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HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Investor Presentation
Q4 2017

March 2018
www.lancashiregroup.com

Safe harbour statements

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Lancashire Group - Sticking to the Strategy, Managing the Cycle

- "Lancashire's strategy since day one has always been to write more exposure in a hard market and less in a soft one. There are now abundant reinsurance and retrocession opportunities that allow us to maintain our core insurance and reinsurance portfolios both servicing the requirements of our clients and the broker community, whilst significantly reducing net exposures and protecting risk adjusted returns. From our peak exposures in April 2012, when losses had driven substantial market hardening, we have reduced exposures across the board. With the rates hardening after 2017 catastrophes the portfolio will benefit from the rate increases from its core account and we will write new business opportunistically without materially changing net exposures. The market would need to get closer to 2012 prices to increase exposures materially. 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 Lancashire's London and Bermuda market operations, the Kinesis and the Cathedral Lloyd's platforms there are multiple ways to maintain or enhance the portfolio

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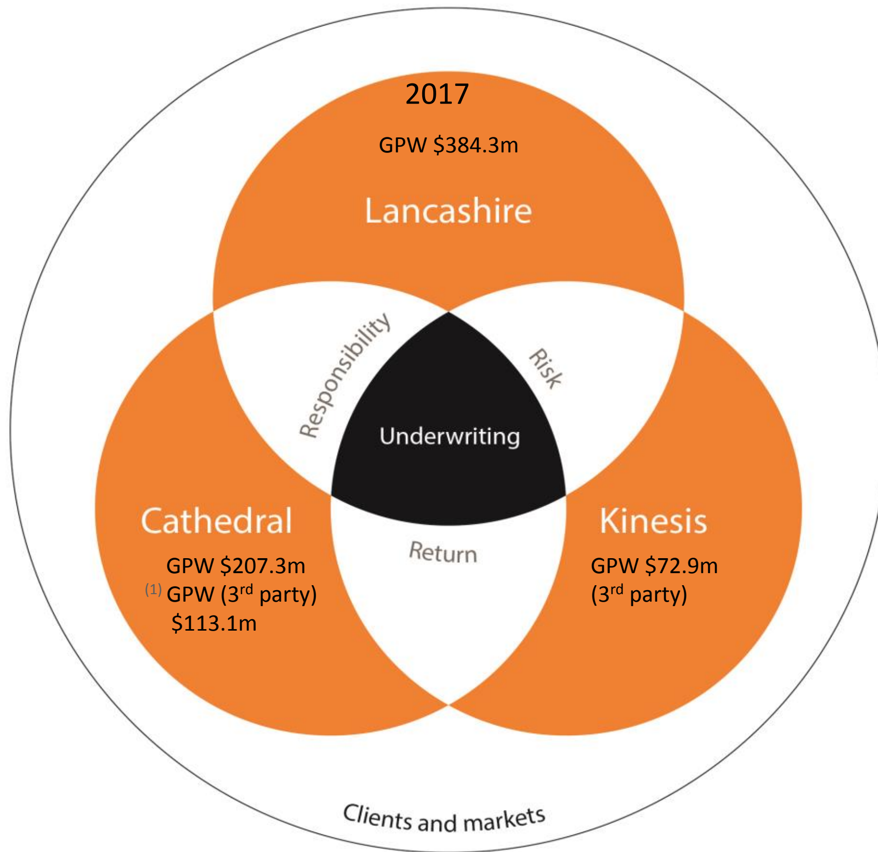
Lancashire Group - The power of three platforms



Lancashire

- ✓ **High layers with high deductibles** differentiate market position and drive low attritional loss ratios
- ✓ **Lower number of large contracts** and single exposures provide greater underwriting control
- ✓ Consistent strategy and transparent risk appetite make Lancashire **an important underwriter for key brokers**

Cathedral

- ✓ **Low-severity loss exposures and smaller line sizes** drive increased diversification
- ✓ **Lloyd's extensive global network and infrastructure** offer distribution advantages
- ✓ **Long-standing client relationships**, driving good knowledge of underlying risks

Kinesis

- ✓ **Ability to scale-up opportunistically** based on market dislocations, delivering speed to market advantage
- ✓ **Large line multi-class reinsurance** on a collateralised basis remains in demand and with limited supply

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

(1) Additional premium managed on behalf of third party Names

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Lancashire Group - Proven strategy for long term success

✓ **Underwriting comes first – UMCC** (Underwriting Marketing Conference Call)[(1)]

- Underwriting excellence is key to delivery
- Unique underwriting approach
- Over 12 year track-record of consistent combined ratio out-performance
- Risk selection and portfolio construction

✓ **Effectively balance risk and return – RRC** (Risk and Return Committee)

- Strategic overview of risk
- Active management of exposures

✓ **Operate nimbly through the cycle**

- Proven ability to manage risk / return dynamic via re-underwriting, risk selection, de-risking and M&A
- Three platform strategy enabling diversified access and a quick response to market events

✓ **Disciplined capital deployment**

- Commitment to total shareholder returns, not growth and volumes
- Track record of active management via special dividends and buybacks when appropriate

(1) The UMCC is a call for Lancashire Insurance companies (LICL and LUK) only

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Overview of Lancashire: our 12 year history

2005: LHL Incorporated; AM Best assigns A- rating; IPO & listing on AIM

2009
- Listing on LSE
- Inclusion in FTSE 250 index

2011
- Accordion sidecar launched
- AM Best upgrade to A rating
- Significant peer[3] outperformance in 2nd largest aggregate loss year in history

	2005	2006	2007	2008	2009	2010	2011
Combined ratio	n/a	44.3%	46.3%	86.3%	44.6%	54.4%	63.7%
Dividend yield [1]	n/a	n/a	15.2%	n/a	18.1%	18.0%	8.4%
Return on Equity [2]	(3.2%)	17.8%	31.4%	7.8%	26.5%	23.3%	13.4%
Tangible capital	$1.1bn	$1.3bn	$1.3bn	$1.4bn	$1.5bn	$1.4bn	$1.5bn
No. of employees	5	57	79	91	101	103	115

2006
- Sirocco sidecar launched
- London office opened

2008
- Hurricane Ike
- Credit crisis – investment return 3.1%

2010
- S&P assign A- rating, ERM rating adequate with strong risk controls
- Moody's assign A3 rating

(1) Dividend yield is calculated as the total calendar year cash dividends divided by the year end share price
(2) RoE excludes the impact of warrant exercises
(3) 2011 peer group included Amlin, Aspen, Axis, Beazley, Catlin, Endurance, Flagstone, Hiscox, Montpelier, Renaissance Re and Validus

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Overview of Lancashire: our 12 year history

2013
- Purchase of Cathedral Capital Limited
- Launch of Kinesis Capital Management, Kinesis Re and Kinesis Holdings

2015
- Syndicate 3010 capacity expanded to £100 million

2017
- Hurricanes Harvey, Irma & Maria, Mexico earthquakes and California wildfires
- Total shareholder return of 9.4% in one of the top three years for aggregate industry insured losses in recent history

	2012	*2013*	*2014*	*2015*	*2016*	*2017*
Combined ratio	*63.9%*	*70.2%*	*68.7%*	*72.1%*	*76.5%*	*124.9%*
Dividend yield [(1)]	*8.3%*	*12.3%*	*17.8%*	*17.3%*	*10.5%*	*1.6%*
Return on Equity[(2)]	*17.1%*	*18.9%*	*14.7%*	*13.5%*	*13.5%*	*(5.9%)*
Tangible capital	*$1.6bn*	*$1.6bn*	*$1.5bn*	*$1.4bn*	*$1.4bn*	*$1.3bn*
No. of employees	*104*	*169*	*185*	*192*	*198*	*204*

2012
- Rollover of Accordion sidecar
- Saltire facility launched
- Issued $130 million of 5.7% senior unsecured notes due 2022

2014
- Alex Maloney appointed as CEO
- Syndicate 3010 capacity added Energy and Terror
- Accordion and Saltire placed in run-off

2016
- Hired new management team for Cathedral and a new underwriting team for Cathedral Property Catastrophe and D&F portfolios

(1) Annual dividend yield is calculated as the total calendar year cash dividends divided by the year end share price

(2) RoE excludes the impact of warrant exercises

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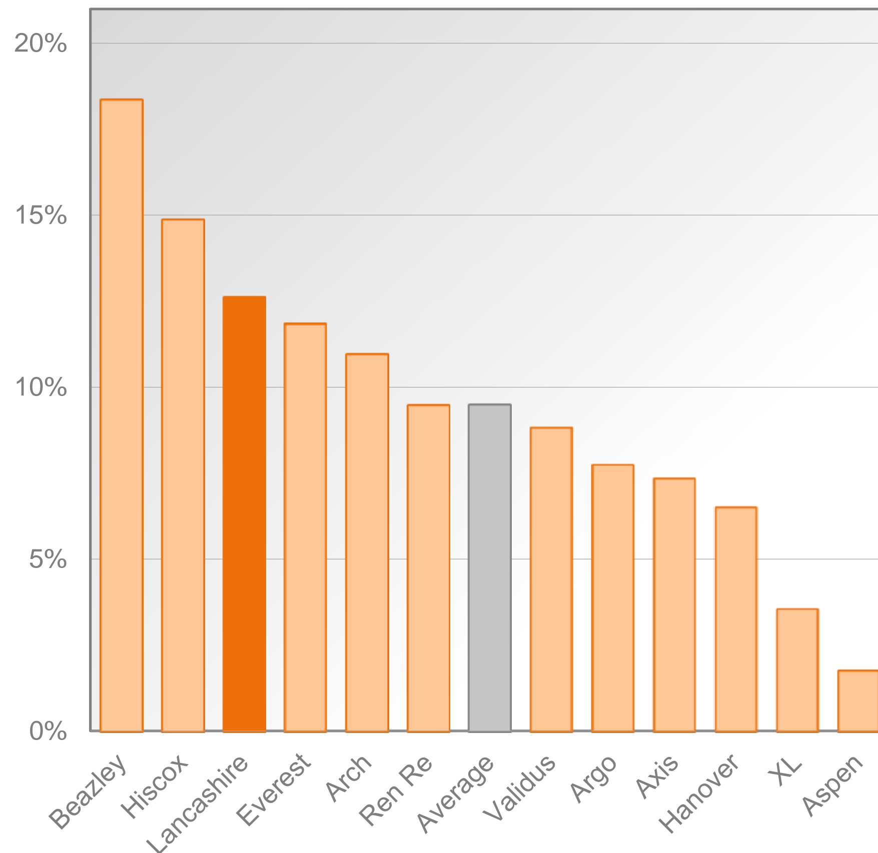
Our long-term performance is one of the most consistent in our peer group (1)

RoE ranking in peer group (1)

Company (2)	2013	2014	2015	2016	2017	5 yr avg
Beazley	1	1	1	2	2	1
Hiscox	2	2	2	1	6	2
Everest	5	3	6	4	4	3
Arch	7	5	8	3	1	4
Lancashire	**4**	**4**	**3**	**5**	**10**	**5**
Ren Re	3	6	4	7	11	6
Validus	6	8	5	9	7	7
Axis	8	7	7	8	9	8
Argo	9	12	10	6	5	9
Hanover	10	10	9	11	3	10
XL	11	11	12	10	8	11
Aspen	12	9	11	12	12	12

5 year compound annual RoE (3)



(1) Peer group as defined by the Board. RoE calculated as the internal rate of return of the change in FCBVS in the period plus dividends accrued. For Arch, Argo, Beazley, Everest, Hanover, Hiscox and Ren Re, basic book value per share is used as FCBVS is not reported by these companies. Source: Company reports

(2) Companies listed in order of average annual RoE ranking for the years 2013 - 2017. Average ranking calculated as the sum of annual rankings for each year divided by five years. Lancashire RoE calculated excluding the impact of warrant exercises.

(3) Lancashire RoE calculated excluding the impact of warrant exercises from 1 January 2013 to 31 December 2017. Data for Lancashire and peers for the period 1 January 2013 through 31 December 2017.

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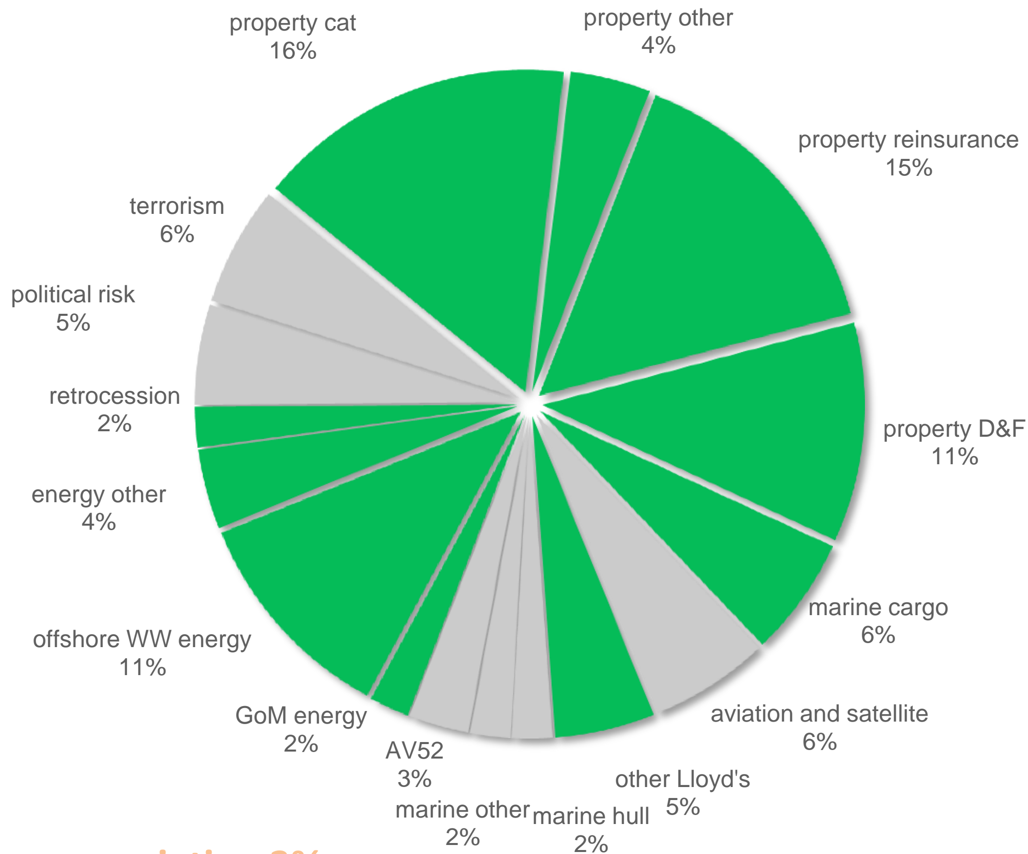
Underwriting comes *first*

Underwriting comes first: Group

59% insurance 41% reinsurance   40% nat-cat exposed 60% other



property 33%

Lloyd's 43%

energy 17%

aviation 3%

marine 4%

- In 2018 we began writing onshore energy and plan to expand into power class in May of this year
- Approximately 75% of our portfolio is now exposed to a positive rating environment. These classes are shaded in green above

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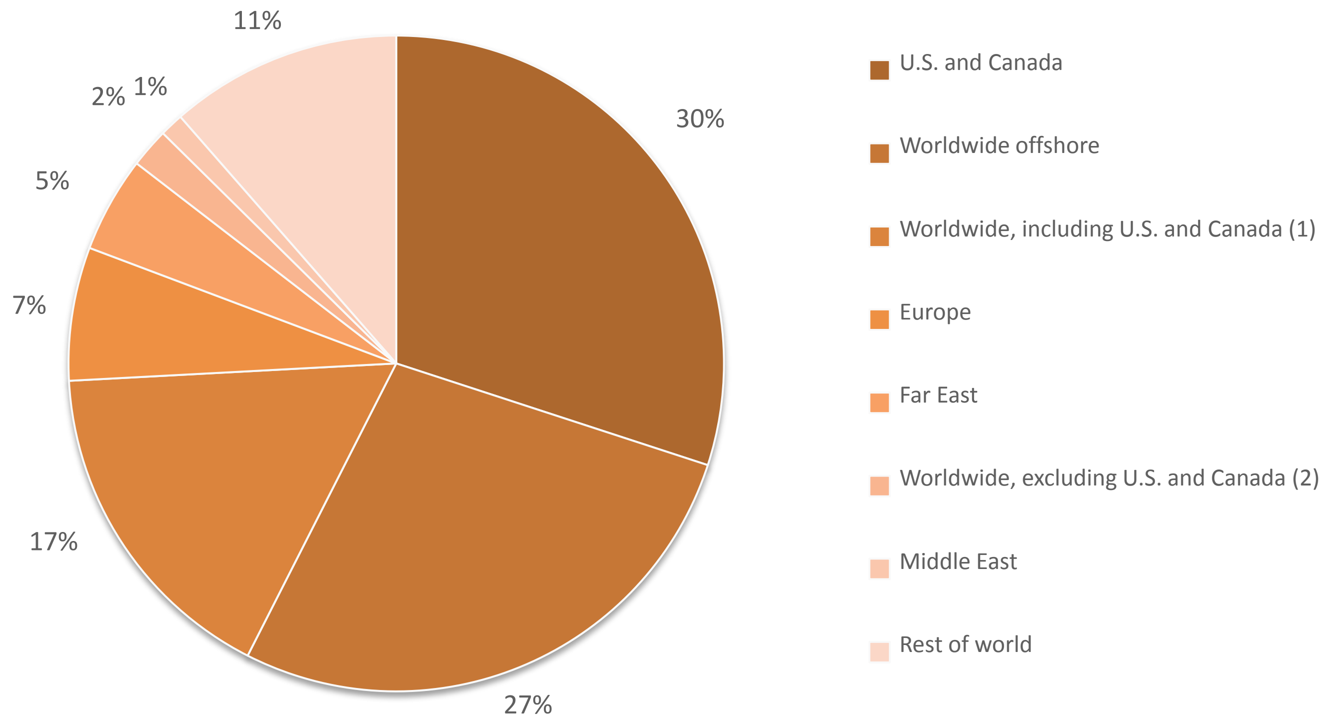
Geographic distribution



- U.S. remains top source of income, as appropriate for jurisdiction with largest insurance market and reinsurance spend
- However, good spread of risk worldwide, especially with LUK energy offshore, Cathedral D&F and 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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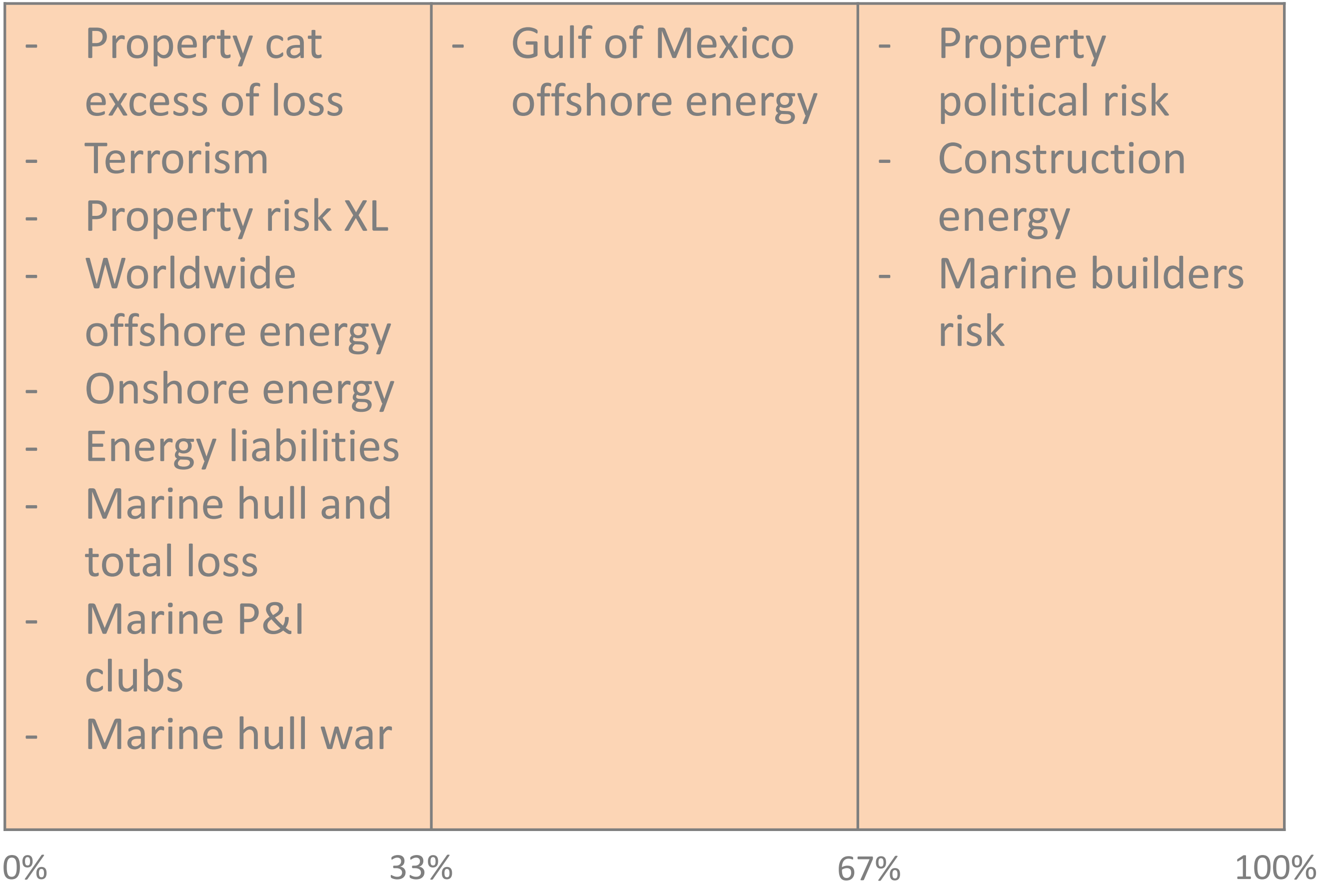
Underwriting comes first: Lancashire[1]



- Percentages are based on a 4 year average of 2014-2017 contracts

(1) Lloyd's premiums are excluded from this analysis. Lines of business are based on financial supplement categories. Non-annual premiums within all other lines of business are immaterial

(2) Non-annual contracts are defined as those greater than 13 months in length and include multi-year and non-renewable contracts

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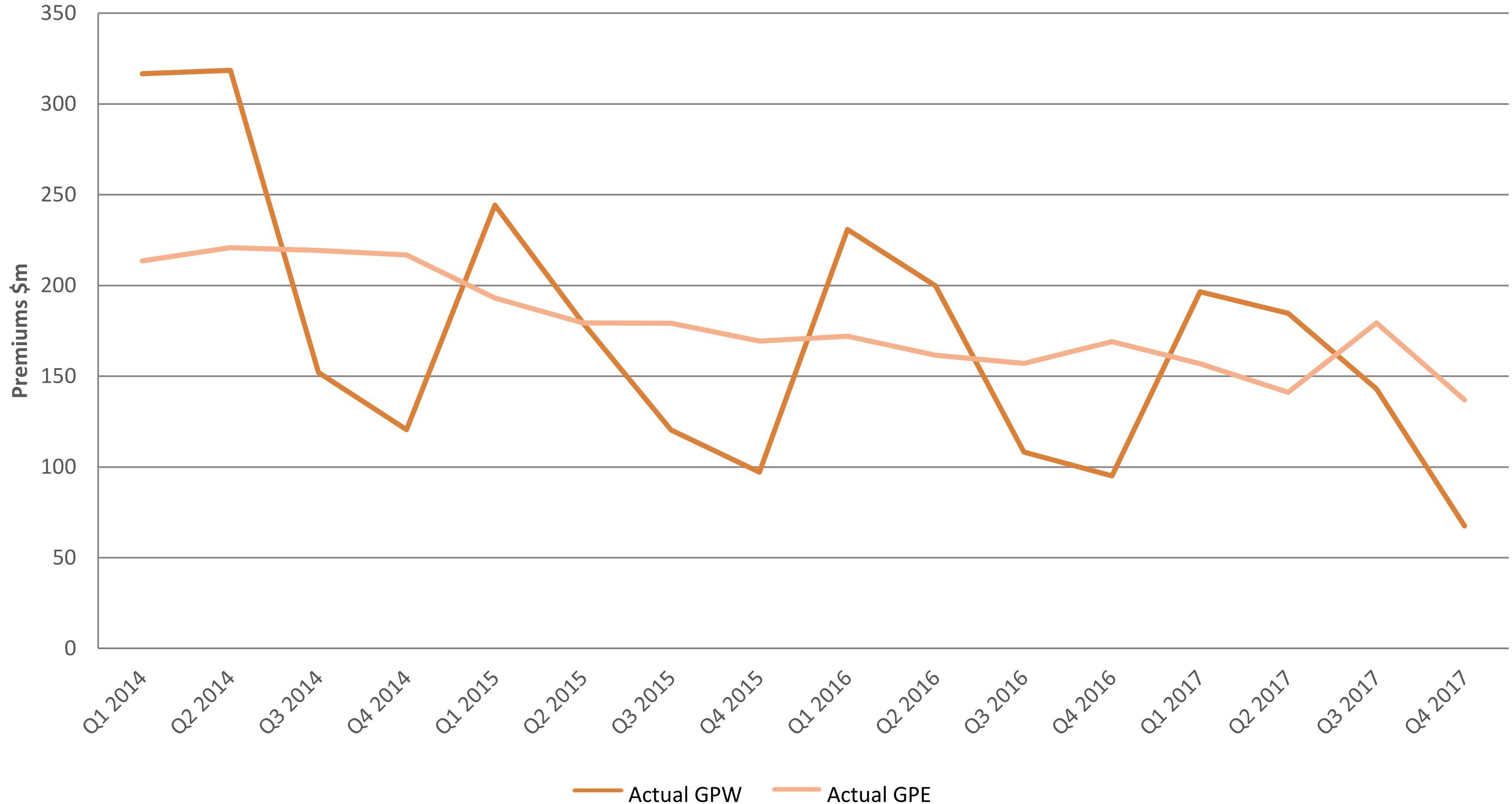
Underwriting comes first: Group



- Top line volatility driven by non-annual contracts and timing of renewals, but relatively stable earnings. Reduction in earnings over time reflects market pricing environment

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Overview of Lancashire – Our 10 year history

	2013	2014	2015	2016	2017	5 year Average (1)	10 year Average (1)
Loss ratio	33.1%	31.7%	27.5%	29.2%	78.4%	37.9%	35.6%
Acquisition cost ratio	22.1%	21.4%	25.8%	27.1%	27.0%	24.3%	21.2%
Expense ratio	15.0%	15.6%	18.8%	20.2%	19.5%	17.5%	14.0%
Combined ratio	70.2%	68.7%	72.1%	76.5%	124.9%	79.7%	70.8%
Sector combined ratio(2)	87.3%	87.3%	89.2%	91.6%	107.2%	93.2%	94.0%
Lancashire out-performance	17.1%	18.6%	17.1%	15.1%	(17.7%)	13.5%	23.2%

(1) 5 year average based on 2013 to 2017 reporting periods. 10 year average based on 2008 to 2017 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 (ten) years.

(2) Sector includes Arch, Argo, Aspen, Axis, Beazley, Everest, Hanover, Hiscox, Renaissance Re, Validus and XL. Source: Company reports.

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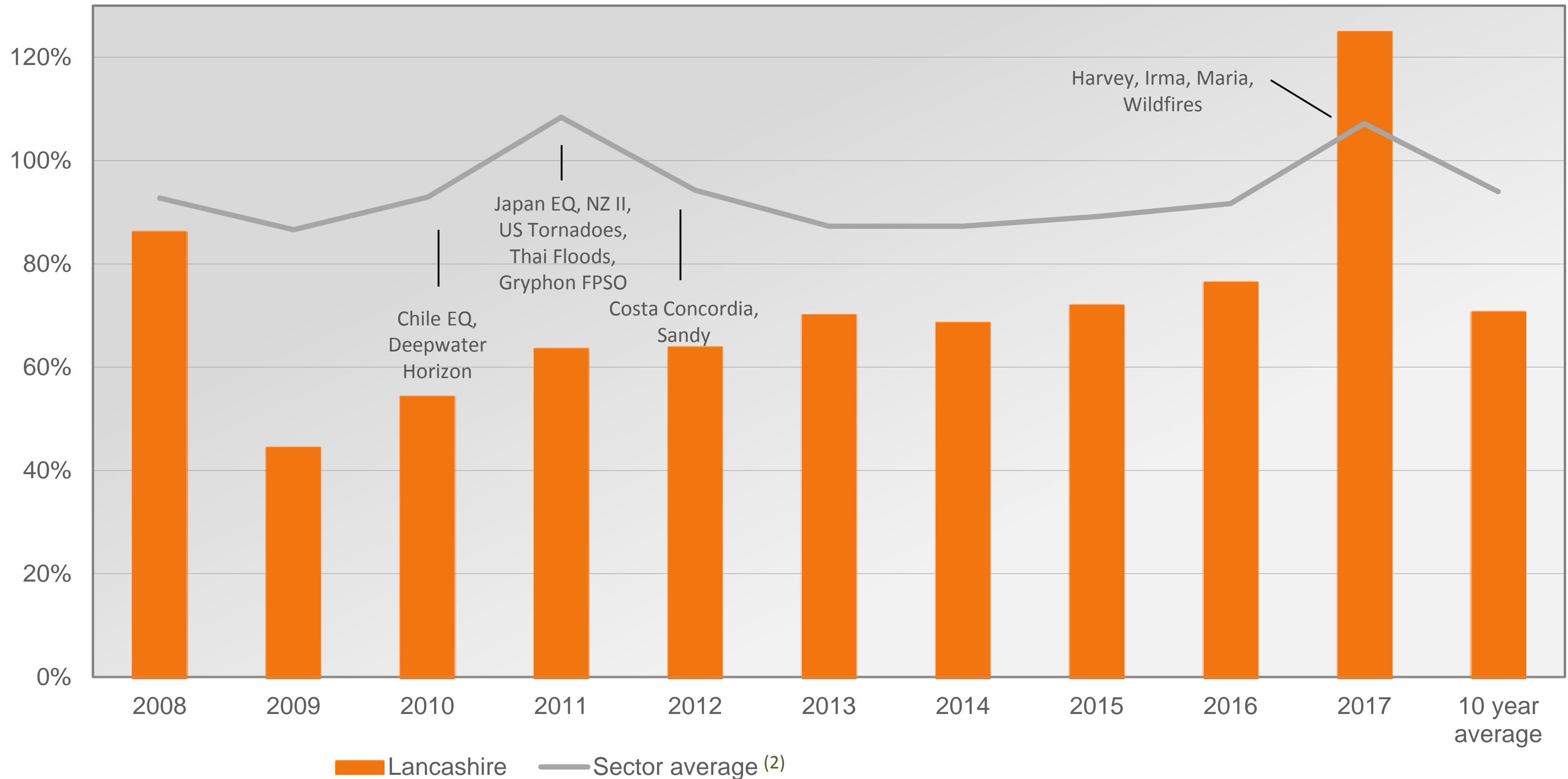
Our underwriting performance has been exceptional



(1) 10 year average based on 2008 to 2017 reporting periods. Lancashire ratios weighted by annual net premiums earned. Annual sector ratios are weighted by annual net premiums earned

(2) Sector includes Arch, Argo, Aspen, Axis, Beazley, Everest, Hanover, Hiscox, Renaissance Re, Validus and XL. Source: Company reports

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General market update

Class	Initial 2018 Rating Expectation	Market Dynamics
Property Reinsurance & Retrocession	International rates – flat to +5% USA rates – flat to +30% Retro rates – +5% to +40%	• Rate reductions have ceased, flat to small rises being seen on non loss-affected accounts but more material rises and in some cases restructuring on loss-affected business, as a result of HIM & Mexican EQ losses • Significant trapped funds for the collateralised markets but most have raised additional funds to deploy similar levels of capacity for 2018 • Overcapacity remains in the market place and as a result rate rises are lower than expectations • Positive outlook going forward although uncertainty around level of correction in 2018
Energy Onshore	Rates of between +5% to +10%	• HIM Natural Catastrophe losses appear relatively limited in Downstream class but HIM's impact on the general market plus significant other Downstream loss activity in 2017 has led to hardening of rates of between +5% to +10% • There remains a geographical dislocation in market pricing and underwriting attitudes – North American and London markets demonstrating most discipline • Market capacity remains high, but demand from insureds (required policy limits) is strong, buoyed by Insureds' continual investment activity in new assets and plant upgrades
Energy Offshore Worldwide	Rates flat to +5% by end of Q4	• Oil price impacted activity and demand during 2015 & 2016 and to a lesser extent 2017 • Pricing started to firm up in late Q4 as market reacted to HIM + • Demand for liability product remains stable, with price adjusted for drop in exposure
Energy Gulf of Mexico	Rates flat to +5% by end of Q4	• Impact of pricing reductions and threat of reduced client demand due to cost savings following oil price crash has been mitigated for LUK given that the majority is placed on a long term basis • Improved industry sentiment should drive growth, albeit a proportion of our written premium likely to be locked for a period of time
Marine	Rates off 5% to flat	• Cruise liner clients benefit from low oil price and portfolio continues to see fleet expansion • Asian yards have re-focused on conventional tonnage following loss-making foray into Energy and European yards benefit from expanding Cruise order book • Rating improving following impact of HIM +
Cargo	Rates +0% - 7.5%	• Cargo settling into modest increases and improving terms • Some opportunities, two large broker facilities have failed following three years of poor results

General market update

Class	Initial 2018 Rating Expectation	Market Dynamics
Terrorism & Political Risks	Rates off 5% to flat	• Global political uncertainty maintains demand for Terror product • European banks still require cover for project finance. Improvement in Oil Price has also driven some Sovereign risk demand
Property Direct & Facultative	Binder rates – flat to +5% Open Market rates +5% to 100%	• No Rate reductions, expectation of increase and readjustment to terms – all dependant upon sub class and territory • Binder book stable and many coverholders are looking to implement rate rises • Open market rates increasing significantly in loss affected territories • Insurers looking to tighten up coverage and increase deductibles where possible
Aviation AV52	Rates flat	• Demand stable but lineslip capacity still at an all-time high
Aviation Reinsurance	Rates flat to +5%	• Automatic 10% rate reductions ceased, even though this class is not loss affected • Resolve finally apparent even with some of the more historically competitive markets • Positive signs in the direct aviation market are filtering through and helping that resolve
Aviation War	Aviation War rates steady	• Signs of change following two years of war losses with broker line-slips attracting significantly less capacity • Profit commissions on Consortium now feeding through
Aviation Direct	Aviation Direct rates 0% to + 5%	• Market still over-capitalised and line-slips under scrutiny • Reductions scarce

Kinesis Capital Management Indicative Results

	Mean loss scenarios (10% Expected Loss)			No loss scenarios		
	Limit of $300m [1]	Limit of $500m [1]	Limit of $1B [1]	Limit of $300m [1]	Limit of $500m [1]	Limit of $1B [1]
Lancashire investment ($m) [2]	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, excluding PC [3]	0.2%	0.4%	1.1%	0.3%	0.6%	1.4%
RoE contribution, including PC [3]	0.3%	0.7%	1.7%	0.8%	1.4%	3.1%
Current year earnings ($m) [1]						
Underwriting fees	4.9	8.1	16.3	4.9	8.1	16.3
G&A costs [4]	(4.3)	(5.1)	(5.9)	(4.8)	(6.5)	(9.2)
LHL equity pickup [5]	2.3	3.8	7.7	4.6	7.8	15.6
Net CY contribution to LHL, after NCI	2.4	6.2	17.4	4.2	8.8	21.7
Subsequent year earnings ($m)						
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

- Actual annualised return since inception has been in the mid to high teens

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

(2) LHL's investments 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

(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

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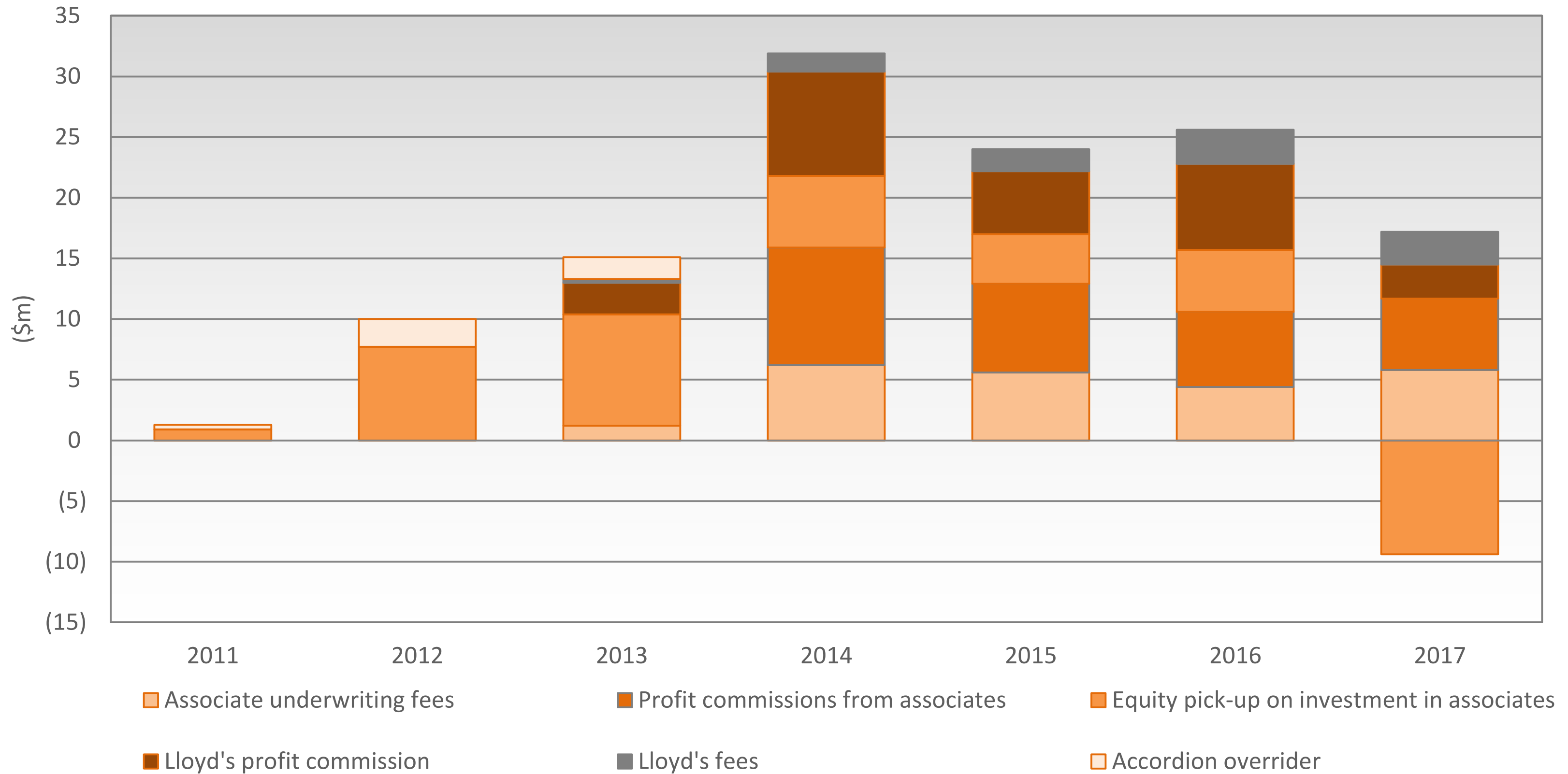
Third party capital: fee income



- Kinesis profit commissions earned in 2017 on the January 2016 underwriting cycle of $5.9 million. This cycle expired loss free
- Kinesis profit commissions earned on the January 2015 underwriting cycle are expected to total $6.2 million assuming no further loss development. $5.4 million of this amount was received in 2016 with the remaining $0.8 million dependent on timing of collateral release

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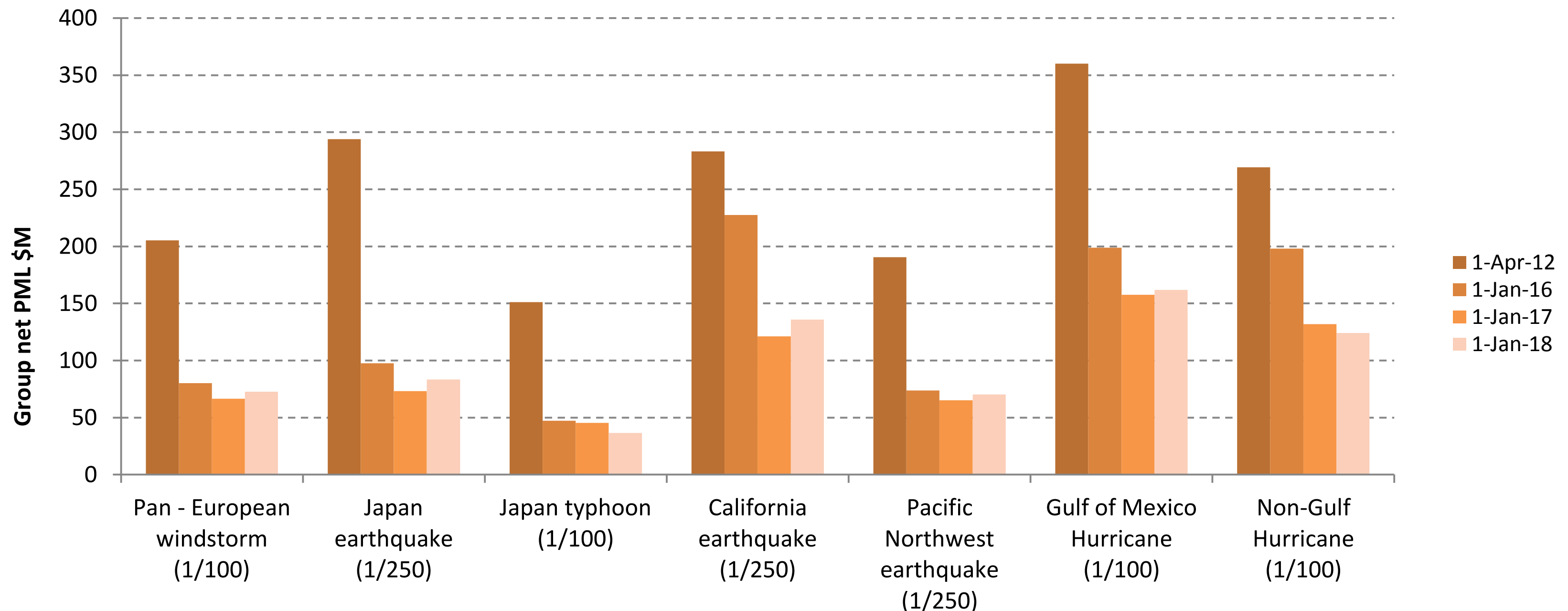
Effectively *balance* risk and return

Managing the cycle – reducing net exposures

- Since April 2012, which was the high-tide mark of the pricing cycle, we continued to modify our exposure to key catastrophe perils as the market became more competitive, demonstrating our discipline and nimbleness across the market cycle
- PMLs are not 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

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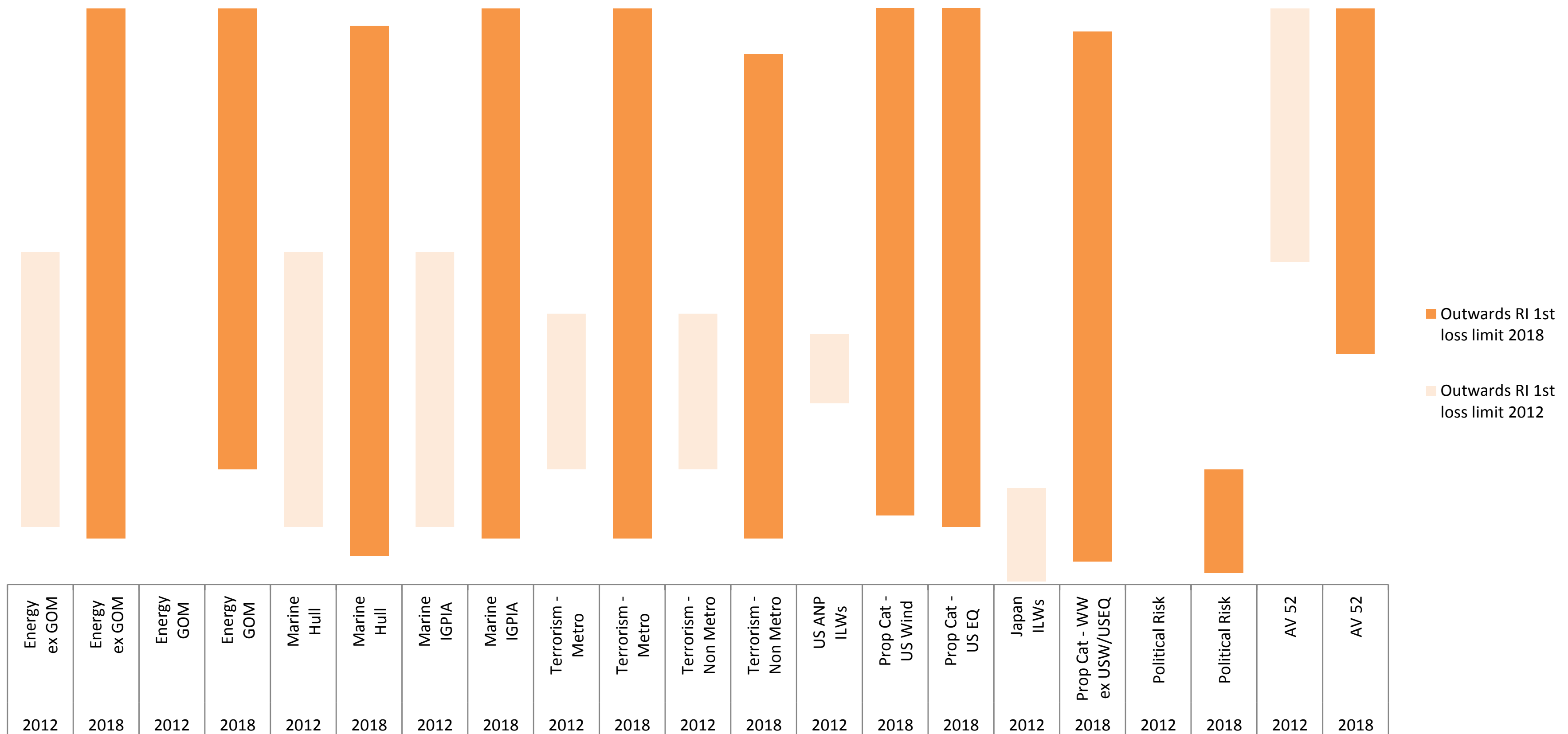
Exposure management – Increasing RI purchases



- Terrorism excludes terror pools
- First loss limit purchased by Lancashire on an excess of loss basis, excluding quota shares, cessions to side cars, facultative purchases and reinstatements
- Excludes Cathedral's reinsurance
- A portion of the Lancashire Property Cat and Energy GOM cover is shared with S2010

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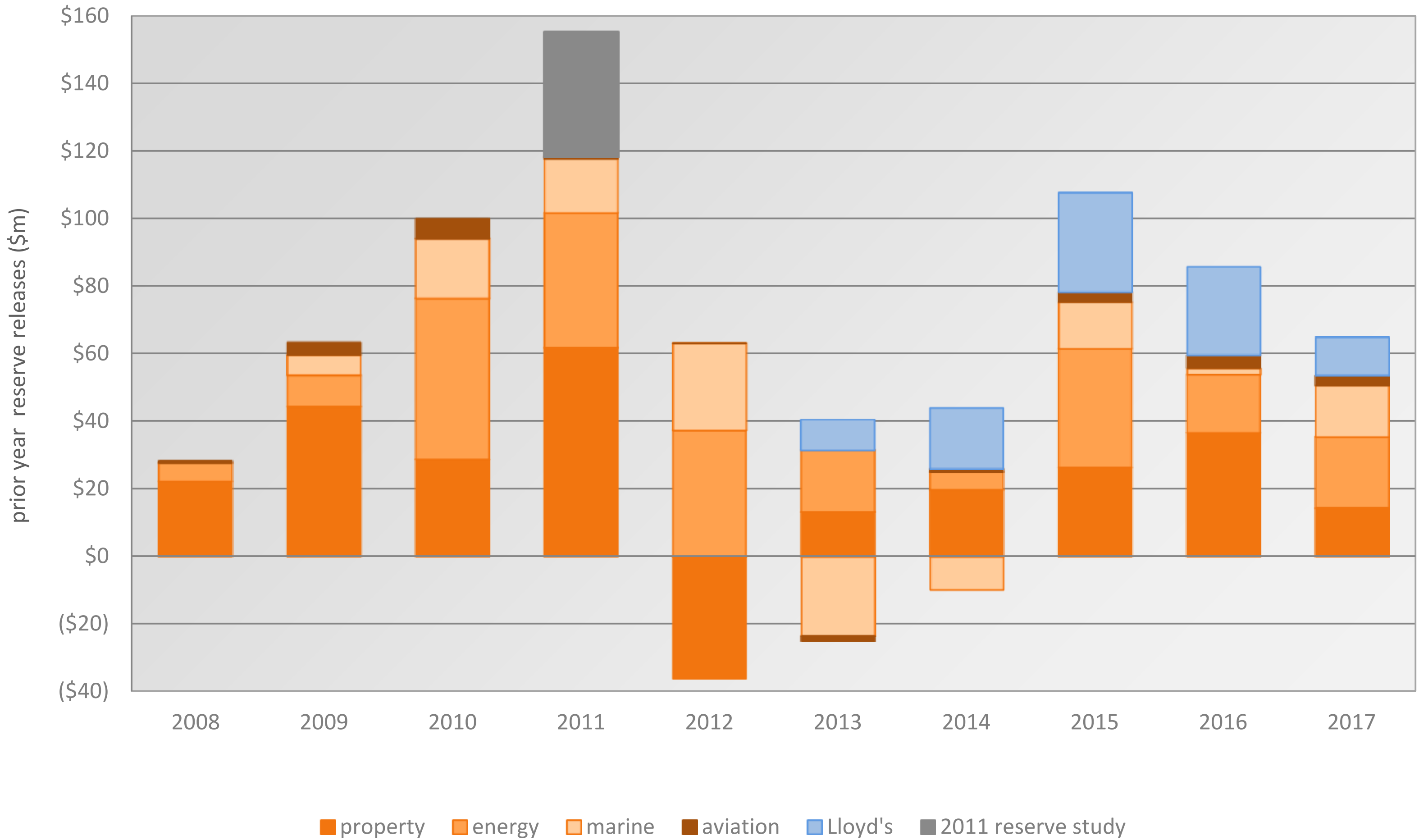
Reserve adequacy

Consistent favourable reserve development [1]



(1) Excludes the impact of foreign exchange revaluations

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Reserve adequacy

Consistent favourable reserve development

- Reserving record has demonstrated conservative reserving (1)
  - 2007 and prior accident years developed favourably by 45.3% so far
  - 2008 accident year developed favourably by 23.8% so far
  - 2009 accident year developed favourably by 49.3% so far
  - 2010 accident year developed favourably by 32.9% so far
  - 2011 accident year developed favourably by 7.3% so far
  - 2012 accident year developed favourably by 21.7% so far
  - 2013 accident year developed favourably by 22.2% so far
  - 2014 accident year developed favourably by 27.9% so far
  - 2015 accident year developed favourably by 29.6% so far
  - 2016 accident year developed favorably by 5.8% so far
- Favourable development in 2011 included $36.9 million released following an independent reserve study conducted by Towers Watson
- Being an insurer (56% of 2017 actual gross written premiums) rather than a reinsurer means we get much better loss data, in a more timely manner
- Short tail business, similar classes across the Group
- Towers Watson review Lancashire and Cathedral reserves every six months; both consistently reserved above Towers Watson best estimate
- Reserve duration for the Group is approximately two years

(1) Development of Lancashire accident year reserves excluding Cathedral for the years 2006 to 2012. 2013 to 2017 including Cathedral

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Effectively balance risk and return – investment philosophy

Improved global growth outlook

- The 2018 growth outlook for the U.S. economy continues to improve given tax reform, expected fiscal stimulus, and the robust global growth outlook.
- The exceptional levels of quantitative easing from developed market central banks are set to start declining over the next 12-18 months.
- Geopolitical events 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 further increases in U.S. interest rates over the next two years, and the expectation that the Federal Reserve will continue reducing the size of its balance sheet.
- 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 0.2 years
- Continue monitoring risk/return trade off in the portfolio:
  - ✓ Continue to manage the risk on/risk off balance in anticipation of additional increases in U.S. interest rates, while also protecting the portfolio in risk-off environments

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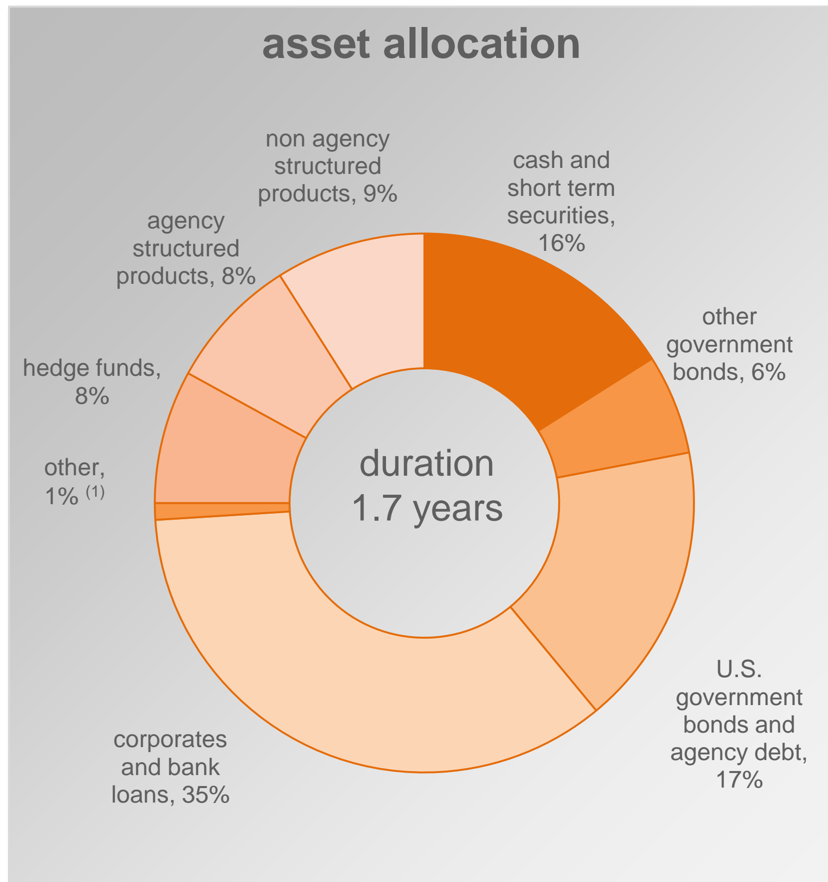
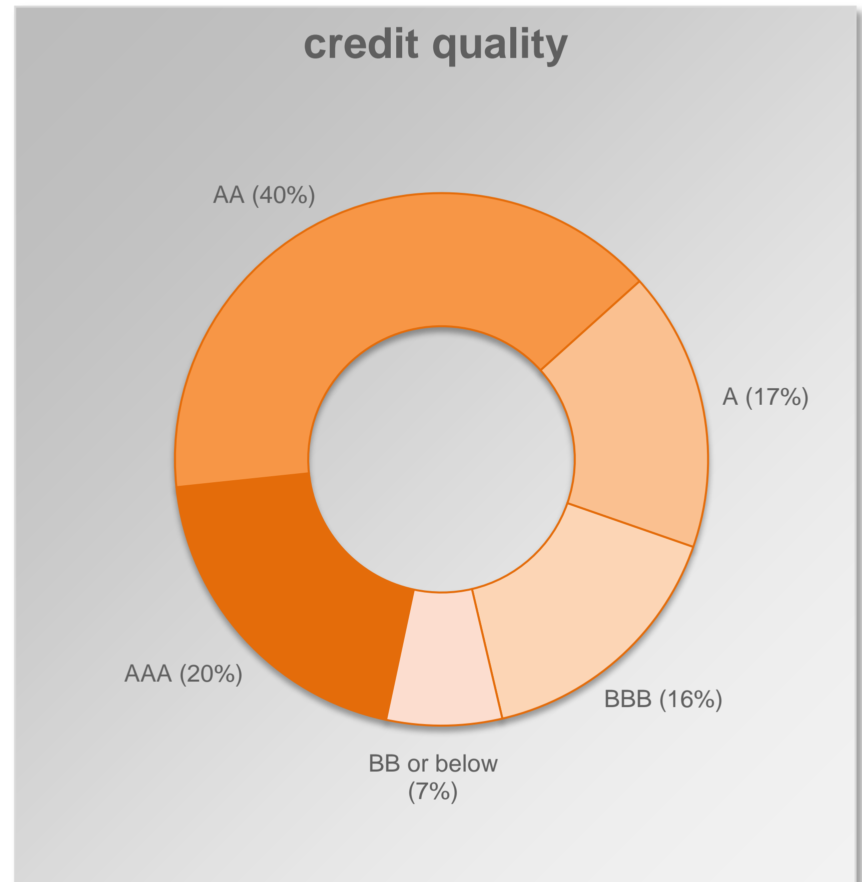
Conservative portfolio structure – Quality





- Bi-annual external strategic allocation review
- Total portfolio at December 31, 2017 = $1,843 million
- Average portfolio credit rating of AA- (including internally managed cash)

(1) Other includes equity securities and other investments

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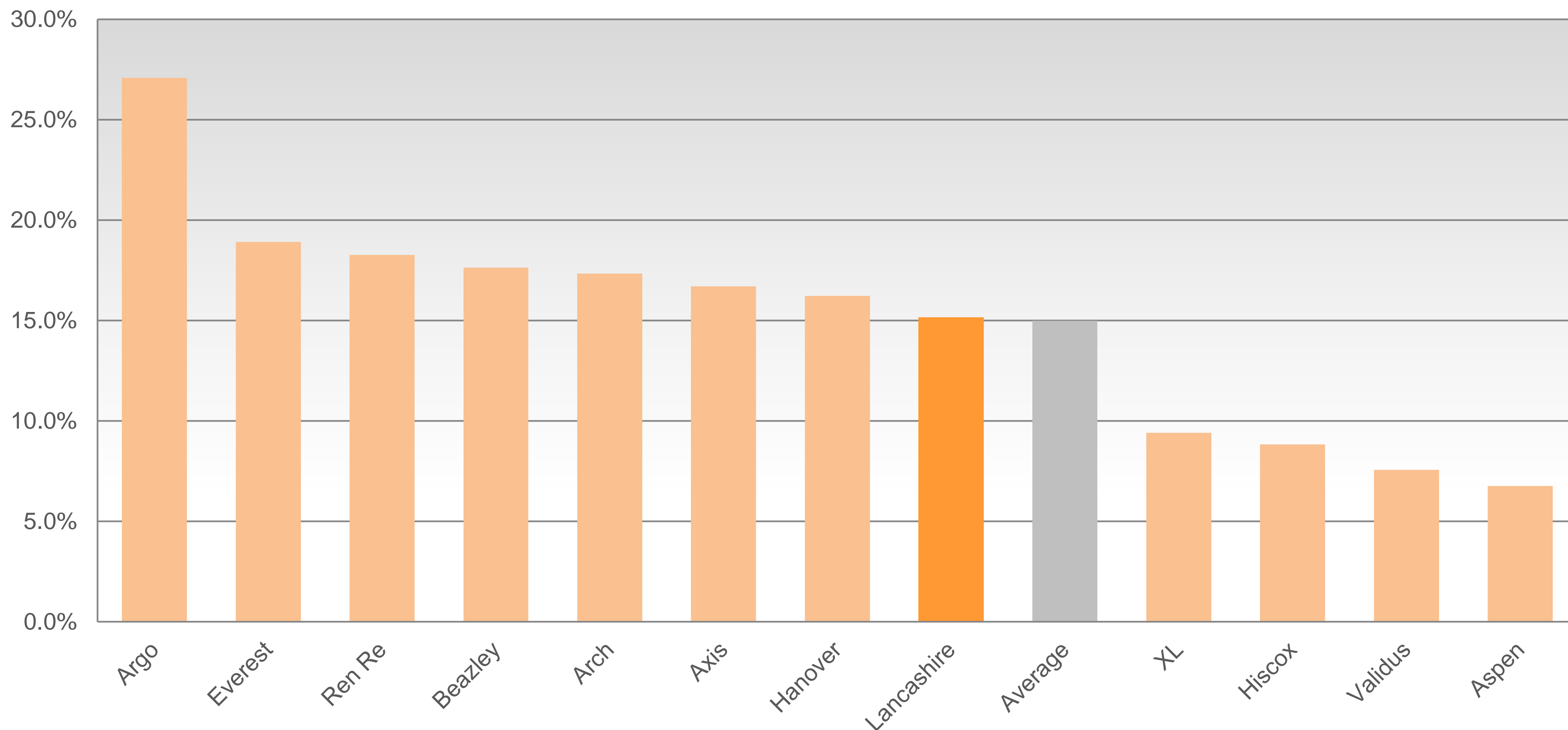
Risk asset levels in line with peer group[1] average



(1) Peer group as defined by the Board. Source: Company reports

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

(3) Risk assets as a percentage of total cash and investments

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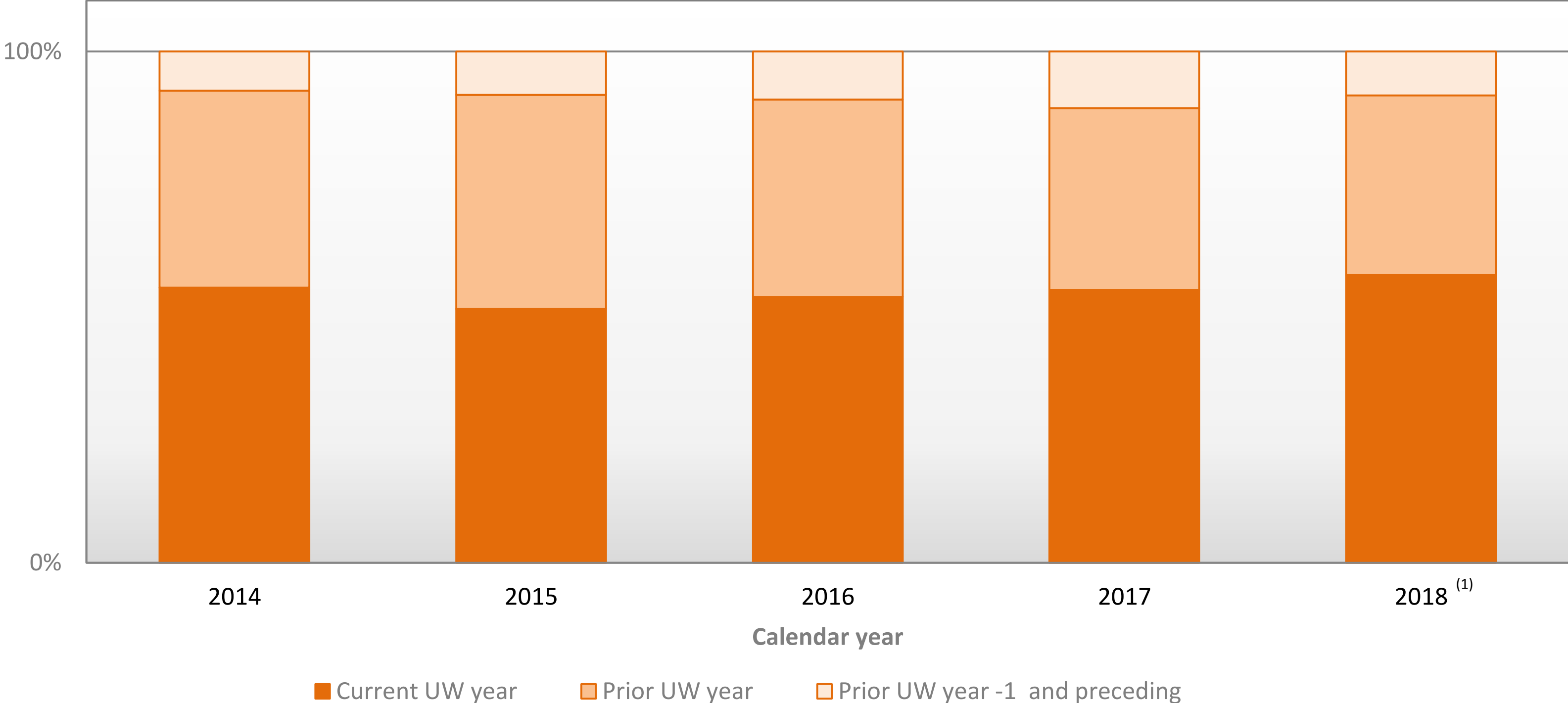
Operate *nimbly* through the cycle

Managing the cycle - Gross premiums earned



- Top line volatility driven by non-annual contracts and timing of renewals
- Graph shows consistency of long term deals to earnings

(1) Forecast as at 14 February 2018

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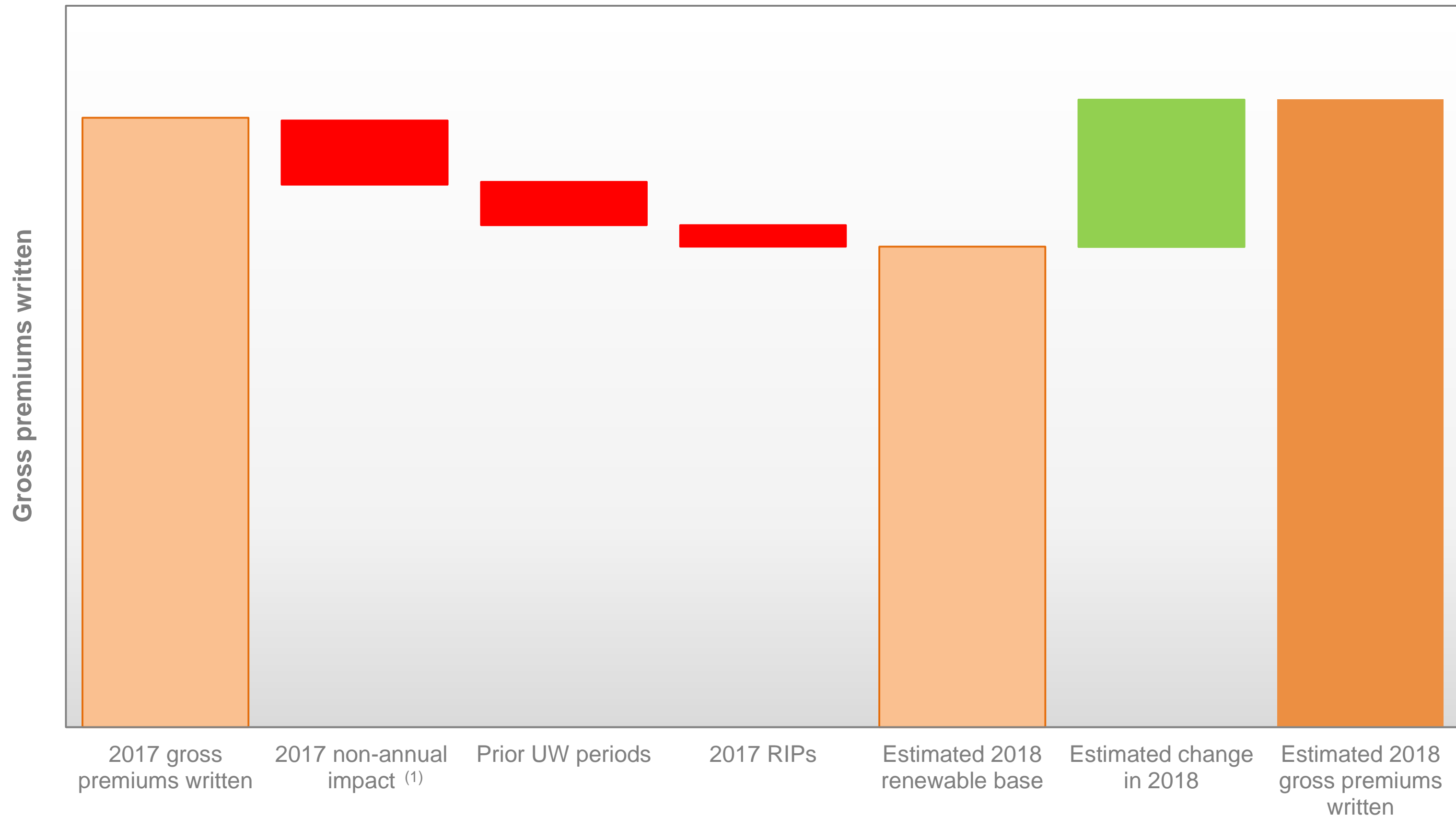
Managing the cycle – Estimated gross premiums written



(1) Non-annual contracts are defined as those greater than 13 months in length and include multi-year and non-renewable contracts

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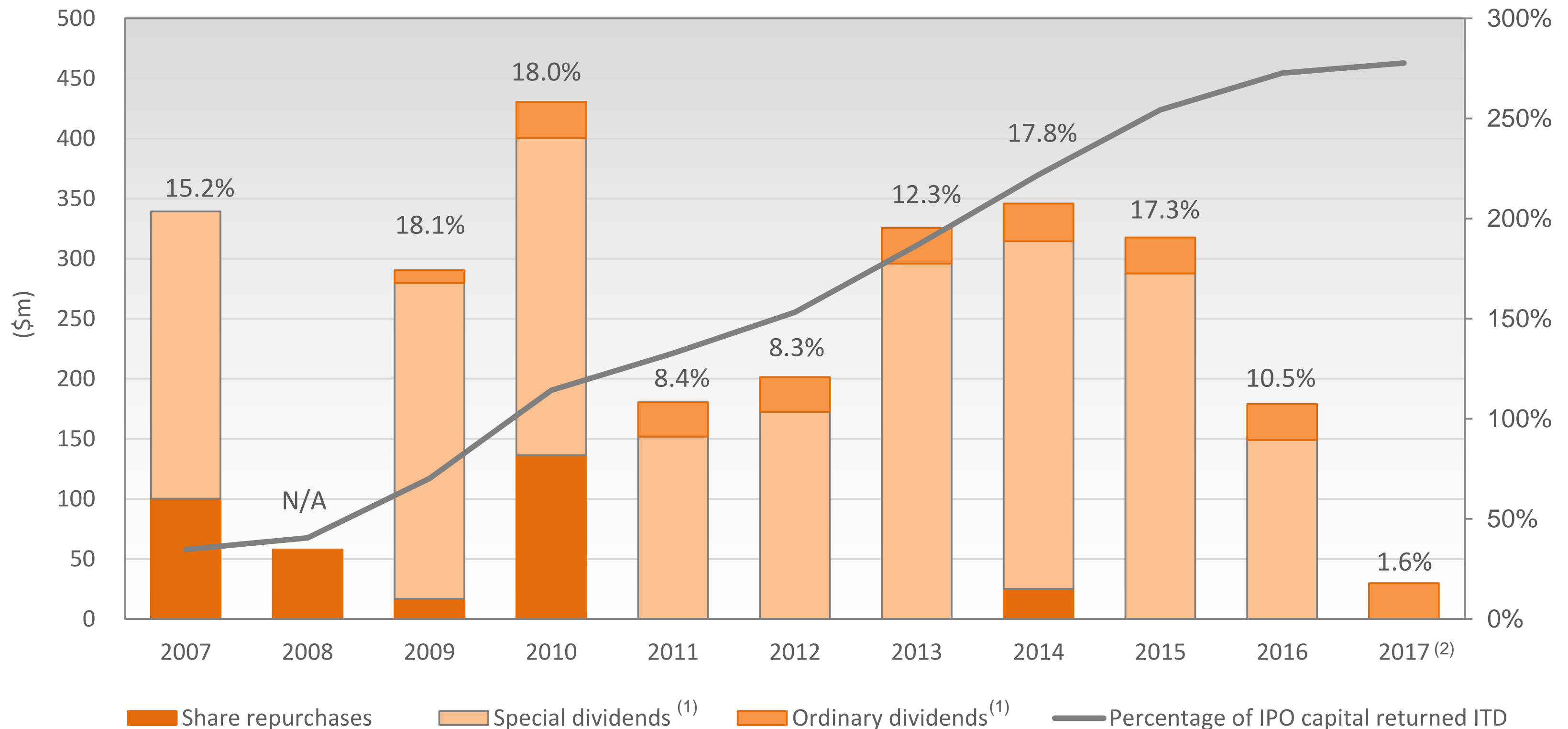
Operate nimbly through the cycle



277.8% of original IPO share capital has been returned to shareholders[3]

- Strategic decision not to declare special dividend for 2017 to retain capital to take advantage of expected rate increases

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

(2) Dividend yield is shown above the data in the chart area. Annual dividend yield is calculated as the total calendar year cash dividends divided by the year end share price

(3) Includes 2017 final dividend declared in February 2018

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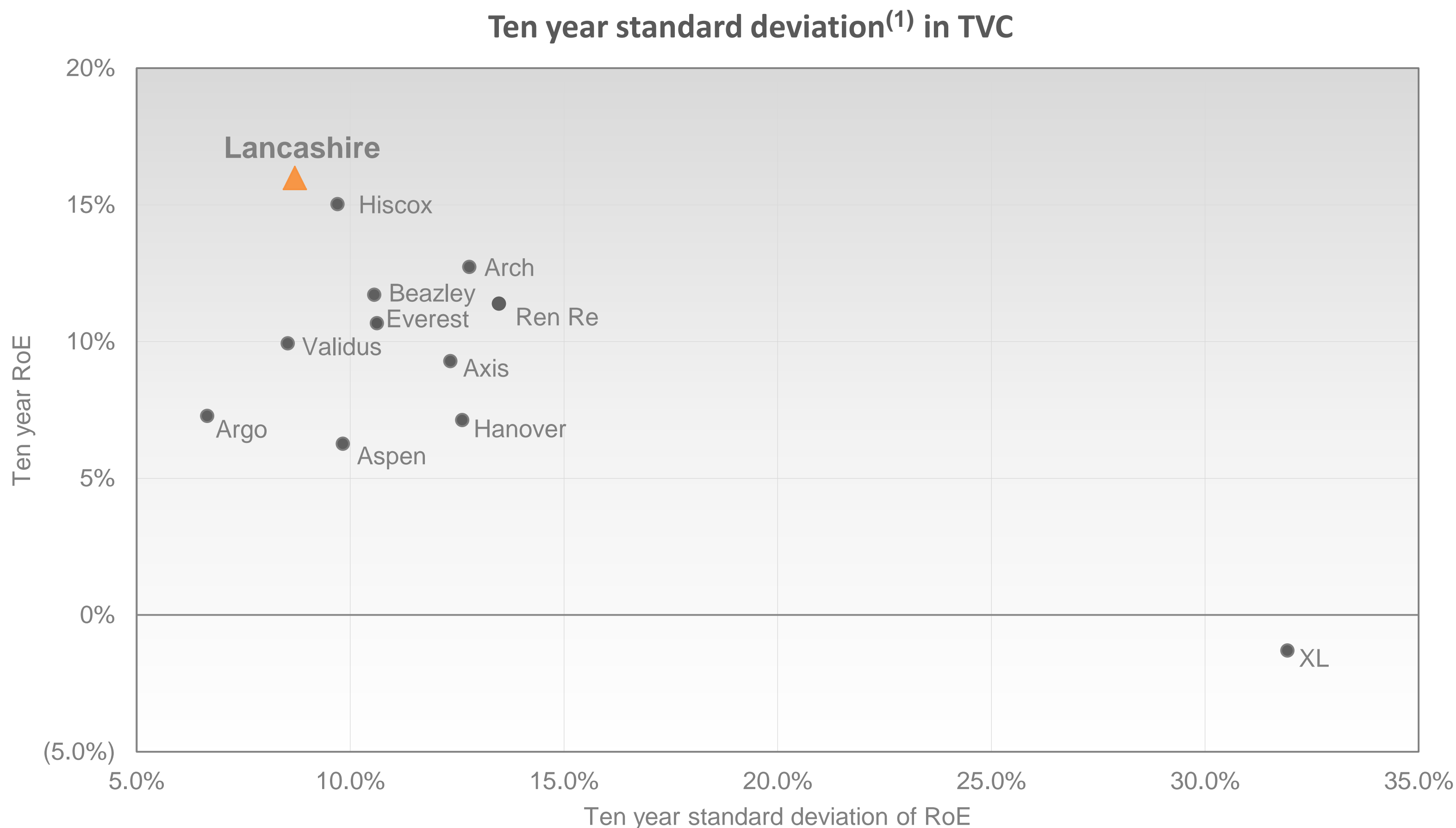
Consistency: Total value creation (TVC)



- Lancashire has one of the best performance versus peers with low volatility
- Evidence of adherence to business plan and strong risk management

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

(2) Compound annual returns for Lancashire and peers are from 1 January 2008 through 31 December 2017. 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 Arch, Argo, Beazley, Everest, Hanover, 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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Sticking to our
game plan

Conclusion

- Lancashire has one of the best and most consistent performances in the London and Bermuda markets
- Our strategy is designed to cope with hard and soft markets, managing capital and exposures to maximise risk-adjusted returns across the cycle
- 2017 losses provided a real time “stress test” for Group’s enterprise risk management function with successful outcome demonstrating our underwriting discipline, prudent reserving and reinsurance planning. Overall, the Group’s performance was in line with expectations
- Group management 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 specialty 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. We have added two new product lines with the addition of new underwriting in Power from May 2018 and Onshore energy
- Third party capital vehicle well established with a stable investor and client base, we have grown capacity at the 1 January 2018 cycle by approximately 30%

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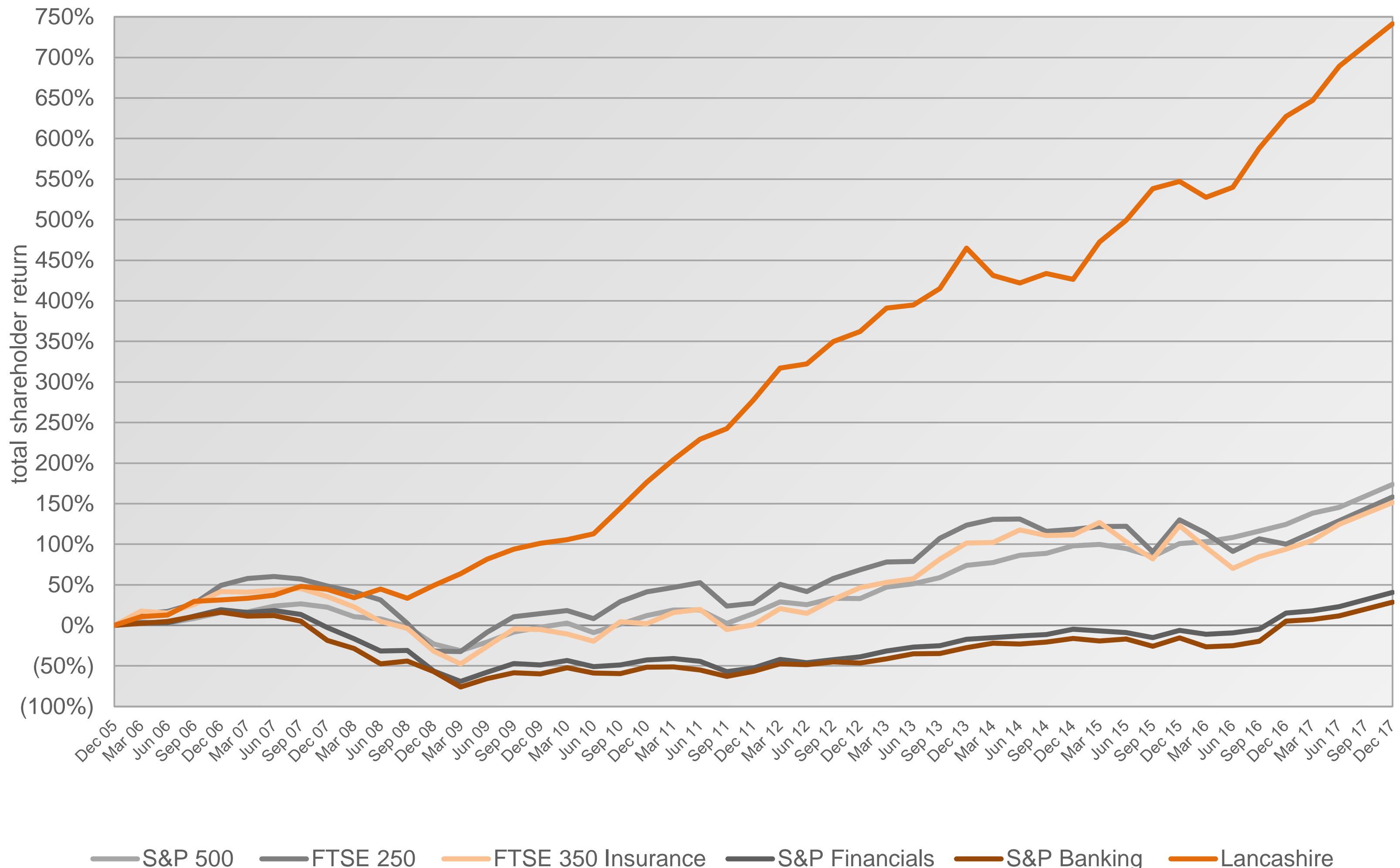
Our goal: to provide an attractive risk-adjusted total return to shareholders over the long-term



(1) Lancashire TSR calculated as compound return since inception using IRR. Major index returns indicate total return including the reinvestment of dividends from Bloomberg

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