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Annual Shareholder/Analyst Meeting

Company Participants

- Charles Mathias, Group Underwriting Operations Director & Chief Underwriting Officer
- Denise O'Donoghue, Corporate Finance Officer
- Elaine Whelan, Group CFO
- Jonny Creagh-Coen, Head of Investor Relations
- Neil McConachie, President
- Paul Gregory, Chief Underwriting Officer, Lancashire Insurance Company (UK) Ltd.
- Richard Brindle, CEO

Other Participants

- Adrienne Lim, Analyst
- Ben Cohen, Analyst
- Joanna Parsons, Analyst
- Nick Johnson, Analyst
- Nick Pope, Analyst
- Tom Dorner, Analyst
- Unidentified Participant, Analyst

Presentation

Jonny Creagh-Coen {BIO 16117271 <GO>}

Good morning, all. Ladies and gentlemen, thank you for coming to the Lancashire Investor Day. I'm going to make a quick apology. Alex Maloney, our Chief Underwriting Officer, has sadly been taken sick. So the panel is now Elaine Whelan, Charles Mathias, Paul Gregory, Neil McConachie, Denise O'Donoghue and Richard Brindle.

And on that note, I shall hand over to Elaine to kick off.

Richard Brindle {BIO 1983776 <GO>}

Yes, just -- Jonny, I just want to say something before Elaine starts, which is that -- I don't wish to sound too sort of sanctimonious here. But there's a dreadful situation in Japan. And we are just very, very keen as a Company that nothing that we say today sounds in any way like we are kind of being ghoulish about what's happening. And let's face it, if any of us had family in Tokyo, let's say, wondering what the hell is going to happen to this nuclear reactor, they must be very, very scared.

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I just think in our industry, sometimes people are too quick to think about the possible benefits from ensuing market conditions. I've always felt the industry falls on the wrong side of the line of good taste on that issue. And we just want to make clear that we as individuals are horrified by what's happening. That's not to say we won't, then, trade professionally in the market that ensues. But it's certainly not uppermost in our mind.

And with that, I'll hand over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

I'm going to let Charlie and Paul talk a little bit about our outlook. But first, just some highlights of our history so far.

Our strategy hasn't changed in the five years since inception. Our primary goal is still to maximize our growth and book value per share. And underwriting will always come first for us as a Company. We've included in here our combined ratios by major segment. And we're pretty pleased with these, particularly when you consider that we've had things like hurricane Ike and Gustav, Deepwater Horizon and Chile happening in the last five years. Our overall combined there is 56.7%.

And some more key metrics from our history -- our ROE, our combined ratio and our investment return. Our investment return has been positive every year. Our combined ratio has been well under 100% every year. And our ROE compounds at 20.3% over our history. And with that we'll get to the exciting stuff.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Elaine. First of all, it's probably worth noting that this presentation was put together prior to the horrific events in Japan. But what it will do is give you an idea of -- a base of where we may go from, depending on the ensuing fallout from the events in Japan over the coming weeks and months. So just please bear that in mind when I talk about the current position of markets.

I think the story of 2010 was offshore energy and the impact of Deepwater Horizon. In the immediate aftermath of Deepwater Horizon, we saw a significant positive upswing in the rates for all of the offshore energy classes. Principally, drilling contractors and control of well coverages experienced the higher end of those rating swings, albeit all parts of the portfolio did move upwards.

As we have moved into the end of 2010 and as we have seen at the beginning of 2011, I think it's fair to say that we are at the lower end of those swings now, albeit rating opportunities, good opportunities, remain, particularly in excess control of well coverages, where rating remains at historical highs.

One area of the energy portfolio that Lancashire traditionally hasn't been heavily involved in is the standalone liability market. This also witnessed significant rate rises; and, as you

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would expect of Lancashire, in any market where you see significant rate rises, we will investigate those opportunities and see if that's a marketplace we want to enter.

We concluded that, bar the odd exception, this was not a market where rates were high enough for us to enter as yet. One question in the energy portfolio that remains unanswered is the Oil Pollution Act in the Gulf of Mexico. We will wait to see what the US government does in this regard. Lancashire's position is very much to support our clients as and when there is a requirement to buy increased limits, albeit with the caveat that it would very much depend on the pricing adequacy of that product.

There are a number of factors affecting the offshore energy market, both from the demand and supply side. Lack of drilling in the Gulf, the current oil price and an increased scrutiny from oil company management on the levels of coverage purchased are all affecting the demand side. Lack of drilling in the Gulf clearly could have an adverse effect on demand.

Our Gulf of Mexico win portfolio is split between operators and drilling contractors. On the operating side, these are assets that are currently in place and already producing oil and gas. So the effect of non-drilling is not material. On the drilling contracting side, as you would imagine, there is a potential adverse effect. However, it's worth noting that during 2010 all of the drilling contractors that purchased Gulf of Mexico wind/storm from us before continuing to purchase the product as we saw their assets, whilst not drilling in the Gulf, conducting other activities for their clients -- things such as workover and recompletions, which were still allowed to be done.

It remains a little early at the moment to see if that trend will continue. But what we've seen on a positive note. And in recent weeks we've held some very preliminary discussions with some of our drilling contractors about renewal of their Gulf of Mexico wind product. What we've also seen is that a few licenses have started to be granted. And on the basis that the wind product held up last year with no drilling in the Gulf, the prospect of future drilling can only be good.

On the flip side, we also saw some of the multinational oil companies redeploy capital and drill elsewhere. And with an offshore energy portfolio that's more than 50% worldwide, i.e., ex-Gulf, this created opportunities for us. The other demand factors are implications of Deepwater Horizon with the company's management looking at the levels of insurance purchased and seeing if these are adequate. What we certainly have seen and continue to see is a number of companies reviewing the limits that they do purchase and have looked to increase them. This has created and will continue to create opportunities for us.

The current oil price, at plus $100, is certainly helping that demand shift. We will see values increase and limits increase. But also oil companies' balance sheets are being restored and there is certainly more of an inclination to buy when oil prices are at $100 versus $40 of two years ago.

On the supply side, I think it's fair to say that the stars do not perfectly align. Nobody left the market, other than one small syndicate. So market capacity remains very much the same. What did happen on the reinsurance side at the treaty renewals at 1/1 was that the anticipated rate reductions did manifest. Logically, that would mean that those rate increases would be pushed through to the direct market. Unfortunately, that's not always the case. And what we have seen, which probably explains why we are at the lower end of the positive rate swing, is that markets compete for market share to get income in to pay for their increased reinsurance costs.

In summary, the rating environment remains positive, albeit at the lower end of the swing that we've seen. There are opportunities out there. And we are certainly in a better position on offshore energy than we were this time last year.

The political and sovereign risk book is both an interesting and topical portfolio at this point in time. Since inception, Lancashire has written political risks. And about just over 12 months ago we entered the sovereign risk market in a modest way. The political risk product provides companies with foreign assets protection against confiscation, expropriation, nationalization and deprivation from host governments. The sovereign risk product provides financial institutions with protections against nonpayment, contract frustration on loans and similar products from quasi-sovereign and sovereign obligors.

The historical loss ratios and, probably most importantly, loss recoveries and mitigation post-event have always been favorable in these classes of business. It's a class of business that Lancashire has extensive expertise in. And the value of the conference call on this class of business is paramount. It allows not only the underwriters of that class to come together and discuss the issues of the world. But also all senior management. But in addition to that, we also seek the views of nonexecutive directors and also our investment managers. All of this together gives us a powerful underwriting tool when underwriting what is, at the moment, an interesting and difficult class of business.

Moving onto our other lines, our appetite remains very static for property Direct and Facultative. We focus on low-hazard occupancy such as hotels and offices. And that will continue. The majority of our book is written on an excess-of-loss basis. And during 2010, in what was a softening market, we reduced our exposure and focused on core occupancies and core clients, as you would expect.

Our outlook for 2011 prior to events in Japan was of continued softening, albeit with the caveat that the full effects of RMS 11 and the changes that may bring may have some impact on pricing. At this stage, it's too early to say.

On the Terrorism book, again, our appetite remains unchanged. The focus is for closed access risks. Where applicable and we deem relevant, we deploy dollars on an excess basis. And our outlook for that market prior to Japan was of continued softening, albeit not in the areas that are currently experiencing political and social unrest where, clearly, rates and terms and conditions are under current review.

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Our Marine book is incredibly steady, both in terms of portfolio and market. We have always focused on the high-value fleets. We don't write cargo. And this will continue to be the case. The market prior to Japan was expected to be flat. And there will be a small uptick in builders risk opportunities.

On the aviation side, again like Marine, very static. We have always focused on AV52 only and war. And we haven't written aviation hull and liabilities. Unless there's a significant change to those rates, I don't for see us writing hull and liabilities anytime in the near future. Our expectation as a market was that of continued rate softening, albeit somewhat -- the premium and effects of such somewhat offset by increasing passenger numbers.

I will now pass over to Charlie, who will talk you through our reinsurance lines of business.

Charles Mathias {BIO 16185351 <GO>}

I will. And if we look at these two slides in conjunction, really -- and again, at the risk of wearying people with saying it, this was put together before the tragic events in Japan.

We think about cycle management in a somewhat countercyclical way to many of our peers. We have, in our reinsurance lines, a focus in a hard market on the marginal pricing. And in a soft market we tend to focus more on the portfolio optimization. And it appears to us there's a fairly simple and straightforward reason for doing that, that in a soft market there are not as many deals that meet the pricing requirements. And there is plenty of capacity available to brokers to replace lines.

We've spoken about reducing our retro exposures this year. There are plenty of people in the market writing a product that we don't support -- or have been writing a product we don't support, which is a worldwide aggregate type product. We have used the soft market to look at our territorial attachment points and to refine those to do the portfolio optimization work to make sure that we've got a product that works efficiently for our capital base. What we've seen from other market participants is that they have been prepared to supply that product on a very broad basis. And that is not how we would manage our capacity through the cycle.

Clearly, the events of this year prior to Japan have a substantial impact on the reinsurance market, both the primary reinsurance and the retro market. Clearly, there was an effect that was going to be felt before the events in Japan. It is too early to say what the additional effect from Japan will be. And that will work itself out as the loss numbers in Japan develop. That's not going to come in the next days or weeks. It will take time.

In terms of our market brand and distribution, what we are showing you here is two measures of our business which can be complementary and again speak about how we manage our business through the cycle. Renewing business is business, as we define it there, that's like-for-like renewals, where we can make very clear direct comparisons between the business that we wrote last year and how it is renewing this year. New business is not just accounts that we did not write in the prior policy period but also

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accounts where there has been a fundamental change to the exposure that we are underwriting such that like-for-like comparisons are difficult or specious.

We also, then, look at core business and opportunistic business. The core business is business that we expect to renew through the cycle. We know that the pricing will move with the market. But we feel that these are clients who buy insurance or reinsurance from us for the right reasons and that we can expect to meet our returns right through the cycle.

If you look at the different classes, where Aviation, because we have a very limited and defined appetite, all our Aviation business we expect to renew. It's written through line slips. So we expect to renew it. Similarly, with the Marine business we've got a very limited and defined appetite. Rating isn't moving in any great manner that would get us to move away from that core part of our book.

On Property and Energy, however, there are opportunities to write opportunistic business, business where the pricing at this point in the cycle is attractive to us. But we recognize that if the pricing were to move down, that business might not be something that we would look to renew.

We would just make a comment, perhaps, there that if the market is hardening, we would expect to see more opportunistic business. Clearly, if rates are impacted we would expect to find more business that works for our capital model. We do, when the market is softening, stick with our core clients and stick with our brokers. That may mean that we write a smaller share of a risk that we attach at a higher layer. But we are very, very concerned to maintain the core.

And as a specialty company, we have a very clear focus on our underwriting, that we have a very skilled group of underwriters with direct management input into the underwriting. And we make sure that we stick with those core lines of business.

Model changes -- there's a lot going on. Again, it is a little early to say how this will play out. RMS 11 was delivered to the markets last week. We are, all of us, running those new models. It is, I think, worth saying at the outset that the guidance that RMS gave in the latter part of last year has not been an accurate prediction of the actual impact on portfolios. RMS have been very upfront about detailing this to the market. There are a number of specific reasons for that. But there is clearly a definite impact for the market from that.

Key points -- coastal wind is still the big driver of loss. But non-coastal wind risk is substantially increased. There is a split between commercial and residential business. There's a significant impact from storm surge. And we have now got RMS's view of the offshore model following what they've done after Ike.

Looking at the specific impact of surge, what the model has done is to take the effects of wind speed and recognize that it doesn't necessarily correlate directly. So whereas, before, the correlation between the surge and the wind speed at landfall was direct, there is now a recognition that with very big storms, a Cat 3 at landfall can have the same impact as a Cat 5, if it's a very large storm. And whereas the surge part of the loss was roughly adding 5% to the wind, it's now greater than 10%, in the range of 11% to 13%.

And what you're seeing here is that, clearly, Florida is still very much the biggest driver of loss. But there are substantial increases in other territories. There is a recognition that the data that they have collected from Ike indicates that adhesion to building codes is not as good as the model had supposed. And that in Gulf states, in particular, where you've got a lot of heat, you've got a lot of humidity, you've got a non-unionized workforce, that winds -- that roofs are failing at lower wind speeds than the model had estimated. So all of that is driving change.

On the offshore model, we would remind you we talked to you in 2009 about the risk learning that Lancashire had done following Ike, where we had created our own internal damage ratios for the different kinds of assets that we insured. We had applied those in our models. And it's fair to say that, although, as I say, work is ongoing at implementing the model, certainly our assumptions are no less penal than the model's assumptions.

Wave action is now in the model. Clearly, again, part of the learning from Ike was that very sustained long periods of peak waves can do as much, if not more damage than wind. The fact that shallow-water assets now only represent about 5% of our book was something that we learned directly from Ike. We've taken the actions on the offshore book that we wanted to. We don't foresee that this is going to have a significant impact on the way that we write our offshore energy business.

Our Renewal Price Index -- again, at the point where we were putting the presentation together the impact of renewal pricing and how you measure renewal pricing is a key management tool in a softening market. The honesty with which we do it and the transparency with which you do it is key. We always measure RPI on all our business where we can find prior-period rates, terms and conditions. But the numbers that we present are always the numbers only on the like-for-like renewals. We do take terms and conditions into account. And we do use a standardized measures across all our classes of business for the risk and the catastrophe part of the calculation.

We weight our RPIs by premium so we don't get distortions. And we don't include in our figures RPI on new business. You've heard us talk about the importance of the daily underwriting call to UMCC. The RPIs are something that is a key part of any underwriter's presentation of this business. And Paul and I as CEOs will question RPIs. And the UMCC as a whole does make it very transparent internally that we are using those correctly.

We are just showing you here some impacts of what happens to rates as market events come. So obviously, for the Energy account, with hurricane Ike you see a very sharp spike in that Second Quarter. For the D&F markets, there is a positive effect, albeit more limited. Then again for the Energy market, following Deepwater Horizon there's an impact there. So it does correlate with how we write our business.

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So there you are seeing us pull back from market share when pricing is not adequate. We are getting rid of opportunistic business and retreating back to our core.

And now, the financial side.

Denise O'Donoghue

Good morning. I'll just talk a little bit about the investments. Our focus hasn't changed -- try not to lose money. It has been our core value since inception. And looking at how we ended the year in 2010, we had a good, positive return of 4.2%, which we were happy with. We had duration of 2.2 years, which was probably a little bit less than it had been at Q3, which was about 2.4 years. It came in slightly as a result of having extra cash for our year-end dividend. Our quality hasn't changed.

What did change slightly for us that we were not happy with was our small negative return in Q4. What we have decided to focus on moving forward to 2011, which is sort of the focus for today in thinking about how we want to get the portfolio strategy going for the next year. The big focus for us is interest rate risk, as it is for any company with such high amount of fixed income in their portfolio. We are 100% fixed income and securities in cash. And as result interest rate risk in the upcoming years is going to be a strong focus. We're looking at ways to mitigate this risk and how we can better mitigate this risk than we did in Q4.

So what we have done so far is to shorten duration, which is sort of a first obvious step to do that. We have brought it into two years. And we will maintain it probably around two years, if not under two years in the upcoming year. We can't time when interest rates will rise. But we all expect them to rise in the upcoming year.

Our second focus is looking at what kind of asset mix we have in our portfolio and if we can stretch it a little better in periods -- preparing for periods of rising interest rates. We have had a strong amount of corporate debt in our portfolio. We feel that credit spreads will tighten as interest rates rise. Historically, that is what they have done. So we will keep our allocation fairly high at about 35% in corporate debt.

What we also would like to do is to have some equities in our portfolio. They're proven protection -- not proven protection. But historically has shown that in periods of rising interest rates there's very low correlation between fixed income and equities. And so we expect equity's to provide protection. Protection is really the key focus to entering into equities. It's not to enhance return as such, as it is to provide a tool to mitigate that risk.

We don't anticipate allocating any more than 5%. We have hired an investment manager to do this on our behalf. And we have not, as such, put too much into it. The markets are a bit choppy. So we are going to try and time this over quite a long period of time, watching the markets and trying to figure out when the best time to get into equities is. We have chosen an equities style that will provide dividend income. So the focus is dividend income strategy. So that we will also enhance our yield a little bit as well as -- by bringing in duration in the current environment, our yields are fairly low.

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I'd say the last sort of thing, the remainder of the portfolio, we will bring down emerging market debt a little bit, try and maintain our risk budget, as we have in the past. And we will also keep our treasury inflation protection and securities about the same level as it is now. They had a very good performance in 2010. And they continue to perform well in 2011.

That's not to say they have a fantastic yield. But we try and think in terms of total return. And they have been a very good diversifying asset for us in that way.

And that's probably the focus for us for 2011. And hopefully we have a positive return once again. I will now turn it back to Elaine Whelan for reserve adequacy.

Elaine Whelan {BIO 17002364 <GO>}

Thanks. I think reserve releases in general in the industry have been getting a bit of attention over the last couple of years. And we had a fairly substantial reserve release last year of about 100 million. Just to let you know that our reserving methodology hasn't changed, we continued to reserve for attrition. And we look at large losses and loss events on an individual basis.

We've had releases primarily as part of where we are in our growth and our maturity. We've been earning[ph] for five years now. And 2006 has seen about 30% development favorably; 2007 has 40%; 2008, 17%; and 2009, 34%. And part of that is because we have been using industry data to do a lot of our reserving because we haven't had that history ourselves.

We now have that history. And we are going to start overlaying that history. And we've actually commissioned Towers Watson to conduct a study of our reserves. And we should see an adjustment because of that. Then we will start overlying some of our own data on those reserves going forward.

On capital, we have always said that our outlook will drive our capital and not the other way around. That's still the case. We don't write for volume or for top-line growth. I said that in the beginning, that our key metric is growth for the converted book value per share. That's still very much the case.

We have also said that if we can't find a use for our capital, we will give that back. And that has typically been by special dividends or share repurchases or a combination of the two. This chart here is really just to give you an example of how we think about capital, kind of across an annual period, if you like. And we set targets internally on what kind of tolerances we want to stick to, how much headroom we want to carry inside and outside of wind season. Inside wind season, we obviously carry a little bit more headroom than that.

And typically, we would expect to make profits every month and buy back shares kind of at pace with those profits, if there isn't any other better use for our capital. If our share multiple is too high, then on a relative basis that trade doesn't necessarily make sense. So

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we may stop those share repurchases or slow them down. We may also stop or slow share repurchases during wind season.

When we get towards the end of the year, we reassess our outlook for the following year and determine at that time whether we need to keep that capital, raise capital, return capital, whatever our outlook is drives that decision. Because of that, we tend to keep our ordinary dividend very small. It gives us a lot of flexibility and it allows us to make those decisions based on our outlook as opposed to having to write to fill that capital budget.

And we've seen quite recently what can happen to your share price when you cancel a dividend that the market expects. And we don't ever want to be in that position. We like to have that small ordinary with a big special to adjust it to where we need to be.

This last chart, if I can get to it, this just shows you what we have done over our history. We have returned capital when we have gone into a softening market or when we have come out of a period where we have held excess capital because of a stressed market. So we've kind of done what we said that we were going to do. We've given it back when we can't find a use for it. And we have kept it when we think that we need to, to be able to take advantage of the opportunities that we have. And going forward, we will continue to do that -- returning it when we have excess or a poor outlook, if you like. And we will keep the capital and fully utilize it when the opportunities are there. And raise capital as necessary.

And I think Neil is going to summarize for you.

Neil McConachie {BIO 7540962 <GO>}

I'm just going to bring all of these up. Somebody from another company asked me on Friday when we had planned the investor day. And I said we had planned it weeks ago. He said, oh, that's terrible timing. And I said, well, it could have been worse; it could have been two or three weeks later. And we are going to tell you that we are not going to tell to the Japan number. And I'm sure two or three weeks later we would have had more pressure to do so. So the timing could have been worse.

But I think there's three things that we did want to get over today. First of all is the bench strength of Lancashire. I'm not sure how we would have fit Alex Maloney on the table as well. And we had to kick Jonny off, for obvious reasons. But you can see, even without Alex, there's a lot of strength here. I hope you get to know everybody on the table a lot better in the future.

It's also to remind you of our long-term performance. It has been excellent. We are not a company that looks at share price; we are a company that looks at growth and book value per share plus dividends. That, over the long-term, is all that matters and that, over the long-term, has been excellent. We've made our owners a lot of money. And that's what we hope to do going forward.

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Recent events have not changed the faith that we have in our strategy. We are happy with it; that's going to continue. It has been a reasonably tough start to the year and also a reasonably tough end of last year for the industry. In 2010, we had the earthquake in Chile and then a large energy loss to the industry. This year we've had a large earthquake, another decent-sized earthquake and a decent loss in the energy market. So it's shaping up about the same as last year in terms of industry events -- plus, then, you've also had RMS, which is going to have an impact on capital requirements in the industry as well.

I would just remind everyone that if you look at the New Zealand and Australia losses, which everyone has sort of forgotten about, Lancashire's loss across all of those events at the end of last year and the start of this year, we estimate, is less than 2% of industry losses, which we are happy with.

Then the last thing, obviously, is looking forward. And Paul has talked about that and Charlie has talked about that. I'm sure you will have some questions as well. Possibly on things like Egypt, Richard might have a few things to say there.

However Japan turns out, the pricing expectations for us and probably for the industry are better than they were a month ago. We can say for sure there's going to be improvements in pricing in certain areas of the property cat book. And we don't know what the improvements might be across the rest of the classes. But even if they are flat it's an improvement on reductions, which is what you were seeing before.

So the outlook for us and for the industry, the outlook for profits for the next 12 months are better than they were a few weeks ago.

So this last slide is just really showing the strategy that we have, which right at the top is to make a good long-term return for shareholders, has, we think, worked. We've made a very nice return to our shareholders between growth and book value per share and dividends. We've given back over $1 billion of capital. So our capital management philosophy we can point to very clearly and say we have stuck to that and it's been successful. And we've produced a nice combined ratio as well.

In terms of capital management, mostly in the last five years we have not had enough good ideas of how to use capital. Going forwards, if we feel that the underwriting opportunities are compelling enough, we would consider raising capital. But that's something that will be done in the context of the underwriting opportunities ahead.

I just want to make one last point. There was a press release that came out a couple of days ago that talked about our exposure in Q1. I think that we didn't make it clear enough in the press release. I think Jonny has to take responsibility for this, that the cat losses that -- it's not just Jonny -- the cat losses were 15 million to 25 million.

The Energy loss and the Egypt loss, the large majority of that being the Energy side -- that's just normal run-of-the-mill losses. That's what's budgeted in standard losses. They are not cat events. That's not something you should take out of your cat budget for Lancashire. That's just standard losses we expect and budget for.

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Okay, on that bombshell, unless anyone at the table has got any other points -- Richard, got anything else?

Richard Brindle {BIO 1983776 <GO>}

Probably a slip of the tongue. But you said our losses were, on the Australasian stuff, were less than 2% of the events themselves. I think you meant, of capital.

Neil McConachie {BIO 7540962 <GO>}

I meant, of our capital.

Richard Brindle {BIO 1983776 <GO>}

Yes, yes.

Neil McConachie {BIO 7540962 <GO>}

I'm sorry, of our (multiple speakers) equities.

Richard Brindle {BIO 1983776 <GO>}

It would -- basis points, we had a very small share of those events.

Neil McConachie {BIO 7540962 <GO>}

My mistake.

Richard Brindle {BIO 1983776 <GO>}

Okay, guys, open to the Q&A. I will field the questions out. So please go ahead.

Questions And Answers

Q - Tom Dorner {BIO 15847486 <GO>}

Tom Dorner, Oriel Securities. Just a few quick questions on your core portfolio. I think in the past you said it was about 60% or 70% of your book. So now it is around 80%. I presume the increase is just dropping a way of more opportunistic clients as competition has been more intense.

I wanted to ask also, are you seeing any threats to the existing core clients that you have? And maybe it is a bit early to say this for sure now. But the opportunities that you expect to emerge following recent events and the better pricing environment that might ensue, do you think those opportunities are going to be with your core clients, or do you think that will be more opportunistic clients or new clients to you? Thanks.

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A - Richard Brindle {BIO 1983776 <GO>}

Yes, let me just deal with the second part of that first. And I will hand over to Charlie and Paul.

I think in the near future, the new opportunities are likely to be in the international property/cat arena. And the international cat arena full stop, frankly, that make might well apply to D&F. We have seen a couple of risks already, which they are certainly clear that there is no consensus amongst the market on how to price it. And the disparities are really huge. We are very much at the top end of that range.

I think a lot of people don't know what to do candidly. But if you step back and look at what has happened in the last 12 months to ex-US cat, it is pretty staggering. I mean what, 10 for Chile, while it is all the Australasian stuff put together, 20 put together, Japan we don't really know yet. But you can see it is maybe $50 billion is a reasonable figure against the premium base commonly reckoned to be $6 billion to $10 billion. So it is clearly a completely unviable product. And we just whilst we will lose money from Japan, a lot of the stuff we have not played in, which will help us.

So I think in the short term the opportunities will be in international cat. It may well broaden into the US side when we will get our hands around the model change. But we only got it last week. We are not going to overact too quickly. There is some stuff in there that does not make a lot of sense to us. So we need to look at that in detail and make sure it passes the Smith test, if you like. Because we are not slaves to these models. They have to make sense.

And I will let Paul, Charlie on the call client question.

A - Charles Mathias {BIO 16185351 <GO>}

Yes, exactly right. During a softening phase of the market, which we have been, you would expect the proportion of our book that is our core clients to increase. And that is exactly the effect that you have seen.

Yes, on the flip side of that, we seem to be heading into a hardening market now. So you would expect us to find more opportunistic parts to our portfolio. As to whether the opportunities will come from core or opportunistic clients, we would expect it to be a mix. As Paul has already referred, some of our existing core clients on the energy side are buying more coverage. And equally on the direct property side, we have quite a substantial opportunistic book. And if, as Richard says, the model has the kind of impact that it looks as if it is going to have, then we would expect to see a lot of the business that we have come off over the last couple of years probably returning to the market.

A - Richard Brindle {BIO 1983776 <GO>}

Timing, as we are always saying in life, is everything. And certainly my timing at the earnings release and talking about how we have written some New Zealand and Australian backups was not the best when there was some a massive great earthquake in New Zealand the next day. Although, just to clarify again, perhaps something we have not been clear enough about is those backups we wrote were not impacted by the second New Zealand quake. They sit further back in the food chain. Some of them we have written would respond if there were another massive quake between now and the middle of the end of June. But others you would actually have two more events of such severity to impact them. So you can appreciate the pretty distressed sales. And the pricing was not 100% of what the original deals had been placed on.

A - Paul Gregory {BIO 16314515 <GO>}

And perhaps one other point, too, to make is that a lot of people who have perceived a strategy of diversification over the last few years of writing more international business cat essentially to enable them to manipulate the capital model and, therefore, write more US business off the back of that, people who have opened offices in local markets which have to write business to justify their existence, that part of the model seems to be broken now. It clearly has not worked over the last year and a half.

A - Richard Brindle {BIO 1983776 <GO>}

That is what has traditionally been known as the bucket mentality. You have a bucket for each sort of discrete geographical part of the world. And you fill that bucket kind of regardless of pricing. That is something we reject. And certainly Chile showed that there was a flawed strategy.

But there are markets such as in 1994 property/cat market after Northridge when I started writing large amounts of property cat where the bucket approach became the correct approach because every bucket was so damned well paid. So again, it's about the points in the cycle. But a lot of those buckets have been woefully undernourished until now.

Q - Unidentified Participant

Sorry. It is really just a follow-on on that point, not just in terms of the bucket and the pricing in each of the buckets. Given the loss that we have just seen, are we worried that some of those buckets that we thought were actually non-correlating are actually going to end up being correlating? I mean clearly we can see the potential for business interruption going all around the world as a consequence of the Japanese disaster and, likewise, obviously the effect of the tsunami pushing through losses into different territories.

A - Paul Gregory {BIO 16314515 <GO>}

That is a very good question. I think it is about touchment point. I think we are seeing in Japan with these potential CBI losses that if you are writing primary either D&F or property/cat, there are some unforeseen and strange consequences. As you know, on our property/cat accounts, we continue to try to attach at a level where we feel that if there is a loss, it will probably not be correlating across unforeseen territories. It's going to have to be a very large event in that particular territory.

But another consequence I think, it is early days. But we might see out of all this is what we call the worldwide ex-US market I think is now gone. In other words, I don't think companies can go and buy a reinsurance product for worldwide ex-US. It has just been hit

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now 4 times, arguably 5 times in a year, because we don't have any losses come out of Australia.

So I think what you will see now certainly in the retro arena is such markets as are still left in the game, which will not be very many, will offer very specific towers for stuff like Australasia only, Latin America only, Turkey Israel only, Japan only. Even Europe will probably get carved up. Don't know how to get. So you're going -- and you remember when we launched the business. And what was great about the 2005/2006 market was it was so distressed that you were able to really name your territory and name your price. And I think we may be going back to those sort of conditions.

Q - Unidentified Participant

Just you have a reasonable audience to the Japan quake, I don't want to ask you the question I know you can't answer what it is. So you clearly saw that risk as reasonably well priced. What kind of price increases on that area would tempt you to go higher. And how much higher are you prepared to go? Could you give us some sort of feel as to where that was in your risk appetite arena, where it could be. And what it would take to get there?

A - Richard Brindle {BIO 1983776 <GO>}

Yes, I mean I think it is probably sort of in the middle. The thing about the Japanese market, as I'm sure you know, is it's very, very loyal. One of the reasons that we are trying to temper our remarks today with some sort of decorousness -- if that is the right word -- is that they are grade people -- -- decorum, indeed -- is that they are -- we will chuck an extra syllable in if it sounds better -- is that they are great people to do business with. And we feel great sympathy and distress for them. You know, we are speaking to the Aon Benfield guys in Tokyo yesterday. And they were having an emergency meeting as to whether they actually had to get out of Tokyo. It is all horrible stuff.

And what you're probably going to see, you may have picked this up on the grapevine already, is some of these programs get extended for three months. And we are going to trust them to backdate the rate increase to 1/4. We feel that is appropriate to try to force them now when they are actually wondering whether their kids are going to get radiation sick, sick, sick to be forcing them now into paying huge rate increases, which I have no doubt will be the end result, seems to us to lack decorum.

So what you will probably see is extensions of these programs where there will be sufficient trust on both sides. Wherever we end up pricing the renewals, that renewal is backdated to 1/4. I think that is a dignified way for our market to behave and I applaud it. That was really Swiss and Munich who set the tone for that. And well done to them.

What is going to happen to pricing? Who knows? I almost don't want to talk about it. I hope you can understand that. But I don't see it suddenly becoming a massing area. If I had to guess I would say because it is such a big material market, I think the rate increases will be more muted than it would be in a less mature market such as New Zealand or Chile. So it is a personal view. I have not really thought about it.

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A - Charles Mathias {BIO 16185351 <GO>}

I think the only sort of market consensus at the moment is that a lot of markets are saying, no reductions, no further reductions on all lines.

A - Richard Brindle {BIO 1983776 <GO>}

That is a different point, Charlie, which we will get onto. But just on Japanese cat, I'm just making the point that the market, I would expect it will clearly rates will go up a lot. I think they might go up less than New Zealand.

Q - Unidentified Participant

But I'm more trying to get a feel of what your additional appetite for that risk might be given -- I mean let's imagine that it's 12 months' time. The rates have gone up by 15%. Let's imagine when I look at that RDS for a Japanese quake in your accounts in 12 months' time, what is it going to look like relative to where it is now?

A - Richard Brindle {BIO 1983776 <GO>}

Well I think it will be a lot more than 15% because of the magnitude of what has happened. And yes, you can expect to see it go up but not exponentially. I mean we have a track record now of going into areas where there have been losses the resultant market is dislocated. And we tend to increase our exposures in those markets. That is kind of what we do.

A - Charles Mathias {BIO 16185351 <GO>}

I would say long-term it is more likely to be a lower number than you will see in US markets simply because there is more business available in US markets at reasonable prices. But you can maybe see a short-term increase in the Japan number. Whether it ends up being above the US I think is unclear. My guess is (multiple speakers) probably not. But long-term it will likely be less than US.

Q - Unidentified Participant

Do you regard this as a core client or as opportunistic?

A - Richard Brindle {BIO 1983776 <GO>}

Our Japanese clients are core clients. We visit them every year. Like I say, they are excellent people to do business with. But Charlie touches on one important thing that we should get out there is that I think the sensible people in the market have all arrived at the same conclusion, which is no more rate reductions on anything now. And that message is being put out by us and many other markets as of last Friday, frankly. I think there seems to be an understanding that that is the case. And we will take it from there.

I can't speak for the casualty markets. We don't write casualty. But you would hope they would do the same.

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Q - Ben Cohen {BIO 1541726 <GO>}

Ben Cohen, Collins Stewart. Could I ask two things? Firstly, just in terms of the layers and the structure of the business that you have written in Japan, I think you made a comment to say that you are at high levels. I think there have been indications that you feel that you would maybe avoid some of the lower issues. But maybe you could just talk through how you see your exposure stacking up just in general terms to help us get a fair list of where you may sit against some of your competitors?

And the second thing I wanted to ask was, in terms of your available capital also in the context of fairly low debt leverage in the group, how much sitting where you do now, how much more business do you think you actually have the capacity to write with the shareholders equity that you have at the moment and the debt leverage that would be available to you? Thank you.

A - Richard Brindle {BIO 1983776 <GO>}

I have been thinking -- I will defer to Neil and Elaine on the second point. I'm not sure which of them will take that. On the first, I mean it is such early days. But I mean what is true to say is that our property/cat account has been geared towards a big Zone 5 event. That is not to say we will not get touched by this. But that has been the sort of layers which we have been talking. Low rates on line, excess of a very large percentage of the Zone 5 aggregate. Obviously that is going to translate into a much bigger access point for Zone 3. And it is also true that we have reduced our retro writings. Retro attaches much lower in the spectrum of return periods, as you know. And we would hope that would help us as well. Beyond that, it is probably too early to say much more on that.

A - Neil McConachie {BIO 7540962 <GO>}

Just probably on the direct and fact book, it is worth noting (multiple speakers) that, again, as we discussed earlier, it is on a excess of loss basis. But at this point, it is a little early to see if the losses will get through to those layers. But we are certainly not on a primary basis.

A - Richard Brindle {BIO 1983776 <GO>}

I think what is also true to say is that all of the pro ratas are going to get hammered as you would imagine. And we don't write any of those. The second question?

A - Neil McConachie {BIO 7540962 <GO>}

Elaine, why do you take the second one?

A - Elaine Whelan {BIO 17002364 <GO>}

Sure. Familiar to our capital levels for this year, we set them with a level of headroom in there to absorb large losses and to give us a little bit leftover for a rainy day for other opportunities that might come up. And we will look at capital pretty frequently and quite obsessively, in fact. And we look at a number of different capital products there. So we look at debt, we look at equity, we look at reinsurance, we look at site cars, we look at a

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whole host of different types of capital instruments. And we are doing that now. We did it two weeks ago. We did it two months ago. We will continue to do that.

In terms of what we see going forward, again, it's very on its tail what is going to happen with the Japanese market and how that is going to impact the rest of the world. Once we have a better understanding of that and a better outlook on that, then we will make a capital decision around that. So it is kind of too early to give you any kind of hard answer on that one.

A - Neil McConachie {BIO 7540962 <GO>}

I'm not trying to dodge the question genuinely. But we just don't set premium budgets. We don't set capital budgets. It is driven and always will be driven by the underwriting opportunities ahead. And if there's compelling enough opportunities, it is absolutely in everyone's interest to take full advantage of them. That can include raising capital. We just don't know if that is something we want to do or not.

A - Richard Brindle {BIO 1983776 <GO>}

If you look at where the industry is trading now in terms of NAV, probably most of the capital that comes in if there is an opportunity will come to existing carriers you would think. And I think we have furnished a pretty decent reputation as knowing how to pick out the sweet spots in the market.

A - Neil McConachie {BIO 7540962 <GO>}

We have given about $1.1 billion in capital to some reasonably in most cases happy shareholders. It is easier to ask for money when you have given back money for sure.

Q - Nick Johnson {BIO 1774629 <GO>}

Nick Johnson, Numis. These are both actually slightly follow-on questions from Ben.

Firstly, on Japan when you look at the events, is what you see broadly consistent with your general RDS assumptions? I.e. had you factored in the tsunami losses whether it is the quake damage into your RDS type calculations? And secondly, you had been reducing, I think, your exposure to one in 100-year type loss to sub 20%, I think it was, recently. How quickly can you increase that? Do we need to have several months of profit or quarters of profit before that can be increased? I.e. do you have to take the Japan event into account when looking at the timing of increasing your exposure appetite potentially?

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Probably the first one for Charlie. I would have thought the second one for Elaine.

A - Charles Mathias {BIO 16185351 <GO>}

Yes. The models do include the tsunami effect within earthquake. It is, I think, albeit very early it is safe to say that certainly for Zone 3 this degree or extent of tsunami was not included in the model. Whether this equates to people's RDS, which is based on a Tokyo

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event not a Zone 3 event, again too early to say. But it feels like this is a very substantial loss. So I would say that probably RDS numbers are not going to be tested too far by this. But it will not be far off.

A - Elaine Whelan {BIO 17002364 <GO>}

On the second part, we can move pretty quickly on that. Again, we have got headroom there that we carry that gives us the comfort to absorb large losses so that we can move pretty fast after this kind of stuff. The changes in the models are coming off are not going to impact the US. They are not going to impact the rest of the world. So it is not -- there is nothing there to inhibit us from increasing that P&L pretty quickly.

A - Richard Brindle {BIO 1983776 <GO>}

And they will only impact the wind peril in the US, not the quake.

Yes. So as Neil said earlier, it is very unlikely that our risk levels will ever equal or exceed our US wind number. That is going to probably be the big driver with the rating agencies. So there is plenty of room within that to write some opportunistic deals.

Q - Joanna Parsons {BIO 1558226 <GO>}

Joanna Parsons, RBS. I just wanted to follow up on some of the earlier comments. In talking about the Japan quake and the models, I know you said you don't just use models. But do you think what has happened in Japan is going to make people revisit their assumptions for the big Tokyo quake?

Also, there were models reducing the size of earthquake loss elsewhere in the world. Do you think those will now be revisited? And there are some people who have been suggesting that RMS 11 will not really have any impact at all. Now that was obviously prior to the events of the last few days. So I wonder if you could give us a little bit more feel as to what you really think the market appetite is for revisiting these models and actually looking at them seriously in terms of exposure?

And I just wanted to clarify also in your comment that you said that in terms of your portfolio, there are now no great reductions. I know you don't write casualty business. But are you saying that that is right across the board for terrorism, for aviation, for the whole lot, or was it just for the property portfolio?

A - Richard Brindle {BIO 1983776 <GO>}

No. That is for everything. I think it is important that market leaders and we lead a large proportion of our business stand up and be counted at this time. And there could be capital erosion to the industry is now substantial. And it is important that we try and stop the rot. We are not alone in saying that, which is what is encouraging. You know several of our major competitors, strong peers in London are saying this. There is less news out of Bermuda. But on version -- I will hand over to Charlie -- on version 11, I think people are trying to give us now impact, they are talking absolute nonsense. Charlie?

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A - Charles Mathias {BIO 16185351 <GO>}

Yes, I think there was one specific feedback that came back from the guidance that we got in Fourth Quarter where it was saying that there would not be any impact in Florida. Florida was going to come out pretty flat. And RMS has been very upfront about saying that they think the guidance was misleading for a very specific reason. The guidance was based on the industry exposure database, which includes Citizens. Citizens is all residential, all coastal. And if you take Citizens out of the portfolio because the residential portfolio performs better than commercial coastal, there is not as much changes in land. When you take Citizens out, the effect on Florida is actually very marked, particularly inland.

So I think that might have been the comment that was leading some people to think that maybe it was not going to be a big change. It is a big change in Florida unless you are Citizens.

In terms of people questioning the model, we met with a client yesterday who was proudly showing us the reduction in his version 9 AAL. And we had to say with gracious deference to your underwriting actions of the last year, your model result is about to go straight back to where it was, if not further north of where it was. And a number of people are questioning. This is supposed to be a data-driven release.

They have done extensive work on the actual losses. But at the moment, all the people we talked to, clients we talked to. And the testing that we are doing on our portfolio seems to suggest that maybe there are some anomalies between the implied model change and the actual previous experience. Will it cause people -- will this loss cause people to revisit the modeling? Yes, I would imagine it will do. Whether California takes in or Washington state takes into account tsunamis sufficiently, there are lot of questions around it. It will take time to work out. There is no doubt of that.

A - Neil McConachie {BIO 7540962 <GO>}

I had a couple of things to add on to that. The quick model numbers I think in IMS came down a couple of years ago. There is a study done by some US geology society every six years. And that had come out. And that drove US quake numbers down. It was really because of that study. That is normal to see an adjustment every six years.

I cannot comment if there were major adjustments in any other zones. But that was a specific US thing. Every time there is a big event such as one we have just had or two we have just had, the modeling agencies learn from it. They do a big exercise afterwards. And there will definitely be lessons learned from Japan. That is just normal. That is just the way it goes.

It is too early to tell if the model is done well or not done well in Japan. And just the last point I wanted to add was we don't use the models out-of-the-box. You know this. But let me just repeat it. BLAST, which is the Lancashire model, is substantially more sophisticated than RMS or AIR[ph]. We feed in RMS and other areas into BLAST. But then we make a large amount of adjustments. For instance, we had seriously increased damage ratios for offshore events two years ago. And RMS is just catching up now. And so, as Richard has pointed out, we don't necessarily just take what they tell us. We use our own judgment as well.

Q - Joanna Parsons {BIO 1558226 <GO>}

I appreciate that. What I'm trying to work out is whether you think the rest of the market, the broader market, whether they are actually going to be revisiting their books of business and perhaps starting to do what you are doing. But saying actually, you know what? The risk is much greater. And actually we don't have as much capital as we thought we had. Therefore, we cannot be as competitive. Is it -- do you think it is going to have a sentiment hit?

A - Neil McConachie {BIO 7540962 <GO>}

Yes, I do. I do, Joanna. Yes.

A - Richard Brindle {BIO 1983776 <GO>}

But I think that will be -- in the decent companies, that will be driven internally by a proper appreciation that these things can be surprisingly big. Others will try and stick their heads in the sand. But I think there will be no hiding place for any now. I think the rating agencies will be all over us. There have been so many of these events now. You can't just pretend it is a --

Q - Adrienne Lim {BIO 16537674 <GO>}

Adrienne Lim, Morgan Stanley. Can you talk about your risk appetite for any one given year given the early three months through the year? I mean how much can your balance sheet take in terms of retention levels if we have another hurricane or a couple of major losses throughout the year?

A - Neil McConachie {BIO 7540962 <GO>}

One year, a calendar year is not really -- you probably did not mean that -- but it is a perspective 12-months periods. We don't just budget or look at our expected risk once a year. It is something that is continual.

We have a cat budget. It is designed to -- in other words, we assume there will be a certain number of cat losses. The fact there has been some cat losses is not a surprise. When we underwrite terrorism, we assume there's losses in the terrorism portfolio. So the fact there has been some losses is not something that is a surprise. We expect there to be losses.

Again, I'm not dodging the question. If you write the business that we write, you should not be surprised that there is an earthquake. And to be honest, you shouldn't be surprised if there is a large terror attack every couple of years.

A - Richard Brindle {BIO 1983776 <GO>}

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Yes, I think one of the things that did not receive as much focus as we would have liked is just how low our exposure was to the Australasian event, possibly due to us conflating that in hindsight with an energy risk in our press release which nobody else did. So maybe that is a lesson learned for us.

By the way, that energy risk, I don't know if you want to talk about it. But it is a pretty damned big loss. A big unit in the North Sea lost its moorings. I'm going to bona fide the energy loss in Egypt. We picked up a few million dollars on a supermarket that got looted in the days before Mubarak stepped down. I'm pleased to say civil society in Egypt is returning to a very decent orderly state. And the people of Egypt deserve applause for that as ditto Tunisia. I don't know if I'm going to off piece here.

Libya obviously where -- Libya there are assets there, which we ensure I think the ones we ensure are kind of it is a confiscation policy rather than a physical damage policy. So we may be okay there. There is not that much in Libya. One of the bazaar things about this conflict is it is being waged over a massive area. And they reckon Gadhafi has as few as 1500 troops. So it is a bizarre war, sort of fought over very long distances by very small numbers of people. But not big ensured values in Libya.

Egypt's market has pretty substantial political risk exposures as you would expect for a major economy. But we are reasonably sanguine about that. Most of our exposures are confiscation exposures for foreign companies trading in Egypt. We don't detect any hint from any strand of potential new government in Egypt that they want to go around nationalizing foreign companies assets. Quite the contrary. I mean people want to get the economy kick started, get tourists coming back, get some GDP growth back into the system. I have gone all over the place with this answer.

So there is no sense -- we have losses. And it's extremely important not to panic. We are well under way on Australasia. We have absorbed another major energy loss, which is fine. That is what we do. We have got a small terrorism loss. Japan is going to be expensive for everybody. But we have taken some actions since Chile, which we hope will mitigate that loss. And to Ben's earlier question, we do try to attach the property/cat account for the major Zone 5 event. So if that is -- if the models hold even remotely true, that will help us. And we now push forward.

Obviously we are not going to be buying back any shares now. But we think we have adequate capital. And we will be out there looking for opportunities. I mean just yesterday we did a fantastic further backup deal in New Zealand. And before I get misquoted, this thing is -- you would have to have two more mega-quakes in New Zealand in a four-month period for it to pay out. And it is paying lots of money. And we don't shy away from writing those deals. That is what we have do.

And in fact, I've always made it an article of faith in my career quite apart from anybody else that Lloyd's, for example, on Friday most of the boxes were closed.

Now if you think about that for a minute, that is crazy. A major event happens and what your clients and brokers need is to know that you are still there. In addition, there may be

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some stellar opportunities available to you. A pretty weird time to go and close your box.

So as we have always said, if something big happens, we are out there the next day, not recklessly. And these incisions are made with the full involvement of Neil and Elaine. So we are not, if you like, old-style underwriters, just back to doubling down because it feels like a good deal. We try to look at all the moving parts in all the parameters. And capital levels are probably the predominant factor in those conversations. But there are deals to be done. And we will do them.

Q - Adrienne Lim {BIO 16537674 <GO>}

And just a follow-up question, in your pricing negotiations in Japan following the event, I mean, prior to the event, were any of the quotes already agreed on?

A - Richard Brindle {BIO 1983776 <GO>}

Not by us because we are not really a lead market in Japan. You will have to ask the lead companies.

Q - Unidentified Participant

A quick question on the retrocession. Should we expect you to grow again your retrocession book? Obviously we could expect some significant price increase and potential margin expansion there. And if yes, what would be the condition you will set to grow again your retrocession exposure?

A - Richard Brindle {BIO 1983776 <GO>}

Charlie, should we doubletag that? I mean I think, as I said earlier, what you are going to see in retro non-US -- we are not really interested in US retro. We have got a couple of core clients. Everybody else we have stripped out, frankly. And I think unless there is a real market hardening in the states, that will remain uninteresting to us.

What is interesting is the ex-US retro product because there have just been cycles that are punchdrunk boxed it out. There have been just so many body blows now, that one by one we have seen these markets -- we never name other companies. But there have been various Bermudian carriers who have been offering collateralized deals and stuff. You can only imagine they are in a world of pain. And New Zealand, Australia, New Zealand, Japan, the gags keep coming. We see that product as being incredibly distressed now. And as I said earlier, I think it is very likely that it will get separated out into regional buckets and that they will be really expensive.

Charlie, what do you think?

A - Charles Mathias {BIO 16185351 <GO>}

Yes, I think undoubtedly that is going to be the case. We have had brokers contacting us already. The product that we will offer we will look at individual territorial attachment points. We have refined our methodology of pricing retro over the last year, which has accompanied the fact that we have brought retro levels down. But we certainly would see now that there will be opportunities. And we will be able to sell the product in the way we wish to. It will not be a blanket worldwide coverage.

A - Richard Brindle {BIO 1983776 <GO>}

Right.

Q - Unidentified Participant

What was your retro premium you brought in?

A - Charles Mathias {BIO 16185351 <GO>}

I don't know if we have broken it out.

A - Paul Gregory {BIO 16314515 <GO>}

I think it was about 7% or 8% of our premium base.

A - Charles Mathias {BIO 16185351 <GO>}

Yes. A little bit less than that actually.

A - Paul Gregory {BIO 16314515 <GO>}

6%. (multiple speakers) I think it was 13% or 10% to 11% the year before.

A - Richard Brindle {BIO 1983776 <GO>}

I don't know 6%. It was probably 15%. So it has come down.

Q - Unidentified Participant

Neil, you talked about your catastrophe budget. How do you define it? How do you actually think about it?

A - Neil McConachie {BIO 7540962 <GO>}

I will actually get Elaine to take that one.

A - Elaine Whelan {BIO 17002364 <GO>}

We do a budget on a mean basis. So we have an average expectation for cat events over the course of a year. And we apply that. We have got an attritional basis. And then we have a large loss basis. And then our cat budget on top of that. And that all comes together. Then on top of that, we look at what hedging we want to carry as well. So I think it is fair to say what we have got a fairly strong (inaudible). And we have got a fairly strong balance sheet there to move forward even after our loss. And we always look at it in that manner. What kind of size of loss do we want to be able to absorb in our hedge and be able to carry on and access the market and take advantage of the opportunities thereafter. And if it is a really big loss, we would expect the market to be distressed and

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that to become a situation where we might go back to market and say, this is a great opportunity. And let's have a little bit more cash in the coffers to go after this.

Q - Unidentified Participant

Ian Kelly, Sardis[ph]. Please could you possibly just clarify on confiscation what confiscation exactly means? So does it have to be physical property taken away, or if I have an economic interest in an asset, say in Libya. And a new government comes into power and my 50-50 JV becomes 75-25, can I then claim for that economic confiscation?

A - Richard Brindle {BIO 1983776 <GO>}

Yes. You can is the answer. It can either be physical plant and equipment, or it can be equity investments. We don't have any equity investment exposures in Libya. I'm not sure if there are any in the market.

This is staggering. If you look at Libya, it is 10 times the size of the UK and has a population of 6 million. Of that 6 6 million, 2.5 million is Tripoli, 1 million is Benghazi. And then you have got this massive place with hardly anybody there. So it is not like there's lots and lots of business being done there.

But yes, that is the product. And we should not be afraid of saying so. And it has an incredibly good loss record over many decades. Even in 1979 in the Iranian revolution, very few companies ultimately had their assets expropriated. So we are fairly sanguine about it.

Q - Nick Pope {BIO 16852956 <GO>}

Nick Pope, Jefferies. I just had two questions. First, I just wanted to clarify what you said about the RDS. I know your RDS is calibrated for downtown Tokyo earthquake. And I believe the 15% of NTA is sort of a one-in-250 year event. Were you suggesting that this earthquake because it did not happen in downtown Tokyo. But if you aggregate it with the tsunami effect, it might be a similar sort of level of loss overall. And therefore, would it be the incorrect assumption to assume if it were, say, a one-in-250 year event, your loss may be around 15% of NTA?

A - Charles Mathias {BIO 16185351 <GO>}

We don't think that this loss is the equivalent of the RDS. We just don't think there is enough value exposed in the affected area to reach the levels of the RDS.

Q - Nick Pope {BIO 16852956 <GO>}

And that is including the tsunami effect as well?

A - Charles Mathias {BIO 16185351 <GO>}

Yes. But again, it is very early days. And we cannot put a number on it yet. People are not in a position to be making insurance claims at the moment. They are trying to put their

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lives together. So it will be a while before this develops. But as we stands today, we don't think that this is the equivalent of a downtown Tokyo.

Q - Nick Pope {BIO 16852956 <GO>}

Great. Thanks. And my second question was actually regarding your press release yesterday. You said your total insured losses were $45 million to $50 million. Is it, therefore, correct to assume that your total losses in Q1, excluding Japan and the last two weeks of Q1, will be in this level given your comments about attrition losses earlier?

A - Charles Mathias {BIO 16185351 <GO>}

I think that refers only to major losses on the energy side as Paul would say and the terrorism loss. And then there is the New Zealand and Australia in there. Our New Zealand and Australia number is pretty small. But there is obviously a level of attritional loss across all the portfolios that will occur in Q1.

Q - Nick Pope {BIO 16852956 <GO>}

Okay. So that's -- (multiple speakers)

A - Neil McConachie {BIO 7540962 <GO>}

(multiple speakers). No. There is -- every quarter there's a bunch of losses. And the small one in Egypt and the larger one in the North Sea were mentioned. But they are run of the mill kind of losses. We will also have reserve releases hopefully in Q1 as well. And New Zealand is a specific loss. And Japan will be a specific loss. The rest are normal.

Q - Nick Pope {BIO 16852956 <GO>}

Great. So there is a bit more attritional in the prior year releases to happen in Q1? And Japan.

A - Neil McConachie {BIO 7540962 <GO>}

One would assume so.

Q - Unidentified Participant

Paul, what is the North Sea loss?

A - Paul Gregory {BIO 16314515 <GO>}

There was a FPSO in the UK sector of the North Sea that during high seas incurred some damage. I cannot put an exact number on it at the moment. We are still working with the assured. But we have a range. We have got a meeting later with that particular assured -- today, in fact. So we will get some more guidance. But as Richard referred to earlier, it is a bona fide energy claim. As with energy, with the values involved, losses can sometimes be of significant quantum. Our market share on that loss is actually relatively small. But the overall loss number could potentially be quite big.

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A - Richard Brindle {BIO 1983776 <GO>}

Yes. We got under 5% of it. But it is a pretty big loss. Like I say, in hindsight maybe we should not have conflated cat events and non-cat events in the same press release. I think it has caused more questions than provided answers. So we will learn from that.

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