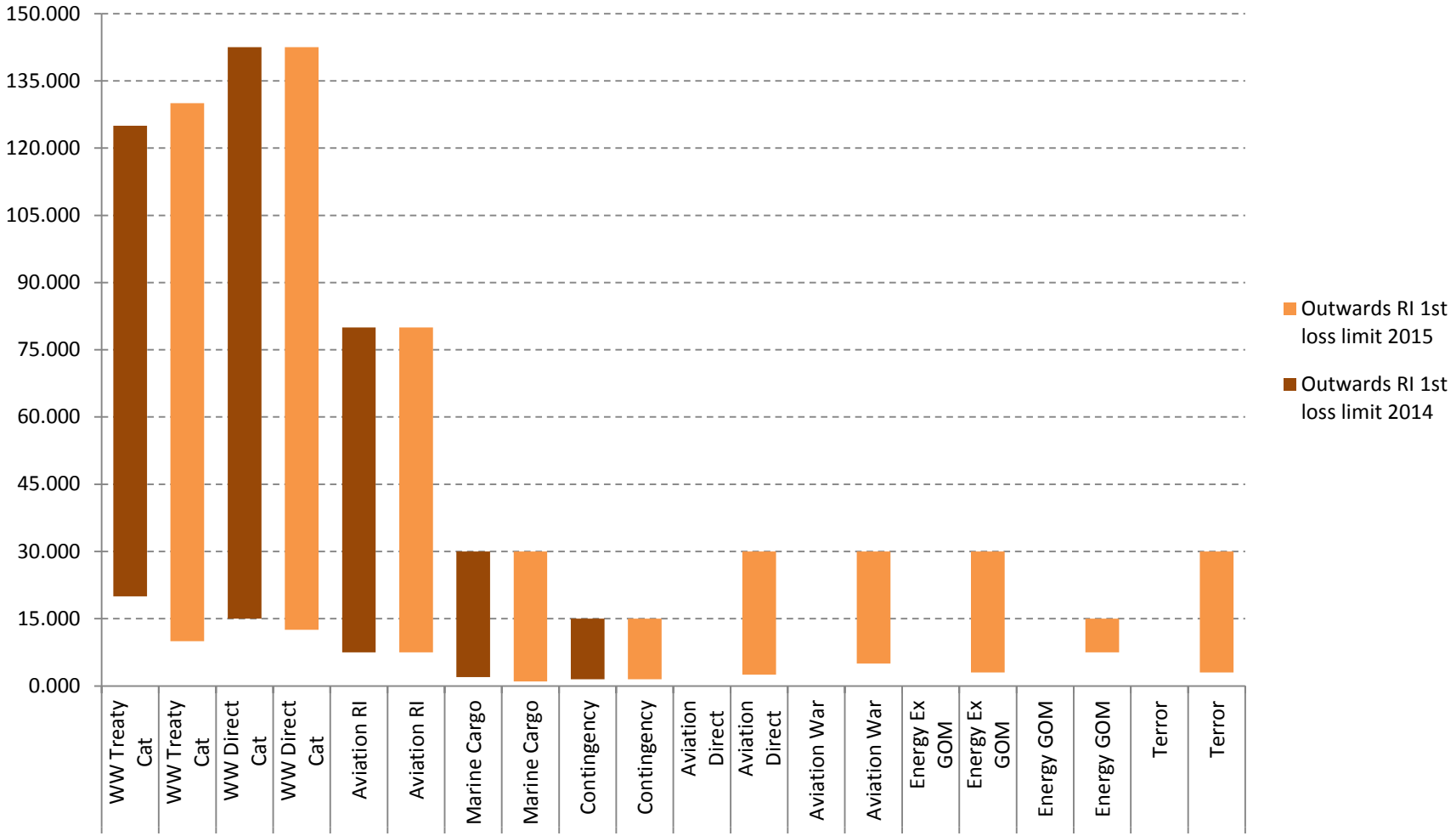
Exposure management – Increasing RI purchases

Cathedral first loss XL limit 2014 vs 2015



First loss limit purchased by Cathedral on an excess of loss basis, excluding ILWs, quota shares, cessions to sidecars, facultative purchases and reinstatements. Syndicate 3010 comparison 1/1/14 to 1/1/15.
Excludes Lancashire's reinsurance

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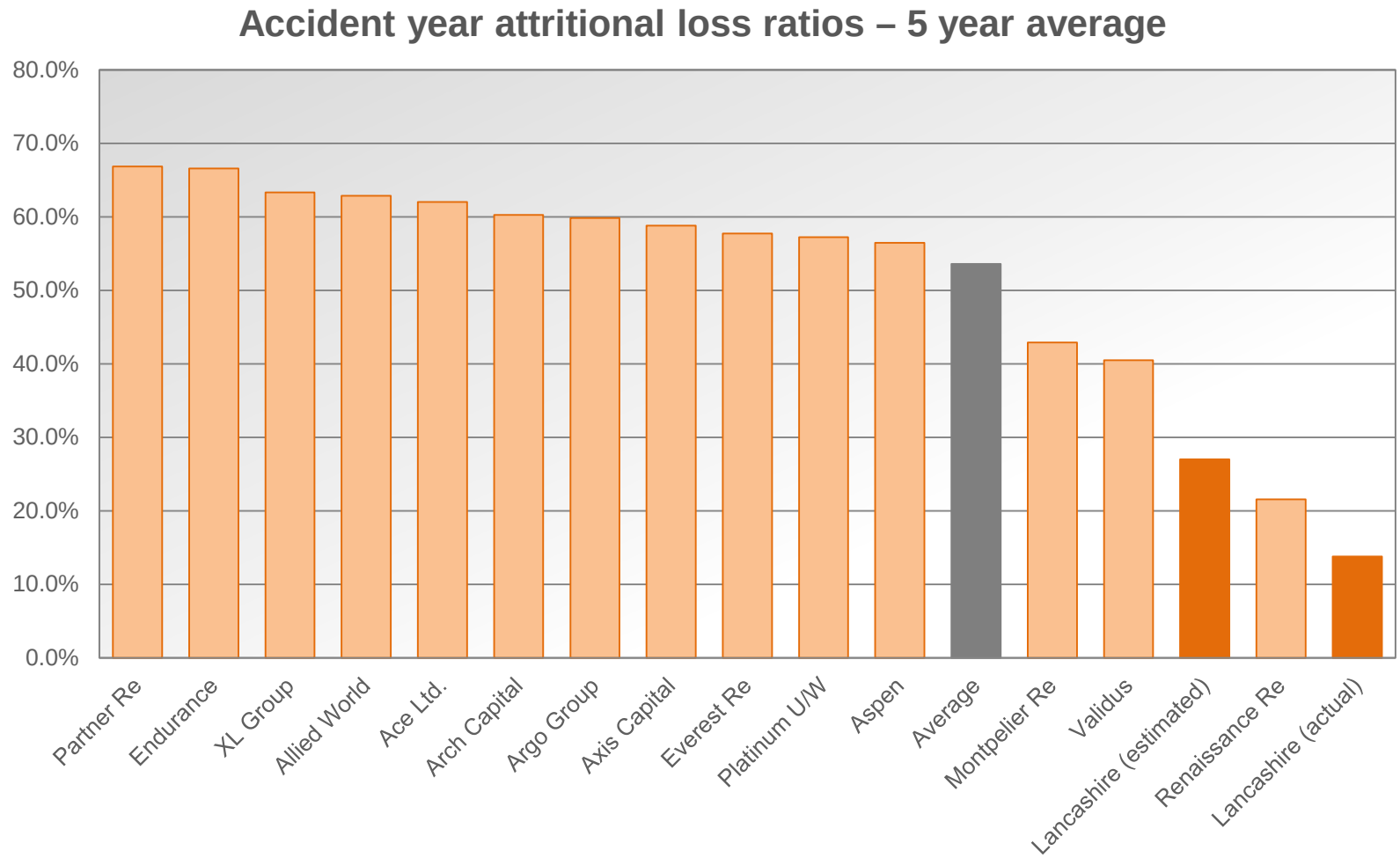
Managing the Cycle – strong weighting to low-attrition classes



- 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 analysis 2010-2014 ratios are as reported adjusted for disclosed catastrophe and prior year reserve development

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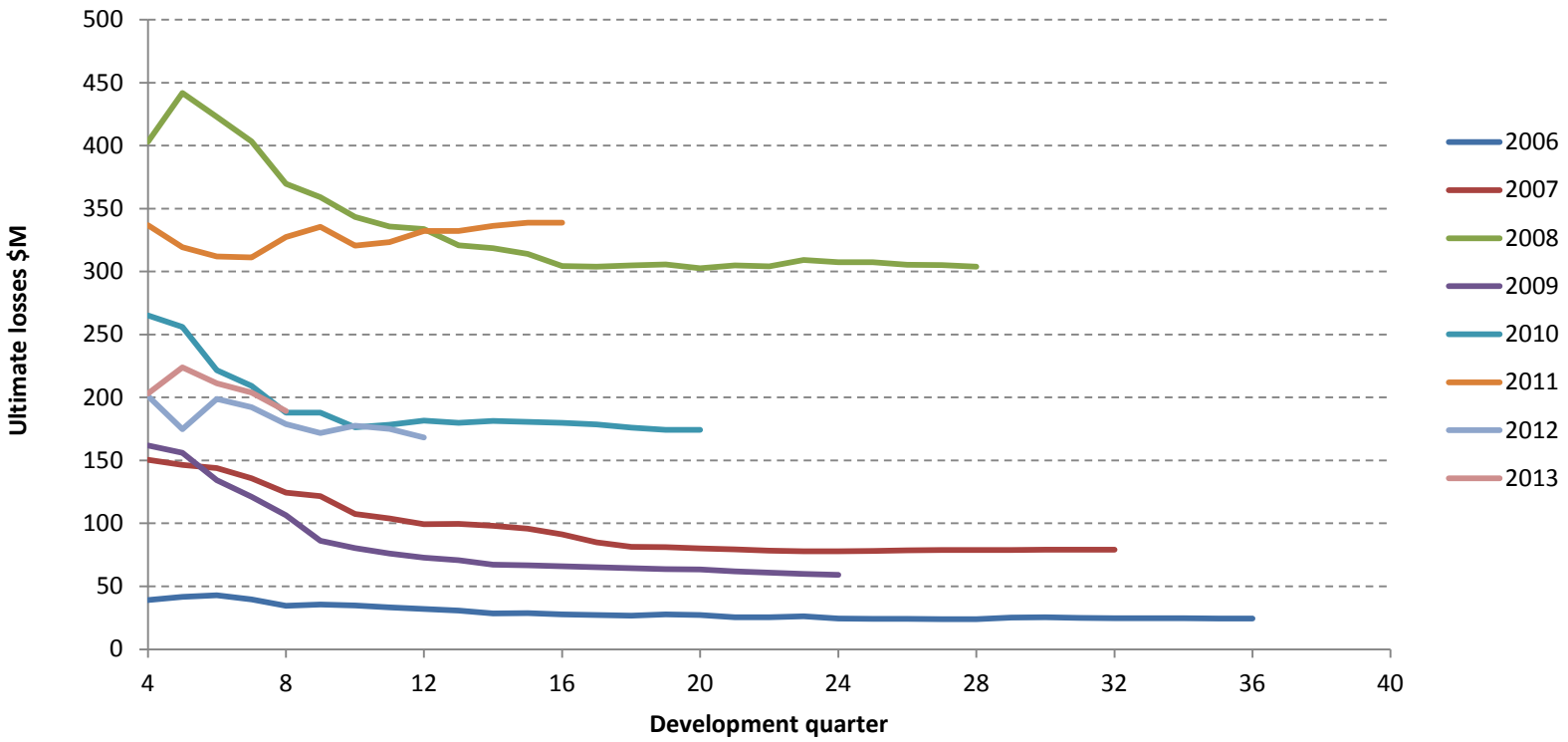
Reserve adequacy

Ultimate development by accident year – LUK/LICL/CUL combined



Effectively balance risk and return – conservative investment philosophy

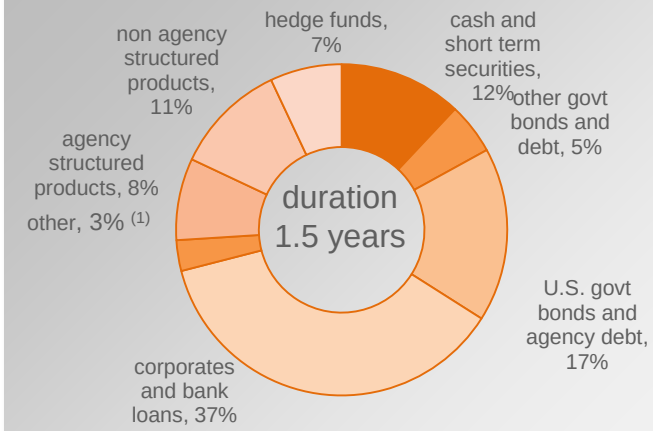
- **Our market outlook remains subdued:**
  - While the U.S. continues to improve, the global growth picture remains clouded
  - The central bank policies, geopolitical events, and oil price declines continue to exacerbate risk in the global economy

- **Preservation of capital continues to be paramount and we will focus on interest rate risk**
  - Maintain reduced investment portfolio duration
  - Mitigate interest rate risk:
    - ✓ Increased exposure to floating rate notes and non-fixed income asset classes
    - ✓ Hold an allocation to a low volatility hedge fund portfolio, diversifying the overall investment portfolio
    - ✓ Treasury future used to protect the investment portfolio from a rise in short-term interest rates; in Q4 2014 five year treasury futures were sold giving protection in the belly of the yield curve
  - Continue monitoring risk/return trade off in the portfolio:
    - ✓ Continue to manage the risk on/risk off balance with a skew towards a risk on environment with anticipation of a rising rate environment and U.S. economic growth

Effectively balance risk and return

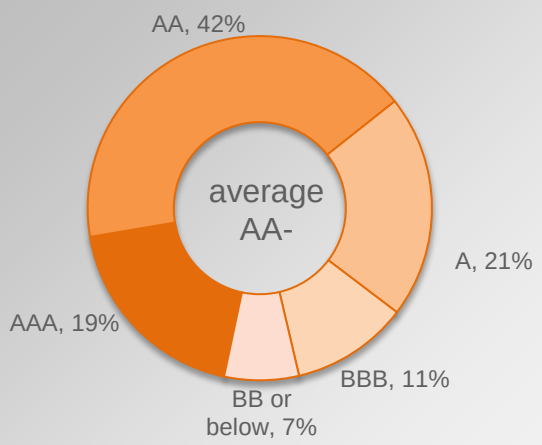
Capital preservation and interest rate risk management

Asset allocation

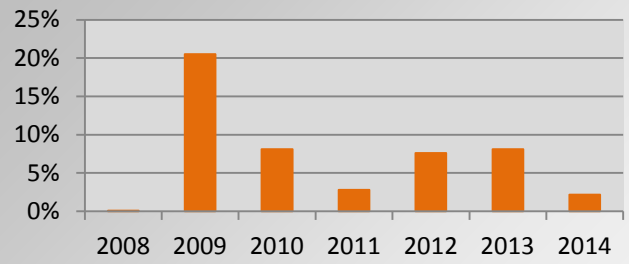


Total portfolio at 31 December 2014 = $2,223m

Credit quality



Hedge fund portfolio pro-forma returns



Portfolio has a history of strong performance (2)

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

(2) For 2014, Lancashire's net returns are included for the period from April through December 2014. Pro-forma hedge fund returns have been used for the period from January – March 2014..

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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	2014 $m	YTD 2015[5] $m	total $m
share repurchases	100.2	58.0	16.9	136.4	-	-	-	25.0	-	**336.5**
special dividends [1]	239.1	-	263.0	264.0	152.0	172.6	295.9	289.5	102.8	**1,778.9**
ordinary dividends – interim [1]	-	-	10.5	9.4	9.5	9.6	10.5	10.4	-	**59.9**
ordinary dividends – final [1]	-	-	-	20.8	18.9	19.2	19.2	21.1	20.6	**119.8**
total returned capital	**339.3**	**58.0**	**290.4**	**430.6**	**180.4**	**201.4**	**325.6**	**346.0**	**123.4**	**2,295.1**
average price of share repurchase [2]	102.2%	88.4%	98.5%	97.9%	n/a	n/a	n/a	128.7%	n/a	98.7%
price to FCBVS [3]	1.1	0.9	1.0	1.1	1.5	1.6	1.8	1.3	1.5	n/a
weighted average dividend yield [4]	15.2%	n/a	18.1%	18.0%	8.4%	8.3%	12.3%	17.8%	5.7%	n/a

234.6% of original IPO share capital has been returned to shareholders [5]

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

[2] Ratio of price paid compared to fully converted book value per share

[3] Price to FCBVS is calculated as the year end share price divided by the year end fully converted book value per share. 2015 is based on the share price at February 27, 2015 and fully converted book value at December 31, 2014

[4] Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. 2015 dividend yield is based on the share price at February 27, 2015 and includes the special dividend of $0.50 per common share and final dividend of $0.10 declared on February 12, 2015

[5] This includes the dividends of approximately $123.4 million that were declared in February 2015. Based on estimated pay-out at date of declaration of dividend

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Financial flexibility - Capital management

Constant adjustment of capital

an example over 12 months

Excess capital builds during the year if profits exceed share repurchases & ordinary dividends

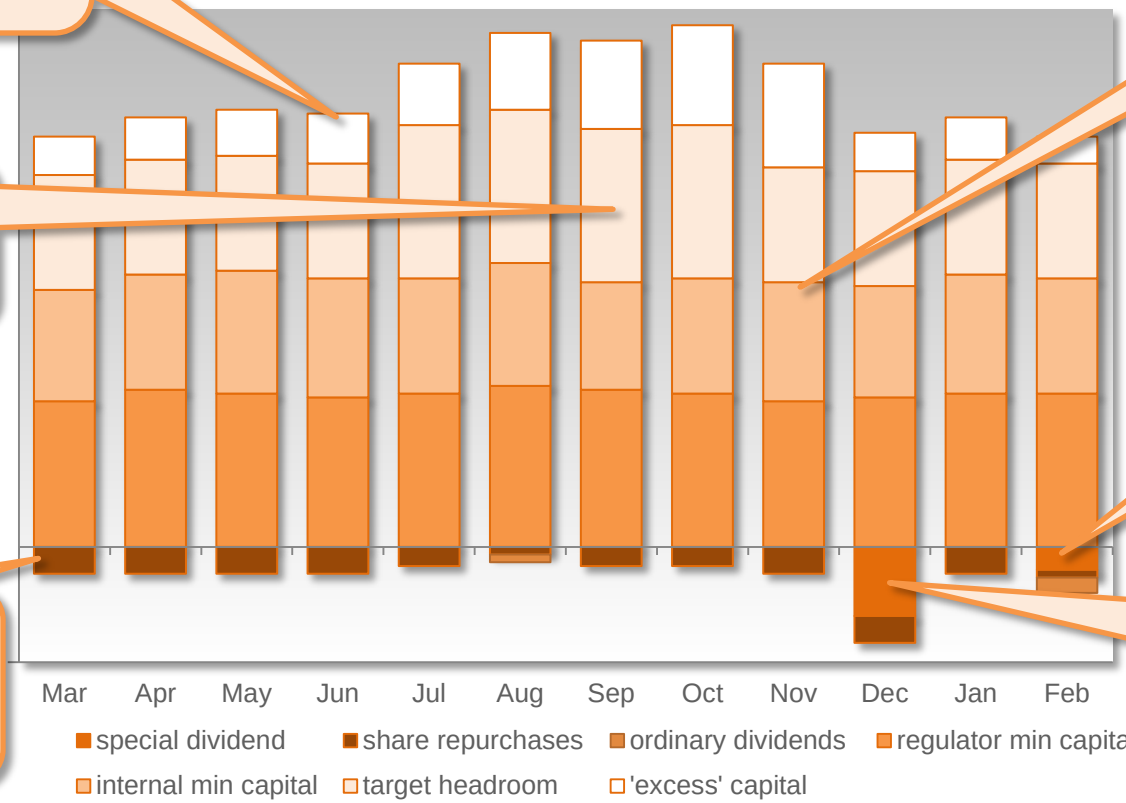
Review of stress tests and approval of business plan with capital projection at the November Board meetings

Our target capital headroom increases in hurricane season absent significant losses *

Special dividend in Q1 if capital not utilised at 1/1 renewals and insufficient opportunities ahead

Share repurchases continuous if excess capital exists and price acceptable

Special dividend in Q4 if insufficient opportunities ahead some capital withheld if outlook uncertain



* 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

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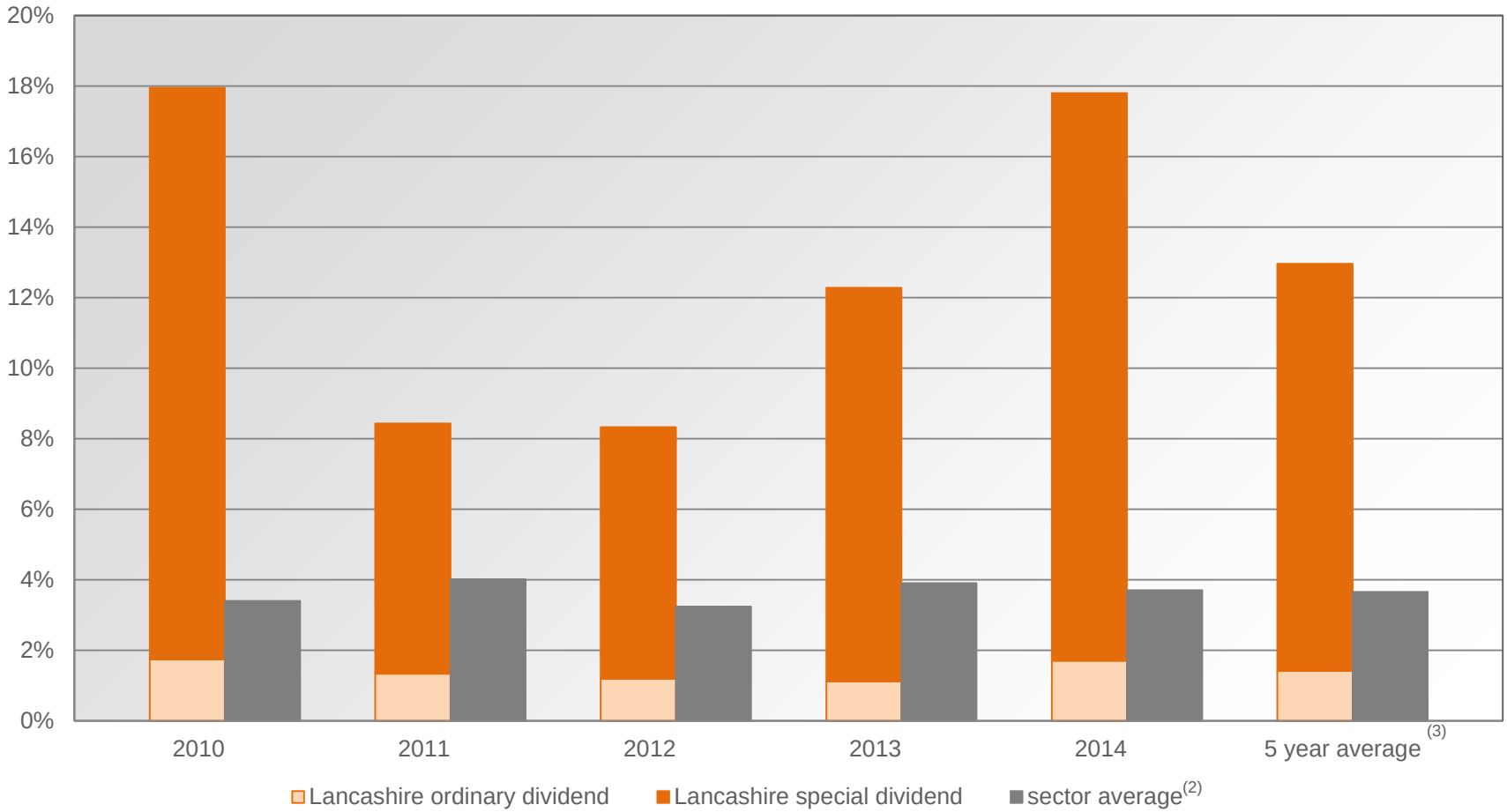
Managing the cycle - dividend yield [1]



[1] Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Dividends include recurring dividends, special dividends and B shares issuances. Source: Bloomberg.

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

[3] 5 year average based on the 2010 to 2014 reporting periods.

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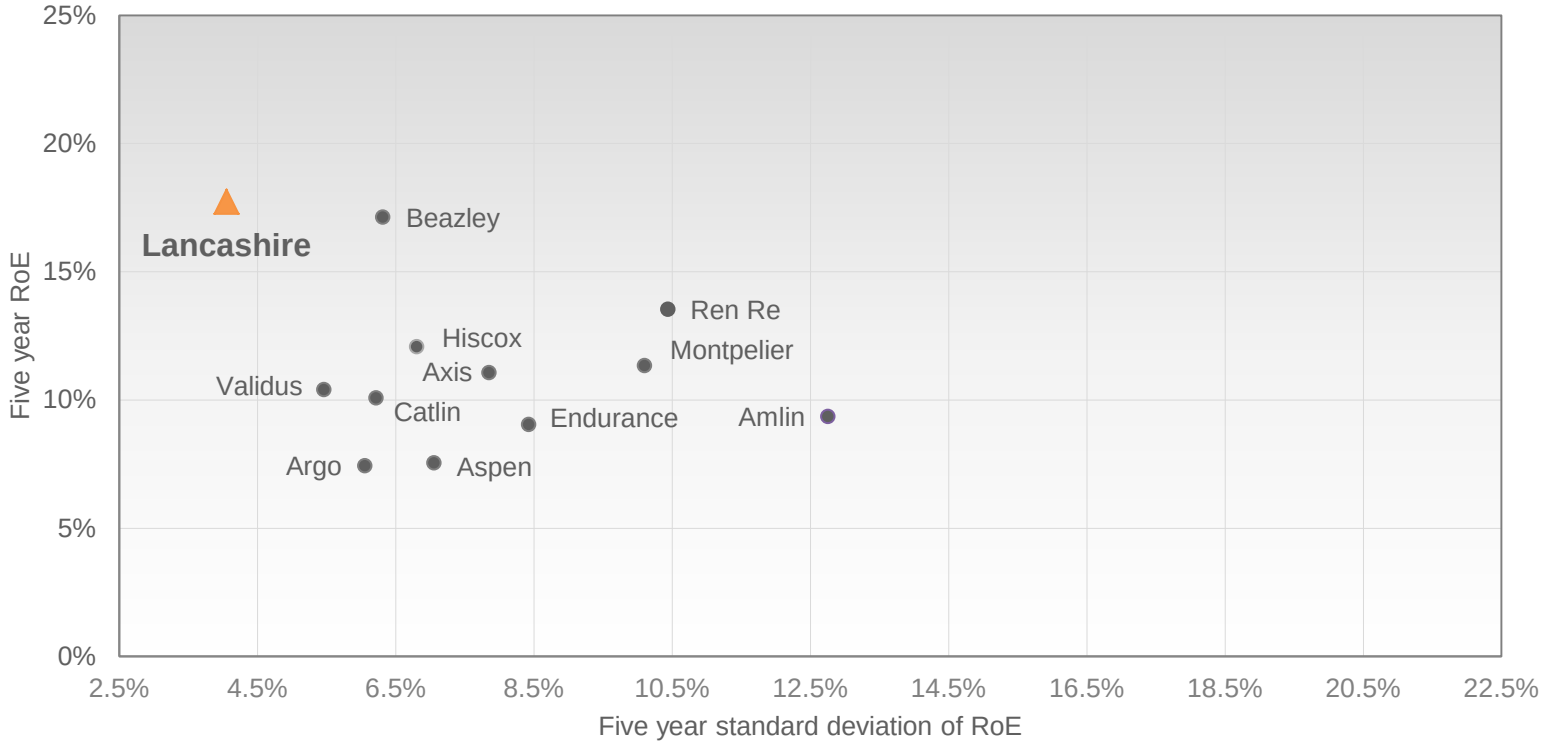
Cross cycle consistency - RoE

five year standard deviation[1] 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



[1] Standard deviation is a measure of variability around the mean.

[2] Compound annual returns for Lancashire and sector are from January 1, 2010 through December 31, 2014. 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.

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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 and low attritional loss ratios
- 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 investor and client base
- Opportunities to grow in non- or low-correlated lines within Syndicate 3010
  - ✓ In 2014 Lloyd's approved and we are writing Lancashire-led energy and terror lines in 3010
  - ✓ Lloyd's has approved and we are writing specialty aviation and war (supported by the Lloyd's consortium) and general specialist aviation business, with market leading teams

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Appendices

Lancashire: Property catastrophe reinsurance

Mitigating impact of falling rates

- Our average line size decreased from $20.6m to $16.6m on Property Cat and from $6.5m to $4.7m on our inward retrocession
- We bought retrocession with a reinstatement to cover us for two losses attaching $50m lower than the aggregate programme last year
- We have a facility ceding some of our Top lines where we typically have our largest exposures on a quota share basis. We keep 50% of the premium for 90%+ of the risk ceded. (we keep the second event on our book)
- We have a new 15% Quota share for our North East portfolio. Earning fee income on this with override and PC

Ability to compete

- Offer Reinstatement (We don't need fronting)
- Willing to offer more multi-layer support to the programme where pricing is adequate but always expose largest capacity to top layers
- The Top line facility keeps us relevant for our clients and brokers

Outlook

Cat XL – USA

- Continue to be a relevant regional U.S. market player.
- Continue to have limited Florida exposures

Cat XL – Asia

- We are keeping a close eye on perils combining in Japan rather than being split out as is largely the case historically.

Cat XL – Rest of world

- In Europe prepaid reinstatements being introduced was fairly common, from 1 @ 100%. Our top layer positions are largely insulated from this as the probability of reinstating is slight
- Canada, we greatly reduced our Aggregate position here. Don't plan major shift in book going forward

Statistics

Property catastrophe reinsurance	2006	2007	2008	2009	2010	2011	2012	2013	**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	**28.9**	**42.3**
GWP ($m)	0.6	19.3	23.4	76.3	98.1	82.0	96.8	97.5	**124.2**	**618.2**

In force portfolio (by client)	**Property Cat XL**	**Property Retro**
Average line size ($m)	16.6	4.7
Client count	164	24

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Lancashire: Energy

Mitigating impact of falling rates

- We write the risks with large limit requirements which are more insulated from the lows of rating trend
- Relatively low attritional loss ratios
- Deepwater GOM portfolio demands high limits
- Prior organic growth and activity within the industry has helped create good premium base
- Increased reinsurance protection at January 1, 2015, including GOM wind
- Current oil price issues could mean clients/lenders focus on maintaining insurance
- Lloyd's platform has helped maintain, even increase, shares on key business

Ability to compete

- Large lines make us relevant and dangerous to ignore as a quoting market to other brokers
- We have the capability and willingness to lead business
- We provide transparency, good service, quick turnaround and excellent claims service
- We have developed direct cross class client relationships that overarch broker relationships
- Market leader for Deepwater GOM and Excess Construction
- Offering excess third party liability and Lloyd's capacity protects signings on risk packages and offers flexibility to clients and brokers alike

Outlook

Gulf of Mexico

- Demand likely to be impacted by volatile oil price but essential balance sheet protection and lender-driven purchasing will offer some mitigation
- Locked in pricing with a limited number of selected longer term contracts will continue

Worldwide offshore

- Coming off historically high rating but still profitable margin within core business
- Drilling and exploration levels will be reduced as industry adjusts to new oil pricing levels
- Focus on industry cost reduction could impact on claims

Excess third party liabilities

- A selective portfolio with established known clients and still good demand for excess layers with robust pricing

General

- Syndicate 3010 gives the group flexibility to trade

Statistics

Energy GOM	2006	2007	2008	2009	2010	2011	2012	2013	**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	**11.7**	**44.2**
GWP ($m)	171.8	157.5	74.3	53.8	87.4	60.7	65.5	34.4	**69.9**	**775.3**

Energy WW offshore	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	**ITD**
Cumulative RPI	100	80	68	84	88	97	100	97	**91**	**n/a**
Combined ratio excl. G&A	38.9	39.4	68.1	93.0	78.0	70.7	41.3	85.8	**77.2**	**69.0**
GWP ($m)	42.3	72.7	76.3	100.6	123.1	140.3	148.9	149.2	**149.9**	**1,003.3**

In force portfolio (by asset)	Energy WW offshore primary	Energy WW offshore XS	Energy GOM
Avg line size ($m)	25.39	11.49	35.8
Avg attachment ($m)	N/A	341.8	25.2
Asset count	2,734	1,727	30

Lancashire: Property terrorism and political violence

Mitigating impact of falling rates

- TRIPRA uncertainty reinforced strengths of stand-alone market and is likely to reinforce U.S. demand
- Terrorist attacks and the growth of IS and Boko Haram keep the peril high up in the headlines
- Lancashire/CCL will remain pragmatic and stick with the core book
- We continue to experience a low attritional loss ratio
- Increased reinsurance protection at January 1, 2015, taking advantage of attractive pricing and capacity

Ability to compete

- Large lines make us relevant and dangerous to ignore as a quoting market to other brokers
- We have the ability and willingness to lead business
- We provide transparency, good service, quick turnaround and excellent claims service
- We have developed many cross class relationships with insureds
- We write our own layers – not led by Lloyd's or other capacity; in fact about 16% of our layers are "private" layers

Outlook

Terrorism

- More competition with new capacity but demand still strong with a good flow of new business opportunities
- We are witnessing the growth of "automatic" facilities for smaller programs but these are growing. We have declined to participate due to lack of underwriting control and management of aggregates
- Syndicate 3010 has given another access point to the Lancashire Group for brokers. Syndicate 3010's business plan has also broadened the Group's appetite looking at more diverse risk profiles and at possible lower attachment points

Statistics

Terrorism	2006	2007	2008	2009	2010	2011	2012	2013	**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	**15.9**	**15.5**
GWP ($m)	18.9	56.6	75.5	69.1	77.8	68.4	62.9	67.8	**55.2**	**552.2**

In force portfolio (by layer)	**Terrorism and political violence**
Average line size ($m)	85.7
Average attachment ($m)	230.0
In force policies	682

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Lancashire: Property political and sovereign risk

Mitigating impact of falling rates

- Large demand for political and sovereign risk products across territories represented by a continued strong submission flow
- Demand driven by increased perception of threat of political and sovereign risk from geo-political events, such as the Russia/Ukraine conflict and volatility in commodity prices
- Increased client awareness of the importance of the PR/sovereign insurance products in providing regulatory and capital relief and balance sheet protection
- Development of new client relationships, for example with Export Credit Agencies and Multilaterals, which provide access to new business flows across new territories
- Proactive and dynamic portfolio management enables us to maximise the efficiency of our capacity

Ability to compete

- We have the ability and willingness to lead business
- We provide transparency, good service, quick turnaround and excellent claims service
- We have developed direct client relationships that overarch broker relationships
- We write our own layers not – led by Lloyd's capacity
- Lancashire's tenor and non-trade related capabilities are in demand from our clients and provide us with opportunities that other markets are unable to consider

Outlook

Political Risk / Sovereign Risk

- Strong global demand for the product lines, growing in some markets as awareness develops
- Market capacity continues to increase, but Lancashire's capabilities insulate it from some of the competitive pressures
- In a challenging global environment Lancashire's traditional strengths of underwriting discipline and risk selection will remain at the core of the portfolio

Statistics

Political risk/ Sovereign risk	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	**ITD**
Combined ratio (%)	58.3	45.8	34.6	21.9	18.4	10.0	18.6	20.4	**61.0**	**28.1**
GWP ($m)	9.4	16.9	28.1	15.5	29.1	20.4	41.1	66.4	**44.4**	**271.3**

In force portfolio (by transaction)	Political Risk	Sovereign
Average line size ($m)	48	21
Average length (years)	3.7	5.1
In force policies	40	115

Lancashire: Marine

Mitigating impact of falling rates

- We write the risks with large limit requirements which are more insulated from the lows of rating trend in respect of Hull
- Generally for our portfolio rates are better than the market norm due to a loyal client base and specialist niches we predominate
- Increased reinsurance protection at January 1, 2015
- Focus on ancillary classes such as war, builders risk, MAP and MII with less competition

Ability to compete

- Large lines make us relevant and dangerous to ignore as a quoting market to brokers
- We have an ability and willingness to lead business
- We provide transparency, good service, quick turnaround and excellent claims service

Outlook

Marine

- Hull market softening for clean business with modest increases on loss-making accounts
- Still too much capacity for small to medium tonnage
- LUK portfolio has withstood recent spate of losses due to nature of portfolio

Statistics

Marine	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	**ITD**
Cumulative RPI	100	88	80	82	80	79	86	89	**91**	**n/a**
Combined ratio (%)	55.3	76.6	81.4	68.3	67.4	37.7	104.5	140.2	**78.4**	**78.6**
GWP ($m)	53.0	76.9	78.6	73.7	76.4	76.4	81.0	63.0	**67.7**	**646.7**

In force portfolio (by client)	Marine hull	Marine hull war	Marine builder's risk
Average line size ($m)	31.2	44.8	40.1

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Lancashire: Aviation and satellite

Mitigating impact of falling rates

AV52
- No attritional losses ever
- Large line size therefore all opportunities made available and one stop shop makes brokers lives easier
- Increased reinsurance protection during 2014, taking advantage of attractive pricing and capacity and reducing retention

Satellite
- Track the market with small net lines
- Loss activity has done little to temper reductions – over supply of capacity

Ability to compete

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

Outlook

Aviation
- Market plateaued during 2014 following hull war losses with minimal downward pressure towards the end of Q4 2014. AV52 market capacity remains stable
- Risk profile remains attractive and passenger numbers picking up so demand remains strong
- New business came to the market during 2014 in the guise of U.S. Airlines not previously placed in the commercial market

Satellite
- Launch rates generally on the decline in the launch and in orbit segments

Statistics

Aviation	2006	2007	2008	2009	2010	2011	2012	2013	**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	**80.8**	**32.3**
GWP ($m)	64.5	84.2	71.6	61.2	50.8	47.1	45.9	48.9	**53.2**	**527.4**

In force portfolio (by client)	AV 52
Average line size ($m)	137.1
Average attachment ($m)	228.1
Client count	695

	Satellite	
In force portfolio (by client)	Launch & In-orbit	In-orbit
Average line size ($m)	6.1	5.3
Risk count	19	39

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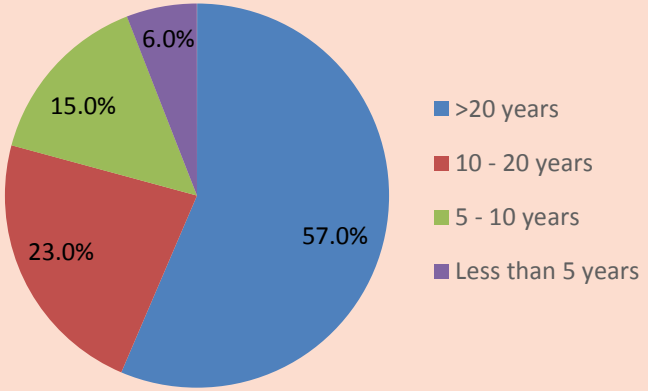
Cathedral: Property reinsurance

Core	Non-core / Opportunistic
U.S. 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 U.S. 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	**Client relationship duration**
U.S. Portfolio: under pressure risk adjusted rates down 5 to 10%, premium flat to slightly 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: Property direct & facultative

Core

U.S. 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

U.S. 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

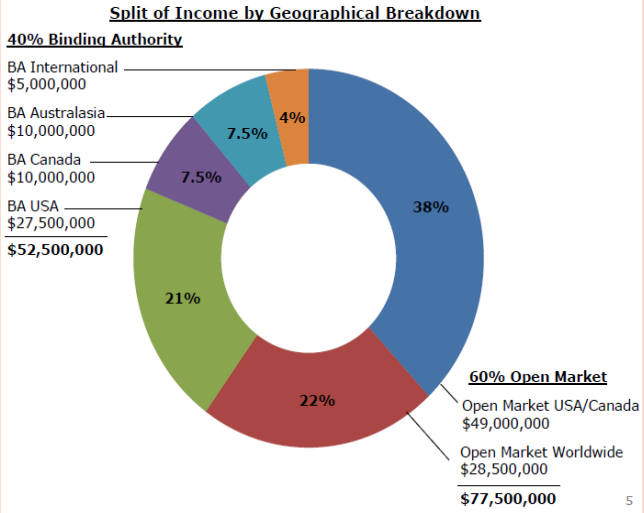
US open market - Rates generally under pressure, albeit from reasonably attractive levels

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

Geographical distribution



Cathedral: Aviation reinsurance & satellite

Core

Airline XL - Core part of the account exposed to major catastrophes but aggregate focused on small to medium size direct insurers enabling better portfolio management
General Aviation XL - Catastrophe reinsurance covering corporate and private jets, small local airports and small product makers
Aviation war - covers both Hull and War Third Party. Different to Lancashire's 'AV52' book as the focus is on non major risk writers.
Proportional - down to 3 direct clients that have a good track record in niche areas with long standing relationships

Non-core / Opportunistic

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

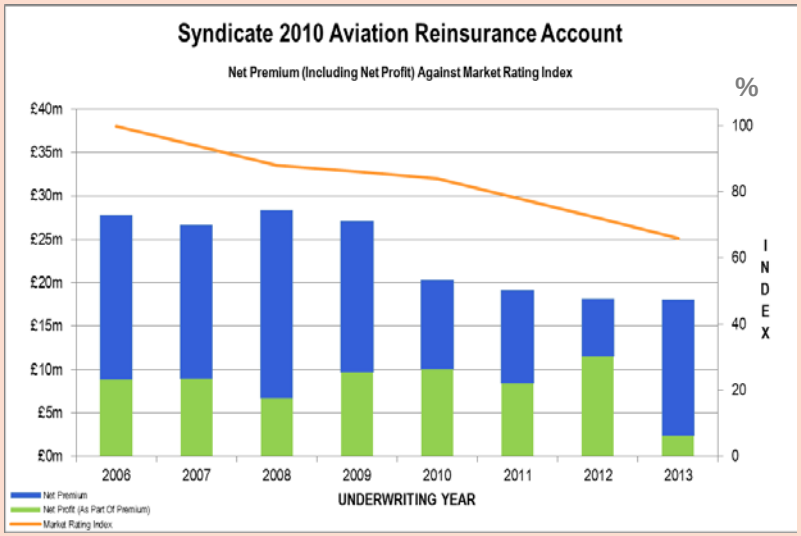
Potential proportional clients
Take advantage of relationships if there is a capacity crunch in the future

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
- Inconsistency in pricing will continue as entities seek to aggressively assume aggregate
- Companies with limited track record looking for market share
- Increased competition to lead business
- Brokers becoming concerned about longevity of client base and revenue stream

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



Cathedral: Aviation direct & war

Aviation Hull & Liabilities	Market Support
• Established market leading team in General Aviation (particularly rotor-wing) and lower tier Airlines • Team is getting good broker and client support despite adding another market to a congested space • We have reduced our initial business plan in the rotor-wing area due to very active broker lineslips and deteriorating underwriting conditions • Have secured leads on key long standing accounts at client or broker request and airline business is stable and on plan	**Consortia** • Our War underwriting is conducted for us and on behalf on a number of leading Syndicates in Lloyd's by the team • We have 3 consortia arrangements, for Airline , Large GA and GA where participants pay fees and profit commissions **Reinsurance** • Despite being start ups in heavily subscribed markets both teams have in place reinsurance arrangements to protect their net accounts with good support from the market
Aviation War	**Outlook**
• Established Open market leading team arrived to backdrop of huge losses after a benign claims activity • Expected huge reaction muted by multiples of capacity required being held and increased on broker line-slips • Target key airline leads have transferred to us • Key non–airline and hot spot business in which we specialise is seeing decent increases • Clients still require bespoke expertise which is in short supply	Both accounts are re-building their long standing accounts in heavily oversubscribed market places Both are receiving good support from long standing clients and will build out at their own pace The markets are currently dominated by passive capacity paying significant fees to participate in broker facilities which have shown poor results and leave little margin for losses Both accounts can be volatile and we have the expertise to fully capitalise at the right moment

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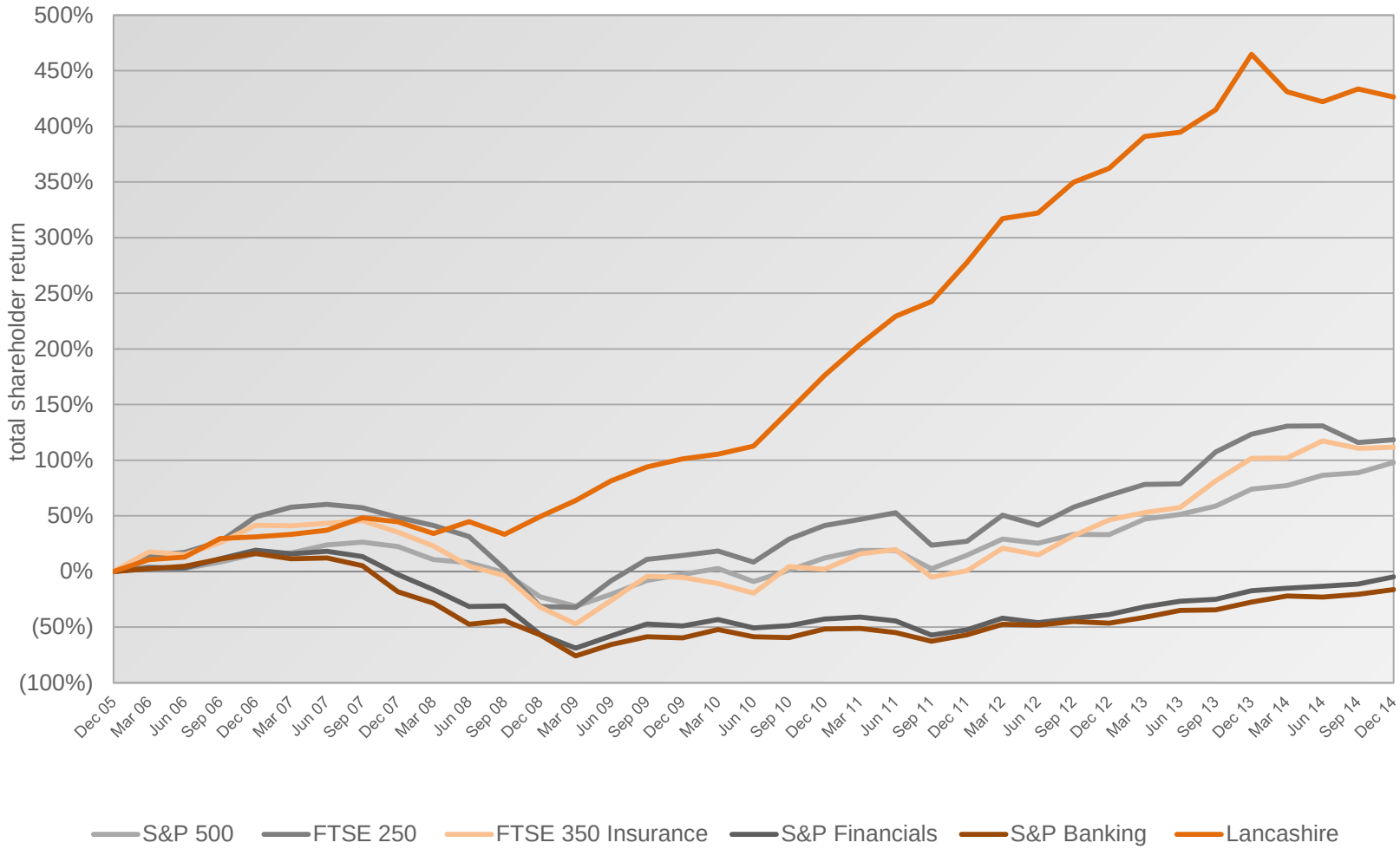
our goal: to provide an attractive risk-adjusted total return to shareholders over the long-term

Lancashire total shareholder return vs. major index returns



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