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Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation

Q1 Analyst Presentation

May 2014

www.lancashiregroup.com

safe harbour statements

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Lancashire: What’s changed

Lancashire – What's changed

Lancashire remains a simple, underwriting-focused and disciplined specialty (re)insurer

- Executive management team has been here since the beginning. Alex since 2005, Elaine since March 2006 and Paul since May 2007
- Alex Maloney had been responsible for strategy and culture as head of the London office for the last three years
- Processes and structure, including the UMCC, are hard-wired into Lancashire's DNA
- Commitment to managing the cycle remains key and the RRC remains the principal vehicle for this with Lancashire, Cathedral and Kinesis
- Lots of opportunity to manage exposure and returns through reinsurance, to achieve the best risk adjusted return
- No change to focus on underwriting
- No change to commitment to capital management through special dividend or share repurchase as dictated by share price and outlook
- Cathedral team are very experienced and have been managing a business for the last 13 years
- Darren's track record speaks for itself both at Talbot in Lloyd's and latterly at DE Shaw

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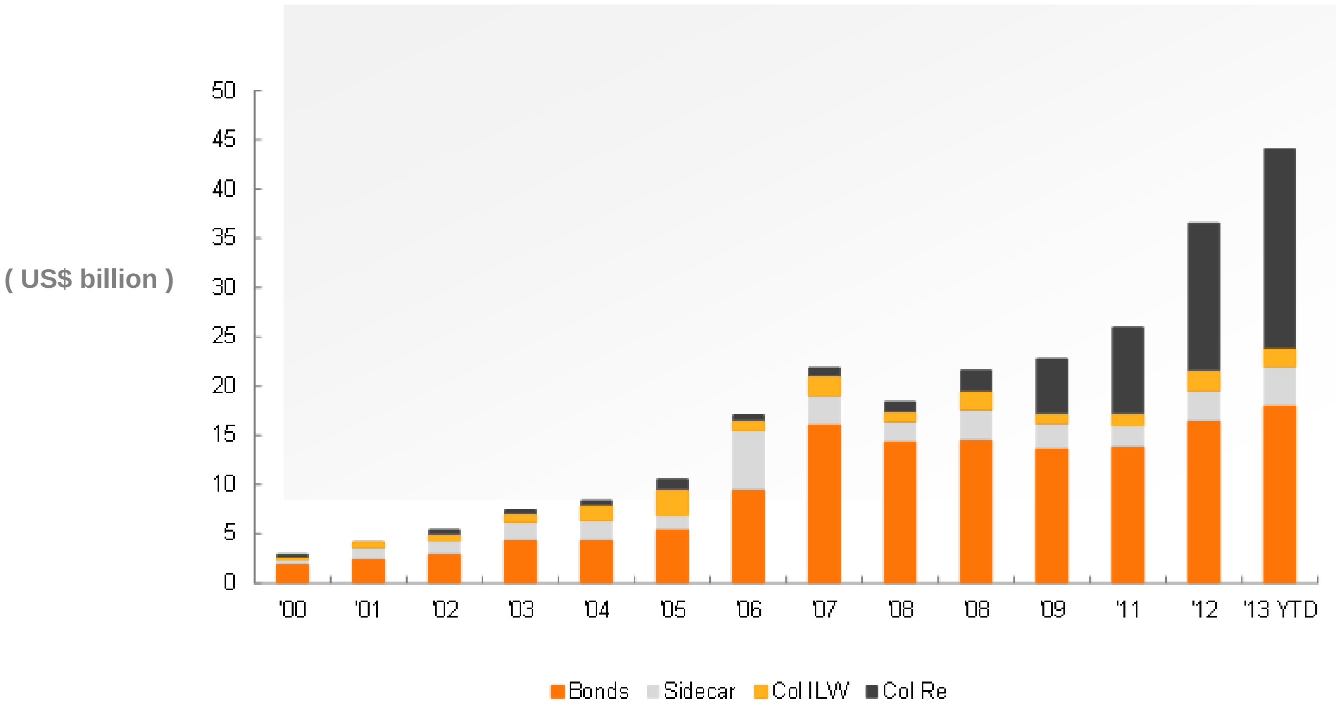
Kinesis

Kinesis: Bond and collateralised market development

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



Total Alternatives
USD44 billion

Collateralised Reinsurance
USD20 billion

Collateralised ILW
USD2 billion
Sidecars
USD4 billion

Bonds
USD18 billion

Source: Aon Benfield Analytics

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Kinesis: Drivers of success

- **Underwriting comes first** – not just another collateralised ILW writer, but an experienced team leveraging Lancashire and Cathedral's expertise to build unique, tailored products.
- **Discipline** – not seeking to deploy capacity for the sake of fees only. Thorough research of products and opportunities over the last twelve months. Un-deployed capital would be returned to investors promptly.
- **Nimble reactions supported by a solid core of business** – core product is a long-term part of reinsurance protection and capital relief planning but there is the ability to upscale and expand products dramatically following a market dislocation.
- **Balancing risk and reward** – multiple analyses of exposures with comparison to historic events and own proprietary data across multiple lines.

Summary of events to date:

- Key individuals: Darren Redhead (Ex D.E. Shaw) & Mathieu Marsan (Ex Pentelia Capital Management) who both joined in 2013
- Total limits deployed to date are approximately $300m with plans to grow further
- Targeting fees similar to Saltire, Lancashire's previous "sidecar"
- Lancashire currently has an investment of 10% in Kinesis Holdings, and currently intends to maintain its 10% investment in future offerings up to $100m
- Will not conflict with Lancashire's existing business
- Leverage Lancashire's expertise in short-tail speciality lines
- Large amount of R&D has been conducted to understand what markets want to purchase

Kinesis

Multi-class solutions

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

Potential solutions

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

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Cathedral: Syndicates 2010 & 3010

Cathedral Syndicates 2010 & 3010

Syndicate 2010

- Business plan: Gross income down , Net income flat to slightly up, exposures flat to slightly down

- Reinsurance costs down but also have greater depth of cover and lower retentions - technically the book is in better shape than last year

- Widely competitive environment with some small bright(ish) spots
  - D&F Binders
  - Contingency

- Signings no issue

- Relatively light weighting in Fortune 500 Primary insurance and Florida Cat

- Reserves performing well maintaining trend of releases

Syndicate 3010

- Cargo market remains competitive but values and volumes up

- Lloyds approval received to start writing energy and terror from 1st April 2014.

- Progress in building out additional lines

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Cathedral Syndicates 3010: Lancashire lines

Energy & Terror

- Additional capacity to be deployed on existing Lancashire clients and programmes
- Improve net position and capital efficiency on some existing Lancashire business, to be transferred e.g. excess energy Liabilities
- Smaller assets and quota share construction lends itself better to Lloyd’s energy lower net position.
- Distribution – a chance to see new business through passing trade & Cathedral broker relationships that we haven’t previously seen
- Access: ability to write business in countries where LUK/LICL are not licensed or Lloyd’s brand/ rating for which clients have preference

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Volatility & Capital

Lancashire Volatility

In this part of the cycle – Lancashire is still opportunistic and nimble in the purchasing of reinsurance

Catastrophe perils

- Lancashire purchased whole account aggregate retro cover of $100m excess of $100m in the aggregate
- Portfolio re-engineered towards core property catastrophe severity layers at the expense of retro cover and D&F written on its own account. Florida aggregate property catastrophe exposure minimal
- Cathedral buys lower and more frequency on its property catastrophe & commercial property portfolio's

Risk perils

- Lancashire purchased approximately 25% more cover for marine, energy and terror
- Costa Concordia like for like exposure reduced by approximately 60%
- Cathedral risk reinsurance reduced frequency and lower attachment points
- Syndicate 3010 new reinsurance purchased for energy and terror

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Cathedral & Capital

- Excess FAL extracted
- Quota share in place for Lloyd's segment and investment portfolio transferred to Bermuda, to support obligations
- Cathedral fees and profit commissions from Names
- Implication on Lancashire attritional loss ratios to reflect market and Lloyd's segment
- Capital required for enlarged group and growth as discussed

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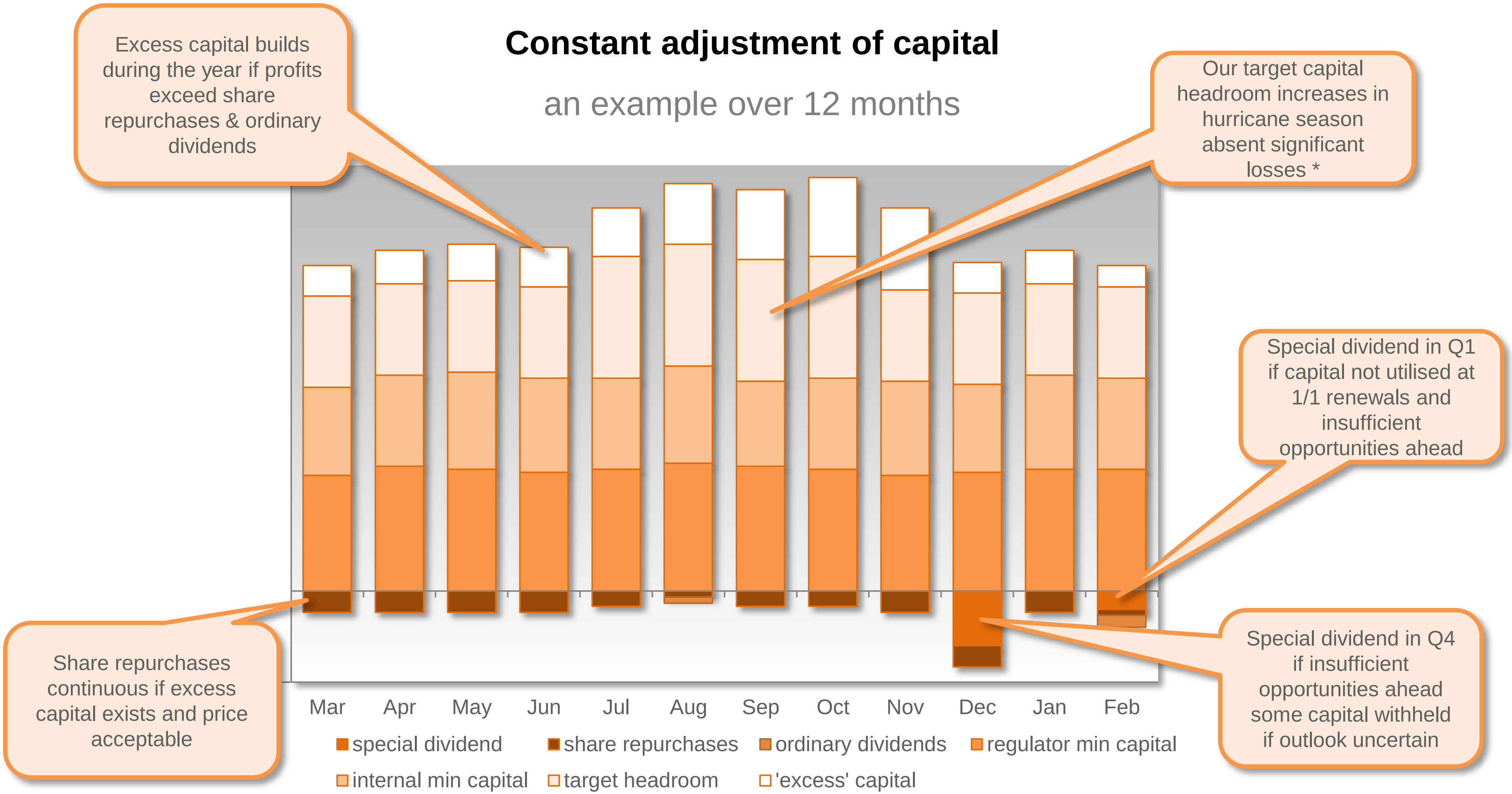
Financial flexibility - Capital management



* 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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