# Q2 2016 Earnings Call

## Company Participants

- Alexander Maloney, Group Chief Executive Officer & Executive Director
- Denise O'Donoghue, Group Head-Investments & Treasury
- Elaine Whelan, Group Chief Financial Officer and Chief Executive Officer, Lancashire Insurance Company Limited
- Hayley Johnston, Chief Underwriting Officer & Director

## Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Nick Johnson, Analyst
- Philip Kett, Analyst
- Thomas Fossard, Analyst
- Xinmei Wang, Analyst

## MANAGEMENT DISCUSSION SECTION

### Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you. Good afternoon, everyone. We have various members of the group executives here as well to take any questions that you may have. I'm pleased to report a strong set of results for our second quarter, a return on equity of 3.2% and our combined ratio of 80.6% demonstrates that our underwriting investment strategy is continuing to fare well against a backdrop of increased loss activity and investment market volatility.

Our year-to-date return on equity is 7.1% and our combined ratio of 76.2% is equally as pleasing against a backdrop of a near zero yield environment. We've maintained our premium levels around the same level versus the second quarter of 2015, as we said we would do, and our premium levels for the year are broadly flat.

At the same time, we've reduced our net PMLs for Gulf of Mexico hurricane risk by 25% and our California earthquake risk by nearly 40% compared to this time last year. We have suffered loss activity in our energy product line and losses from our property treaty product line from the Fort McMurray wildfire loss and some small loss activity from our property D&F product line, but these are all losses we would expect to have bearing in mind the client base we have.

As mentioned in the first quarter, we have purchased better reinsurance over time and taken a long-term view on our relationships with our reinsurers. We are benefited from this strategy in the quarter with savings on these claims, but we are also happy when our reinsurers make a return, as they are our partners and we value their support.

We continue to be relevant in all the product lines which we underwrite and receive excellent support from our brokers and clients. We have said many times that we are not interested in writing trackers of (01:50) the market and will only participate in product lines where we feel we can add genuine value for our clients and brokers and make an underwriting profit.

At this stage of the cycle, we believe vigorous risk selection, maintaining your book of core clients and rightsizing the underwriting risk to the opportunity is how prudent insurers will manage the cycle. We do not believe you can grow your way out of a soft market.

We continue to invest in our Lloyd's business Cathedral. I'm delighted with the progress we have made in a short period of time and the talented individuals we've been able to attract to the group. We said last quarter that Cathedral was going to evolve and change over time and it will, but nothing changes our approach to underwriting and we continue to get excellent support from our brokers and clients whilst leveraging the broader relationships with the group.

So our story doesn't change, nor should it, as we see no immediate change in the underwriting environment, but what is undeniable is the margins are tight across most product lines, and as we have seen in this quarter, losses which may also have troubled (02:55) profitability a few years ago now appear to challenge even some of the larger carriers.

So it feels like the industry is bumping around the bottom of the pricing cycle, but I'm sure this will change until capital is impaired, but with combined ratios being squeezed every quarter, it won't take much before results run red instead of black.

And I'll now hand over to Elaine.

## Elaine Whelan {BIO 17002364 <GO>}

Thanks, Alex. Hi, everyone. Our results are on our website as usual. While there have been some significant losses for the industry this quarter, we avoided most of those. We picked up losses from the Canadian wildfires and a significant energy market loss. The group's net loss impact in the quarter from those was a manageable $31.3 million which is net of $57.9 million of recoveries from our reinsurance program.

With some further favorable development on prior accident year versus this (03:49) quarter, plus strong investment performance, our overall performance for the quarter was very good with an ROE of 3.2% as against a 7.1% for the year-to-date. The Canadian wildfires are responsible for Cathedral's small comprehensive loss for the quarter. So our

ROE of 3.2% for the quarter comes mostly from the Lancashire platform, although Cathedral has contributed 1.2% to our year-to-date ROE of 7.1%.

There's a small increase in our gross premiums written this quarter compared to last year. Cathedral again maintains our core book, but had some further price reductions across most lines of business as rate pressure continues.

In the Lancashire book, we saw more strong deal flow in the political risk book and new business offset price reductions in the property cat book. Energy Gulf of Mexico premiums increased due to new business and also as a result of the impact of multi-year contract renewal timing and contracts that canceled and replaced as clients roll (04:44) multi-year covers. You recall we commented this time last year on the impact of multi-year deals on our top-line versus our earnings.

Our top-line in 2015 was impacted significantly by multiyear deals not up for renewal yet but there's less impact than earned premium. On an earned basis, the 2016 energy Gulf of Mexico book is relatively stable compared to 2015. While the top line for the quarter is slightly higher than last year, net earned premium is lower. That's primarily due to the increased political risk longer tenure business relative to other lines of business; the multi-year impact plus increased reinsurance spend.

Our premium ceded is higher than last year as we've entered into several outwards facilities, bought more fac cover and spend savings in our main program renewal and additional broader cover generally touching lower.

We've seen the benefits of our enhanced reinsurance program this quarter with some successful recoveries on the quarter's lost events. We also recorded some reinstatement premiums on those recoveries.

With the additional cover purchase, I would now expect our full year reinsurance spend to be a bit higher than last year. Our acquisition cost ratio is higher this quarter driven by reinstatement premiums and the Canadian wildfires and our energy loss plus the increased reinsurance spend. The ratio for the year-to-date is still in line with our expectations and I would expect the ratio for the full year to be around the 25%, 26% mark.

On losses, as I mentioned, it's been a busy quarter for the industry with the Fort McMurray wildfires, U.S. weather losses, some significant energy losses plus an earthquake and terror attacks.

As I noted, we recorded a net loss of $31.3 million in the quarter from the Fort McMurray under energy loss and that has pushed our accident year loss ratio to 62.7%. While neither the Fort McMurray loss nor our energy loss were significant enough in dollar terms to disclose them separately, together they contributed about 27% to our second-quarter loss ratio. On a year-to-date basis, they contribute about 15 points to our loss ratio. Our pure attrition, therefore, continues to run around the mid-30%s.

Our favorable reserve development of $39.3 million in the quarter benefited the loss ratio by about 35%. No real specifics driving the releases, again, just a lack of reported claims coming through primarily in the 2014 and 2015 accident years.

Investments, including currency headwinds, returned 0.9% for the quarter with most of that coming from our fixed maturity portfolio given the drop in yields in the quarter. We also had positive returns across our bank loan, equity and hedge fund portfolios. Our portfolio positioning, diversification and hedging continue to protect our portfolio while generating reasonable returns.

As volatility in the market continues and Fed interest rate hikes are inevitable, we'll continue with our current strategy (07:39) short duration that are in the same level of risk assets. As we've noted previously, other income captures are third-party capital income. The slight increase this quarter is largely due to a lag in receipt of the profit commission in Kinesis this year. We received all the profit commission on the 1/1/14 underwriting cycle in the first quarter of 2015. This year we received some profit commission on the 1/1/15 underwriting cycle in the first quarter and we received a further $1.4 million this quarter.

We anticipate receiving about another $2.5 million or so on that cycle over the rest of the year as collateral is released. If there are no losses on the 1/1/16 underwriting cycle, profit commissions could be just under $6 million but the earliest we would receive that would be Q1 2017.

Our G&A includes KCM's expenses. The ratio may look a little higher this quarter but that's mostly driven by lower earned premiums. The dollar amount is in line with expectations on previous quarters. Stock comp costs are higher this quarter purely due to changes in performance assumptions.

Our financing expenses were again negatively impacted by the mark-to-market on our interest-rate swap. Ignoring the swap mark-to-market and any one-off cost, our financing cost still tend to be around $4 million a quarter.

Lastly, on capital with no change in the market, we're still comfortable at the $1.35 billion to $1.4 billion level of capital. We'll obviously continue to monitor that as we go through the U.S. wind season and into renewal (09:06) season. If there are no indications we'll need the extra capital we've generated this year, we're likely to return earnings in a special dividend later this year.

With that, I'll now hand over to the operator for questions.

# Q&A

## Operator

Thank you. We can now take our first question from Jonny Urwin from UBS. Please go ahead, sir. Your line is open.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks for taking my questions. Just two questions from me and perhaps a quick comment firstly. It's really interesting to hear you strip out the large and larger losses from the attritional just to get a more underlying picture. It would be good to get something like that in the release in the morning just so we can dig that out early.

On my questions, so in earned premium, it continues to shrink as we expect. There's more and more reinsurance buying. I guess it will be the same next year. I'm just wondering what's your outlook for the net earned just so we don't put something funny in our numbers?

And secondly, on energy pricing I mean is the Jubilee loss, and the Pemex reserve strengthening in places is that enough to turn this market now? Is it enough to remove some competition or is it just going to sort of bump along the bottom a bit more? Thank you very much.

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Jonny, I'll do the energy one and then Elaine can talk about the premiums. I think the only thing that changes any market is a withdrawal in capacity so it doesn't matter what market you're in, you can have losses day-by-day but if no one leaves the party, nothing changes. But you have to believe with the losses that the energy market or the marine and energy market has sustained in the last five years you would think that people must be looking at the numbers very closely and the reinsurers must be questioning some of the pricing there which actually that would affect us, our reinsurance bill would go up but that would actually be a good thing because I think it would question some people's strategy in the market.

Energy is one of the things where Lloyd's – I'm not sure (11:48) Lloyd's got a focus on certain classes of the business and energy is one of those and rightly so. So yes, you would think so but nothing will change until people cut back or the reinsurers don't provide as much capacity. So it feels like it should change at 1/1. It feels like there have been a number of very large losses which actually shouldn't surprise anyone who writes an energy account because that's what happens in energy but until people leave, not much will change sadly.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Jonny. In terms of the net earned premium outlook, we were about 118% last year. I think we'll be lower than that this year, but not below 100%. I think, what you're seeing this quarter is a Q2 specific thing and I think will normalize as the rest of the year goes on once that reinsurance spend settles down a little bit.

In terms of where we are with loss disclosure, we've been talking about that kind of mid-30%s attritional point for awhile. We do disclose anything that we see as being an event loss or anything that's significant and big enough magnitude that we think that we should talk about it.

The larger losses or the midsize losses that kind of fall in between attrition and those events and losses which we haven't had for a while are a bit tougher. There are sensitivities around the claims and the contracts, the clients involved there so we have to be kind of alert to that.

And also just in terms of how we look at the numbers, they're not really material enough on their own for disclosure. But, if you do want to stick something extra in your budget for a little bit of kind of mid- to mid-size losses, then I would go ahead and do that.

## Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

## Operator

Thank you. We can now take our next question from Kamran Hossain from RBC. Please go ahead.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Afternoon, everyone. It's Kamran Hossain from RBC. I've got two questions and one clarification. The first question is on capital so it sounds like I guess like this quarter where your reinsurance purchasing is really (13:56), you've got good protection for the remainder of the year. If 2016 ends up being a decent year for earnings but prices look like they're going to be down again in January, will you look to hold capital I guess at the high-end of where you want to be or will you be a little bit more aggressive on returning capital? So that's question one.

Question two, really fantastic to see a little bit of growth in I guess in property and I guess political risk. Can you just talk me through how that came about? Was this business in new, was this from a new hire and are there any other areas that you might look to expand selectively?

And the clarification, just coming back to Elaine's 27% came from Fort McMurray and another large loss, is that 27 points on the loss ratio or is that 27% of loss? I think I missed that completely so apologies for that.

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Kamran. We'll go to Elaine for the capital one and the clarification and Hayley Johnston, our LUK CUO, will take the political risk one.

## A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. So, hi Kamran. That's a 27% contribution to loss ratio and as we said about 15 points for year-to-date. And we do think we have more capital protection. I'd say, obviously, a lot depends on what happens over the rest of the year, how our outlook is for 1/1 and what our placing of our reinsurance program looks like, all of which are uncertain just now.

And what we have kind of said is if the current conditions continue then we will probably return earnings because we're happy with the capital levels we've got. We're at a point where we've got a good solid core book and we're happy with that. And if pricing does continue to come down, arguably we could do with a bit more capital but then there's always new business opportunities even if they're small that come in. And we'll have more color on that as we go through the rest of the wind season and as we go through September and October (15:59) outlook.



## Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks, Elaine.

## A - Hayley Johnston {BIO 18728392 <GO>}

Hi, Kamran.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, Hayley.

## A - Hayley Johnston {BIO 18728392 <GO>}

On the political risk side, I think it's fair to say we all know this is quite a lumpy book. The majority of the book isn't renewable. It's one-off bespoke deal. Also I'd say that some of the deals that we work on have a lead-in time of 12 to 18 months so what we've seen a bit this quarter of some deals that are bound, that have come to fruition that we've worked on in the last 12 months. But there's no real trend or change in appetite. It's more about timing, when the deal would have presented and eventually get bound.



## Q - Kamran Hossain {BIO 17666412 <GO>}

Okay, fantastic. Thanks very much.

## Operator

Thank you. We can now take our next question from Andreas van Embden from Peel Hunt. Please go ahead.

## Q - Andreas van Embden {BIO 1795530 <GO>}

Yeah. Thank you. Good afternoon. I just want to turn my attention to Cathedral. The combined ratio was 112% in the second quarter and just wanted to ask whether you could isolate the net cat and large losses for the quarter and whether these losses were higher than normal within Cathedral?

And also sticking to with Cathedral is the attritional loss ratio, once we back out the nat cat and large losses and the reserve releases, what was the level of the attritional loss ratio and what's the outlook for that in the second half of the year and into 2017? I noticed that rate pressure accelerated in Q2. Just wondered whether you were comfortable with the rate levels within the Cathedral portfolio?

Finally, on Cathedral, it's more about the protection of the capital going into the hurricane season. How well is Cathedral protected and have you done more in the second quarter to preserve the capital base of Cathedral if the hurricane season turns out to be active? Thank you very much.

## A - Alexander Maloney {BIO 16314494 <GO>}

Andreas, obviously, Elaine will take all the numbers bit. On the general comment about Cathedral reinsurance, our overall strategy as a group has been to buy more cover as the year has progressed. We have actually purchased a cat umbrella cover this year which is new which covers the whole group so we do have more cat cover than we've ever had going into wind season. So we're sure we're in a pretty good place. And as I said, that covers Cathedral as well and that's been part of our strategy this year. It applies to the whole group and we believe it makes sense bearing in mind where we are in the market.

## Q - Andreas van Embden {BIO 1795530 <GO>}

All right.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hey, hi Andreas. On the cat in Cathedral, we don't want to get into the habit of splitting losses between the Cathedral platform and the Lancashire platform but I think if you look at the Q2 results this year versus last year, I think it's fairly clear you can see (19:02) size of events and drove them into that comprehensive loss for the quarter. The two events that we talked about in terms of the impact on our loss ratio are fairly kind of evenly split in terms of size. Cathedral does have a little bit more on the community wildfire on the Lancashire side, as you'd expect given where they write their book. It is a bit more attritional in nature but we do write higher up. And your attritional loss ratio question was that about Cathedral or about the group as a whole?

## Q - Andreas van Embden {BIO 1795530 <GO>}

Yeah. Just Cathedral.

## A - Elaine Whelan {BIO 17002364 <GO>}

We're not giving guidance on specific attritional losses for Cathedral. On an overall basis, we're still in that kind of mid-30%s and I think if you get that kind of point for the whole group then you should be modeling fine.

## Q - Andreas van Embden {BIO 1795530 <GO>}

Would you say that Cathedral on an attritional basis is underwriting below 100% in Q2?

## A - Elaine Whelan {BIO 17002364 <GO>}

Yeah, I mean that's kind of in the top end, so that's made a difference. I mean, if you'd recall the from me especially through the acquisition we were talking about Lancashire attritional loss ratios being in the kind of 25-ish range and obviously we'd price adjust that and so the uplifts gets to kind of the mid-30%s where we are now, given the Cathedral book which is more attritional in nature but when you put kind of Lancashire and Cathedral together you get the more capital efficiency there going into that, that makes the difference.

## Q - Andreas van Embden {BIO 1795530 <GO>}

All right, thanks.

## Operator

We can now take our next question from Nick Johnson from Numis. Please go ahead. Your line is open.

## Q - Nick Johnson {BIO 1774629 <GO>}

Afternoon, all. It's a question on investments. It's another quarter of quite large unrealized gains. Just wondering if you can give us thoughts on how you might pace in the second half of the year? Obviously with yields being so low, are you considering realizing some of those gains into the income statement which obviously would be good for profits or are you more likely to hold things to maturity? Thanks.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Nick. It's Elaine. We kind of lost the first half of your question which given that we've got Denise on for any investment questions. It would unfortunate because she's normally on the call and doesn't get any questions.

## A - Denise O'Donoghue {BIO 15315126 <GO>}

So I think your question was about second-half performance expectations I think?

## Q - Nick Johnson {BIO 1774629 <GO>}

Well, just about what might you might do with the unrealized gains, whether or not you're considering perhaps crystallizing some of those gains in which case I guess there'd be a plus to the income statement.

## A - Denise O'Donoghue {BIO 15315126 <GO>}

Yeah, that is not typically how we look at our investment portfolio. We don't look here within the income statement or if it's in OCI. We just run our portfolio to get the results that we want from it so there's no strategy to realize any of those gains.

## Q - Nick Johnson {BIO 1774629 <GO>}

Okay, great. Thank you.

## Operator

Thank you. We can now take our next question from Ben Cohen from Canaccord. Please go ahead. Your line is open.

## Q - Ben Cohen {BIO 1541726 <GO>}

Oh, hi. Thanks very much. I had two questions. The first was just on Cathedral. I think since we last spoke there's been more management changes and Alex referred to the fact that the business is evolving. I just wonder if you could update in terms of how you see the portfolio shifting going forward with the new teams that you're bringing on board, if there's anything material that we need to be aware of?

And the second question was just on the expense side, do you expect any kind of material benefit from the weakening in sterling in terms of your dollar expense ratio? Thanks.

## A - Alexander Maloney {BIO 16314494 <GO>}

Ben, so we've done a lot of hiring in this quarter. We have a new Finance Director, we have a new Managing Director who will be here for 12 months as we get a permanent replacement. We have a new Head of our Treaty (22:43) team. We've employed probably three or four underwriters. And there's quite a long list, five underwriters, Rich Williams tells me. There's quite a lot of people come into Cathedral and I think that's quite a good blend with the people that we have here under Rich's leadership.

The book itself, there's no real plans to change it. As you've seen, we've maintained all the income. We're very confident we can do that. All the people that we've picked come into the syndicate have the relationships and the experience of the books of business to match the guys that left.

And we've just put our first blush of our business plan into Lloyd's which is very similar to this year because the market hasn't changed. Clearly, if there was something quite interesting happening, we along with a lot of others would be going to Lloyd's and changing our business plan to adapt to the new market.

But we haven't because nothing appears to have changed which we would obviously like that to happen and that won't change until it does. So I think it's pretty much business as usual. As I said, we haven't lost any business. The 1st of July went well. We've done the majority of income for the syndicate for the year. There's probably a few more hires to come, but I think we've pretty much done most of those now. So, I think we're very much back to normal.



## Q - Ben Cohen {BIO 1541726 <GO>}

Thanks.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Ben. In terms of the expenses, we will get some benefits. We do have a fair bit of our expense base in sterling. I think we said last year if you looked at the G&A for 2015, there is a little bit of one-off expense in there, but if you back that out, that was a reasonable run rate.

So, if you take about 60% or so of our cost base being in sterling, you'll be able to work out from there. It's not going to have a significant impact. And it will have some and obviously, every little bit helps.

## Q - Ben Cohen {BIO 1541726 <GO>}

Okay, great. Thank you.

## Operator

Thank you. We can now take our next question from Xinmei Wang from Morgan Stanley. Please go ahead.

## Q - Xinmei Wang {BIO 17860767 <GO>}

Hi, good afternoon. I have three questions. The first is, so I think last quarter, Alex, you said you'd be really pleased with a 9% to 12% ROE. Just wondering has your view – is that still the view given the solid ROE reported in the first half?

Second question is you're talking about buying more reinsurance under the cat umbrella this year. Is there any more appetite to further increase your reinsurance spend or are you happy with where you are?

And then the last question sort of is on the disclosure. I'm quite curious because I guess your book of business might not necessarily lend itself to quarterly reporting given the volatility that could happen from quarter-to-quarter. Is reporting on a half-year basis something you have considered or would consider given that?

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you. Questions, I'll take the first two. I think I'm going to stick with my 9% to 12%, which means hopefully we haven't got very far to go. I think our general view of the environment is if we could churn out anything double-digit, I would still be happy. I think our shareholders would be very happy with that. I think it would be completely wrong to reach for too much yield in this underwriting environment, because I think you just take on too much risk.

So I think if we can do double-digits, I'll be very, very happy, and we've got a great start to the year so far. Obviously, a lot can happen. We're in hurricane season now. We do have a lot of reinsurance. We have brought a lot of the volatility down, some of the reinsurance programs we have do drop down for the second loss, so our energy account would drop down for any further losses for the rest of the year.

So we think we're in good shape. We've bought a lot of reinsurance, probably more than some of my colleagues would like, but that's the environment we're in and it is one of the few things that you can do to manage this stage of the cycle. I think people have got different strategies. Ours is quite old-fashioned, I suppose, so we have bought more reinsurance.

But equally, as I said earlier, if we don't claim on our reinsurance, we don't see that is a bad thing. That just builds up our bank (27:24) with our partners. So yeah, but obviously, that strategy, it seems like the right one is paid off this quarter, but equally, as we said in the past, we've bought reinsurance and we haven't claimed on it, but we are also fond of that (27:38) as well.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Xinmei. On the quarterly versus half year reporting, there seems to have been (27:45) an ongoing debate on that since the first discussion about the change in requirements. And I think if you look at us versus a lot of our UK peers, we've obviously, a lot more information in terms of our U.S. peers. We're probably about the same. And so, I think (28:01) at the moment in terms of covering our shareholder base. There are some that say there's too much information and there are some that will say – (28:11) we're always getting asked for more than we have out, so we have to try and balance that as well.

## Q - Xinmei Wang {BIO 17860767 <GO>}

Okay, great. Thanks very much.

## Operator

Thank you. We can now take our next question from Philip Kett from Macquarie. Please go ahead. Your line is open.

## Q - Philip Kett {BIO 19507232 <GO>}

Good afternoon. Thanks very much. Two questions if I may. Firstly, on reserve release. I see that the marine reserve releases have nearly doubled. I was wondering if there was anything in particular this year or last year that was driving the increase.

Secondly, in the Gulf of Mexico offshore energy, I see there has been an additional $16.5 million due to a multi-year contract (28:52) the multi-year contract was canceled and then replaced. I was wondering if you could talk a little bit more about that. My understanding was that multi-year contracts were locking in a higher premium rate.

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay. I think both of those are for Elaine. What I would just say about the multi-year energy contract is that when we started writing multi-year, we were very much on the top of that market and then we are still one of the few people that do have a small group of clients that continue to hedge some of their purchases on a multi-year basis. We would not be interested in lessening (29:40) multi-year pricing at the bottom of the market. If you look at the Gulf of Mexico rating, that's actually not at the bottom of the market anyway and our book is quite nichey.

So I think your overall thought process is right in that why would you want to lock in now if we all believe, as we do, you're kind of at the bottom of the pricing cycle. We don't believe we are in the Gulf of Mexico and our book is very niche and very small and they're core customers that we've had for probably a decade now. So I just want to make that point.

## A - Elaine Whelan {BIO 17002364 <GO>}

And I guess just picking up, there's two different things probably happening in our book, and we should try to avoid mixing them up. There's multi-year deals and in 2014, as I said, we did a lot of them then, and we had about $64 million, $65 million worth of multi-year deals there. The two-year, 2.5-year senior (30:34) deals, so that had a big impact on our top-line last year. And we also get cancels and replaces and contracts do often cancel from time to time.

As people do buy longer-term cover and we negotiate it or change the terms over or we will look forward, some people like the certainty (30:53) of cover. So there's a multi-year impact which was 2014 forward and there are still some multi-years in the book, but they kind of tend to even out over time now. And then, there's the C&Rs which for the most part, all you're going to see up for them is the pricing impact of them, but it does make that top-line just a little bit lumpy and I appreciate that can be a bit hard to forecast. But on an earnings basis, for that book, it makes it more consistent, because we're still getting the earnings of those multi-year policies and the replacements for the cancellations coming through.

And on the marine releases, we did have some general releases in there. There was one specific claim in 2011. You should see it in the press release. That year should pop out a little bit and that we released some reserves on that one as well so that made up some of that release for that cost of (31:42) business.

## Q - Philip Kett {BIO 19507232 <GO>}

Thank you very much.

## Operator

Thank you. We can now take our next question from Thomas Fossard from HSBC. Please go ahead, sir.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. Two questions on my side. The first one would be for Elaine regarding the reserve release. Can we get some guidance regarding what to expect in H2 for the current year?

And the second question would be for Alex. Alex, did you receive the PRA letter to CEO questioning the reserve sustainability (32:27) commercial lines? What is your reaction and perception to this regulatory letter? Thank you.

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Thomas. Thanks. I think if you think about the PRA letter and if you think about how Lloyd's has written to all the managing agents about probably about more than half of the income in Lloyd's, I think you've got two regulators who have an awful lot of data appear to be increasingly more concerned about the health of the market which I think we would subscribe to.

And I think particularly if you think about Lloyd's, you've got a huge database and people have been making reserve releases and, obviously, it very much depends on the book you have. Some people have got large casualty books and I would imagine the concern from the regulator there is going to be our people releasing too much money bearing in mind when some of that business was written, you're in a very different investment environment.

So I'm sure some of that business was priced when it was quite easy to get a 5% investment return and you can no longer do that that easily. So are people just releasing money to prop up their results? Obviously, with someone like us, our reserves are always much more (33:54). And we write a short-tailed book and if there are good years when not much happens, we tend to have good reserve releases. So it's different for us.

But I think the general tone from the PRA and from Lloyd's is that you don't need to sort of be – you don't need to work in finance to work out that when the combined ratios are as close as they are to 100% and not that much is happening, there really is little margin left in this business.

If you just look at this quarter, if you look at the Canada wildfire loss, that sub $5 billion, I don't personally think that's a big loss, I don't think the energy loss is something that should surprise people. I think this is just run of the mill losses and some people are not even making an underwriting profit anymore.

So I think all the indicators are there that you are at the bottom of the market, that you are – there's very little margin left in this business. And clearly, the regulator and, clearly, Lloyd's with their issues about the central funding will be worried that people are going to lose money and are people fully aware of how close they are to the edge.

So I just think it's another indicator of for me everything is pointing to you are very, very close to losing money and obviously that's why we have booked more reinsurance and try to do the right thing and we're fully aware of how difficult this stage of the cycle is. And look, when the market is losing the money, eventually, things will change, so we kind of see it as a good thing, but for me, it's a good indication of where we're at in the cycle.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Would you specifically expect this to ease the competitive pressure on the business written at Lloyd's next year or it's more or less a neutral thing?

## A - Alexander Maloney {BIO 16314494 <GO>}

I mean I think Lloyd's have been very explicit about what they accept. It's going to be very hard for anyone to grow in Lloyd's. So yes, I think if there is enough of those actions from the regulators, you would think it would slow people down. Obviously, Lloyd's is only one section of the market. But yeah, I mean from what we're seeing at the moment, particularly on the reinsurance lines, things have slowed down. I think there is some sanity coming back to the market.

I think on some of the specialty lines, there are glimmers of hope, but as we spoke earlier about marine and energy reinsurance, again, you would think that people are going to hit the brakes, but until you see capacity leave the market or until people can't access the reinsurance as they did before, it's hard to say how things materially change, but are they slowing up? Yes, I think they are.

## A - Elaine Whelan {BIO 17002364 <GO>}

Hi Thomas. Just on your releases question, probably not the answer that you want to hear, but we don't give any guidance in terms of reserve releases.

## A - Alexander Maloney {BIO 16314494 <GO>}

(37:05)

## A - Elaine Whelan {BIO 17002364 <GO>}

I don't know if you can still hear, but as I said, we don't give any guidance on reserve releases. Our book of business is quite lumpy and the timing and the magnitude of claims is unfair and probably due to its reserve for attrition and for attritional claims and then we reserve best estimate for the kind of mid-sized larger stuff.

In any event, they're out there, so it really depends on what's reported. Our payment patterns on releases are actually fairly consistent quarter-on-quarter. So it does depend on what comes through and our short-tail is a bit lumpy, so if we're going to have releases (37:55).

## A - Alexander Maloney {BIO 16314494 <GO>}

Sorry, Thomas, did you hear that?

## Q - Thomas Fossard {BIO 1941215 <GO>}

Of course, yes. Thank you.

## Operator

Thank you. Would you like to take a further question, ladies and gentlemen?

## A - Elaine Whelan {BIO 17002364 <GO>}

Just remember the fire alarm and also we may have to leave quite fast.

## Operator

Okay. We'll take our further question just now, that's okay, from Andreas van Embden, a follow-up question from Peel Hunt. Please go ahead.



## Q - Andreas van Embden {BIO 1795530 <GO>}

Yeah. Maybe before you walk out the building, just going back to the Syndicate 2010. Can you hear me?

## A - Alexander Maloney {BIO 16314494 <GO>}

(38:51) Can you just hold on for...

## Q - Andreas van Embden {BIO 1795530 <GO>}

Yeah.

## A - Alexander Maloney {BIO 16314494 <GO>}

Can you just – okay, go now.

## Q - Andreas van Embden {BIO 1795530 <GO>}

Yeah. Syndicate 2010, just looking half year on half year, there is not much growth. It's actually quite in terms of premiums, there's a bit of a reduction. My impression was that you were going to put more capital behind Syndicate 2010, and then, grow that business further. Is there just a blip because of all the changes within Cathedral that you haven't really pushed that business harder this year and are planning to do that next year, or has anything changed with your strategy there? Thanks.

## A - Alexander Maloney {BIO 16314494 <GO>}

One second, Andreas, I'll answer in one second. Yeah, so Andreas, on that one, I'm not really sure where you're going on that one, because for us, putting more capital into 2010 or 3010 or Lancashire would only be about underwriting opportunity and nothing has changed.

So if anything, as you know, for a number of years now, we've been giving back capital, because we can't see the underwriting opportunities. So I'm pretty sure we haven't said that publicly. We would love to put more capital in the business when the market changes, but we haven't seen any opportunities to do that.



## Q - Andreas van Embden {BIO 1795530 <GO>}

Okay. Thanks.

## A - Elaine Whelan {BIO 17002364 <GO>}

Yeah, Andreas. If anything, we might have been looking to put a bit more money into is 3010 and grow that, but the lines that we were growing in there were energy tender I mean (40:43), we have had some success there, but obviously, any kind of growth in this market needs to be done very carefully.

## Q - Andreas van Embden {BIO 1795530 <GO>}

All right. Clear (40:50). Thanks.

## Operator

We have no further questions in the queue at this time. I'd like to turn the call back over to you for any additional comments.

## A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thanks for your questions and we're...

[Abrupt End]