

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, CEO*

- 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

# overview of Lancashire: our 10 year history

## 2005

- LHL Incorporated
- AM Best assigns A- rating
- IPO & listing on AIM

## 2010

- S&P assign A- rating, ERM rating adequate with strong risk controls
- Moody's assign A3 rating

	2005	2006	2007	2008	2009	2010
Combined ratio	n/a	44.3%	46.3%	86.3%	44.6%	54.4%
Dividend yield	n/a	n/a	15.2%	n/a	18.1%	18.0%
Return on Equity	(3.2%)	17.8%	31.4%	7.8%	26.5%	23.3%
Tangible capital	\$1.1bn	\$1.3bn	\$1.3bn	\$1.4bn	\$1.5bn	\$1.4bn
No. of employees	5	57	79	91	101	103

## 2006

- Sirocco sidecar launched
- London office opened

## 2008

- Hurricane Ike
- Credit crisis – Investment return 3.1%

## 2009

- Listing on LSE
- Inclusion in FTSE 250 index

# overview of Lancashire: our 10 year history

## 2011

- Accordion sidecar launched
- AM Best upgrade to A rating
- Significant peer<sup>(1)</sup> outperformance in 2<sup>nd</sup> largest aggregate loss year in history

## 2013

- Purchase of Cathedral Capital Limited
- Launch of Kinesis Capital Management and Kinesis Re

## 2015

- Syndicate 3010 capacity expanded to £100 million

	2011	2012	2013	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	Q1 2016
Combined ratio	63.7%	63.9%	70.2%	68.7%	72.1%	72.7%
Dividend yield <sup>(3)</sup>	8.4%	8.3%	12.3%	17.8%	17.3%	1.3%
Return on Equity	13.4%	16.7%	18.9%	14.7%	13.5%	3.8%
Tangible capital	\$1.5bn	\$1.6bn	\$1.6bn	\$1.5bn	\$1.4bn	\$1.4bn
No. of employees	115	104	169	185	192	188

## 2012

- Rollover of Accordion sidecar
- Saltire facility launched
- Issued \$130 million of 5.7% senior unsecured notes due 2022

## 2014

- Alex Maloney named CEO
- Syndicate 3010 capacity added Energy and Terror
- Accordion and Saltire placed in run-off
- New aviation team hired from Atrium

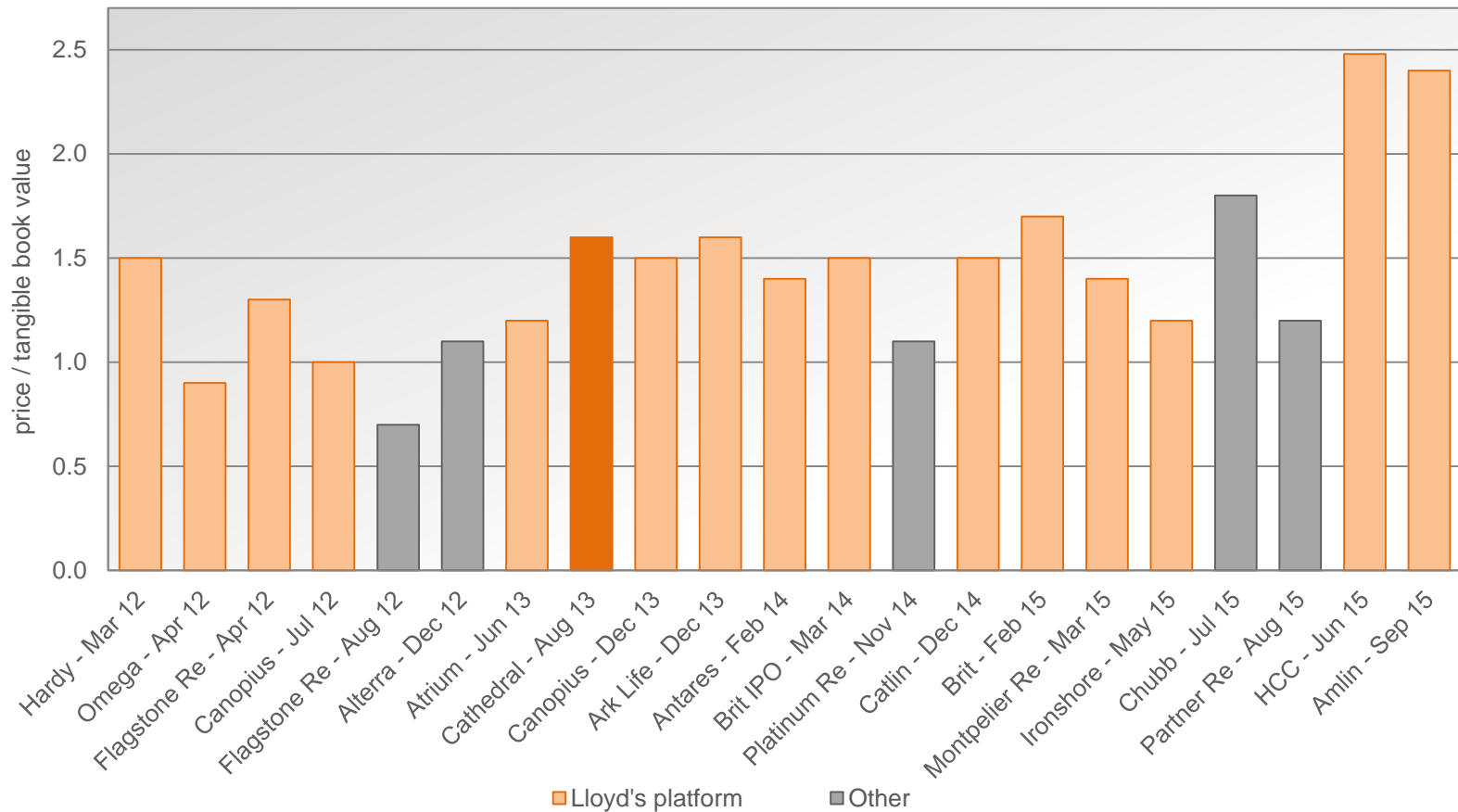
<sup>(1)</sup> 2011 peer group included Amlin, Aspen, Axis, Beazley, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus

<sup>(2)</sup> RoE excludes the impact of warrant exercises

<sup>(3)</sup> Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Q1 2016 dividend yield uses the share price at 31 March 2016

# Changes from last year – what's new? – M&A activity continued

## Reported price vs tangible book value multiple of recent acquisitions



- Lancashire paid a reasonable price for a high quality business

Sources: Ernst and Young Specialty insurance mid-year results event November 24, 2015, D&P analysis, Company reports  
NOTE: The book value multiples above are based on reported price and latest available tangible book value at the date of announcement / completion. The dates represented reflect the announcement dates.

# Lancashire Group

Three platforms give Lancashire more clout in the market place.  
More broker relationships, more cross selling and referral opportunities and more reinsurance purchasing power

## Lancashire

- CEO/CFO built Lancashire from start-up to established, respected leader with strong team producing top tier Combined Ratio and ROE since inception
- Relevant in all lines we write and sufficiently diversified enough to weather the perfect energy storm in 2015
- In last year and this, we have achieved further enhancements to our reinsurance programme to reduce volatility further

## Kinesis

- Unique flexible coverage of fully collateralised multi-class reinsurance, offering bespoke solutions to provide efficiencies for both buyers and investors
- Annualised net IRR in the high-teens for the last 5 years when including Accordion Re and Saltire Re
- Kinesis has access to Lancashire's underwriting expertise and sophisticated infrastructure

## Cathedral

- Founding partner Richard Williams will be appointed as Active Underwriter (subject to regulatory approval) in 2016
- Alex Maloney appointed as CEO of Cathedral Capital Limited
- Top tier Lloyd's Combined Ratio
- Syndicate 3010 now has 4 new lines to complement original Cargo book – Stamp capacity up from £30million to £100million
- The recent departures of some of the Cathedral partners (6) and underwriters (1) are being addressed expeditiously. This includes:
  - US CAT team replaced and International CAT individual identified and hired
  - Additional resources being considered for International D&F team
  - Heather McKinlay hired as CFO (appointment subject to regulatory approval)
- Acquisition at a reasonable price
  - Did what it said on the tin
  - Group benefited from the return of excess Funds at Lloyd's
  - \$92.5million comprehensive income generated by Cathedral for shareholders since inception
  - Hidden value uplift achieved in Syndicate 3010
  - Marine, Aviation, Property Catastrophe lines and reinsurance spend – complement Lancashire's book and give superior market presence

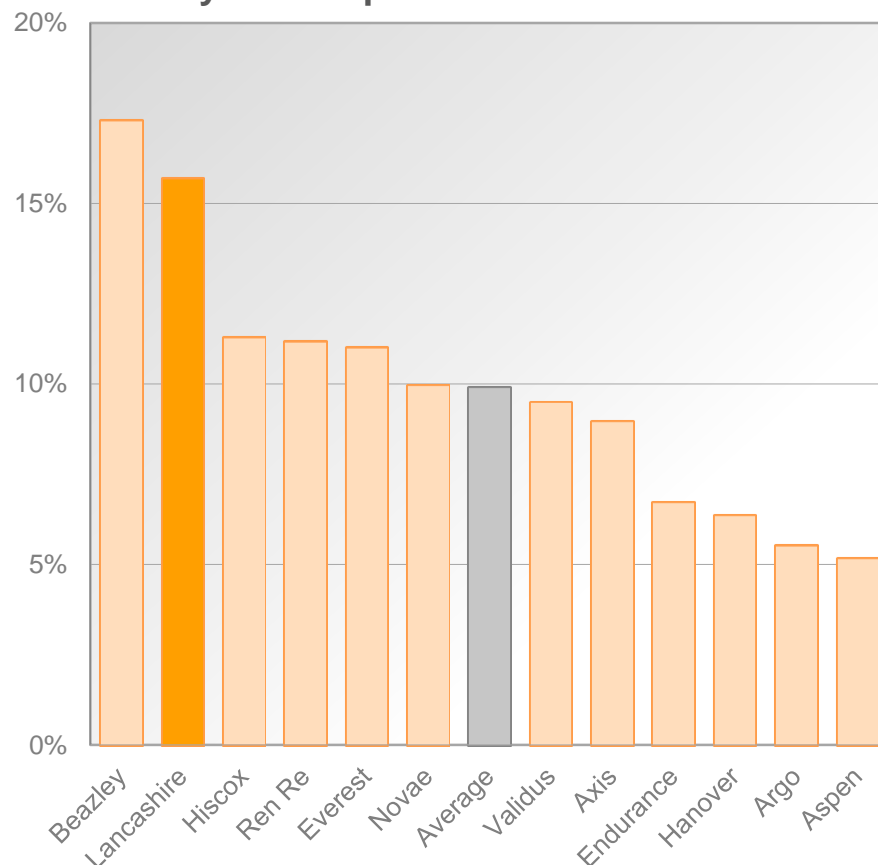


# Our long-term performance is one of the most consistent in our peer group <sup>(1)</sup>

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

Company <sup>(2)</sup>	2011	2012	2013	2014	2015	5 yr avg
Beazley	2	1	1	1	1	1
<b>Lancashire<sup>(3)</sup></b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>2</b>
Hiscox	4	7	2	2	2	3
Everest	7	2	5	3	7	4
Ren Re	11	4	3	6	5	5
Novae	12	6	7	5	3	6
Validus	5	8	6	9	6	7
Axis	8	5	8	8	8	8
Hanover	3	11	11	11	10	9
Endurance	9	12	10	7	9	10
Aspen	6	10	12	10	12	11
Argo	10	9	9	12	11	12

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

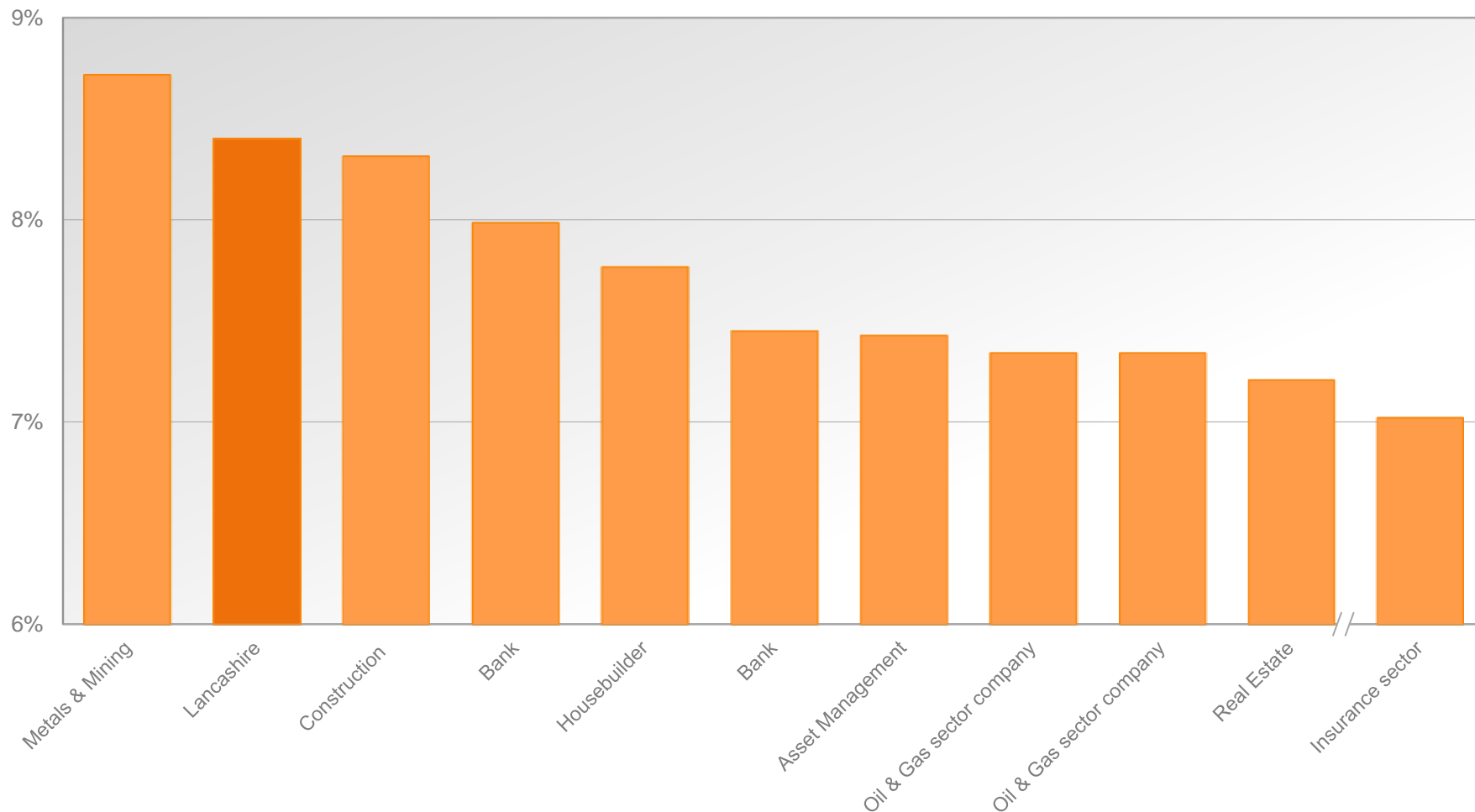


<sup>(1)</sup> Peer group as defined by the Board. Source: Company reports

<sup>(2)</sup> Companies listed in order of average annual RoE ranking for the years 2011 - 2015. Average ranking calculated as the sum of annual rankings for each year divided by five years. Beazley rankings for 2011 to 2012 have been updated to reflect RoE calculated in USD

<sup>(3)</sup> Lancashire RoE calculated excluding the impact of warrant exercises. Data for Lancashire and peers for the period January 1, 2011 through December 31, 2015

# FTSE 350 Index Top Dividend Yields<sup>(1)(2)</sup>

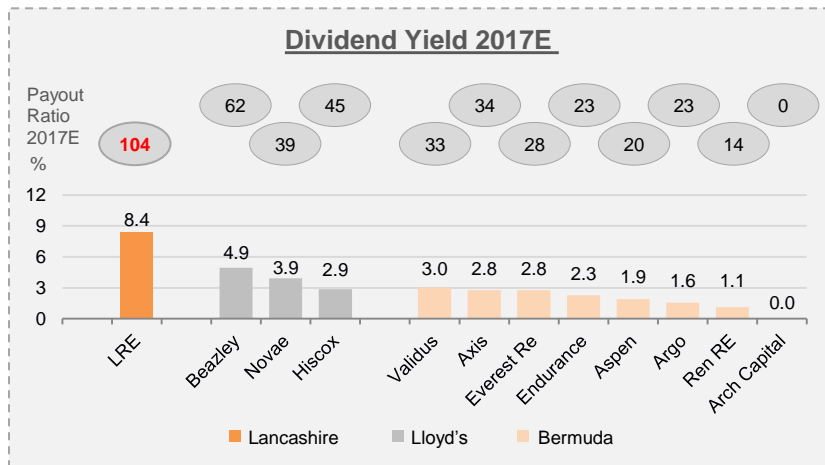
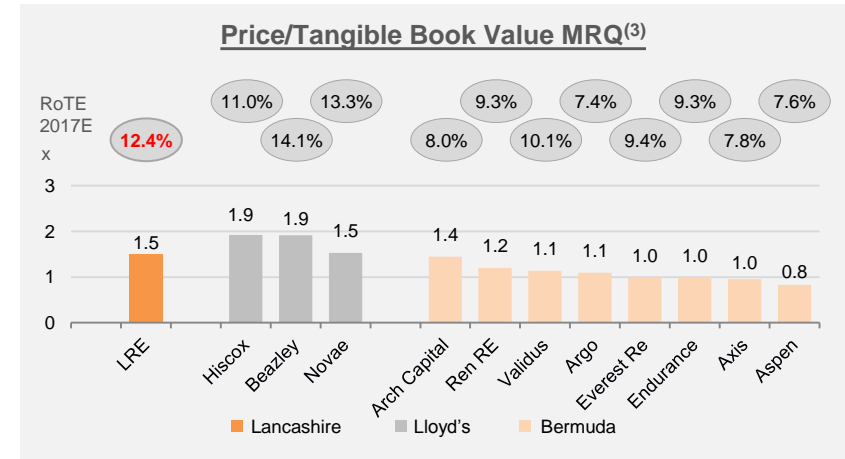
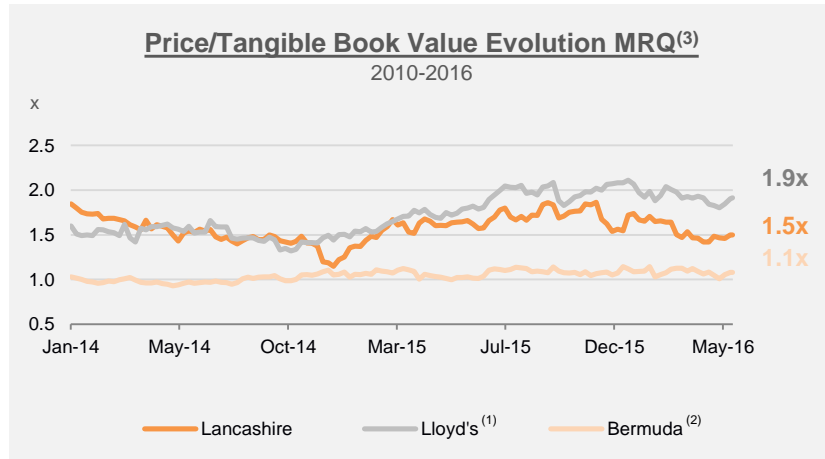


(1) FY2017 Dividend Yields as of 16<sup>th</sup> May 2016

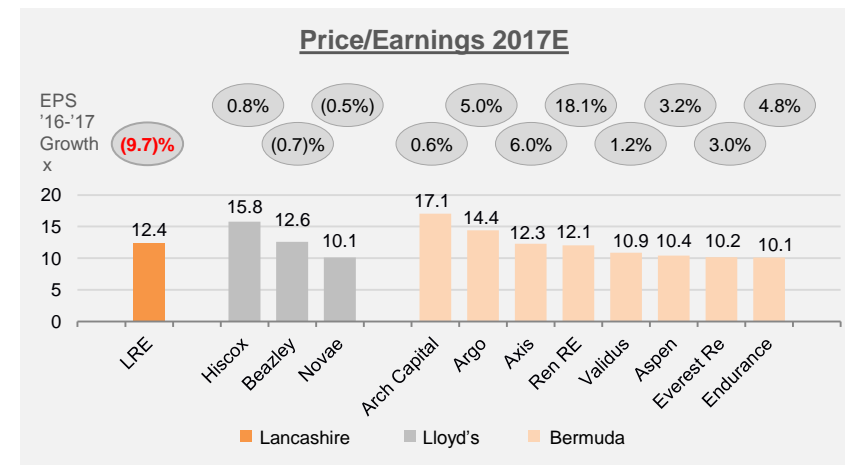
(2) Source: Capital IQ

# Valuation Recap – Lancashire vs. Peers

## Lancashire Undervalued Relative to Lloyd's Peers



Source Capital IQ as at 16<sup>th</sup> May 2016



<sup>(1)</sup> Consists of Beazley, Hiscox and Novae

<sup>(2)</sup> Consists of RenRe, Everest Re, Arch Capital, Validus, Aspen, Argo, Axis and Endurance

<sup>(3)</sup> MRQ defined as most recent quarter



Underwriting  
comes *first*

# Underwriting comes first

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

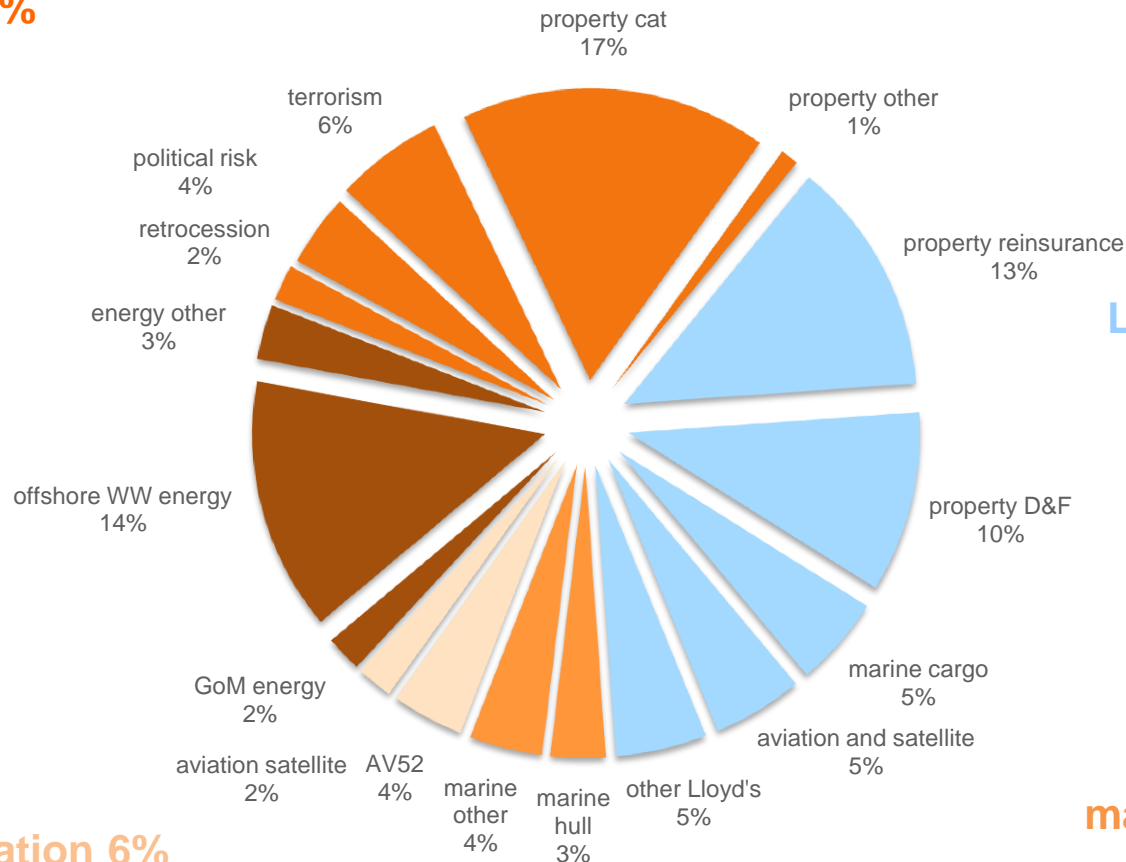
property 30%

energy 19%

aviation 6%

marine 7%

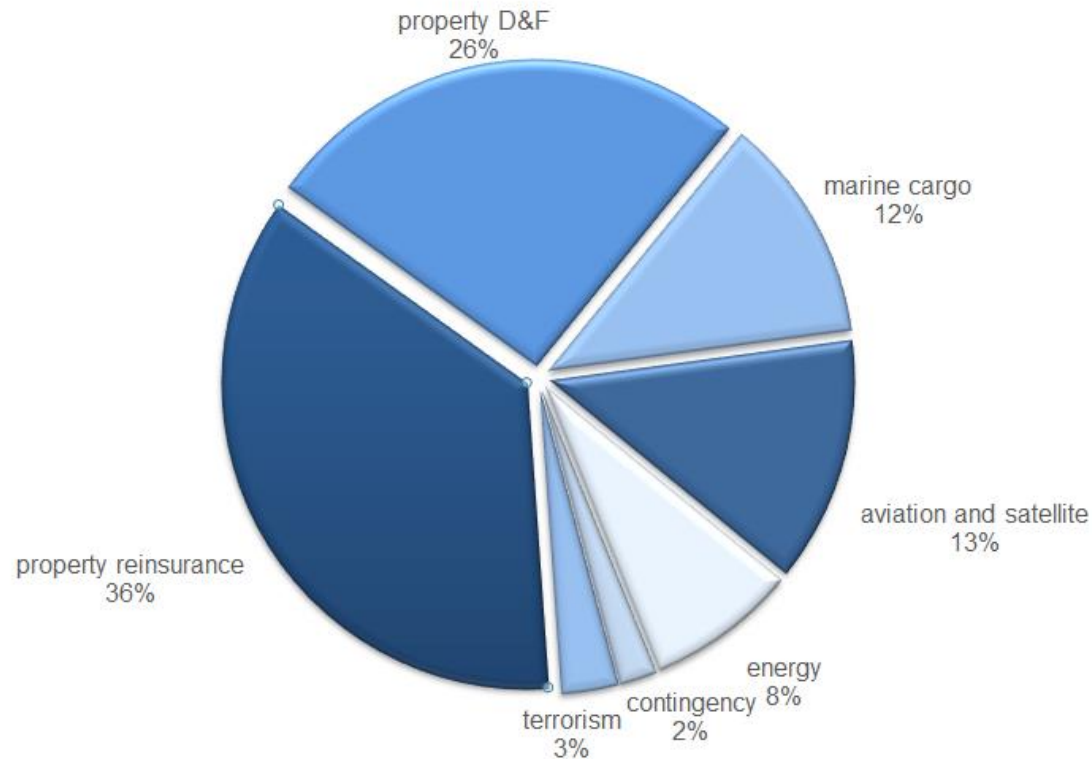
Lloyd's 38%



Based on 2016 forecast of gross premiums written as of February 16, 2016. Estimates could change without notice in response to several factors, including trading conditions

# Underwriting comes first: Cathedral

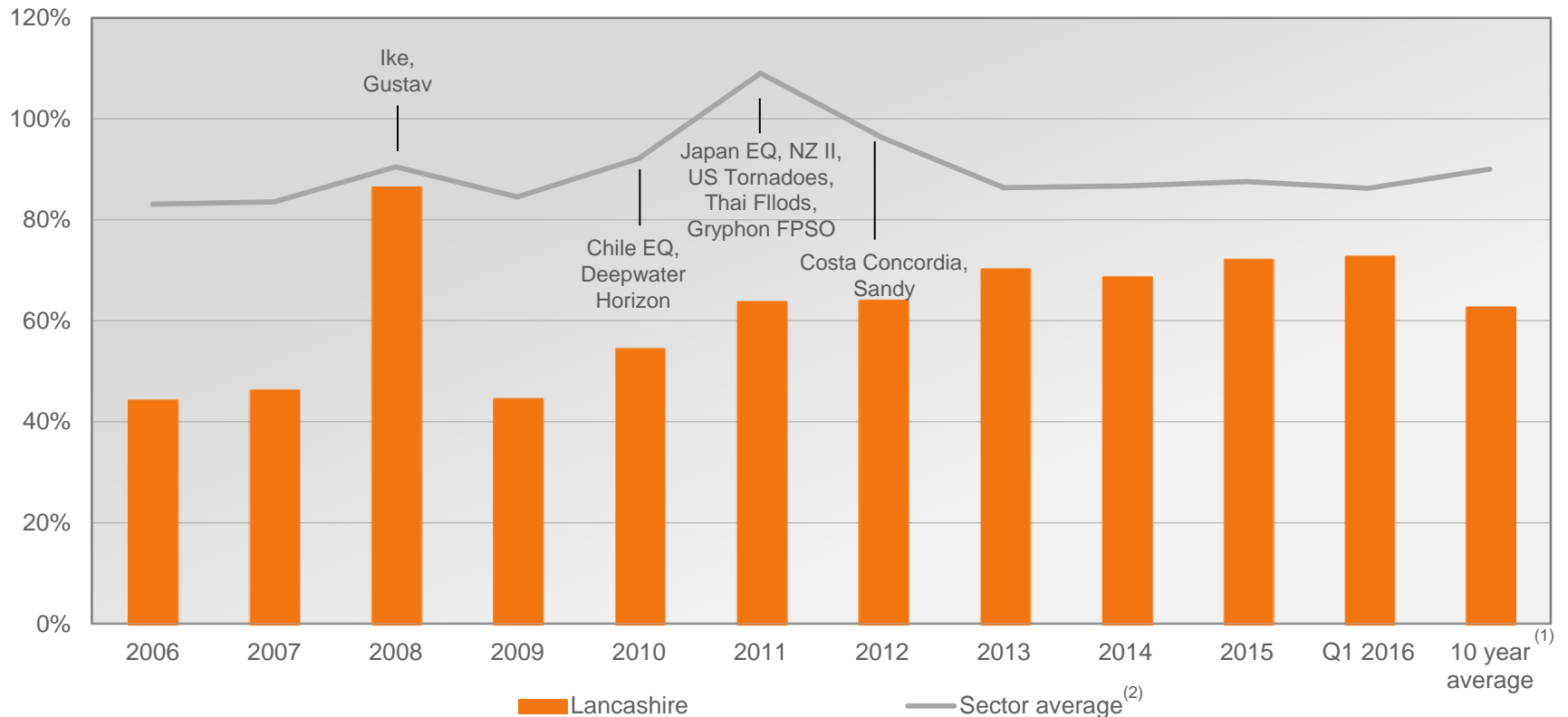
**59% insurance 41% reinsurance 49% nat-cat exposed 51% other**



Based on Lancashire Group share of 2016 forecast of gross premiums written as of February 16, 2016. Estimates could change without notice in response to several factors, including trading conditions

# Our underwriting performance has been exceptional

## Combined ratio <sup>(1)</sup>

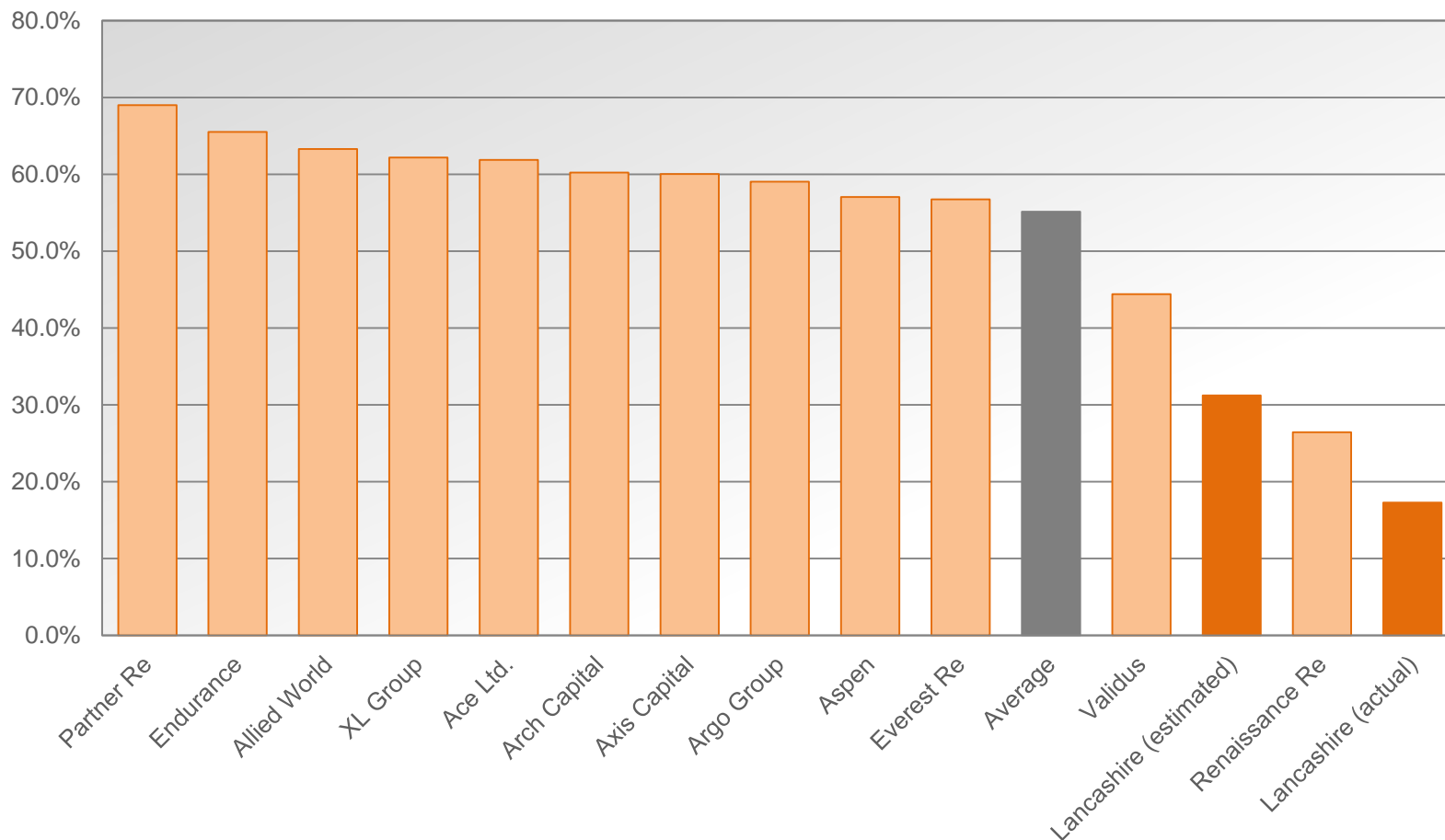


<sup>(1)</sup> 10 year average based on 2006 to 2015 reporting periods. Lancashire ratios weighted by annual net premiums earned. Annual sector ratios are weighted by annual net premiums earned

<sup>(2)</sup> Sector includes Argo, Aspen, Axis, Beazley, Endurance, Everest, Hanover, Hiscox, Novae, Renaissance Re and Validus. Q1 2016 combined ratios for Beazley, Hiscox and Novae not available at time of report. Source: Company reports

# Managing the Cycle – strong weighting to low-attribution 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 analysis 2011-2015 ratios are as reported adjusted for disclosed catastrophe and prior year reserve development



# General market update

Class	2016 Rating Expectation	Market Dynamics
Property Reinsurance & Retrocession	Rates off 5% – 10%	<ul style="list-style-type: none"> <li>• Clients using savings to buy more limit – Japan &amp; certain U.S. clients</li> <li>• M&amp;A reducing limit purchased for some carriers but also providing new opportunities</li> </ul>
Energy Offshore Worldwide	Rates off 10%	<ul style="list-style-type: none"> <li>• Oil price impacted demand during 2015. Expect less impact in 2016 (assuming oil price doesn't plummet further) on demand side albeit pricing still weakening given market capacity remaining at all time highs</li> <li>• Demand for liability product remains stable</li> </ul>
Energy Gulf of Mexico	Rates off 10%	<ul style="list-style-type: none"> <li>• Oil price impacted Deepwater demand less given majority of portfolio on a multi-year basis and purchase often lender driven</li> </ul>
Marine	Rates off 5% – 10%	<ul style="list-style-type: none"> <li>• Cruise liner clients benefit from low oil price</li> <li>• Falling commodity prices impacting cargo portfolio</li> <li>• Stable demand from the International Group</li> </ul>
Terrorism & Political Risks	Rates off 5% – 10%	<ul style="list-style-type: none"> <li>• Global political uncertainty maintains demand for product</li> <li>• Falling commodity prices impacting Sovereign risk demand</li> </ul>
Property Direct & Facultative	Binder rates off 2.5% to 7.5% Open Market rates off 10% to 15%	<ul style="list-style-type: none"> <li>• Binder portfolio very stable with only single digit rate reductions</li> <li>• Open market risks very competitive as hungry markets compete for market share</li> </ul>
Aviation AV52	Rates off 5% - 10%	<ul style="list-style-type: none"> <li>• Demand stable</li> </ul>
Aviation Reinsurance	Rates off 10%	<ul style="list-style-type: none"> <li>• Competitive landscape</li> <li>• M&amp;A reducing client base</li> </ul>
Aviation War & General Accident	War rates flat General Accident rates off 10% - 15%	<ul style="list-style-type: none"> <li>• First signs of change following two years of war losses with broker line-slips attracting significantly less capacity</li> </ul>

# General market update: 2015 upstream energy market

## Upstream Energy Market

Estimated premium	\$2.0bn to \$2.5bn
Estimated losses	\$3.5bn to \$4.0bn
Upstream energy market 2015 loss ratio	140% to 200%
Group estimated market share (based on premium written)	Gross 6.7% to 8.3% / Net 5.1% to 6.3%
Group 2015 accident year losses	Gross \$92.4m, Net \$91.4m
Group market share of losses – net loss basis	2.3% to 2.6%
Group 2015 net loss ratio	40%
Group 2015 combined ratio <sup>(1)</sup>	75%
Group inception to date combined ratio <sup>(1)</sup>	59%

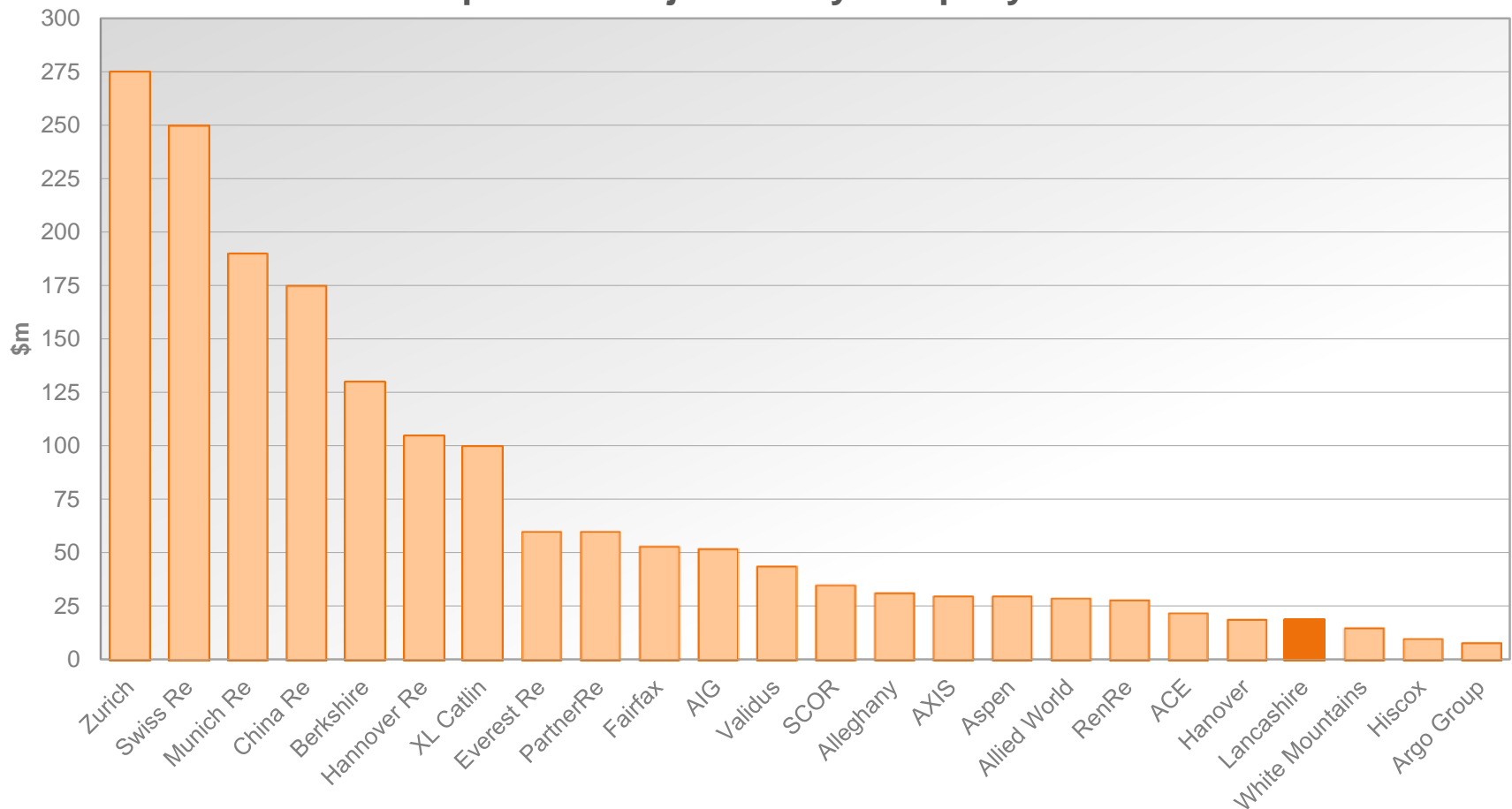
## Upstream Energy Market Large Losses Avoided (>\$50m)

Fire Offshore Platform Complex Mexico	\$1.3bn
Leg Punch Through Jack-Up Offshore Mexico	\$240m
Well Blow out Offshore Falkland Island	\$90m
Well Blow out Offshore Qatar	\$80m
Leg Punch Through Jack-Up Offshore Qatar	\$60m

<sup>(1)</sup> Excluding G&A expenses

# General market update: Tianjin

Reported Tianjin loss by company <sup>(1)</sup>



- One of the most costly man-made insured losses ever. Lancashire once again performed well with no surprise exposure; conservatively reserved
- Lancashire avoided accumulation of risk, unlike some of the larger (re)insurers, due to superior risk selection, strong risk management procedures and internal controls, including the UMCC & RRC

<sup>(1)</sup> Source: D&P Analysis, Company Reports

# Kinesis Capital Management Indicative Results

	Mean loss scenarios (10% EL)			No loss scenarios		
	Limit of \$300m <sup>(1)</sup>	Limit of \$500m <sup>(1)</sup>	Limit of \$1B <sup>(1)</sup>	Limit of \$300m <sup>(1)</sup>	Limit of \$500m <sup>(1)</sup>	Limit of \$1B <sup>(1)</sup>
Lancashire investment <sup>(2)</sup>	24.2	40.4	80.8	24.2	40.4	80.8
RoL (net)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
RoE contribution, <u>excluding</u> PC <sup>(3)</sup>	0.2%	0.4%	1.1%	0.3%	0.6%	1.4%
RoE contribution, <u>including</u> PC <sup>(3)</sup>	0.3%	0.7%	1.7%	0.8%	1.4%	3.1%
<b><u>Current year earnings (\$m) <sup>(1)</sup></u></b>						
Underwriting fees	4.9	8.1	16.3	4.9	8.1	16.3
G&A costs <sup>(4)</sup>	(4.3)	(5.1)	(5.9)	(4.8)	(6.5)	(9.2)
LHL equity pickup <sup>(5)</sup>	2.3	3.8	7.7	4.6	7.8	15.6
Net CY contribution to LHL, after NCI	2.4	6.2	17.4	4.2	8.8	21.7
<b><u>Subsequent year earnings (\$m)</u></b>						
Profit commissions	2.6	4.3	8.7	7.6	12.6	25.2
Total profit contribution	5.0	10.5	26.1	11.8	21.4	46.9

<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

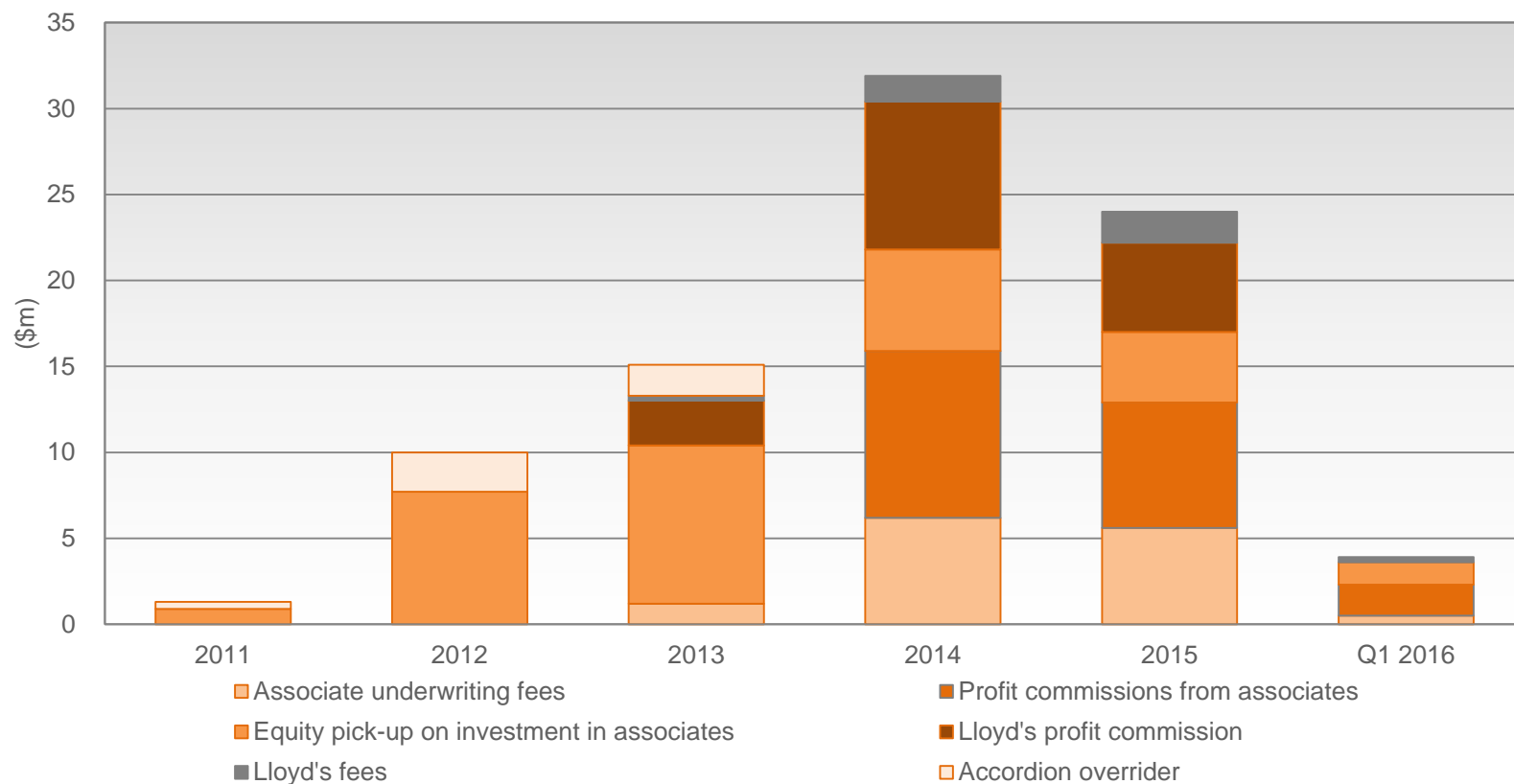
<sup>(2)</sup> LHL's investment is 10% of the underlying risks in aggregate, up to a maximum of \$100m invested through co-investment alongside third-party investors or co-insurance

<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

## Third party capital: Fee income



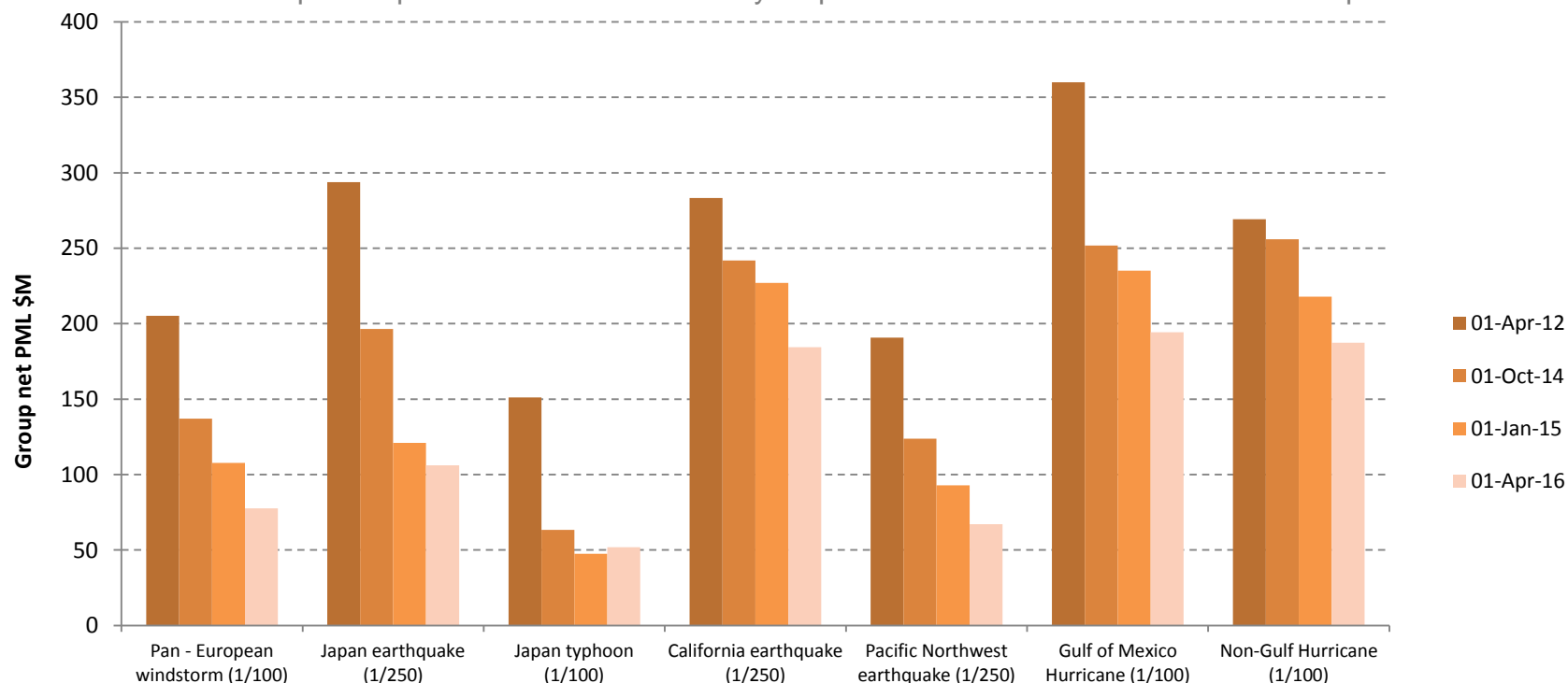
- Kinesis profit commissions of \$1.8 million earned in Q1 2016 on January 2015 underwriting cycles. Assuming no further losses we expect an additional \$4.2 million later in 2016
- Assuming mean losses for the remainder of the July 2015 underwriting cycle, we will receive an additional \$0.7 million of profit commission
- Assuming mean losses for the remainder of the January 2016 underwriting cycle, we would receive approximately \$2.6 million of profit commission in 2017. A no loss scenario would produce \$5.6 million

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



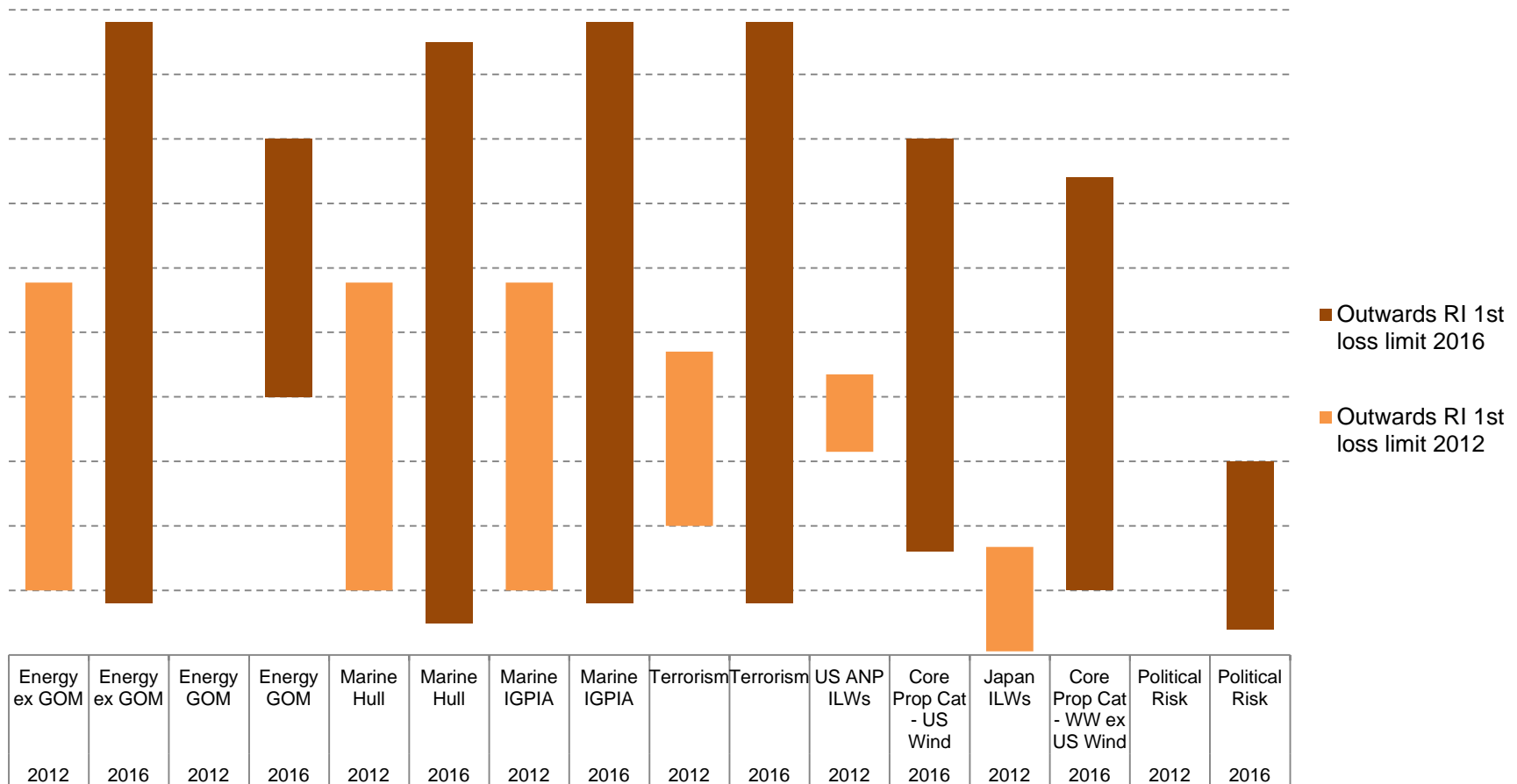
The Group has developed the estimates of losses expected from certain catastrophes for its portfolio of property and energy contracts using commercially available catastrophe models, which are applied and adjusted by the Group. These estimates include assumptions regarding the location, size and magnitude 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. 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

# Exposure management – Increasing RI purchases

## Lancashire first loss XL limit 2012 vs 2016



Terror Metro and Non Metro excludes terror pools

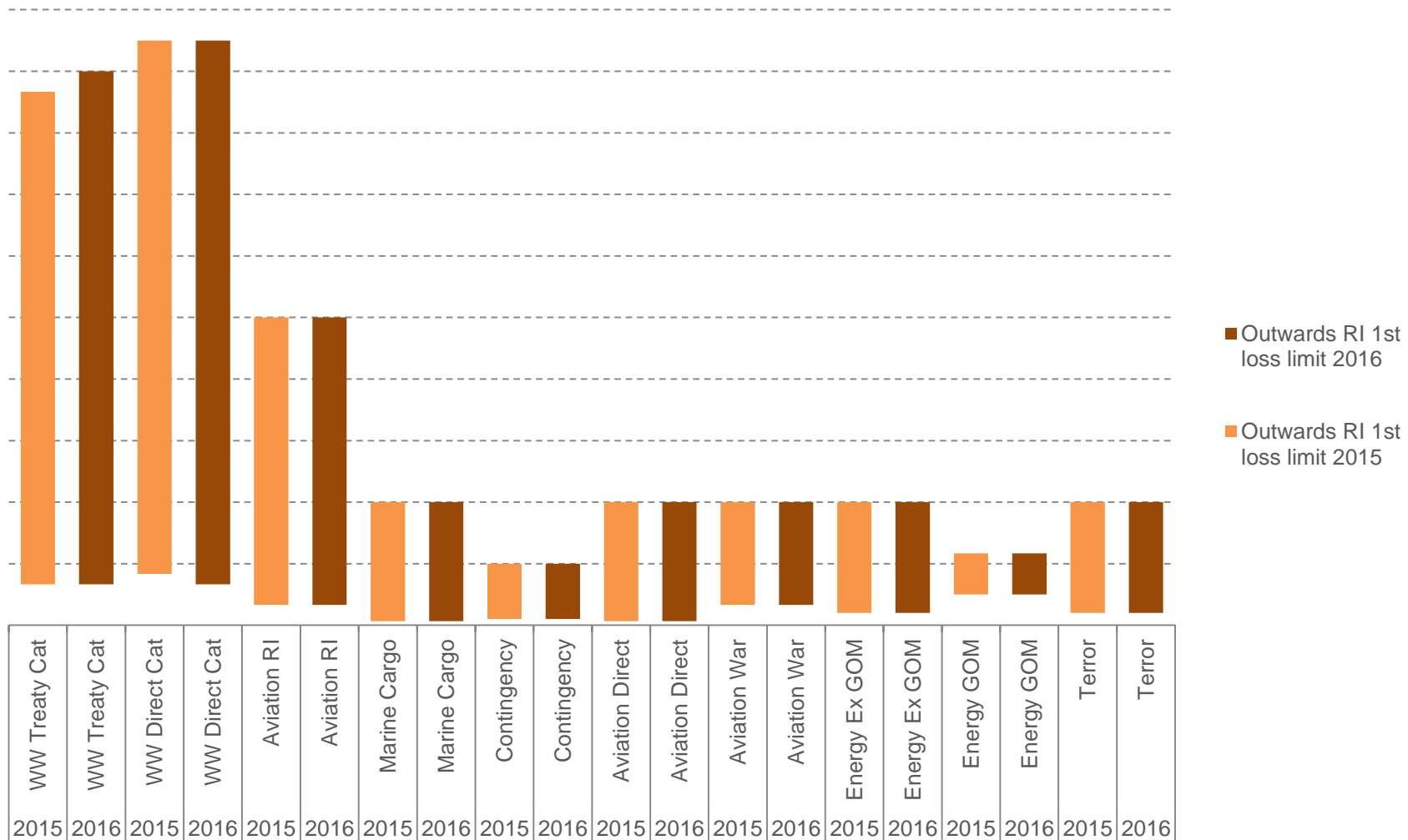
First loss limit purchased by Lancashire on an excess of loss basis, excluding ILWs, quota shares, cessions to side cars, facultative purchases and reinstatements

Excludes Cathedral's reinsurance



# Exposure management – Increasing RI purchases

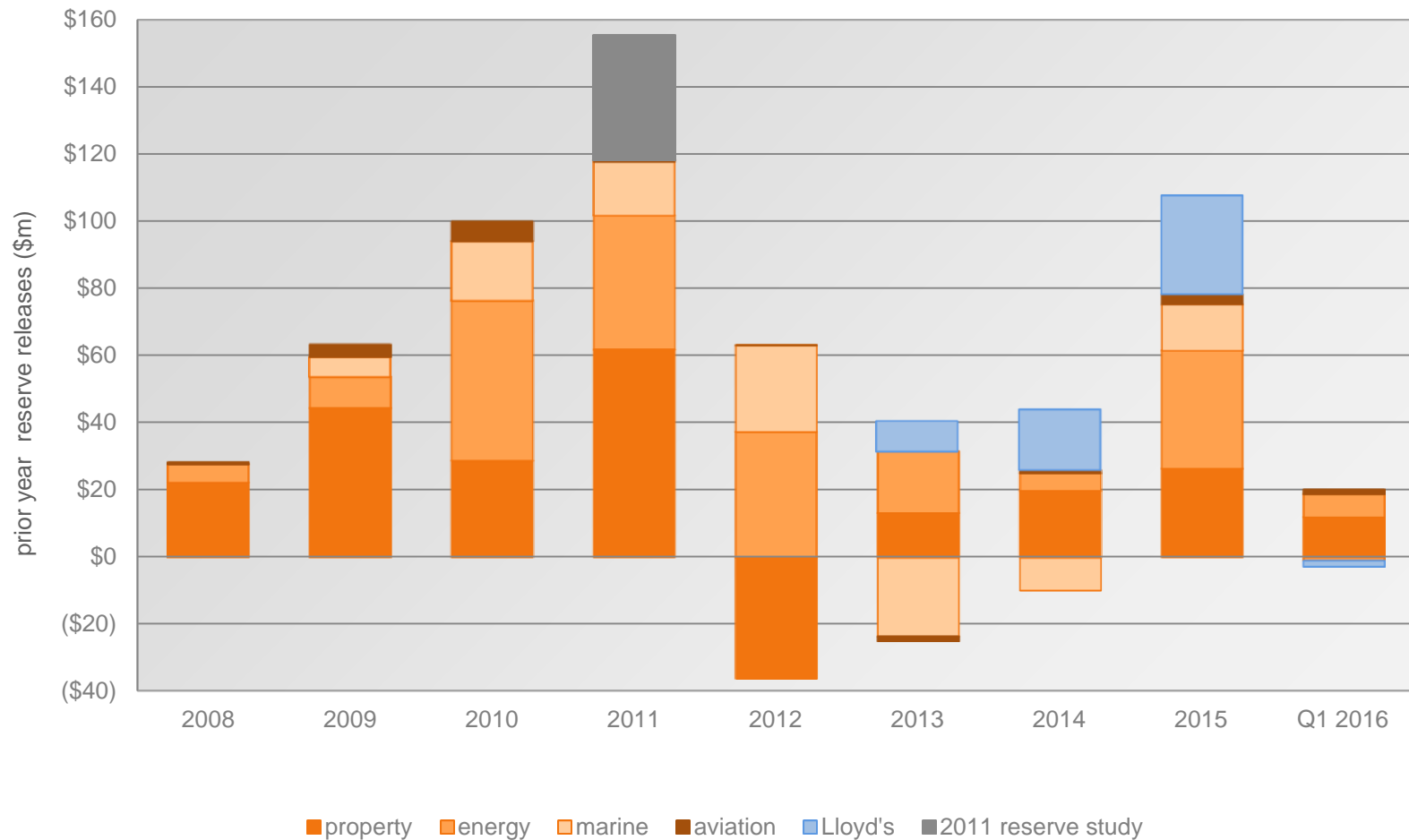
## Cathedral first loss XL limit 2015 vs 2016



First loss limit purchased by Cathedral on an excess of loss basis, excluding ILWs, quota shares, cessions to sidecars, facultative purchases and reinstatements

# Reserve adequacy

## Consistent favourable reserve development <sup>(1)</sup>



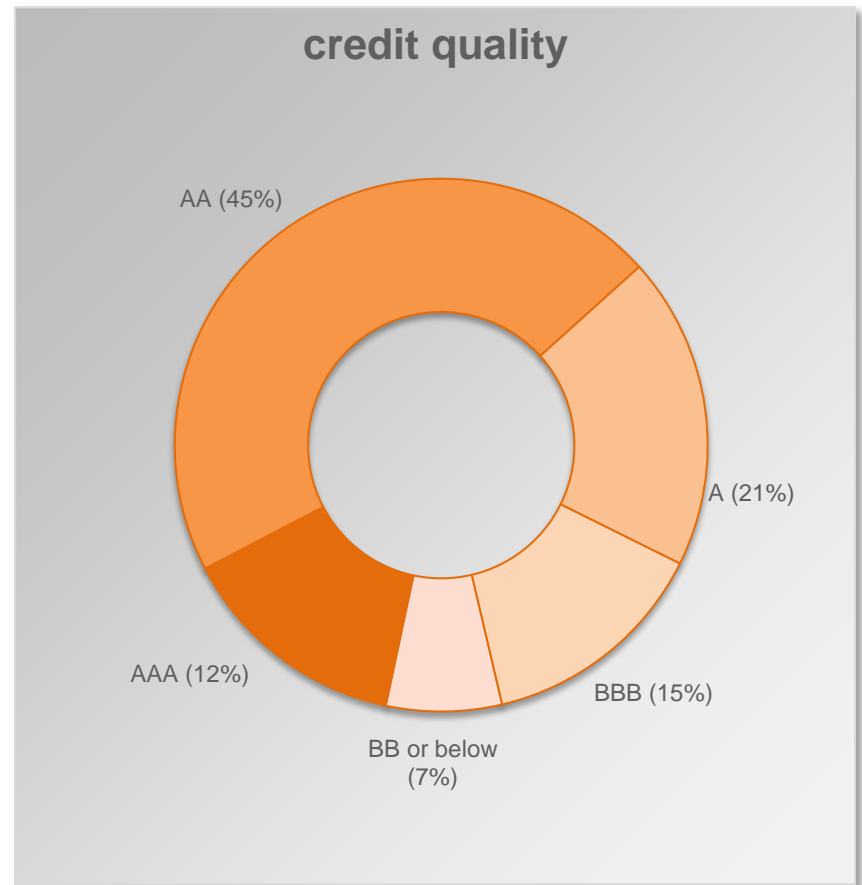
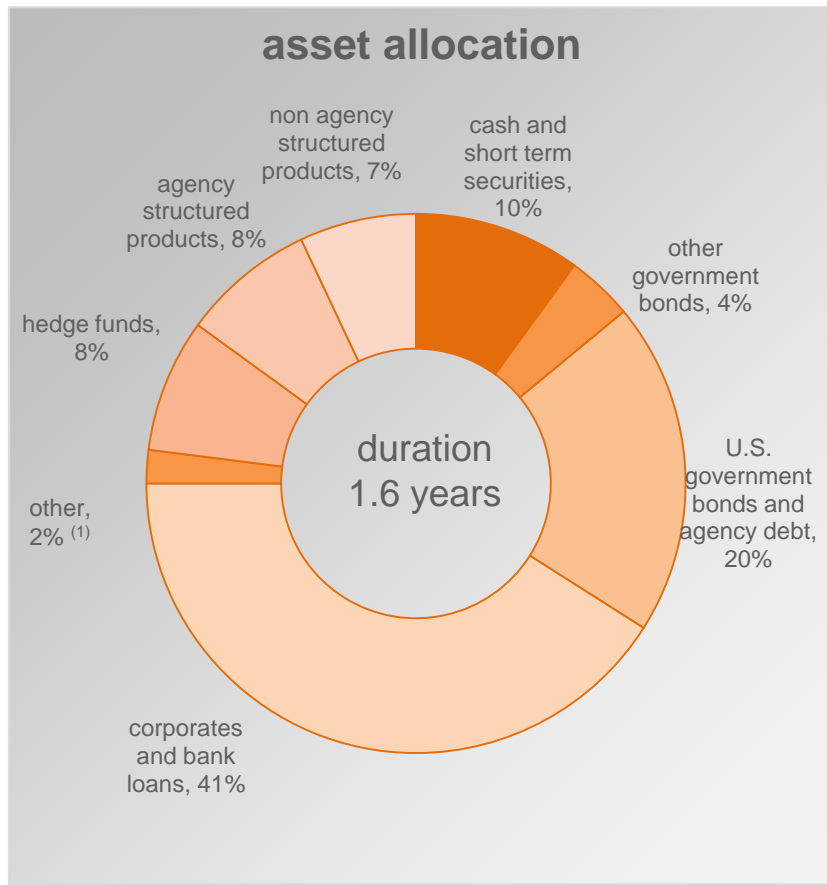
<sup>(1)</sup> Excludes the impact of foreign exchange revaluations.

# Effectively balance risk and return – investment philosophy

- **Our market outlook remains subdued**
  - The U.S. economy continues to grow at modest levels
  - Global growth concerns in early 2016 caused notable volatility in credit and equity markets
  - Central bank policies, geopolitical events, and oil price volatility 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 in anticipation of gradual increases in U.S. interest rates over the next few years
  - Mitigate interest rate risk:
    - ✓ Hold floating rate notes and non-fixed income securities
    - ✓ Maintain an allocation to a low volatility hedge fund portfolio, diversifying the overall investment portfolio
    - ✓ Short five-year treasury futures overlay used to protect the investment portfolio from a rise in interest rates, reducing duration by 0.3 years
  - 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

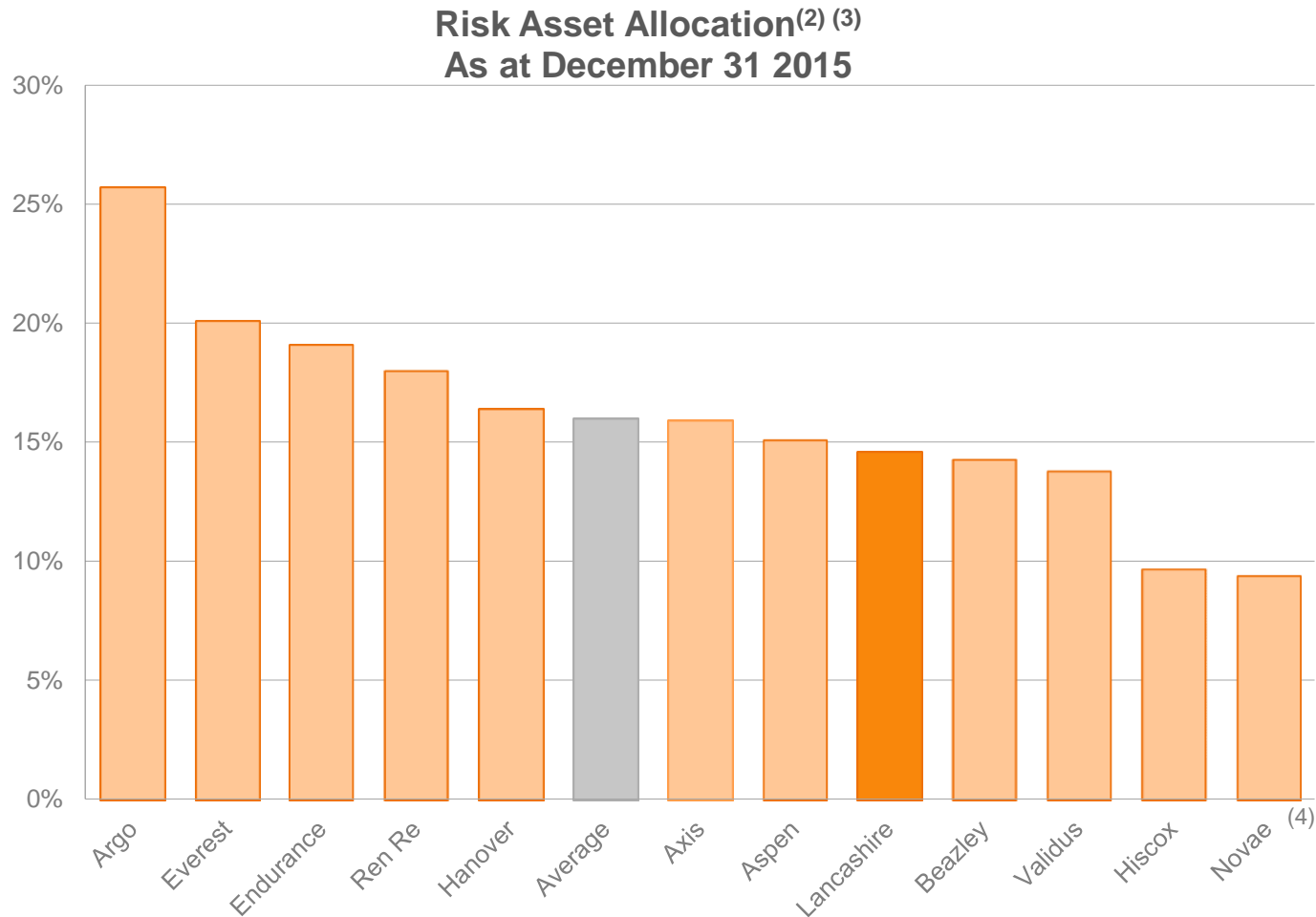
## Capital preservation and interest rate risk management



- Total portfolio at 31 March 2016 = \$1,954million
- Average portfolio credit rating of A+ (including internally managed cash)

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

# Risk asset levels remain below peer group<sup>(1)</sup> average



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

<sup>(2)</sup> Risk assets include: equities, hedge funds, private equities and bonds below investment grade

<sup>(3)</sup> Risk assets as a percentage of total cash and investments

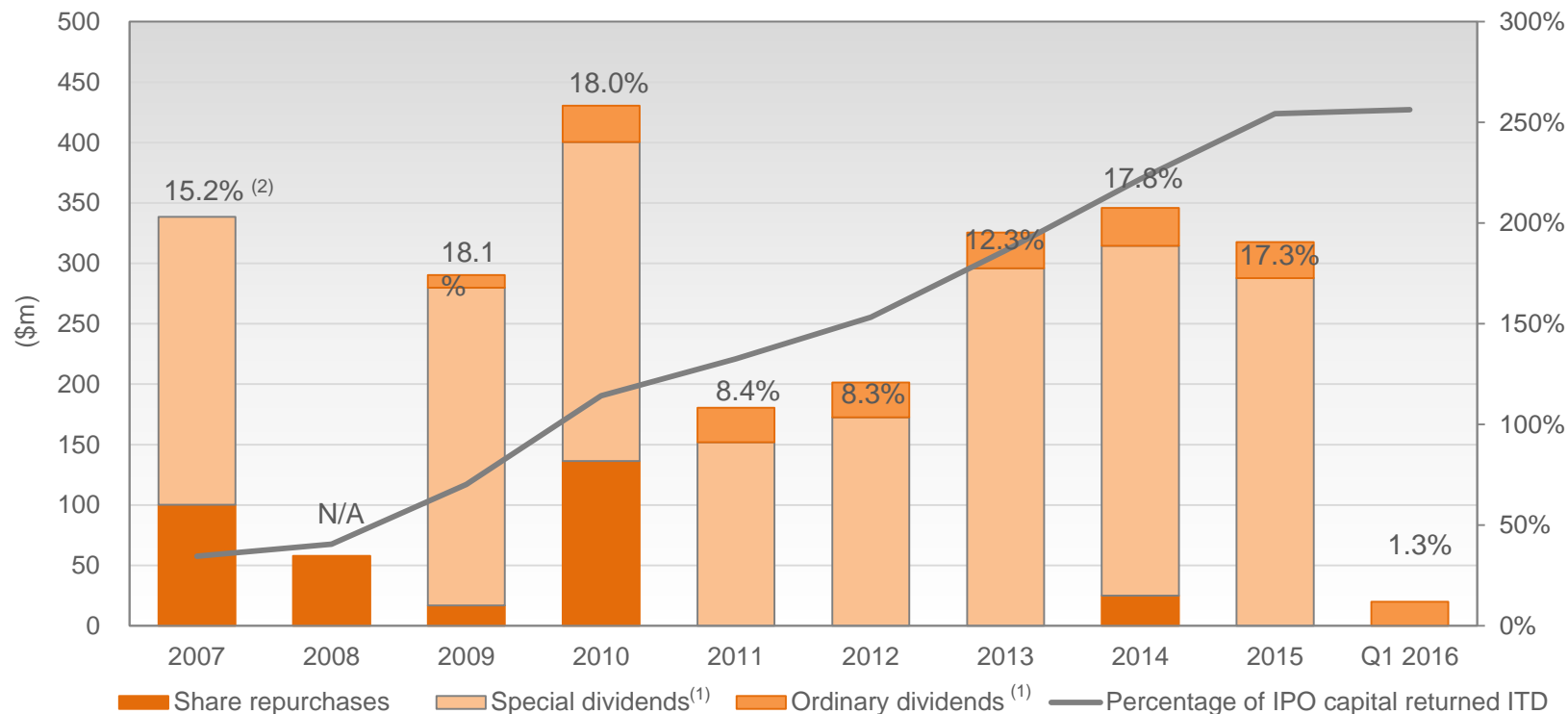
<sup>(4)</sup> Novae does not disclose the allocation to non-investment grade bonds and is therefore assumed to be zero

Operate *nimbly*  
through the cycle



# Operate nimbly through the cycle

## proven record of active capital management



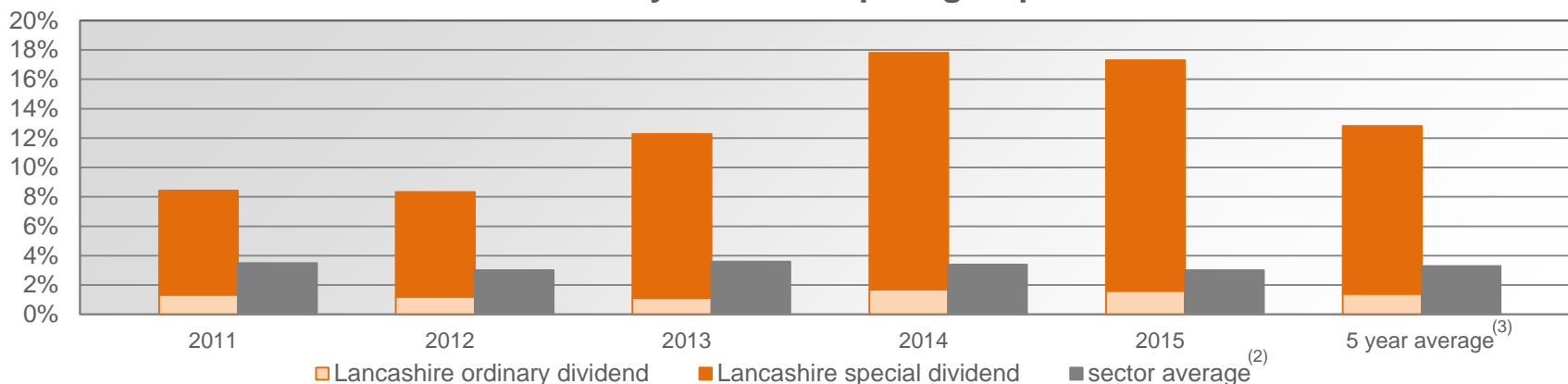
**256.3% of original IPO share capital has been returned to shareholders**

<sup>(1)</sup> Dividends included in the financial statement year in which they were recorded

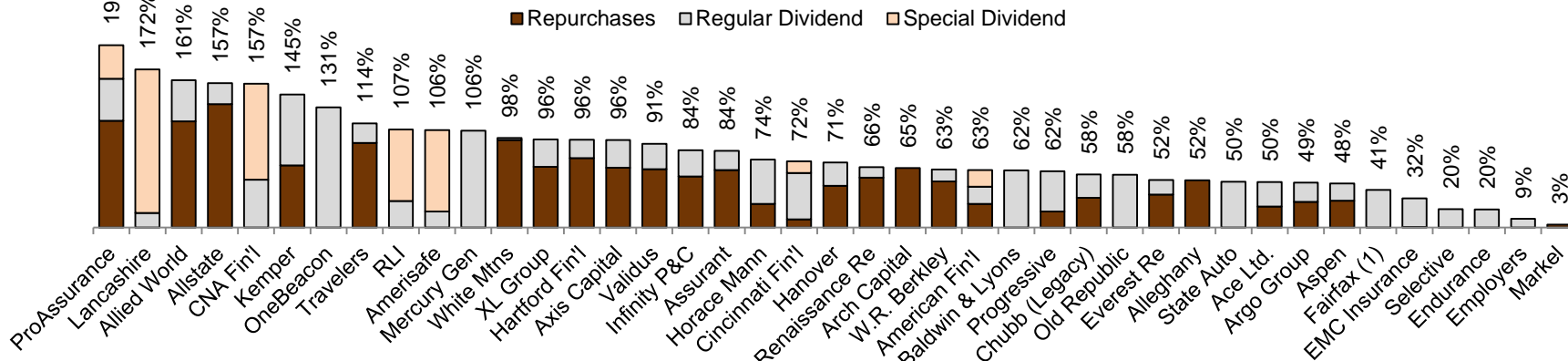
<sup>(2)</sup> Dividend yield is shown above the data in the chart area. Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price. Q1 2016 dividend yield uses the share price at 31 March 2016

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

Dividend yield versus peer group



2015 Capital Returned As % Of Operating Earnings



Source: Company Reports, Dowling and Partners; Excludes AIG - Rep: 365%, Reg. Div: 35%, Total 400%; (1) Based On Net Earnings; PF - Pro-forma; Includes Estimates For IPCC, AMSF

<sup>(1)</sup> 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

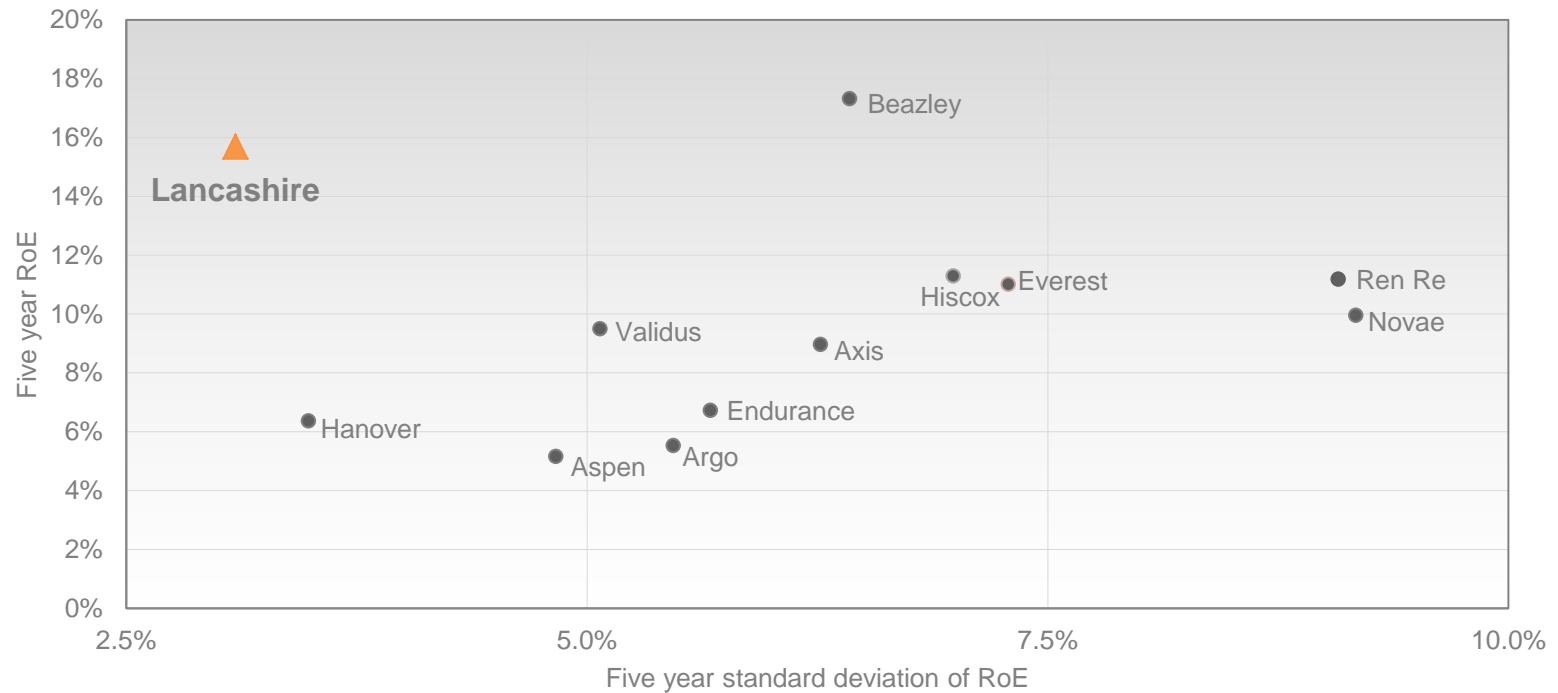
<sup>(2)</sup> Sector includes Argo, Aspen, Axis, Beazley, Endurance, Everest, Hanover, Hiscox, Novae, Renaissance Re and Validus

<sup>(3)</sup> 5 year average based on the 2011 to 2015 reporting periods



# Consistency: Total value creation (TVC)

Five year standard deviation<sup>(1)</sup> in TVC



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

<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 1 January 2011 through 31 December 2015. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. Lancashire RoE calculation excludes the impact of warrant exercises. For Argo, Beazley, Everest, Hiscox, Novae and Ren Re, basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports

# Sticking to our *game plan*

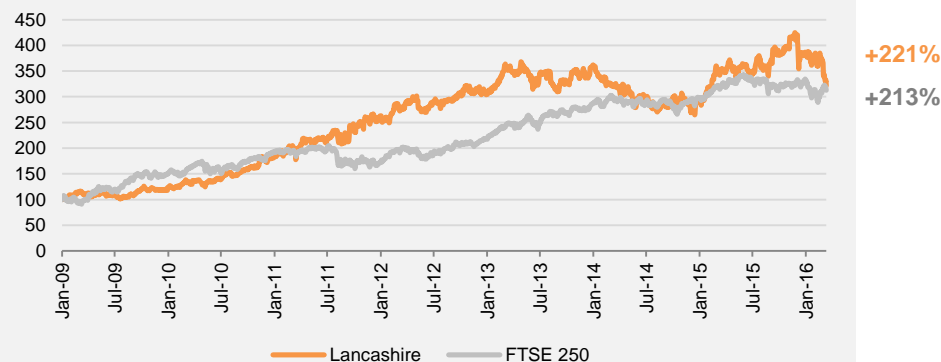


# Conclusion

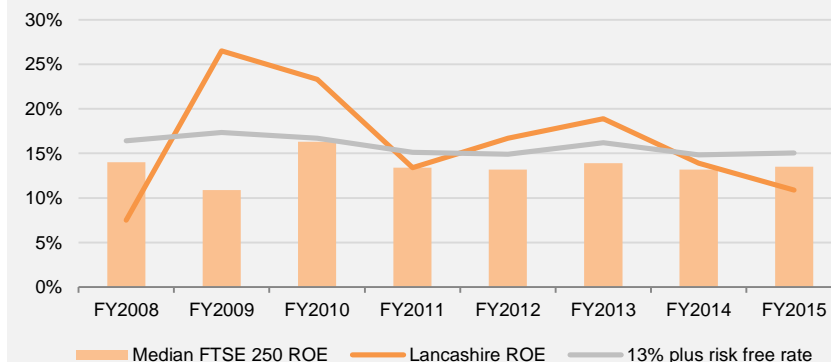
- Lancashire has one of the **best performances** and yet the **lowest volatility** in the London and Bermudian markets
- Our strategy is designed to cope with hard and soft markets, managing capital and exposures to provide superior risk-adjusted returns across the cycle
- Group management is fully integrated and has decades of experience in rated company, Lloyd's and collateralised markets
- Group profitability is not overly dependent 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

# Lancashire versus the FTSE 250

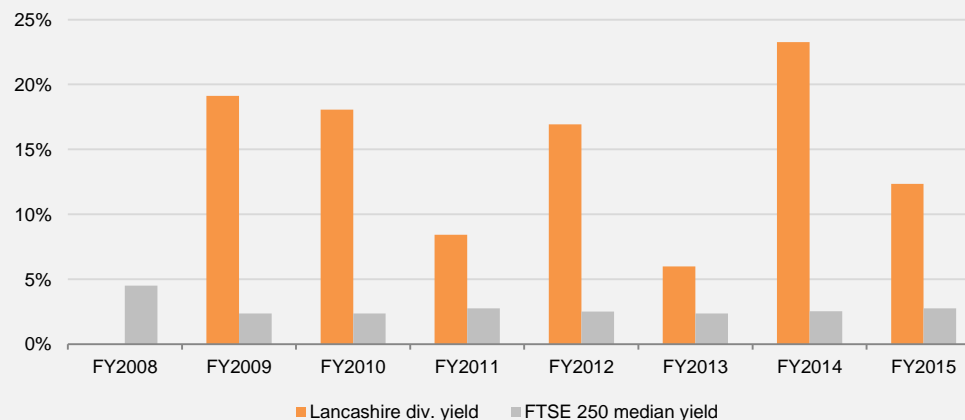
Total shareholder return<sup>(1)</sup>



Return on equity<sup>(2)</sup>



Dividend yield<sup>(3)</sup>



<sup>(1)</sup> Assuming gross dividends reinvested. Source: Datastream. ROE calculated excluding warrants

<sup>(2)</sup> Risk free rate represents the yield on the three month Treasury Bill. Source: Thomson Reuters and Company reports

<sup>(3)</sup> 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

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

### Lancashire total shareholder return vs. major index returns

