Lancashire
Holdings Limited

Annual Report and Accounts 2021

THE LANCASHIRE WAY

Finding the right solutions

Our purpose is to…

Deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events;

Manage our risk exposures and capital resources to generate returns for our investors; and

Support our people and work with our stakeholders, fostering a positive, sustainable and open business culture to the benefit of society.

THE LANCASHIRE WAY

Finding the right solutions

The Lancashire way is our distinct way of doing things – always shaped by our values, which are at the centre of our culture. We take a long-term view that delivers on our strategic objectives.

THE LANCASHIRE VALUES

LEADERSHIP

Exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are…

ASPIRATIONAL

aspiring to deliver a superior service for our clients, ourselves and our business partners, we are…

NIMBLE

in our decisions, actions and business processes, and considerate of our environment and wider society, we are…

COLLABORATIVE

valuing teamwork and a diversity of skills and experience and sharing in our success, and we are…

STRAIGHTFORWARD

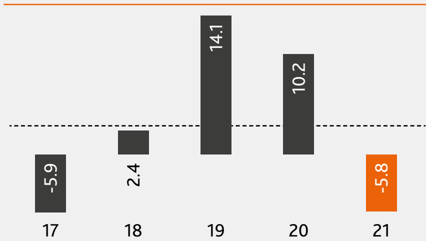
in conducting our business in an accountable, open, honest and sustainable way.

Group performance in a challenging year

Change in FCBVS

-5.8%

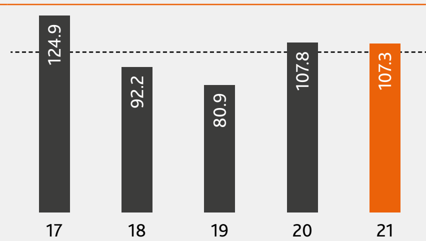
The negative change in FCBVS is primarily due to our underwriting result which was adversely impacted by **net insurance losses of $470.5 million**. Additionally the Group incurred higher than normal financing costs due to one-off expenses totalling $18.7 million related to the refinancing of the Group's debt. Investment returns were low at $1.3 million.



Combined ratio

107.3%

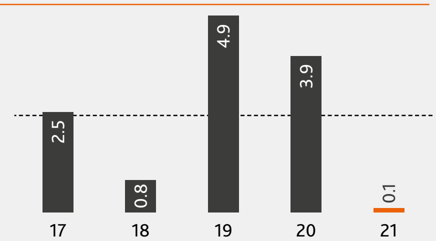
The combined ratio reflects the heightened loss activity during the year, with the industry's natural catastrophe losses alone estimated at around $130 billion, making 2021 one of the largest ever industry loss years on record. The combined ratio of 107.3% demonstrates that the portfolio is more robust than in previous years as **net premiums earned grew to $696.5 million** from $475.8 million in 2020.



Total investment return

0.1%

In a year of significant volatility, the investment portfolio generated a financial market return of 0.1%. The low returns were driven primarily by the fixed maturity portfolios, given the significant increase in treasury yields, resulting **in unrealised investment losses of $31.6 million** recognised in other comprehensive loss. These losses were mitigated by the majority of the risk assets which generated strong returns, notably the bank loans, hedge funds and the private investment funds.



Total shareholder return

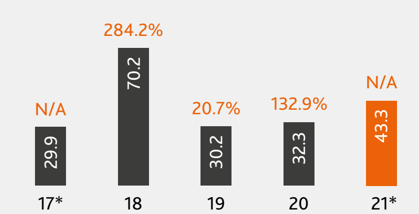
-25.8%

The decline in our share price during 2021 reflected the industry catastrophe loss environment. In addition, sentiment around climate change and the potential for increased frequency of weather events also weighed on our total shareholder return.

Comprehensive income returned to shareholders

$43.3m

The Group has made a **comprehensive loss of $92.9 million** in 2021. We continued to deploy excess capital into the business to fund growth opportunities and paid ordinary dividends of $36.4 million and repurchased shares of $6.9 million.



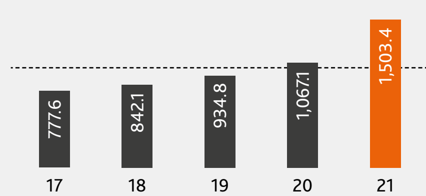
■ Ordinary / special dividends and shares repurchased ($)
% Comprehensive income returned to shareholders

* Due to 2021 and 2017 being N/A the five year % average is not calculated.

Gross premiums written under management

$1.5b

During the course of the year, and in light of a 'hardening' pricing cycle, the Group was able to grow **gross premiums written to $1.2 billion**. Including the external Name's portion of premiums written in Syndicate 2010 plus the premiums written in LCM on behalf of KRL we were able to grow our gross premiums written under management to $1.5 billion.



Bold text refers to GAAP measures

Key

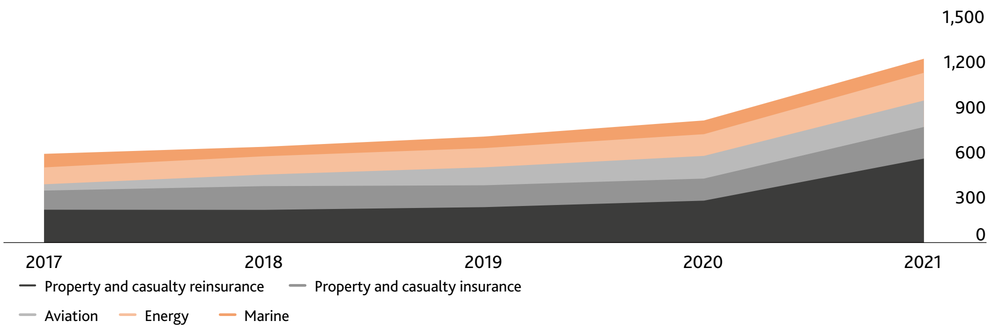
KPI linked to Executive Directors' remuneration. For more information see pages 88 to 111.

APMs refer to page 188.

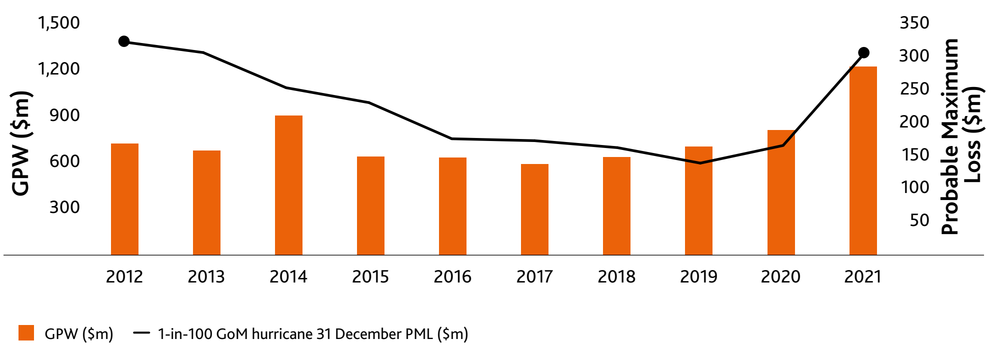
----- Five-year average

To generate attractive returns across the insurance cycle

Gross premiums written



Actively managing exposure dependent on market conditions



Strongly capitalised

$1.9b

2021 refinanced debt and capital raised in 2020 deployed to fund record growth.

Valuing diversity

50%

Percentage of women in Group senior management.

Sustainable operations

15%

Target to reduce own emissions per FTE by 2030 and carbon net-zero by 2050. Calculated GHG emissions fully offset.

Rating momentum continues

109%

Group RPI of 109% for 2021 with strengthening in market pricing.

Responsible business

$21.8m

Donated to charitable organisations since 2007 through the Lancashire Foundation.

Top employer

Top 10

LICL named a ‘Top 10 Employer’ in Bermuda in October 2021.

Building the franchise

Ongoing investment in new products and expertise with the addition of three new teams of highly experienced underwriters adding to our existing talent. In 2021 gross premium written increased by 50.5% year-on-year to a record $1.2 billion.

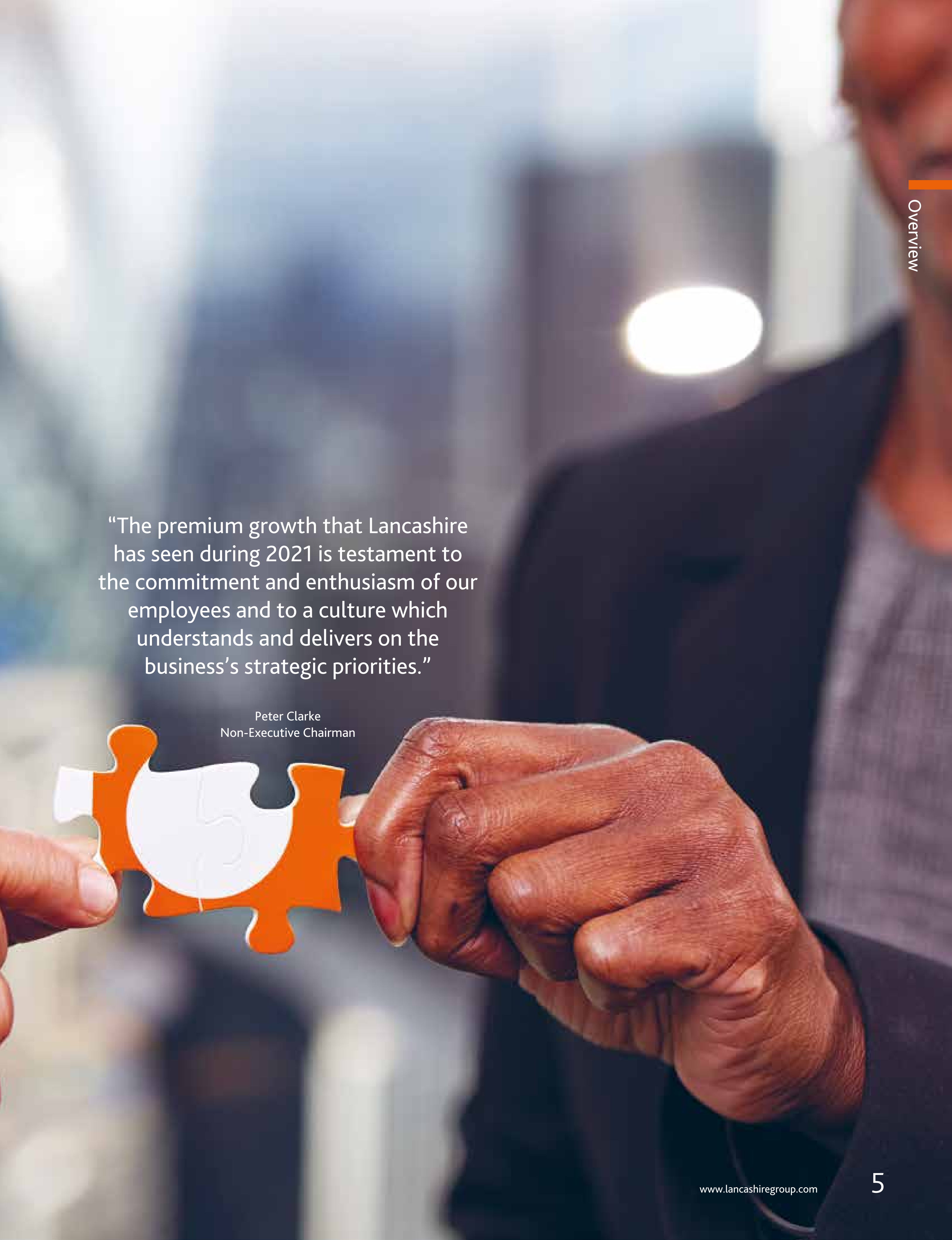
Strong ratings

Strong ratings from major rating agencies.

A.M. Best Company: A (Excellent)
Standard & Poor’s Global Ratings: A-
Moody’s Investor Service: A3

LEADERSHIP

We exhibit passion and commitment in all aspects of Lancashire life and inspire others to do the same



"The premium growth that Lancashire has seen during 2021 is testament to the commitment and enthusiasm of our employees and to a culture which understands and delivers on the business's strategic priorities."

Peter Clarke
Non-Executive Chairman

Responding nimbly through the cycle

"Lancashire has taken advantage of new opportunities. We are continuing to build-out our franchise, adding new product lines, while always retaining our strict focus on underwriting discipline to deploy our capital nimbly through the cycle."

Peter Clarke
Non-Executive Chairman

Q: How did the business perform in 2021 and what effect did the heavy loss year have on the Group?

A: The catastrophe (re)insurance business which the Group underwrites is subject to variability in losses and, in 2021, we saw above average volatility with a number of large weather-related loss events, as well as specialty losses, which have impacted many across the industry. Industry-wide estimates place 2021 as one of the costliest years for insured losses on record. For Lancashire the losses affected our returns with a combined ratio of 107.3% and a negative change in FCBVS of 5.8%. Naturally, any losses are disappointing, but it is important to stress that those we saw during 2021, while they were both diverse in their nature and unusually frequent, were otherwise within our expectations and risk tolerances for events of this magnitude.

The modelling, risk management and pricing for catastrophe loss events, including those driven by climate change factors, is constantly evolving and a central part of our business model.

While losses for the industry mean disruption and extreme hardship for communities and individuals we should always recognise the human impact these events have. Lancashire's purpose is first and foremost to deliver risk solutions that protect people, economies and businesses from the effects of uncertain events. We are here to get our clients back on their feet as soon as possible.

For the 2021 year the strategic imperative for our business was to deploy the capital which we raised during 2020 into an improving (re) insurance pricing environment. The business delivered strongly on this priority with an increase in gross premiums written of 50.5%, in line with our strategic ambitions. This represents our strongest year-on-year top-line growth since the business was established in 2005. As market pricing has improved, Lancashire has taken advantage of new opportunities. We are continuing to build out our franchise, adding new product lines, while always retaining our strict focus on underwriting discipline to deploy our capital nimbly through the cycle.

Our reserving philosophy is also well established. Despite the challenges of the last year, we remain comfortable with our capital position and Natalie talks more about this in her Financial Review on page 14.

So, on balance, the Board is satisfied that despite the negative impacts of losses on our short-term profitability for 2021, the impressive growth achieved during 2021 positions the Group strongly to deliver attractive returns across the cycle.

Q: What were the main areas of focus for the Board during 2021?

A: The primary focus of the Board has been continued oversight of the Company strategy and its delivery, and operational performance. Our Board has challenged and discussed the business's operational resilience during the COVID-19 pandemic, and I am pleased that management have led a strong and nimble response during testing times.

Lancashire's strategy has been consistent for many years and the Board has discussed with the management team the opportunities that have been presented by a 'hardening' market and how we can best deploy our available capital to match the underwriting opportunities.

Q: What is the 'Lancashire way'?

A: The 'Lancashire way' is what makes Lancashire unique. Many businesses say they have solid values or that they respect and support their staff, but Lancashire does both with distinction. The (re)insurance industry can be challenging, but it is how you meet and overcome those challenges that is important. It is vital to have strong leadership, and Alex Maloney and the senior team have a clear vision of how to deliver on our strategy and purpose: to prioritise underwriting excellence in delivering risk solutions for our clients; effectively balancing risk and returns; and responding nimbly through the (re) insurance market cycle. It involves a focus on our people and our stakeholders and creating a sustainable business which contributes positively for our investors and for wider society.

The Lancashire way is how the whole business supports that vision and how every employee, regardless of their seniority or function, has a role to play.

The growth that Lancashire has seen during 2021 is testament to the commitment and enthusiasm of our employees and to a culture which understands and delivers on the business's strategic priorities. We have added a number of new underwriting teams, and others in support functions, during 2021 and this has been achieved against a backdrop of above average market losses and the operational disruption resulting from the COVID-19 pandemic. Our new employees are attracted to the business because of the Lancashire way of doing things – approaching each task with an open mind, a willingness to collaborate, and a focus on acting responsibly.

These opportunities include the continued growth in the underwriting portfolio in both existing lines and in new initiatives such as the casualty reinsurance book and Direct and Facultative (D&F) commercial property within the Australia and New Zealand markets. Our careful monitoring of exposure and capital to meet the strategic requirements of the business has allowed us the flexibility to deliver the significant growth in premiums we have seen during 2021.

The Board has also addressed the importance of operational effectiveness and is confident that the business has the talent required, within both its underwriting and support functions, to best position the company to deliver its strategy over the coming years. This includes oversight of various business transformation projects currently underway with a clear emphasis on strengthening our capabilities to grow and move the organisation forward in an efficient way.

Q: How are you addressing issues of climate and wider societal change?

A: Sustainability and strong governance have become an increasing focus for all businesses. Across sectors, people are increasingly alive to the issues facing the planet and, during 2021, we have seen considerable efforts by governments and others to gather a consensus for a way forward. The Board has discussed issues of climate change, sustainability and governance regularly and we will continue to monitor developments. The Lancashire way is being straightforward, open and honest. Many of our clients, and other stakeholders, are working towards mitigating their impact on the environment or assisting in tackling some of society's broader issues of dislocation and we will continue to give them our support. There are no easy solutions, but we recognise the importance of constructively supporting our clients through this period of global transition. In our TCFD report on pages 56 to 63 we set out those steps we have taken during the year in monitoring, measuring and controlling the impacts of climate change within our business in particular in our core activities of underwriting and investments.

The Board is extremely pleased to note that 2021 marked the 15th year of charitable donations from the Lancashire Foundation. These donations, totalling $21.8 million during this time, have been given to long-standing charitable partners such as Médecins Sans Frontiers, in recognition of their phenomenal work assisting those affected by natural disasters, and other charities nominated and supported by our employees. A comprehensive review of our sustainability and governance activities begins on page 40.

Q: What is the company's strategy regarding dividends?

A: We have not changed our dividend and capital management strategy in 2021. Our position is understood by our shareholders, and we will continue to redeploy excess capital into the business to fund growth opportunities where we consider this is the right thing to do. The Group paid an interim dividend during September 2021 and, subject to the shareholder vote at the 2022 AGM, we propose to pay a final ordinary dividend of $0.10 per common share unchanged on prior years. Further information can be found in the notice of the 2022 AGM on page 113. Our dividend policy is also set out on page 112.

Peter Clarke
Non-Executive Chairman

A model for success

OUR STRENGTHS

Customer focus

- Long-term established relationships with clients and brokers
- Continuous support across the cycle
- Prompt payment of valid claims

Expert people and specialised products

- Experienced management team and skilled operational teams with proven ability
- A lean business operation allows us to remain nimble and make decisions efficiently
- Highly-specialised multi-class products with market barriers to entry in terms of data and modelling expertise

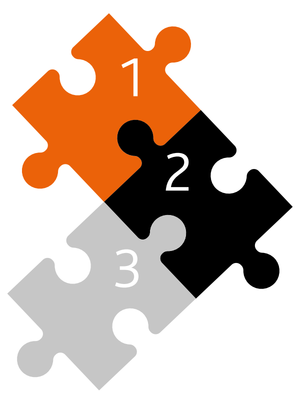
Disciplined risk and capital management

- Rigorous systems for risk monitoring and management
- Strong record of capital management
- Manage volatility by optimising capital and the underwriting portfolio through the market cycles

A diverse offering

- Three established platforms: Lancashire Insurance companies; Lancashire Syndicates; and Lancashire Capital Management
- Access to multiple markets providing clients with versatile solutions and ourselves with underwriting opportunities
- A stable core book of business and disciplined underwriting

OUR STRATEGY



Underwriting comes first

Delivering bespoke risk solutions in a sustainable framework

Effectively balance risk and return

Peak-zone PML limits of 25% of capital

Operate nimbly through the cycle

Maximise risk-adjusted returns

THE VALUE WE CREATE

Our people

88%

overall engagement score

Our policyholders

$312.1m

gross losses paid in 2021

Our shareholders

16.9%

Compound annual change in FCBVS since inception

Society and the environment

$21.8m

Donations since 2007 by the Lancashire Foundation

Our culture

The bedrock of our business is a culture of cooperation and respect based on open challenge

Our strategy

Our goal

Maximising risk-adjusted returns for shareholders

Our strategic priorities

1

Underwriting comes first

Maintaining the right balance between discipline and creativity is key for success, coupled with a strong focus on profitability and risk selection.

Description

We focus on maintaining our portfolio structure and our core clients, with the bulk of our exposures balanced towards significant events. We will grow in existing and new classes where favourable and improving market conditions exist. We use the principle of peer review throughout the Group, usually prior to underwriting business for LICL, LUK and LCM, the platforms that accept larger net exposures, and post-underwriting at LSL, with its smaller net exposures.

Achievements

We continue to add new expertise to the Group. In 2021, we added a construction and engineering team, an Australian D&F property team, and underwriting talent to our existing expertise in our marine and energy segments.

Associated strategic risk

Strong risk selection remains the key risk for the Group. We mitigate this by maintaining our underwriting standards, whilst growing with the market opportunity.

2

Effectively balance risk and return

Exploring opportunities for top-line growth in markets where we believe the right long-term opportunities exist and rigorously monitoring and managing our risk exposures.

Description

By bringing together all our disciplines – underwriting, actuarial, modelling, finance, treasury, risk and operations – at our fortnightly RRC meetings, we are able to look at how different parts of our operations are working together. We tailor our reinsurance programmes to manage our exposures and we stress test our business plans and gauge where we can be most effective without undue volatility. Management reports on risk exposures and mitigation to the Board.

Achievements

We have increased our underwriting footprint and optimised our portfolios in areas where rating has improved, whilst adding new complementary classes of business as the market conditions are now improving.

Associated strategic risk

The key issue for Lancashire is to continue to serve our clients and brokers with significant capacity, whilst ensuring that the portfolio is balanced. This means constantly reassessing our business mix and testing key risk assumptions.

3

Operate nimbly through the cycle

Our speed and agility in the way we manage volatility help us underwrite our core portfolio profitably through the challenges of the cycle, yet seize opportunities when they present themselves.

Description

As capital supply fluctuates in the (re)insurance market, the need to be nimble is more important than ever. This means being ready to deploy capital quickly when it is needed, and having the discipline to return it when it is not.

Achievements

In line with our active capital management strategy, during 2021 the Group decided to refinance its debt obligations to make them more capital-efficient and allow for additional funding of profitable growth opportunities. The Group also distributed regular dividends during the year.

Associated strategic risk

Lancashire has developed an expectation among its shareholders that it will produce a consistent return and pay ordinary dividends, with supplementary special dividends only when it makes sense to do so. We believe our shareholders understand that in harder markets Lancashire will retain, and potentially even raise, capital to take full advantage of underwriting opportunities.

Taking advantage of the opportunities

"Our focus on the long term means that we have the people and expertise to drive profitable growth."

Alex Maloney
Group Chief Executive Officer

Q: How did the loss environment in 2021 impact the Group's performance?

A: Financial losses are always disappointing but 2021 was only the second full financial year that Lancashire has made an overall loss since its inception, with a negative change in FCBVS of 5.8%.

Industry-wide estimates place insured losses from natural catastrophes during the year between $105 billion and $130 billion making it one of the most expensive on record and resulting in a combined ratio for Lancashire of 107.3%.

As always, we have followed our established reserving philosophy, which has served us well over time, and the losses were within the risk tolerances for each of the lines.

The weather and large risk events, which were distributed across a number of classes, offset our strong underlying profitability after nearly four years of rate increases, as shown by improvement in our attritional loss ratio.

In the face of 2021's heightened loss activity, the build-out of our franchise that we have targeted over the past few years still had a positive impact. We went into 2021, and go into 2022, with a more diversified portfolio of products because we believe these offer the best underwriting opportunities for long-term profitability.

Our underwriting expertise across classes – both catastrophe and non-catastrophe – means that we have a much more stable business. For example, our 2021 combined ratio compares favourably with that of 2017, which saw lower total catastrophe losses.

This transformation of the business into one which is better able to withstand and absorb significant loss events is testament to the groundwork that we have put in during recent years.

As a risk business, we are always going to be exposed to a variety of events, across classes, which can impact our performance but the growth we have seen during 2021 has been outstanding and I believe significantly increases our resilience over the long-term.

Despite the disappointing returns of the past year, we are fully energised by the prospects for 2022 and profitable growth remains our main goal.

Q: In which areas has the business seen growth during the year?

A: For the last few years, we have focussed on putting in place strong foundations on which to build when the market cycle offered significant opportunities for growth. Our long-held strategy is to operate nimbly through the cycle, and I am a firm believer in the cyclical nature of (re)insurance markets. 2021 was a year when we saw strong momentum in the right direction for a business like Lancashire, which has taken the time and effort to build a bench of underwriting talent and the internal processes needed to take advantage of more positive pricing.

I am pleased to say that we are seeing growth across most classes of business that we underwrite. In fact, many are now in their fourth year of positive rate changes, and we believe that will continue into 2022. For 2021, we reported an increase in gross premiums written of 50.5% to $1.2 billion which is an exceptional achievement. Much of this growth was driven by the property and casualty reinsurance segment where we have seen both new business and rate increases. We never stand still when there are opportunities for profitable and considered growth and I am pleased about the performance of our casualty, accident and health, and specialty reinsurance classes. We have a

Q: What does the 'Lancashire way' mean to you?

A: It's the way that parts of the business can come together creatively to find the right solution, whatever the question. It is our distinct way of doing things always shaped by our values, which are at the centre of our culture. We regularly challenge ourselves and ask whether we are living up to those principles. These values are so embedded within our company DNA that we don't always realise how special that is.

A strong and positive corporate culture isn't a by-product of success but the reason for it. Despite our recent growth, we are still a relatively small company, so we get to know each other, and our flat hierarchy gives everyone a voice and an opportunity to do their best.

The Lancashire way also means listening to our people and encouraging them to challenge us, bring in new ideas, and find new ways of doing things. One thing that has become clear during my time as Group CEO is that you will only succeed if you work as a team and feed off the energy that comes from collaboration and finding the right answers together.

A practical example of this in 2021 was in the evolution of how the business addresses ESG themes.

To better align our consideration of sustainability and governance matters I took action to establish the Lancashire ESG Coordination Committee (the ESG Committee) and the CCWG, both of which include senior representatives from across the business. They analyse a range of topics and make recommendations to senior management and ultimately the Board.

Every employee has been on a personal journey to get here. They bring those experiences with them and that helps to create an incredibly vibrant and stimulating environment. We don't cut corners, but we do find the quickest route to a solution. At its heart, the Lancashire way is harnessing the skill, passion and dedication of our people. I am incredibly proud to lead this company and I want to take this opportunity to thank every one of our employees for their hard work and support.

pipeline of premiums coming through and I am confident that our investment in new talent was the right thing to do. The premium growth also reflects the growing diversity of our risk portfolio which will allow us to more effectively deploy our capital and manage volatility within our portfolio. We have great people at Lancashire and our new teams join what I believe is already one of the strongest companies in the sector.

Q: How has the business strategy changed in 2021?

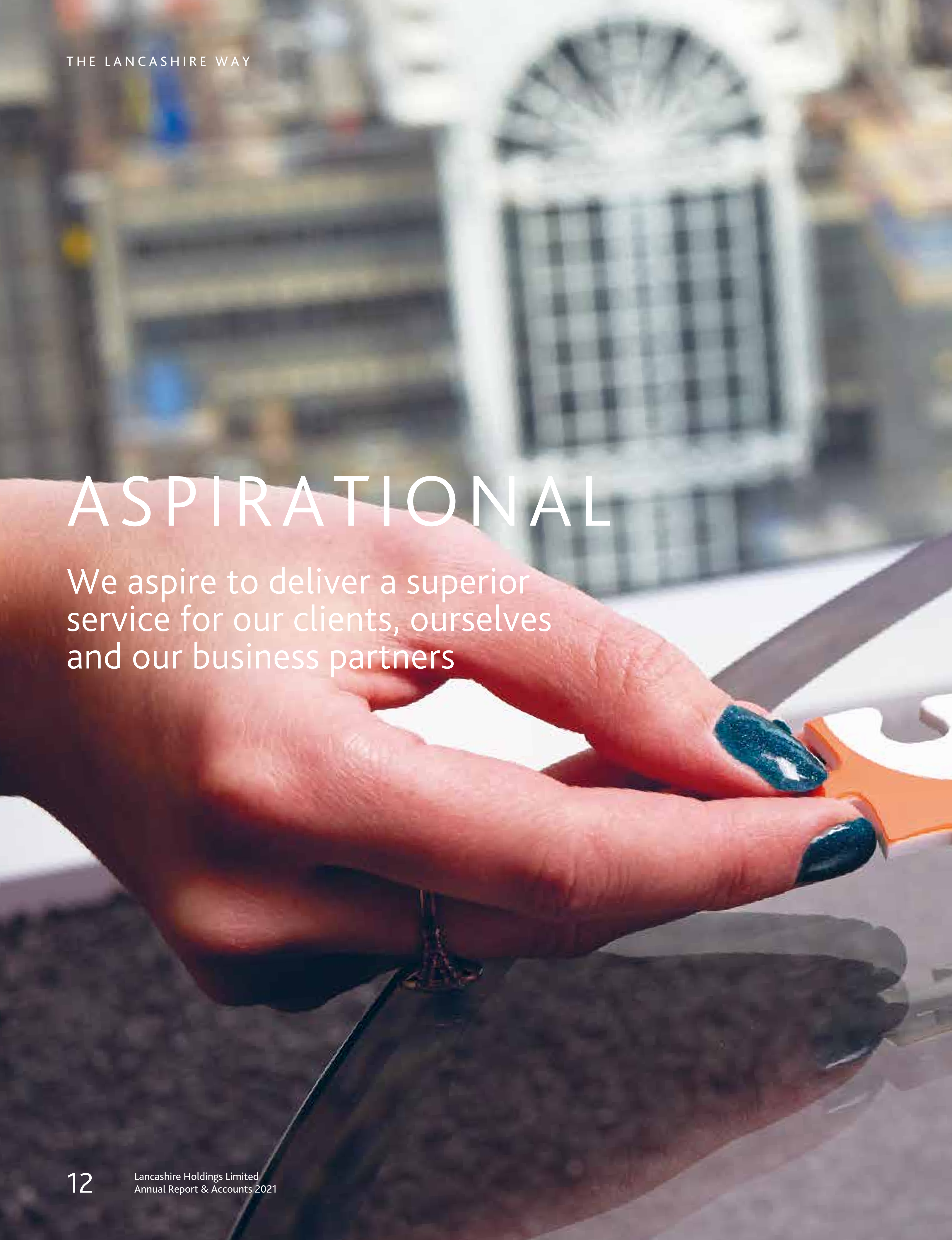
A: When you set a strategy, you have to believe in it. It has to be the essence of how you operate. Our strategy hasn't changed in its fundamentals since the business was founded – we believe that underwriting comes first; we need to balance risk and return; and importantly have the agility to operate through the cycle. 2021 was undoubtedly a challenging year, due to the impact of a series of industry loss events, which in the short term have adversely affected our profitability and growth in book value, but we will continue to deploy our long-term strategy at this stage of the cycle. Sometimes you also need a little patience, and I am excited that we are now seeing the positive market changes that we have been predicting. Everything we do is driven by the underwriting opportunity. I believe in the long-term and in navigating the Group with a clear focus on what we are doing and where we are going. That means future-proofing the business through investment in talent and ensuring operational efficiency with a laser-sharp focus on getting the fundamentals of the business right.

Q: What opportunities are you seeing going into 2022?

A: This is a really exciting time in the market cycle. But you can't just go with the flow, you have to be in a position to take advantage of the opportunities it offers. In the last couple of years, we have raised equity and restructured our debt which has put us in a great position from a capital perspective to support our underwriting plans. We have a strong capital position and it's one that I am very comfortable with.

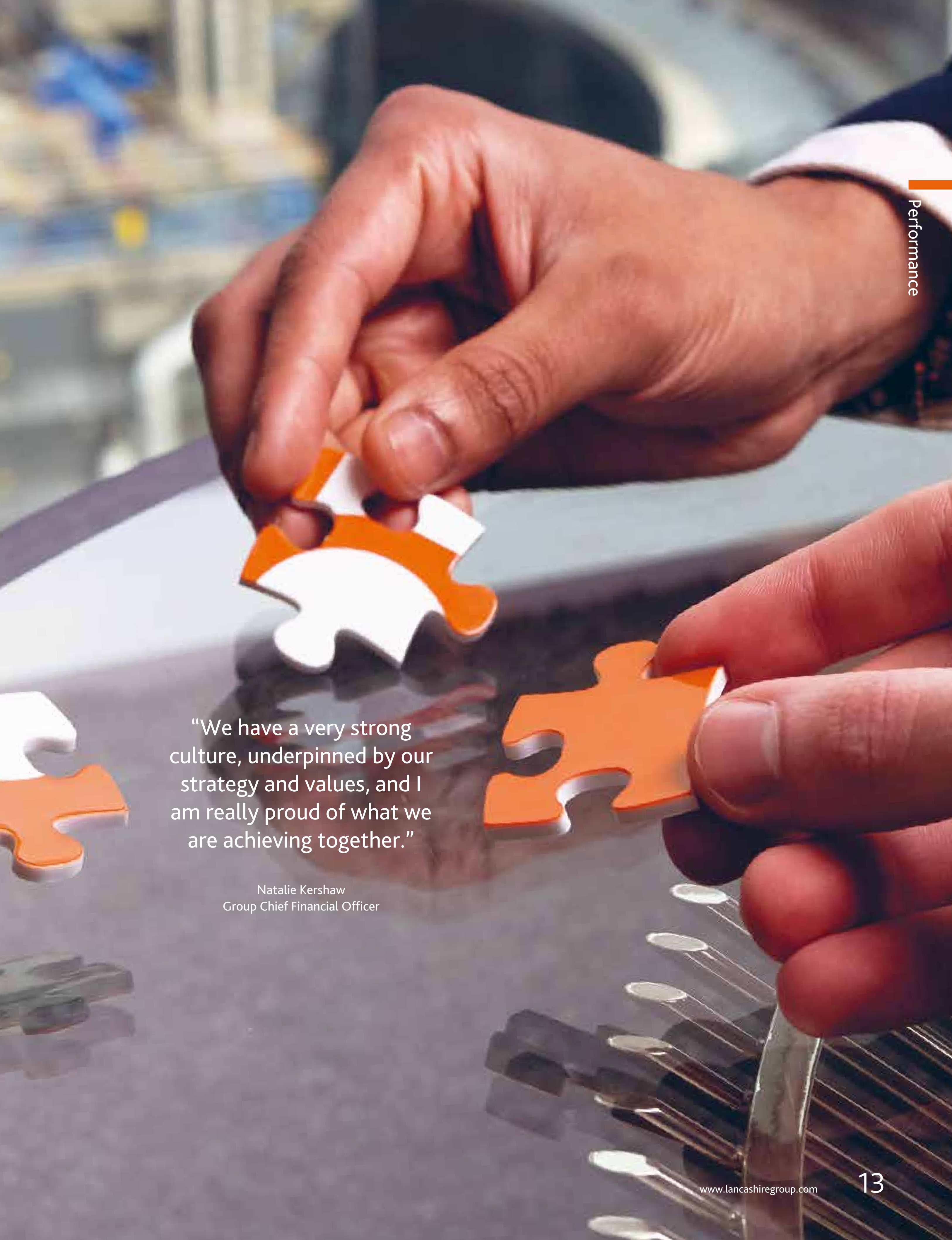
The challenges of 2021, where we saw a particularly active catastrophe year, can also offer opportunities for growth as others in the market move out of some classes. Our focus on the long-term means that we have the people and expertise to drive profitable growth where it makes sense for us to do so and take advantage of the rate improvement that comes following a year of heightened loss activity. The opportunities for 2022 are there, with expected rate increases on our existing portfolio, our new teams delivering additional premiums, and new business growth within existing lines of business both catastrophe and non-catastrophe. While we aim to grow during 2022, we will do so with a business that is better balanced through the diversity that our specialty and casualty non-natural catastrophe business brings. This is not diversification for diversification's sake but a clear delivery of our strategy to take the opportunity to write classes of business that contribute profitably to our portfolio mix.

Alex Maloney
Group Chief Executive Officer



ASPIRATIONAL

We aspire to deliver a superior service for our clients, ourselves and our business partners



"We have a very strong culture, underpinned by our strategy and values, and I am really proud of what we are achieving together."

Natalie Kershaw
Group Chief Financial Officer

Building for growth

"We are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing."

Natalie Kershaw
Group Chief Financial Officer

Q: What has 2021 been like from your perspective?

A: In a year characterised by an active loss environment, we remained resilient and importantly continued to build on our strong foundations for the future. We have been busy developing our teams for new underwriting opportunities, including in support functions, to provide a strong platform for the growth that we have seen this year and expect to continue in 2022.

Although the extent of losses in 2021 is obviously disappointing for us, it is estimated to be among the costliest years for insured losses since 1970. Our efforts to grow the business and diversify our portfolio of products over the past couple of years were successful in providing a ballast to the catastrophe losses, with total catastrophe and large losses of $306.4 million resulting in a combined ratio of 107.3%. For comparison, Lancashire's 2017 catastrophe and large losses totalled $213.7 million and resulted in a combined ratio of 124.9%.

Our overall comprehensive loss of $92.9 million was also impacted by unrealised losses on our fixed maturity investments, given increases in treasury yields in the year, as well as one-off financing costs due to our Tier 2 debt issuance.

So while 2021 was a frustrating year, we have made a lot of progress including refinancing all our debt to make our capital structure more efficient.

Q: Has Lancashire's reserving philosophy changed during 2021?

A: Our approach to reserving for catastrophe losses is well established. We utilise actuarial modelling techniques, historical loss experience analysis and professional judgement to estimate ultimate losses. For catastrophe loss events we bring together a highly-skilled team from across the Group, including underwriters, claims and actuarial staff, as well as senior management to review all our potentially exposed lines of business. This enables us to assess the likelihood of claims arising within our underwriting portfolio.

Financial highlights

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Gross premiums written	**1,225.2**	814.1	706.7	638.5	591.6
Net underwriting profit (loss)	**69.0**	77.0	186.5	121.7	(23.1)
(Loss) profit after tax[1]	**(62.2)**	4.2	117.9	37.5	(71.1)
Comprehensive (loss) income[1]	**(92.9)**	24.3	145.7	24.7	(66.2)
Dividends[2]	**36.4**	32.3	30.2	70.2	29.9
Diluted (loss) earnings per share	**($0.26)**	$0.02	$0.58	$0.19	($0.36)
Fully converted book value per share	**$5.77**	$6.28	$5.84	$5.26	$5.48
Change in FCBVS	**(5.8%)**	10.2%	14.1%	2.4%	(5.9%)
Combined ratio	**107.3%**	107.8%	80.9%	92.2%	124.9%
Accident year loss ratio	**81.0%**	71.4%	51.3%	70.0%	94.2%
Total investment return	**0.1%**	3.9%	4.9%	0.8%	2.5%

1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.

Q: What does the 'Lancashire way' mean to you?

A: I've been with Lancashire for 12 years and have held a number of different roles in both London and Bermuda before becoming the Group CFO in 2020. During my time here I have come to recognise and value the people that we have throughout the organisation. We have a very strong culture, underpinned by our strategy and values, and I am really proud of what we are achieving together. We attract high-quality people to the business who are not only technically skilled in their individual areas but who also add something more personal to the Group. This strengthens not just what we do, but also how we do it. As a meritocratic business we also work hard to promote from within when we are able to do so (see page 46).

Due to the types of specialty and casualty business that we write, we are also exposed to large risk claims, which can take some time, often years, to settle. This means that there is uncertainty in the reserving process and we can experience substantial swings in prior years' reserves either moving for or against us. However, I would stress that we have had overall favourable prior year loss development in every calendar year since the Company was founded.

Q: How would you summarise the Group's capital position following the 2021 industry losses?

A: 2021 was undoubtedly a challenging year for the whole industry. Despite the significant loss events we have seen, I remain very comfortable with our robust capital position. Our strategy is to actively manage our exposures dependent on market conditions and match our capital to support the underwriting environment. This means having the available capital to support profitable growth opportunities when they arise. We raised $340.3 million in equity capital during 2020 and an additional $123.0 million of debt capital in 2021. This has enabled us to substantially grow our premium base. We see opportunities to grow our premium continuing into 2022 and we are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing. Looking forward, the planned growth in 2022 is expected to be focused in less capital-intensive lines of business. The small repurchase programme of one million common shares totalling $6.9 million in the fourth quarter of 2021 funded future exercises of awards under our RSS.

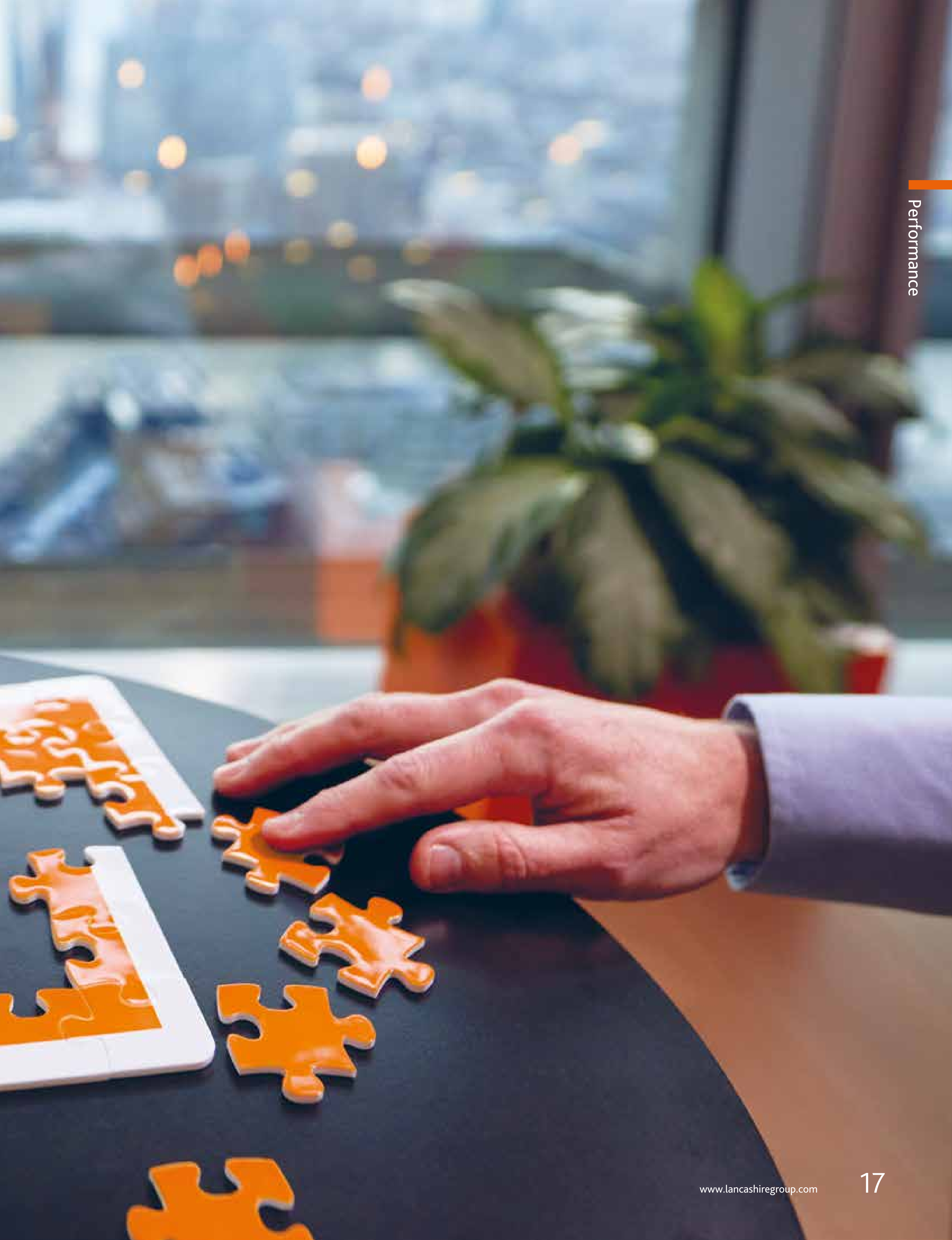
Q: How has the business approached preparations for the IFRS 17 changes?

A: The transition to IFRS 17 is the biggest insurance accounting change for more than a generation. We have been working hard to ensure that our systems, data, processes and people are ready for the parallel testing in 2022 and final implementation in 2023. This has been a real collaborative effort with teams from accounting, actuarial and IT working together. It has also been an opportunity to review how we work and to make sure that we are delivering financial information to the business in the most efficient way possible. The transition to IFRS 17 is just one of the business transformation projects that Lancashire is currently undertaking. Going forward we aim to harness data more effectively to position the business for future growth while reducing operating costs and inefficiencies.

Natalie Kershaw
Group Chief Financial Officer

NIMBLE

We are nimble in our decisions, actions and business processes, and considerate of our environment and wider society



A transformational year

> “Our strategy is to build when market conditions are favourable, and we have been doing so since 2018, and in 2021 the pace of this build accelerated. We have an opportunity to future-proof our business and during the year we have continued to make that happen.”
>
> **Paul Gregory**
> Group Chief Underwriting Officer

We will look back at 2021 as a transformational year for the future of Lancashire underwriting. The pieces of the puzzle that we have been putting together over the past few years are coming together to create a far more robust underwriting portfolio and team that will be better placed to navigate the inevitable market cycles that await us in future years. At the same time, 2021 has been an extremely difficult loss year and frustratingly this masks the progress we have made.

Our strategy is to build when market conditions are favourable, and we have been doing so since the turn of the market in 2018, and in 2021 the pace of this build accelerated. We have an opportunity to future-proof our business and during the year we have continued to make that happen. We have made great strides with further investment in people and teams, both existing and new, as well as having a record year for premium growth. This is exactly what you would expect Lancashire to do. We manage risk levels according to the underwriting cycle. This underwriting philosophy has never changed.

Our investment in people continued as we build out our underwriting bench strength. By the end of 2021 our underwriting team had increased by approximately 50% since 2017. We remain a people business and therefore this investment is crucial to our development.

Throughout our history we have been a big believer in promoting from within and this continues with a number of our existing underwriters being promoted into more senior roles. This allows for career progression at Lancashire whilst a new set of voices provides constructive challenge. Alongside this we continue to invest in new talent to complement the team we already have. This can be underwriters joining us to develop new classes of business or new talent within existing classes to bolster our expertise. Adding new staff from outside the business brings with it fresh ideas that help the business to improve further. As we continue to build and grow, ensuring we add underwriting talent is critical to our future success.

In 2021, we have delivered 50.5% of year-on-year premium growth with total premium of $1.2 billion – more than double the premium we underwrote at the end of the soft cycle in 2017. The various capital actions in recent years, retained earnings and a capital raise and debt

Q: How do the underwriting teams at Lancashire incorporate ESG thinking into their decision making?

A: Sustainable underwriting is one of the pillars of our Group ESG strategy (see page 44). However, in a complex world there are many challenges and we understand that there are not always easy solutions. The risk solutions that we provide help protect people, companies and economies from uncertainty and give them confidence and stability. Our property (re)insurance products insure clients against the risk of major weather and other catastrophic events and we have long-standing expertise in this area. In our energy portfolio we support our clients’ transition to renewable energy and insure a number of projects, from wind and solar farms to biomass facilities and others. Our product offering will continue to evolve to meet the changing needs of our clients in supporting the world’s net-zero target. Within our political risk team, we also insure infrastructure projects which include those designed to improve access to clean water for communities in the developing world. We are committed to playing our part in making the world more sustainable

in an open and honest way. To help us with this, during 2021, we put in place a number of internal underwriting guidelines focused on consideration of climate change and other ESG factors in line with our values.

issuance, positioned us for growth at a time when market conditions across most lines of business were in their fourth year of rate increases. A further improvement of rating and the addition of new lines of business combined to produce the significant level of growth we have seen. We maintain a very healthy capital position to fund future growth should the opportunity dictate.

Whilst the investments in people and growth in the underwriting portfolio have been very pleasing, obviously a combined ratio that is the wrong side of 100% is far less so. We know that significant progress has been made within our underwriting function which should ultimately benefit the Group profitability for the long term.

The combined ratio of 107.3% does however demonstrate the portfolio is far more robust than in previous years. There were heightened levels of loss activity in 2021 with natural catastrophe losses alone estimated at around $130 billion making 2021 one of the largest ever loss years on record. Our strategy, to broaden our underwriting footprint when the market rating has been improving, has strengthened our portfolio to be better positioned to absorb larger losses and build a more robust business for the future. As our investments of recent years continue to mature we should continue to see the benefit of this in our underwriting returns across the cycle.

Property and casualty reinsurance

	2021 $m	2020 $m
Gross premiums written	**560.0**	279.8
RPI	**109%**	108%

This is the segment within which we have seen the majority of our premium growth in 2021 and also the segment most challenged by loss activity.

Premiums grew by 100.1% year-on-year. In existing product lines growth came via rate improvements, with a segment RPI of 109%, plus new business as our risk appetite broadened given the more favourable rating environment. The segment also includes three new classes of business for the Group: accident and health, casualty reinsurance and specialty reinsurance which all contributed to premium growth.

In line with our underwriting strategy, we grew our property reinsurance lines, property catastrophe reinsurance and retrocession, through 2021 as pricing improved. The capital actions of recent years provided the platform for this growth and the continued improvement in market conditions provided the opportunity to execute it.

In the new product lines market conditions were in line with expectations, albeit the support we received from clients and brokers meant that from a premium perspective we are ahead of our original plans, which is very pleasing. These product lines will continue to develop over the coming years as we continue to invest.

Although the development of this segment was very positive, the catastrophe exposed products endured a difficult year from a loss activity perspective. Throughout the entire year Mother Nature produced numerous challenges from winter storms, flooding, hurricanes and tornadoes. 2021 highlights the value of our products to communities and economies impacted by these events. These products are volatile by their nature and even with improved pricing there can still be years where underwriting profits cannot be generated.

Our challenge in these classes remains to understand the changing risk landscape. This includes longer-term impacts such as climate change or shorter-term impacts such as inflation and we must ensure that our pricing and exposure management capabilities cater for these. Throughout our history we have adapted our pricing and exposure models to capture new risks or reflect lessons learned from recent loss activity. This process is one of continual development and improvement.

Property and casualty insurance

	2021 $m	2020 $m
Gross premiums written	**210.5**	147.1
RPI	**106%**	108%

The segment contains a variety of product lines with very different market dynamics. The principal classes include D&F property insurance plus the terrorism and political risk sub-classes. Premium grew 43.1% year on year. The segment RPI of 106% was a combination of strong rate momentum in the D&F class offset by the relative flat rates seen in the terrorism and political risk sub-classes.

D&F saw a continuation of improved rating conditions and we grew our footprint in line with our underwriting strategy. We have continued to invest in this class with a build-out of specialism across the Group platforms which will include an Australian operation in 2022. This investment has delivered increased premiums helped by the improved rate environment.

In the terrorism and political risk sub-classes the rating environment was broadly stable. There were no significant changes to demand and supply, hence the status quo. Within the terrorism and political violence products, premiums year-on-year were overall stable, albeit within the political and sovereign risk products, which are closely linked to economic activity, we did see an uptick in premium year-on-year as the world economy started to awaken post the global COVID-19 lockdowns.

For all products in this segment there were challenges from a loss perspective. Like our reinsurance products, D&F is exposed to natural catastrophe events of which there were many during 2021. We assess the changing impacts in D&F in exactly the same way as with our reinsurance products to ensure our pricing and exposure models are constantly evolving.

Historically our terrorism and political risk portfolio consistently produces healthy underwriting returns. In fact, until 2021 every single year since the Company's formation had produced a profit. In 2021 we had a first ever loss of significance following social unrest in South Africa. Even with product lines that are usually profitable they all contain risk and, with that, the potential to have years that do not deliver returns. As the world continues to change, particularly in a post COVID-19 economy, the risk associated with terrorism and political risk products is changing and our job as underwriters will be to adapt our underwriting accordingly.

Aviation

	2021 $m	2020 $m
Gross premiums written	**176.4**	151.0
RPI	**108%**	121%

Our aviation segment continued to blossom in 2021. We have made significant investments in our aviation segment in previous years. This product line highlights that investment made at the right time of the cycle should deliver strong underwriting results in the future. We were extremely patient during the soft cycle with a relatively small aviation footprint which only started to expand when the rating environment improved and we are now seeing the benefits of this.

Market conditions have helped this development. The 2021 RPI of 108% follows a number of years of positive rate improvement, making the compounding effect of this year-on-year rate improvement significant. 2021 saw an historic high of $176.4 million in premium despite the challenges the segment, and the clients that we service, have faced as a result of COVID-19. The past two years have been incredibly difficult for the aviation industry and this has created challenges for the insurance sector as a result. We have supported our clients and brokers as best we can whilst simultaneously delivering portfolio growth and underwriting profits.

Given the lack of air traffic during the COVID-19 period, the loss environment has been relatively benign by historical standards. This has obviously helped deliver underwriting profits although we remain acutely aware that as the world returns to some form of normality and air traffic increases so will loss activity. This will remain a key area of underwriting focus in the coming years.

Energy

	2021 $m	2020 $m
Gross premiums written	**184.8**	144.7
RPI	**110%**	113%

The various sub-classes within energy have all had different experiences in 2021. Within the energy segment we underwrite upstream energy, downstream energy, renewable energy and power and utilities. All sub-classes have experienced positive rating momentum highlighted by the segment RPI of 110%. The positive rating environment has aided premium growth alongside the continued build out of the product lines, such as power and downstream, which are now well established following their formation in 2018. Premium year-on-year increased by 27.7% to 184.8 million.

We have continued to invest in our energy offering and 2022 will see us broaden our footprint in sub-classes such as energy liability following the addition of new underwriters. We also continue to invest in established energy product lines with the development of existing talent as well as external hires. Continued investment in expertise is vital as the energy sector continues to evolve considerably given the energy transition that the world is undertaking. It is very important that the products and services we offer our clients keep pace with the risks our clients face as they transition their businesses. Insurance remains a key risk management tool for the energy industry, supporting the global net-zero goals, and will remain as such as the energy industry transitions.

From a loss perspective the energy segment was relatively benign during 2021. Energy can be a volatile class of business and we have had years when the loss environment has been challenging, albeit historically very profitable. 2021 has seen minimal large loss activity, which combined with an improved rate environment has helped generate a strong underwriting profit.

Marine

	2021 $m	2020 $m
Gross premiums written	**93.5**	91.5
RPI	**109%**	116%

All sub-classes of marine have continued to see improved rating throughout 2021. The segment RPI of 109% demonstrates this. Our marine segment encompasses a number of areas, with Lancashire providing insurance cover for both physical and liability risks ranging from marine cargo to LNG tankers. Despite pricing improvement our premium only increased by $2.0 million to $93.5 million. This is a result of some multi-year contracts not due for renewal in 2021, exposures reducing in some sub-classes as a result of reduced activity due to COVID-19 and the decision to non-renew certain contracts given unsatisfactory renewal terms. These factors offset the better rating environment and new business we underwrote.

The underlying conditions for our marine business remain favourable and we continue to invest in the class. We have hired new underwriting talent to the Group to further enhance our marine product offering for clients and brokers, and market conditions should allow us to grow further.

The rate momentum of the past few years has aided the profitability of the marine portfolio in 2021, despite a reasonable level of loss activity. Marine is always a difficult class of business to underwrite and will have years which experience heightened volatility. However, our historical underwriting performance has been profitable through the cycle and our increased breadth of product offering, aligned with the stronger rating environment, puts our portfolio on very strong foundations for continued profitable growth.

Conclusion

We are a risk business and exposed to a variety of risks across all of our lines of business, from natural catastrophes to political unrest. We have seen years with very little loss activity and, by contrast, years like 2021, when loss activity is heightened.

Our classes exposed to natural catastrophe will always be inherently more volatile. The period from 2012 to 2016 was incredibly benign from a natural catastrophe loss perspective yet the period from 2017 through 2021 has been the opposite. Our underwriting philosophy, however, has always remained the same. If pricing adequacy dictates it, we are willing to grow just as we were willing to shrink risk levels in the soft market. In a risk business writing more business in a hard market never guarantees an underwriting profit but makes the chances far greater.

To counter balance our natural catastrophe-exposed products we will continue to invest in our product lines with less volatility, and in products that are generally far less capital intensive, which will provide a more robust and capital efficient underwriting portfolio.

As we look ahead to 2022, we will continue to make investments across our underwriting function. We do this to further balance out our portfolio and make the business more resilient, with the over-arching intention of improving the risk-adjusted returns for our shareholders across the cycle. These investments will be in our people and in our underwriting processes to ensure that as the world changes our underwriting changes with it.

Underwriting results

James Flude
Chief Underwriting Officer, LUK

James Irvine
Chief Underwriting Officer, LICL

Jon Barnes
Active Underwriter, Syndicate 2010

John Spence
Active Underwriter, Syndicate 3010

	2021						2020					
	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written	**560.0**	**210.5**	**176.4**	**184.8**	**93.5**	**1,225.2**	279.8	147.1	151.0	144.7	91.5	814.1
Net premiums earned	**297.1**	**122.0**	**83.5**	**122.8**	**71.1**	**696.5**	152.0	99.6	70.4	91.3	62.5	475.8
Net loss ratio	**91.9%**	**84.9%**	**22.3%**	**34.4%**	**46.4%**	**67.6%**	66.2%	44.4%	45.6%	73.2%	64.2%	59.6%
Net acquisition cost ratio	**19.4%**	**26.1%**	**14.0%**	**24.8%**	**36.0%**	**22.5%**	16.7%	26.9%	19.0%	29.4%	36.2%	24.2%
Expense ratio	**–**	**–**	**–**	**–**	**–**	**17.2%**	–	–	–	–	–	24.0%
Combined ratio	**111.3%**	**111.0%**	**36.3%**	**59.2%**	**82.4%**	**107.3%**	82.9%	71.3%	64.6%	102.6%	100.4%	107.8%

Premiums

Gross premiums written increased by 50.5% in 2021 compared to 2020. The Group's five principal segments, and key market factors impacting them, are discussed below.

Property and casualty reinsurance

Gross premiums written in this segment have doubled since 2020, both from increases in existing lines of business and the addition of new lines. These classes also include reinstatement premiums received after the catastrophe losses in the year. A significant amount of the capital raised in 2020 was used to fund expansion in the property catastrophe and property retrocession lines where the rating environment continued to improve in 2021.

The segment also benefited from the addition of new underwriting teams and three new classes of business comprising accident and health, casualty reinsurance and specialty reinsurance. In these new product lines the support from clients and brokers enabled us to grow the premium base ahead of our initial expectations.

Property and casualty insurance

The increase in the property and casualty insurance segment was principally due to growth in the property direct and facultative class as we continued to build out our book of business, again utilising the capital raised in 2020 to support the growth. We also saw opportunities to write new business in the property political risk class which benefited from increasing transactions globally and opportunities in new territories. New business flow in the political risk class of business is generally less predictable than other classes due to the specific one-off nature of each deal.

Aviation

Our aviation segment continued to grow as market conditions improved, with an overall RPI of 108%. The increase in this segment was mostly driven by new business growth in the aviation hull and liability class of business and rate and exposure increases in the aviation war class. More than half of the increase in gross premiums written occurred during the fourth quarter which is the major renewal period for the aviation segment and the majority of this premium will be earned in 2022.

Energy

Significant increases in the energy segment were achieved in the power, energy liabilities and downstream energy classes. In the power class, the Group expanded its offering across underwriting platforms to take advantage of improving market conditions. There was also strong new business growth in the energy liabilities class of business, where the Group has added additional underwriting expertise. Rate and exposure increases drove the growth in the downstream energy class which is now well established after we commenced underwriting this class in 2018.

Marine

In the Marine segment, new business growth was seen across all products. This growth was largely offset by timing differences in the marine liability and marine hull and total loss products where a number of multi-year or non-annual policies were not yet up for renewal.

Outwards reinsurance premiums

Although the proportion of outwards reinsurance premiums to gross premiums written decreased as we retained more risk in the hardening market, there was an overall increase in reinsurance spend of $114.4 million, or 38.8%, in 2021 compared to 2020. This increase was due to cover purchased to protect the new classes of inwards business that were entered into as well as reinstatement premiums, rate increases and increased limits, particularly within our property and casualty reinsurance segment.

Net insurance losses

The Group’s net loss ratio for 2021 was 67.6% compared to 59.6% in 2020. The accident year loss ratio for 2021, including the impact of foreign exchange revaluations, was 81.0% compared to 71.4% in 2020.

During 2021, we experienced net losses from significant weather and large loss events of $306.4 million, excluding the impact of reinstatement premiums. Within this, catastrophe losses for the full year, excluding the impact of reinstatement premiums, were $237.6 million, including the impacts of winter storm Uri, hurricane Ida and European storms and floods, and Q4 weather events including the Midwest tornadoes in the U.S., and the Australian storms.

Large risk losses for the year amounted to $68.8 million, and were principally related to unrest in South Africa in July 2021.

These loss events reflect the nature of the insurance products offered by the Group’s trading subsidiaries as part of their usual business and were within the Group’s risk tolerances. The Group’s final ultimate losses may vary, perhaps materially, from the current estimates.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of the current year loss events on the Group’s net loss ratio for the year ended 31 December 2021:

	Losses $m	Loss ratio %
Reported at 31 December 2021	**470.5**	**67.6%**
Absent catastrophe events – noted above	**232.9**	**33.2%**
Absent large losses – noted above	**401.7**	**57.7%**
Absent catastrophe events and large loss events	**164.1**	**23.4%**

Note: The table does not sum to a total due to the impact of reinstatement premium.

In 2020 our total net catastrophe and large losses, excluding the impact of reinstatement premiums, were $149.5 million. These included the impact of COVID-19 related losses, hurricanes Laura and Sally, the Midwest Derecho storm, the wildfires in California, as well as other large losses.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of prior year loss events on the Group's net loss ratio for the year ended 31 December 2020:

	Losses $m	Loss ratio %
Reported at 31 December 2020	283.8	59.6
Absent catastrophe events	216.8	45.5
Absent COVID-19 losses	244.1	51.0
Absent catastrophe and COVID-19 losses	177.1	36.9

Note: The table does not sum to a total due to the impact of reinstatement premium.

Prior year loss development

Prior year favourable development for 2021 was $86.5 million, compared to $52.0 million of favourable development in 2020. The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. 2021 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property and casualty reinsurance segment, as well as some beneficial claims settlements from earlier accident years. The Group's COVID-19 related losses remained stable during 2021.

In the prior year, the Group benefited from general IBNR releases across most lines of business due to a lack of reported claims. There was favourable development on the 2017 catastrophe loss events partially offset by a number of late reported losses from the 2019 accident year, reserve deterioration on a couple of marine claims in the 2017 and 2019 accident years, and adverse development on the 2010 New Zealand earthquake.

The table below provides further detail of the prior years' loss development by class, excluding the impact of foreign exchange revaluations.

	2021 $m	2020 $m
Property and casualty reinsurance	**22.8**	25.0
Property and casualty insurance	**21.9**	21.6
Aviation	**12.2**	3.3
Energy	**24.9**	17.2
Marine	**4.7**	(15.1)
Total	**86.5**	52.0

Note: Positive numbers denote favourable development.

The table below provides further detail of the prior years' loss development by accident year, excluding the impact of foreign exchange revaluations.

Ultimate loss development by accident year

	2021 $m	2020 $m
2016 accident year and prior	**17.7**	(0.9)
2017 accident year	**18.4**	20.7
2018 accident year	**7.1**	25.3
2019 accident year	**8.8**	6.9
2020 accident year	**34.5**	–
Total	**86.5**	52.0

Note: Positive numbers denote favourable development.

Investment results

Denise O'Donoghue
Group Chief Investment Officer

Investments and liquidity

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity, and we position our portfolio to limit down-side risk in the event of market shocks. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. In this environment of very low rates and a relatively flat yield curve anchored at the front end, it does not pay to increase duration. With the expectation of rate increases in the next couple of years, our focus will be on maintaining a defensive portfolio with short duration and high credit quality, although we have been using our risk budget to add products to our portfolio to help diversify from interest rate volatility and inflation risk.

Our portfolio mix illustrates our conservative philosophy, as shown in the chart below.

Investment performance

Net investment income, excluding realised and unrealised gains and losses, was $23.0 million for 2021, a decrease of 20.7% compared to 2020. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of $1.3 million for 2021 compared to a gain of $69.1 million for 2020.

In a year of significant volatility, the investment portfolio generated a return of 0.1%. The returns were driven primarily by unrealised losses in the fixed maturity portfolios, given the significant increase in treasury yields, particularly between the two-year and five-year treasuries. These losses were mitigated somewhat by the majority of the risk assets which generated strong returns, notably the bank loans, hedge funds, and the private investment funds.

In 2020, the investment portfolio generated a strong total return of 3.9%, with positive returns generated from all asset classes. The returns were driven primarily by the fixed maturity portfolios, given the decline in treasury yields and the tightening of credit spreads during the year. The tighter spreads and stronger equity markets also drove significant returns in the hedge fund and private debt portfolios. All other asset classes also had positive returns on a year-to-date basis, similar to 2019.

Conservative portfolio structure – quality

- Private investment funds: 5%
- Hedge funds: 4%
- Index Linked Securities: 1%
- Corporates and bank loans: 35%
- Agency structured products: 4%
- Non-agency structured products: 7%
- Managed cash and short-term securities: 13%
- U.S. government bonds and agency debt: 28%
- Other government bonds and debt: 3%

- AAA: 12%
- AA: 39%
- A: 29%
- BBB: 14%
- BB or below: 6%

Other financial information

Hayley Johnston
Chief Executive Officer
Lancashire Insurance Company Limited and Reinsurance Manager

Emma Woolley
Chief Executive Officer
Lancashire Syndicates Limited

John Cadman
Group General Counsel and Chief Executive Officer
Lancashire Insurance Company (UK) Limited

Third-party capital management

The total contribution from third party capital activities consisted of the following items:

	2021 $m	2020 $m
LCM underwriting fees	**10.6**	10.0
LCM profit commission	**5.2**	1.8
LSL fees & profit commission	**2.4**	3.5
Total other income	**18.2**	15.3
Share of (loss) profit of associate	**(3.9)**	10.7
Total third-party capital management income	**14.3**	26.0

The amount of Lancashire Capital Management profit commission recognised is driven by the timing of loss experience, settlement of claims and collateral release and therefore varies year on year. The share of (loss) profit of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle. The loss of $3.9 million in 2021 is primarily driven by the active natural catastrophe loss environment experienced during the first and third quarters of 2021.

Other operating expenses

Other operating expenses increased by $5.2 million compared to 2020. Higher employment costs due to an increase in number of employees from 255 in the prior year to 306 in the current year were more than offset by a reduction in variable compensation given the Group's financial performance in 2021. Non-employment costs increased due to a number of project initiatives during the year. The strengthening of the Sterling/U.S. dollar exchange rate in the year also contributed to an overall increase in other operating expenses.

Capital

As at 31 December 2021, total capital available to Lancashire was approximately $1.9 billion, comprising shareholders' equity of $1.4 billion and $0.5 billion of long-term debt. Tangible capital was $1.7 billion. Leverage was 24.0% on total capital and 26.2% on total tangible capital. Total capital and total tangible capital as at 31 December 2020 were $1.9 billion and $1.7 billion respectively.

Long-term debt

During 2021, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes due 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with $400.0 million issued on 18 March 2021 and $50.0 million issued on 31 March 2021. The fixed-rate interest is payable semi annually.

The majority of the net proceeds from the long-term debt issuance was used by the Group to redeem its then-existing senior and subordinated indebtedness, with the balance being used for general corporate purposes. Included in financing costs of $45.8 million during 2021 were $18.7 million of one-off costs associated with the refinancing of the long-term debt.

The new long-term debt was approved as 'Tier 2 Ancillary Capital' by the BMA and has further improved the Group's coverage ratio of available statutory capital and surplus over the BMA's enhanced capital requirement.

Share repurchases

Pursuant to and in accordance with the general authority granted by shareholders at Lancashire's Annual General Meeting held on 28 April 2021, Lancashire purchased 1,000,000 of its common shares in order to satisfy a number of future exercises of awards under its RSS.

Dividends

Lancashire announces that its Board of Directors has declared a final dividend for 2021 of $0.10 (approximately £0.07) per common share, subject to a shareholder vote of approval at the AGM to be held on 27 April 2022, which will result in an aggregate payment of approximately $24.2 million. On the basis that the final dividend is approved by shareholders at the AGM, the dividend will be paid in Pounds Sterling on 10 June 2022 (the 'Dividend Payment Date') to shareholders of record on 13 May 2022 (the 'Record Date') using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan (DRIP), or other services including international payment, are encouraged to contact the Group's registrars, Link Asset Services, for more details.

Risk management in a time of growth

"Lancashire's values remain instrumental in developing and maintaining a strong and straightforward risk culture within the business."

Louise Wells
Group Chief Risk Officer

A key objective for 2021 was to ensure the ERM framework remained fit for purpose, developing as required, alongside the growth in the business. As the volume and breadth of business written increased it was necessary to review the associated underwriting and operations procedures and decide whether a more risk-based approach was appropriate. In some cases it was and processes and controls were amended accordingly. In others it was deemed inappropriate to change. In all cases, the governance remained robust.

Culture

People are central to the success of the ERM framework and a strong and collaborative risk culture. Following a risk culture survey in January 2021, focused risk training was provided during the year. In addition, a risk objective was developed and rolled out to all control and risk owners across the Group and now forms part of their annual performance review. With a simple structure of three platforms (Company, Lloyd's and capital management) operating out of two locations (Bermuda and London) the Group has been able to maintain its culture of openness and accountability as headcount has increased.

Lancashire's values remain instrumental in developing and maintaining a strong and straightforward risk culture within the business. Leadership is a key element of this, with the accessibility to, and visibility of, Lancashire's senior management actively promoting, and adhering to, the risk framework driving the collaboration throughout the business.

Operational resilience

Our people and business have remained resilient despite another year of predominantly remote working. Detailed analysis has been undertaken during the year to identify 'important business services', and the risk associated with a failure in one or more of these services.

As of 31 March 2022, UK-based firms are expected to have identified their important business services and set the impact tolerances for these within which the firm intends to operate, even when faced with severe operational disruption. The Group is on track to meet these requirements for its UK-based subsidiaries. In addition, the Group is developing plans to ensure that it has sufficiently resilient processes in place to enable it to operate within these impact tolerances by the required UK regulatory deadline of 31 March 2025.

Climate change

Climate change, and more specifically climate-related risks and opportunities, has been a significant focus during 2021. The risk framework around climate-related risks has been enhanced significantly during the year with the establishment of both a CCWG and a management ESG Coordination Committee (the 'ESG Committee'). Both have membership comprising people from across the Group and from a variety of functions, and there are common links between the CCWG, ESG Committee and the Group Executive Committee to ensure a clear flow of information. The Group CRO provides quarterly updates on the work of each body to the Board.

In addition to the CCWG and ESG Committee, the risk framework was further enhanced through the development of a specific ESG framework and ESG strategy during the year; both of which were presented to the Board for review and approval.

Our ESG strategy sets out how we propose to meet the objectives of the ESG framework and is focused on four key themes: people and culture, sustainable insurance, responsible investment and operating responsibly. Further detail on these areas can be found in the sustainability section from page 40.

The CCWG has been instrumental in the articulation of underwriting related risks and opportunities relating to physical, transition and liability risks and investment-related risks and opportunities. The Group's risk appetite statements have been developed to include underwriting and investment risk appetites as they pertain to climate-related risks.

As part of the annual review of the ERM policies and procedures, enhancements were made to incorporate climate-related information, for example, to include how the Group identifies, measures, monitors and reports on climate-related financial risks. In addition, the terms of reference for the key management committees, the IRRC and the RRC were updated to incorporate climate risk management within their roles and responsibilities.

As a (re)insurance group Lancashire is primarily affected by physical risk through its exposure to acute and chronic climate change. However, consideration is also given to transition and climate-related litigation risks. In our underwriting operations, we manage this risk effectively by supplementing our internal expertise with external vendor models. We have clear tolerances and preferences in place to actively manage risk exposures (including exposures associated with loss events which may be influenced by climate change trends), and the Board regularly monitors our PMLs (see table on page 138). Litigation risks are managed by monitoring publicised legal cases and understanding the potential ramifications for the Group based on our existing portfolio. The risk to the asset side of our balance sheet from exposure to climate change is mitigated in part through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio. Management and the Investment Committee are working with our external portfolio managers to monitor the carbon and ESG profile of the Group's investment portfolio (see pages 84 and 85 for further details).

Climate change, its related risks and opportunities and their potential financial impact, are a key focus of the Board at its quarterly meetings. During the year the Group participated in the BMA's Climate Change Exposure Assessment which involved the Group performing stress tests for three time horizons (short, medium, and long term) for climate change physical risk scenarios corresponding to RCP 4.5. An RCP is a set of parameter input assumptions used in climate science to project emissions of greenhouse gases over time to assess the sensitivity of the climate response. RCP 4.5 is a specific 'middle range scenario', featuring slowly declining emissions from around 2050, with a likely 2.5°C increase in global mean temperatures, above that of the Paris Agreement target. The stress test also incorporated company-specific inflation expectations over five, ten and 20 years. The results of the exercise were presented to and discussed at the RRC before being submitted to the BMA. In addition, a summary of the conclusions arising was provided to the Board in the Group CRO's quarterly reporting. The work performed to date has not resulted in any material impact on business strategy or change to our understanding of the risks' impacts to our business. See also pages 56 to 63: TCFD Report – Our journey. The Group monitors and offsets its own carbon emissions (see page 53 for further details).

An internal audit of climate risk was performed in the second quarter which provided the business with feedback on the work performed at that time in addressing compliance with the requirements of the TCFD and, for the relevant UK-regulated entities, the requirements of the PRA's Supervisory Statement 3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

Risk strategy

Our risk strategy remains aligned to the business and capital strategy to ensure the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions.

The Group's financial performance is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, which are all discussed further in the risk disclosures on pages 136 to 155, as well as Group risk and regulatory and legal risk. The primary risk to the Group is insurance risk, which can be subdivided into the core risk of underwriting and the non-core risk of reserving and includes the Group's risk exposures to natural catastrophes including wind storms, wildfires and other loss events linked to climate change trends.

The Board of Directors retains responsibility for all risk within the Group and is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity-level risk tolerances. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks. The Group's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term are constants. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks, loss event and near miss reporting, key risk indicators, and an overview of the control environment (driven by key control testing and control affirmations and supported by internal audit findings) at least quarterly. In addition, on at least a monthly basis, management assesses our modelled potential losses against risk tolerances to ensure that risk levels are managed in accordance with them.

ERM & ORSA

Key activities

- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board
- Development of ESG strategy and framework

- Quarterly risk and control affirmations
- Quarterly emerging risk working group
- Quarterly internal audit reports to the Audit Committee providing an update on work performed and analysis of root causes of audit findings
- External audit reports to the Audit Committee
- Audit Committee annual review of the effectiveness of financial controls
- Monthly CCWG
- Monthly ESG Committee

- Group CRO reports to Board and Group Executive Committee
- Production of quarterly ORSA report for review and approval by the Board

- Capital and liquidity management frameworks
- Review of internal model policies, capital and solvency appetites
- Full/proxy capital assessments
- Rating agency capital assessments
- Stress and scenario testing
- Board quarterly review of capital needs, headroom and actions

- Review of risk strategy and 'attitude to risk'
- Review and measurement of risk appetite and limits
- Review of Group risk tolerances
- Management, Board and subsidiary board approval and monitoring of risk tolerances

- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment
- ESG framework and strategy

- Review and approval of business plan by the Board
- Stress and scenario testing (business plan)
- Assessment of management actions
- Group CRO review of business plan
- Board business performance review
- Board consideration of stakeholder engagement

Key elements of ORSA

- Board sign off and embedding
- Business strategy
- Risks
- Capital and solvency
- Stress and scenario testing

Risk management framework

The Group subscribes to a 'three lines of defence' model, the front-line being risk ownership by business managers. Responsibility for the management of individual risks has been assigned to, and forms part of, the performance objectives of the risk and control owners within the business. Risk owners ensure that these risks and the controls that mitigate against them are consistent with their day-to-day processes and the entries made in the respective risk registers, which are a direct input into the subsidiary capital models. The second line comprises the risk management team, which is responsible for risk oversight, the emerging risk forum, the CCWG and the RRC. Within this, the Group CRO provides regular reports to the business outlining the status of the Group's ERM activities and strategy, as well as formal reports to the Board and the boards of the individual operating entities. The Group CRO ultimately has the right to report directly to the Group and entity regulators if they feel that management is not appropriately addressing areas of concern regarding the Group as a whole or any of the individual operating entities. LSL's CRO provides formal reports to the LSL Board and its RCCC. The third line of defence is the internal audit function, whose work complements that of risk management by independently assessing the operating effectiveness of controls and also appraising the culture.

We continue to perform a quarterly risk and control affirmation process whereby the operation of all key controls is affirmed by the control operators and then reviewed and approved by the risk owners. In addition, the risk owners are required to affirm that their risks remain appropriately documented and scored. The risks are scored on both a gross basis (i.e., inherent risk pre-controls) and a net basis (i.e., residual risk post the application of controls). The output from this process is reported to the RRC and the Group and operating subsidiary audit and risk committees or boards of directors as appropriate.

As at 31 December 2021, all Group entities were operating within their Board-approved risk tolerances.

The quarterly ORSA reports prepared by the Group CRO to the Group and subsidiary boards provide a timely analysis of current and potential or emerging risks, compared against risk tolerances, along with their associated capital requirements.

The 2022 annual ORSA report will be presented to the Board for review, challenge and approval at the Q1 2022 Board meeting. The equivalent reports for the operating subsidiaries will also be presented to their boards for review, challenge and approval during Q1 2022. As a Lloyd's managing agent, LSL falls within the Society of Lloyd's for Solvency II reporting, preparing ORSA reports for each syndicate. LSL has its own ERM framework to ensure adherence to Lloyd's minimum standards.

The diagram on the previous page illustrates how we balance our ERM and ORSA activities. Our collaborative risk culture is driven from the 'top down' via the Board and executive management to the business, with the RRC central to these processes. Risk culture is also driven from the 'bottom up' through the risk and control affirmation process. The primary role of the Group CRO is to facilitate the effective operation of ERM and the ORSA processes throughout the Group at all levels.

The role includes, but is not limited to, the following responsibilities:

- overall management of the risk management system;
- to drive ERM culture, ownership and execution on three levels: Board, executive management and operational within the business;
- to facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board, including the articulation of risk preferences and the adoption of formal risk tolerances;
- to facilitate the identification, assessment, evaluation and management of climate-related risks and opportunities by management and the Board and report the financial impacts thereof;
- to ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision-making process;
- to be consulted, and opine, on policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and
- to provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

RRC

The RRC, under the chairmanship of the Group CEO, is the key management tool for monitoring and challenging the assessment of risk on a regular basis. It seeks to optimise risk-adjusted returns and facilitate the appropriate use of the Group's internal models, including considering their effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity boards of directors. The RRC includes the Group CEO, members from the finance, actuarial, modelling, operations, treasury and underwriting functions and both the Group CRO and LSL CRO. The Group CRO reports on the RRC's activities to the Group and individual entity boards of directors and via the LSL CRO to the RCCC of LSL. Through the Group CRO the RRC considers recommendations to the Board and its committees with regard to the adoption of formal risk tolerances. Examples of specific items considered by the RRC during 2021 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests (including the results of the BMA Climate Change Exposure Assessment) and the results of the quarterly affirmation process and related controls testing.

Capital models

We continue to challenge the assumptions used in the individual capital models and make changes where appropriate.

Changes in risk

From an insurance risk perspective, our Board-approved tolerances have remained static during the year but for the third year running we have seen an increase in the gross written premium compared to the prior year. Annual gross premiums written have increased circa 50% from 2020 to 2021. This increase reflects an increased appetite to underwrite business as we have seen improving rates across most of our classes of business.

As a result of the additional business written we have seen an increase in the PMLs for our key perils at both the 100-year and 250-year return periods. Our peak PML (Gulf of Mexico Hurricane) sat at 18.2% of tangible capital at the year-end which is inside our Board-approved tolerance. Further detail on catastrophe management and our PMLs can be found on page 138.

Our insurance risk tolerances will remain the same for 2022, as they were for 2021, but our expectation is that we will underwrite more business, retain more risk, and therefore have reduced headroom between tolerance and actual exposure as we deploy our capital according to the market conditions.

As is the case every year, our underwriters have reviewed and refined our purchasing of reinsurance cover. This is designed to ensure our reinsurance buying is aligned to our latest strategy and is targeted to be as responsive as possible, thereby helping to reduce net insurance risk exposures or enabling additional risk taking.

From an operational risk perspective, there has been a review of risks associated with the growth within the Group to ensure any necessary amendments to policies, processes and mitigating controls were identified and made. The strength of the control environment remains appropriate for the level of risk assumed.

We remain alert to the operational risk from cyber risk and have established an independent information security function during the year, as well as conducting a tabletop exercise to test our Cyber Incident Response Plan.

Emerging risk

The identification and assessment of emerging risk occurs throughout the Group from individual departments to management and executive committees, to the boards of directors and sub-committees of the boards. The risk function runs the emerging risk working group and maintains an emerging risk radar, which is provided to the executive committees, Board and entity boards of directors each quarter, and is therefore subject to an iterative process of review and oversight.

Emerging risks, by their nature, are difficult to quantify, however, during 2021, the risk function developed the emerging risk reporting to introduce an emerging risk radar to clearly illustrate the risks and expected time horizon, magnitude and likelihood. Examples of key emerging risks monitored include operational strain (driven by growth), operational resilience, availability of resource, global tax reform, UK corporate governance reform and inflation, both in relation to its potential impact on claims costs and our investment portfolio. Inflation risk has increased, with it appearing less transitory than previously thought. However, with our predominately short-tail book, claims inflation is not a major concern for Lancashire. In addition, the Group maintains a defensive short duration investment portfolio to protect against rising interest rates in an inflationary environment.

Whilst no longer an emerging risk, climate change risk remains at the top of many political agendas internationally and is an area of risk monitoring and management for us at both management and Board level.

The threat which catastrophic weather events pose to individuals, communities and businesses illustrates the social and economic value which our risk management products generate. This is therefore a key area of strategic opportunity for our business and one of the key drivers of our underwriting risk exposure management. In particular, management and the Board set tolerances for, and monitor, the Group's probable maximum losses for major catastrophe events and in particular weather-related exposures. Please see page 138 for a list of the Group's current PML risk exposures.

Climate change risk also informs the way we manage our investment portfolio and associated risk. During 2021, the Group once again participated in the CDP, which is aligned with the recommendations of the TCFD, which are promoted by the Financial Stability Board and the Bank of England. See also the section titled TCFD Report – Our journey on pages 56 to 63 for more information.

A strong and robust risk culture supporting our growth strategy

Our classification of risks as Intrinsic Core and Intrinsic Non-core, Operational and Other helps us to focus on our management and mitigation of those risks.

Within the capital models, insurance risk accounts for over 80% of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place a large number of controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested. For example, we spend a lot of time looking at the implications of new capital entering the market and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change through the analysis of the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy, we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned to our business planning, ORSA processes and strategic and business plan time horizons. The selected tests are aligned to our key risk areas of capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.

From a capital perspective we show the losses we could absorb and still meet our rating agency and regulatory capital requirements. Our climate change scenario incorporates underwriting and investment risks as we consider transition risk and physical risk. For this scenario we stress our premium income, our catastrophe loss ratios to reflect the assumed increased frequency and severity and inflationary impact on associated claims, our litigation costs, and our investment return. We also run various other tests based on discussions with the RRC and the Group Executive Committee that identify pertinent potential stresses and scenarios given market or social conditions prevailing at the time.

Risk universe

We continue to classify risks in three broad classes: (a) Intrinsic risk: 'Risk that stems from the inherent randomness and uncertainty that exists in the universe in which we operate and that is therefore fundamental to how we manage our business'. This can be core (represents the potential to generate a return as well as a loss) or non-core (offers no direct potential for return); (b) Operational risk: which can be independent or correlated; and (c) Other risk: the non-financial category of risks which cannot necessarily be mitigated by holding capital since such risks may not have direct balance sheet implications.

The Board evaluated the risks disclosed, alongside other factors, in the assessment of the Group's viability and prospects as set out in the going concern and viability statement in the Directors' report at page 114.

Type	Category	Description
Intrinsic Core	Underwriting Investment	Intrinsic risks representing the potential to generate a return as well as a loss. In these areas, the Group promotes informed risk taking that considers the risk and return equation in all major decisions, with the intention of maximising risk-adjusted returns. We recognise that by insuring fortuitous events we can suffer losses and that within our investment portfolio we can see the value of investments fall. We cannot avoid these risks, so we focus on the correlated operational risks and seek to mitigate them. For example, we know that by insuring the risk of natural perils we are exposed to the risk that losses exceed our plan. We model our portfolio using stochastic modelling to review actual and planned exposures to ensure they remain within tolerances. The correlated risks are that we might fail to design or maintain effective tolerances and limits, and fail to maintain exposures within such limits; or that we fail to keep accurate and timely records of our exposures. We then devise systems and processes to mitigate these risks, such as PML reconciliations and RDS sign offs, with review by the RRC and regular ORSA reports to the Board, which also considers and approves formal risk tolerances.
Intrinsic Non-core	Reserving (Re)insurance Counterparty Liquidity	Intrinsic risks to which we are inevitably exposed as a result of conducting our day-to-day business operations, yet offer no direct potential for return. They are quantified insofar as practicable for the purposes of capital and risk management and avoided or minimised insofar as is economically justifiable.
Operational	Operational	These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. They have the potential either to magnify the adverse impacts of intrinsic risks, for example increased reinsurer default losses arising through the use of non-approved counterparties; or to crystallise separately in their own right, for example losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.
Other	Strategic Group Emerging Climate	These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

Intrinsic risk: Core

Underwriting:

Losses in our classes are hard to predict, in particular as to the specifics of timing and quantum of catastrophe loss events. Additionally, we underwrite lines of business that are subject to accumulations, including accumulations of individual risk losses arising from a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and AV52 portfolios. Losses can also exceed expectations in terms of both frequency and severity. We recognise that through climate change trends, and other influencing factors, weather-related incidences or other actual catastrophe loss events may increase losses in frequency, severity and clustering so, although we model losses, for example when using the RMS and AIR stochastic models, we know that these projections can and will be wrong in many instances.

Link to strategy

1 Underwriting comes first

Risk

Trend: **Impact:** **Appetite:**

Opportunities

As market dynamics change so too do the opportunities available to the Group. We remain creative and nimble in being able to provide tailored insurance and reinsurance products and solutions to our core clients across the three platforms of our business. With climate change comes opportunities as well as risks and we focused on articulating both the risks and opportunities during 2021. The Group achieved significant growth during the year in our existing classes of business and added additional classes of business to our portfolio.

Mitigation

Modelling: We apply loads to, and stress test, stochastic models and develop alternative views of losses using exposure damage ratios. We review our assumptions periodically to ensure they remain appropriate. We also backtest our portfolio against historic events to assess potential losses.

RRC: The RRC considers accumulations, clashes and parameterisation of losses and models.

Governance: Board and capital management: We set our internal capital requirements at a level that allows for buffers above accumulations of extreme events and, further to recommendations, the Board approves risk tolerances at least annually and considers capital requirements on at least a quarterly basis.

Underwriting guidelines: Underwriting risk appetite is incorporated into underwriters' individual underwriting authorities, compliance with these authority levels is part of the daily underwriting procedures.

Reinsurance: We buy reinsurance to manage our exposure and protect our balance sheet. The structure of our programme is reviewed each year to ensure it remains aligned to our strategy and risk profile.

How the Board reviews this risk

Unsurprisingly, the Board views underwriting as the Group's key risk. As such, the Board continues to focus on underwriting expertise and discipline to effectively balance the equation of risk and return and operate nimbly through the cycle. The Board is actively engaged in the development and implementation of the Group's underwriting strategy, including consideration of potential risks to the strategy such as climate-related physical, transition and litigation risks. The Board is also involved in the articulation of, and adherence to, formal underwriting risk tolerances. Quarterly risk data on this, including all movements in the Group's principal modelled PMLs and RDSs, is both received and reviewed by the Board's UURC to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. The Board customarily reviews the capital requirements and adequacy of the business within the context of underwriting risk exposures on a quarterly basis. The UURC and Board also review and approve the structure of the Group's outwards reinsurance programme. During the year the Board was involved in reviewing and approving a range of proposals to enter additional classes of business.

Intrinsic risk: Core (continued)

Investment:

We need to hold sufficient assets in readiness to pay claims, but the markets and products in which we invest can suffer volatility and losses. As a predominantly short-tail insurer, we are able to hold the majority of assets in low-duration securities such as fixed maturities. We model our investment portfolios and use various stress scenarios to manage the extent and source of losses we could expect under a range of outcomes associated with credit, interest rate and liquidity risks. The Investment Committee adopts a strategy designed to have a low exposure to the effects of climate change transitional risk over the various asset classes.

Link to strategy

2 Effectively balance risk and return

Risk

Trend: **Impact:** **Appetite:**

Opportunities

The primary objectives for our investment portfolio remain capital preservation and liquidity. Our conservative approach limits our downside risk but means we are unlikely to equal the returns of peers taking on more investment risk.

Mitigation

Governance: Board and investment strategy: Our strategy is that investment income is not expected to be the principal driver of our returns. However, we do seek out non-correlated investment opportunities to add yield where appropriate and as we build our casualty portfolio, we will look to match casualty reserves with longer duration assets. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored on a quarterly basis by the Investment Committee and Board. A detailed strategic asset allocation study is performed biannually.

IRRC: The IRRC forms an integral part of our risk management framework, meeting at least quarterly and reporting to the RRC.

External advisers: Lancashire's Board and management recognise that the Group's principal expertise lies in underwriting so we use the services of internationally recognised investment managers who are experts in their fields. The Group's principal investment managers are signatories to the UN Principles for Responsible Investment.

How the Board reviews this risk

The Investment Committee receives and reviews investment strategies, guidelines and policies, risk appetite and associated risk tolerances, and makes recommendations to the Board in this regard. The Committee also monitors performance of the investment strategies within the risk framework and compliance with investment operating guidelines. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances. During 2021 management proposed a climate value at risk metric be implemented to provide a forward looking return-based valuation assessment to measure climate-related risks and opportunities in the investment portfolio. The Investment Committee approved this proposal.

Risk trend key

Increased

Stable

Decreased

Impact trend key

High

Moderate

Low

Appetite trend key

Acceptable

Reassess

Unacceptable

Intrinsic risk: Non-core

Reserving:

Because we do not know the amount of losses we are going to incur at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. If these reserves are inadequate and claims exceed them, this may have an impact on earnings, or indeed capital. Independent reserve reviews by external actuaries look at the overall levels of expected losses, as well as individual large events, including benchmarking analyses to provide assurance over the level of reserves booked.

COVID-19 is a unique loss event given its ongoing nature and impact across multiple product lines. These factors make it exceptionally difficult to reserve for and also mean that any ultimate losses are inherently uncertain. In 2020 this led us to change the trend for this risk to increased from stable. The risk remains elevated due to the current inflationary risk in claims.

Link to strategy

2 Effectively balance risk and return

Risk

Trend: **Impact:** **Appetite:**

Opportunities

Whilst our focus is predominantly on short-tail lines of business, uncertainty still exists on the eventual ultimate losses as loss information can take some time to obtain. As additional information emerges, the Group's actual ultimate loss may vary, perhaps materially, from those initially reported. This may result in reserve releases or a required strengthening of reserves.

Mitigation

Short-tail business: Lancashire's focus is predominantly on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty. During 2021, the Group has established a relatively small casualty portfolio with a longer-tail loss development profile. As with all new lines of business, we have initially adopted a conservative reserving approach as it becomes established.

Experience data: We have access to a lot of data, both our own and from the industry as a whole, about losses and loss trends. Actuarial and statistical data are used to set estimates of future losses, and these are reviewed by underwriters, claims staff and actuaries to ensure that they reflect the actual experience of the business.

Governance: Reserves are reviewed and approved by the Reserve Committee whose members include representation from finance, actuarial and claims; there are additional attendees from finance, actuarial, underwriting, legal and risk. A reserve report is presented to and reviewed by the Audit Committee on a quarterly basis.

External review: Insurers typically facilitate an independent review by external actuaries of their loss reserves. Lancashire retains the services of one of the leading industry experts and our appetite is defined so as to set reserves within a range of reasonable estimates based on both internal and external review. The Audit Committee receives and considers quarterly reports from management and the Group Chief Actuary. In addition, the Audit Committee receives and considers reports on reserve adequacy from the external actuary on a six monthly basis.

How the Board reviews this risk

The Board reviews this risk in detail on a quarterly basis through the Audit Committee, which focuses on the appropriateness of the overall reserve levels, informed by management's quarterly update, the external actuary's independent review of reserve adequacy performed at half-year and year-end and the work performed by the external auditor; and through the UURC, which receives quarterly updates from management on individual large losses. The review includes detailed analysis on major losses including climate-related natural catastrophe losses and pandemic losses.

Intrinsic risk: Non-core (continued)

(Re)Insurance and intermediary counterparty:

Almost all the insurance policies which we underwrite are brought to us by brokers, who act as intermediaries between us and our clients, and handle the transaction of payments of claims and premiums on our behalf. This exposes us to the risk of mishandling by, or failure of, the broker concerned. In order to make our portfolio as efficient as possible, we buy reinsurance to protect against severity, frequency and accumulation of losses. Again, this exposes us to the risk that our counterparties may have the inability or unwillingness to pay us in the event of a loss.

Link to strategy

1 Underwriting comes first

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Risk

Trend: **Impact:** **Appetite:**

Opportunities

As both a purchaser and seller of reinsurance, opportunities exist throughout the insurance cycle. While rates were suppressed, the quantum of reinsurance coverage purchased increased and therefore so did counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to ensure monies due are received. As always, it is the case of balancing the risk we are taking with the expected return; reinsurance purchasing is one way of balancing this. As market conditions change, we may choose to retain more risk or may be unable to purchase the same level of reinsurance as in previous years resulting in a reduction in counterparty exposure.

Mitigation

Counterparty credit limits: The Broker Vetting Committee is responsible for the broker vetting approval process and monitoring credit risk in relation to brokers. In addition, the Group conducts broker business using non-risk transfer TOBAs. This mitigates the risk due to non-payment by brokers and intermediaries as monies are held in separated client money accounts. We use counterparty credit limits, seek to deal with reputable reinsurers that meet our minimum rating standards, and use collateral agreements where appropriate. The operating entities of the Group that contract for reinsurance separately maintain and report their own counterparty credit limits at the entity level. The RSC is responsible for approving counterparties and monitoring first loss and aggregate limits.

How the Board reviews this risk

The quarterly ORSA report to the Board includes the top five reinsurance counterparty exposures versus the Board-agreed tolerances. These tolerances are reviewed and approved on an annual basis by the Board and considered as part of the annual strategy review. Amounts owed to intermediary counterparties are included in the underwriting information provided to the UURC on a quarterly basis.

Liquidity:

In order to satisfy claims payments, we need to ensure that sufficient assets are held in a readily realisable form. This includes holding liquid assets for the modelled payout of loss reserves, as well as ensuring that we can meet claims payments in relatively extreme events.

Link to strategy

2 Effectively balance risk and return

Risk

Trend: **Impact:** **Appetite:**

Opportunities

As previously noted, liquidity is a primary objective of our investment portfolio. It is important we balance the need for liquidity and being able to pay our clients' claims on a timely basis with the opportunity for return from our investments. We do this through different investment portfolio categories.

Mitigation

Portfolio management: The Group maintains liquidity in excess of the Board-agreed tolerances. This is achieved through the maintenance of a highly liquid portfolio with short duration and high creditworthiness. We monitor this through the use of stress tests and mitigate risks through the quality of the investments themselves.

How the Board reviews this risk

Liquidity risk is reviewed by the Investment Committee which regularly receives and reviews reports detailing asset allocation and compliance with pre-defined guidelines and tolerances.

Operational

These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. The Group is also subject to regulatory supervision and oversight, as well as legislation and tax requirements across a number of jurisdictions (see page 153 for more information). Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposures. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system. Furthermore, unauthorised access to IT systems as a result of a breach or failure could result in data loss, including personal data, which may have regulatory and/or reputational risk implications. With the continued periods of remote working during 2021, the IT security and cyber risk score remained elevated to reflect the risk associated with the change in working environment.

Link to strategy

2 Effectively balance risk and return

Risk

Trend: **Impact:** **Appetite:**

Opportunities
A risk-based approach is followed to determine which areas require strongly controlled processes and procedures (i.e., the key risk areas) and those areas where a more proportionate approach is appropriate (those areas assessed as low risk).

Mitigation
Capacity: We mitigate IT availability risk by adding redundancy to the capacity we need and using backups of data, including off-site storage that we test regularly. Additionally, the Group has both disaster recovery and BCPs in place that are tested annually and which are designed, in particular, to help minimise the risk posed by Bermuda hurricane events or disruptive political or terrorism events in London. The business follows strict tax and regulatory operating guidelines, which are periodically reviewed and approved by the Board.

Testing and access: We mitigate the integrity risk by using independent external penetration tests, and by restricting access to key systems to only those people who are qualified and need to use them. We also have a Cyber Incident Response Plan to guide management should a third party be discovered to have gained access to our systems.

Personnel: We mitigate the risks associated with staff recruitment and retention and key-man risk through a combination of resource planning processes and controls. Examples include targeted retention packages, documented position descriptions and employment contracts, resource monitoring and the provision of appropriate compensation and training schemes. In addition, the Group has core values, to which all employees subscribe and which reflect the strong and positive corporate culture described in the People and culture section on page 45. The Board regularly reviews succession planning arrangements and remuneration structures.

Although the Group holds limited personal data, it has a suite of policies and processes, including penetration testing procedures, around data protection which facilitate compliance with the GDPR, the UK Data Protection Act and the Bermuda equivalent of the GDPR, the PIPA.

How the Board reviews this risk
The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process and detailed control testing along with the Group CRO's opinion on the overall control environment. The Audit Committee reviews this alongside the quarterly updates from the internal audit team regarding their programme of work and opinion on the effectiveness of controls. In addition, the quarterly ORSA report from the Group CRO to the Board includes details of a suite of KRIs, any risk events and near misses, changes to the risk register, and the drivers for such change. The Board reviews the culture aspect of operational risk through the Audit Committee, which receives an update in each internal audit report as well as through internal audit's analysis of the root causes of the audit findings. As previously mentioned, a risk culture survey was conducted in January 2021, the results of which were presented to the Board in February 2021. Following the survey, some focused risk training was provided to the business and a risk related objective was rolled out to all risk and control owners. The Board is provided with regular updates on the change management portfolio of work.

Other – climate change

These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as practicable. They include categories such as strategic, Group, regulatory, emerging and climate change risks.

Whilst we view climate change as a factor relevant principally to our underwriting and investment risks (see previous), the Board and business continue to monitor the effects of climate change risk and its perception as a driver of global economic, political, legal and regulatory change.

The regulatory requirements around companies' climate-related financial disclosures are increasing and failure to address these requirements sufficiently may result in the risk of reputational damage, increased regulatory oversight or an inability to access capital when required.

Link to strategy

2 Effectively balance risk and return

Risk

Trend: **Impact:** **Appetite:**

Opportunities
Operational resilience and climate change risk factors are examples of other risks the Group considers and monitors.

Climate change and the trend of increased frequency and severity of weather-related loss events illustrate the value of our insurance and reinsurance products to our clients. As demand increases for the products, premium rates will be driven up. Whilst we already insure many clients in the renewable energy sector, as the world transitions to non-carbon forms of energy the opportunities within this sector will grow.

Like 2020, 2021 has been another year of demonstrating resilience, including that of our staff, our operations, our technology, our third-party service providers and our facilities. All of which are required to be operationally resilient to service our clients effectively.

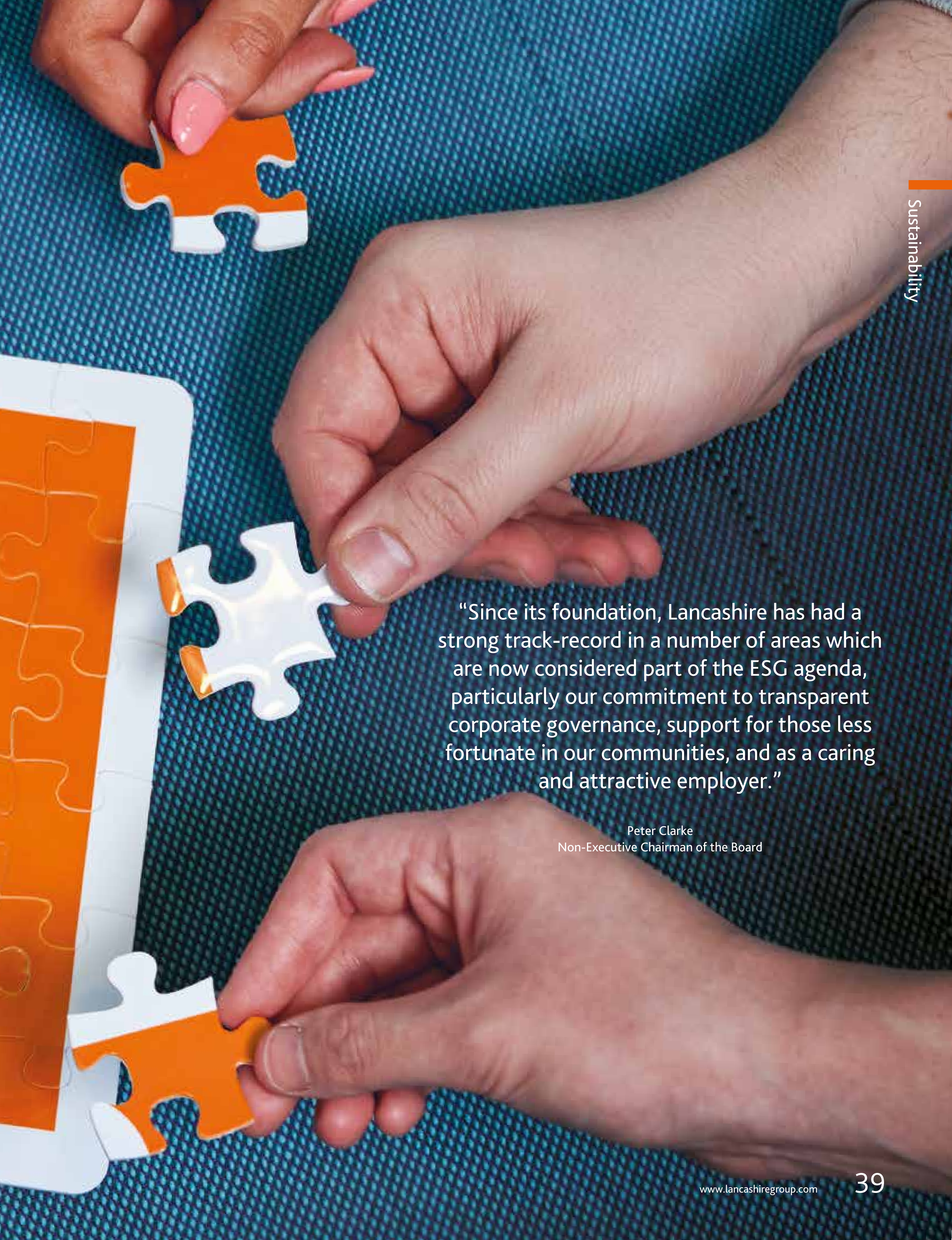
Mitigation
Qualitative approach: These risks require a qualitative approach, engaging staff in appropriate discussions about sources of risk, magnitude of risk and the time horizon over which risks might crystallise as well as thinking about possible outcomes. The Group Executive Committee and the RRC consider these issues, and the quarterly ORSA reports made by the Group CRO to the Board include standing items on these risk areas.

ESG: An ESG Committee and CCWG were established during 2021. The ESG Committee was tasked with the oversight, coordination and internal management of the Group's ESG strategy, with a particular focus on the actual and potential impacts of climate-related risks and opportunities across the business and the identification, and recommended reporting (both financial and otherwise), of ESG issues as they pertain to the Company and its subsidiaries. The CCWG was formed under the leadership of the Group CRO to drive the necessary work to further develop and comply with the TCFD requirements on an ongoing basis.

How the Board reviews this risk
Climate change has been a topic of discussion at each Board meeting this year. The quarterly ORSA report from the Group CRO to the Board includes an ESG section providing an update on related work during the period. In addition, the stress and scenario testing performed as part of the annual business planning process and regulatory reporting process includes a climate change-related scenario. The scenario has been developed for the 2022 annual ORSA to look at both transitional and physical risks. During Q3 the Group participated in the BMA's Climate Change Exposure Assessment exercise (see page 59). The Board was provided with a summary of the conclusions arising and concluded that the results of these scenario tests did not represent a material risk to the Group. The Board has reviewed the TCFD report, which can be found on pages 56 to 63.

COLLABORATIVE

We value teamwork and a diversity of skills and experience and we are sharing in our success



"Since its foundation, Lancashire has had a strong track-record in a number of areas which are now considered part of the ESG agenda, particularly our commitment to transparent corporate governance, support for those less fortunate in our communities, and as a caring and attractive employer."

Peter Clarke
Non-Executive Chairman of the Board

"Effective and responsive governance is an essential aspect of the Lancashire way. We foster a culture of open, honest and constructive debate in our discussion of strategy and risk, and in the creation of a sustainable and vibrant business model."

Peter Clarke
Non-Executive Chairman of the Board

How has the Board addressed the increasing focus on ESG themes?

Matters of sustainability and governance continue to be an increased focus for businesses across a range of sectors. This reflects enhanced awareness of issues of corporate citizenship and the impact activities of companies have on wider society.

Since its foundation, Lancashire has had a strong track-record in a number of areas which are now considered part of the ESG agenda, particularly our commitment to transparent corporate governance, support for those less fortunate in our communities, as a caring and attractive employer and, perhaps most importantly, in the social and economic value of the risk management products that we sell.

As Alex discusses in his review on pages 10 and 11, the business has established an ESG Committee and a CCWG whose work is now informing the discussion of risk and strategy within the business and the Board.

It is important to note that, to date, (with the exception of certain requirements under the FRC's UK Corporate Governance Code) there has been no universal framework for reporting on ESG themes and, in September 2021, the World Economic Forum cited an "alphabet soup of competing standards" that businesses are required to navigate. Therefore, meeting ESG expectations for global (re)insurers and others presents both challenges and opportunities.

During 2021, and following the COP26 Climate Change Summit, a number of new initiatives have been announced regarding potential future reporting requirements for corporations. We recognise the importance of a global transition away from reliance on carbon-based forms of energy and towards net-zero, and we will closely monitor the development of a framework for action and reporting in this area to allow us to make the appropriate preparations to meet these expectations.

The Board is committed to transparency in our reporting of sustainability and governance matters, whilst acknowledging that there are no easy answers or solutions.

Creating a truly sustainable business requires an ongoing commitment to evolve over time and during 2021 we have retained a focus on business discipline whilst also making tangible progress in a number of areas to further embed a sustainable business model.

This strategy has been developed within the context of the United Nations Principles for Sustainable Insurance and the recommendations of the TCFD which are aligned with the principles set out in the 2015 Paris Agreement. The Group's reporting against the UN Principles can be found on our website. Our progress in the area of climate change management of risk and opportunity is outlined in our TCFD Report on pages 56 to 63 of this report.

Aligned to our own activities in matters of sustainability and governance, Lancashire is supportive of its clients' actions to transition their businesses to meet requirements – particularly those around fossil fuels and impacts on climate change – and is committed to working with them as a supportive and active partner. We welcome the wider debate regarding the global energy transition, whilst also being mindful of the potential short to medium-term impact on communities where little alternative non-carbon infrastructure exists.

We understand that there are no simple solutions to the challenges of today's complex world and value our open and honest relationships with all our stakeholders as we make this journey together. We are committed to playing our part in meeting sustainability, environmental and governance expectations.

How does the Board manage the governance arrangements for the Group and what are its priorities for engaging with the Company's stakeholders?

As a premium-listed company on the LSE, Lancashire measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. This requires each company with a premium listing to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance. The Board's Nomination Corporate Governance and Sustainability Committee monitors the Group's compliance quarterly and more information can be found in the report on pages 81 to 83. In addition, the Company also monitors compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the BMA, which also regulates LICL, the Group's Bermuda-incorporated (re)insurance entity. The Group's UK insurance entities are regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

For many years, our Board has continued to focus on proactive and constructive stakeholder engagement aligned to the Section 172 responsibilities of boards under the UK Companies Act 2006. While not formally subject to Section 172 as a matter of law, due to the Company's incorporation in Bermuda, we believe that, as a responsible business, complying with those responsibilities is a matter of importance and that they provide practical working tools by which we can monitor our engagement. The Board's statement regarding matters covered by Section 172 can be found on page 65 which outlines examples of how the Board and the business have factored in the needs of our stakeholders in their discussions and decision making.

I am pleased to say that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2021 and has appropriately considered those duties set out in Section 172.

How has the Board engaged with employees during 2021?

The Board primarily engages with employees through the Executive Directors, and Non-Executive Directors also welcome opportunities, both formal and informal, to meet and interact with employees.

These opportunities for workforce engagement during 2021 included the Town Hall events, hosted quarterly by Alex Maloney, where the Board has designated a Non-Executive Director to contribute to discussions on performance and strategy and outline the work of the Board. Importantly, employees are encouraged to ask questions and engage with the management team and Board.

A quarterly Group CEO update is presented to the Board covering, amongst other things, key employee matters across the Group, and the Board also receives quarterly updates on the Company's business transformation projects. Through committee memberships, members of the Board engage with employees focused on individual operational areas, including the UURC, where class-specific presentations are given by relevant underwriters. The Board also received feedback from a staff engagement survey conducted during the course of 2021 (see page 45 for more details).

In their capacity as Non-Executive Directors of LUK and LSL, Samantha Hoe-Richardson and Simon Fraser, respectively, also have the opportunity to meet and engage with a range of staff members within those businesses and to report any matters back to the main Board.

Due to the ongoing pandemic, some planned workforce engagement activities for 2021 have been hindered and use has been made of virtual interaction during the year. It is planned to continue with Non-Executive Director attendance at the Town Hall meetings during 2022.

The whole Board enormously values all opportunities to engage and interact with employees and I would like to thank our Directors, management team and all our employees for their hard work and commitment during the year.

What developments have there been in the areas of Board membership and succession planning?

During 2021, the Board has considered succession planning and membership and we were delighted to welcome Irene McDermott Brown as a Non-Executive Director with effect from 28 April 2021. Irene brings a further diverse skillset to the Board and her extensive corporate background, in particular her experience of HR and remuneration, will be of great value.

The Committee also reviewed the composition of the Board at its November 2021 meeting and it considered that the balance of skills, knowledge, independence, experience and diversity continues to be appropriate for the Group's business to meet its strategic objectives. The Committee regularly discusses in its meetings questions of independence, diversity and longevity of service and whether any additional skills, perspectives and experience are needed to complement those already on the Board. In order to address future succession requirements, including our ambition to meet the Parker Review target for minority ethnic representation, I am currently leading a search to identify future Non-Executive Director candidates and I expect the Board to be able to report developments in this area during the coming year.

Samantha Hoe-Richardson will complete nine years of service in early 2022 and accordingly will not stand for re-election at our AGM. On behalf of the Board, I would like to thank Sam for her valuable contribution to our business over many years.

Peter Clarke
Non-Executive Chairman of the Board

Lancashire Foundation

At the heart of our responsible business ethos is the Lancashire Foundation.

While corporate responsibility and 'doing well by doing good' are more recent areas of focus for many businesses, we are proud that 2021 marked Lancashire's 15th year of donations to good causes through the Foundation.

Since the first donation in 2007, the Foundation has given more than $21.8 million to charitable organisations across an ever-increasing range of causes. During 2021 alone, around $700,000 was distributed to charities. This included donations to individual charitable groups nominated by more than 40 employees. The Lancashire Foundation has been a UK-registered charity since September 2012.

The annual donation made to the Foundation to fund its assistance pool is aligned to the financial performance of the business. The Foundation receives 0.75% of Group profits with a minimum threshold of $250,000 to a maximum of $750,000. This alignment creates a sense of 'ownership' among our employees who are aware that the financial success of the Group has an impact on the wider community.

This advocacy is further strengthened by an emphasis on supporting charitable causes – which meet the Foundation's criteria – where there is a personal or community connection among employees.

The Board keeps itself informed of the activities of the Lancashire Foundation through regular reporting and meetings with the Foundation's trustees. The Board also sets the policy for donations to the Foundation. We believe that the success of the Foundation in making a real difference to the lives of those less fortunate is due to the enthusiasm of our people. Whether actively getting involved in helping others through volunteering or requesting funding for causes close to them, their support is invaluable. Requests for assistance from the Foundation are coordinated and assessed by the Lancashire Foundation Donations Committee, which consists of employees from across the Group. This committee meets on a quarterly basis and encourages members to advocate on behalf of charities and make recommendations to the trustees for donations. The trustees have the ultimate responsibility for directing the affairs of the Foundation and ensuring strong governance in delivering the charitable outcomes for which it was instigated in 2006.

The first donations were made in 2007 with an initial emphasis on supporting communities in Bermuda. It now has strong focus on providing support for solutions for dealing with social exclusion and issues that affect children and young people.

Organisations receiving more than $1 million in total since 2007 from the Foundation include:

- Tomorrow's Voices
- The Family Centre in Bermuda
- ICM
- St Giles Trust
- MSF

As a long-term business, Lancashire has been committed to building lasting relationships with a number of charities. Among the first donations in 2007 was assistance for The Family Centre in Bermuda which the Foundation has continued to support in 2021 with a $83,700 donation.

Since 1996, The Family Centre in Bermuda has provided support to children suffering from emotional, social, behavioural and trauma-based challenges. Its services are available to any Bermuda resident that meets the criteria and has the need.

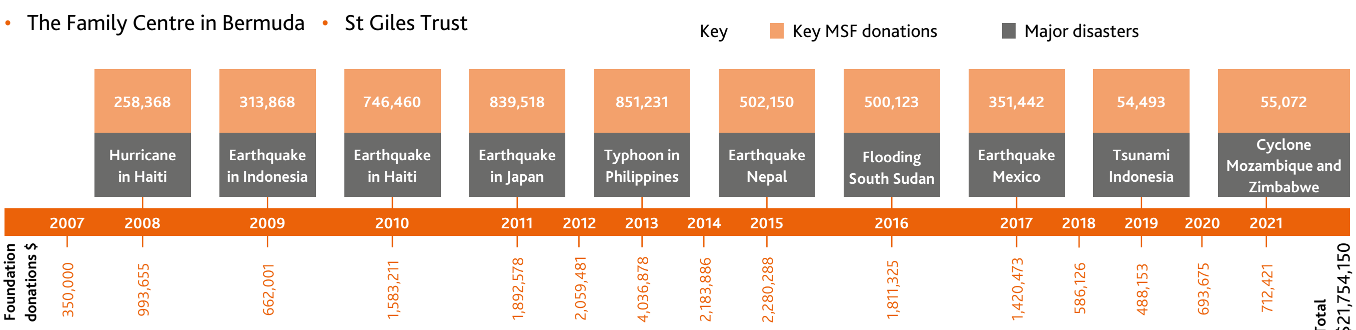
In 2008, in recognition of the fact that a significant element of Lancashire's business is connected to insuring against natural catastrophes, the decision was taken to support MSF, beginning a long-standing relationship that also continues to this day. Donations to MSF total $5.6 million in the past 15 years. The Group donated a total of $55,000 to MSF in 2021 to support the organisation's work responding to emergencies including tsunamis, earthquakes and hurricanes in often complex settings.

Another long-standing partner is ICM and its work with the ultra-poor in the Philippines where more than 100 million people live below the national poverty line. The Foundation donated $55,000 in 2021 towards its work. In previous years, employees have had the opportunity to travel to the Philippines to see the work of the charity themselves.

International non-profit social loans organisation Kiva also received $27,500 in 2021 to support its mission to expand access to financial loans to underserved communities.

In the UK, the SGT supports male and female offenders and their families. The aim is to help them realise their true potential and avoid re-offending, contributing to a safer and more productive society. SGT, which received $55,000 from the Foundation in 2021, works with some of the most marginalised people in society struggling with issues such as homelessness, unemployment, addiction and discrimination.

We also recognise that, while financial support for communities is vital, the skills and expertise of our employees is also a powerful tool and staff are actively encouraged to participate in charitable work. All employees have the opportunity to attend at least one paid Charity Day per year. Additionally, people can apply for five days paid Charity Leave after a minimum of three years of permanent employment, and a further five days after six successive years of employment. Charity Leave is given in support of, or to work with, a charity supported by the Lancashire Foundation at the time of the application. Employees raising funds for charitable organisations can also request matching funds from the Foundation. Due to the COVID-19 pandemic it has not been possible for employees to support charities in this way but we anticipate these activities resuming during 2022.



Emma Ranger

Bermuda underwriting team: Supporting the BIG Foundation

During 2021, the Lancashire Foundation was pleased to support Emma Ranger in her efforts to examine the impact of climate change on the North Pole and Arctic Ocean.

In April 2022, Emma will be among an all-female group skiing to the world's most northerly point on a wide-ranging expedition to investigate and analyse the state of its sea ice.

The Before It's Gone (B.I.G.) North Pole 2022 expedition is being led by renowned polar explorer Felicity Aston MBE.

Emma received a $8,200 donation for the B.I.G. Foundation, a new charity aiming to encourage future explorers to ensure a lasting legacy from the expedition.

During the North Pole trip, Emma and the group will collect valuable scientific data about Arctic Ocean sea ice as well as other information about one of the most inaccessible parts of the world.

Scientists at a number of leading research centres will use the findings to aid their understanding, including data on:

- The effects of black carbon, which primarily comes from the incomplete combustion of fossil fuels and biomass, on the region;
- The scale of microplastics and heavy metals in the ocean through taking and analysing snow, ice and water samples; and
- Behaviour, performance and health in extreme environments through testing a beta version of a new digital support system.

Emma said: **"The North Pole will genuinely not be possible to reach across the sea ice in just a few years. I am very grateful to the Lancashire Foundation for their support for the B.I.G Foundation and what it aims to achieve in increasing awareness of the importance of collecting vital information and data on how the world is changing. Lancashire as an employer has also been very supportive of my role as part of the expedition. While it's going to be tough, the skills and experience I'll get from the trip will undoubtedly be transferrable to my role. More broadly I believe the insurance sector has a big role to play in supporting and partnering with industries as they move forward and transition away from activities which can contribute to climate change."**

You can find out more about the expedition at www.bignorthpole.com.

Silvia Kolu

Modelling Manager, London: Supporting Comunità Cenacolo

"One year ago, I lost my brother Nicola in a car crash. It has been a sudden death, tragic and very difficult to accept. We had a very solid and deep relationship, unfortunately not all for good reasons. My brother struggled with life and as a family we felt extremely lonely, we did not know how to help him and we did not know who could help us dealing with his issues, until we found Cenacolo, a place for hope for those dissatisfied by life. There are no psychiatrists or social workers, it is a 'peer-led' community where men and women live together, respecting each other, themselves, and the firm rules of the community. Nicola spent three years of his adult life in Cenacolo, he was the one who was helped for the first six months and the one who helped others for the rest of his time there. When he came out, he really was a new person with a lot of will to live, many desires in his heart and a new hope for his future.

"I cannot thank Cenacolo enough for what they have done for my brother and of course The Lancashire Foundation for accepting my request to support this charity. I am sure Nicola feels the same – Lancashire funds reached Cenacolo on the 11th of October – precisely on the day that marked the first anniversary of his death."

Adam Beardon

Chief Risk Officer, Lancashire Syndicates, London: Supporting Isabel Hospice

"Isabel Hospice is a charity that supports patients and their families who are living with life-limiting illnesses and conditions, including cancer, heart failure or respiratory illness, and neurological conditions such as motor neurone disease. The charity's vision is of a world where communities talk openly about death and dying, everyone lives life to the full and dies with dignity in the place of their choice knowing their loved ones are supported.

I had first-hand experience of the extraordinary support that Isabel Hospice provides when we managed to move my terminally ill mother from a hospital, where she was stuck on a male cancer ward, to the hospice. I will never forget the amazing support and dignity that was provided to my mother. There were no visiting restrictions.

Isabel Hospice has expanded its service to support more people with a non-cancer diagnosis, now approximately 40% of its patients. Its 'Living Well' programme has also allowed it to reach people much earlier in their diagnosis, supporting them to manage the challenges of living with serious illness and long-term conditions through a range of interventions and holistic therapies. Demand for the charity's compassionate care has never been higher, with all of its palliative care and support for patients, and their families, free of charge to those who need them. I approached the Lancashire Foundation with a grant application as not only was I aware of the astonishing support and dignity the charity offers, but also that it had seen a loss in its income of approximately £1.9 million during the 18-month period to July 2021."

An ongoing commitment to evolve

It is the role of the Board to challenge the business on matters of sustainability and governance and to work collaboratively with the management team.

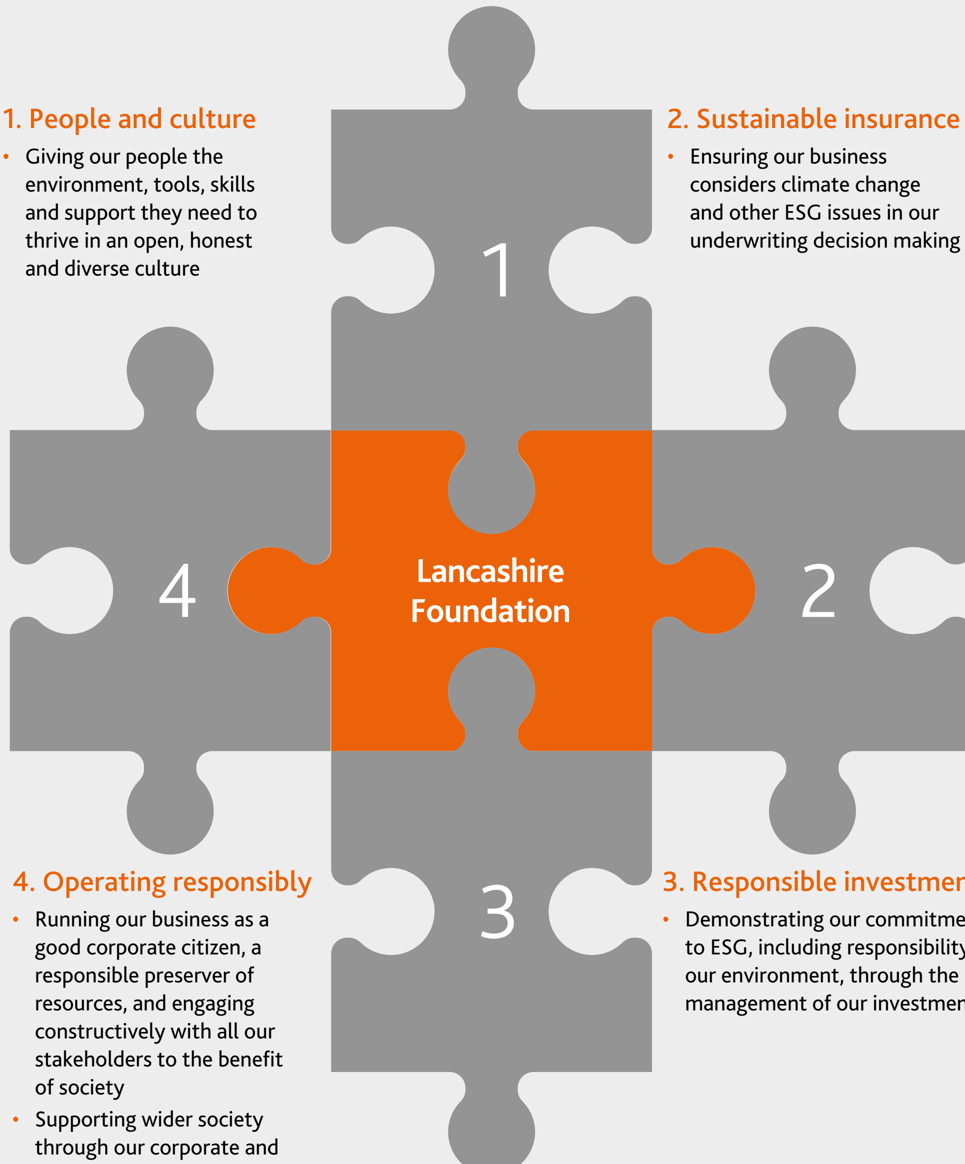
During 2021, the Board approved a Group ESG strategy to assist in concentrating our activities thematically in four areas, which form the structure for this sustainability report.

1. People and culture

- Giving our people the environment, tools, skills and support they need to thrive in an open, honest and diverse culture

2. Sustainable insurance

- Ensuring our business considers climate change and other ESG issues in our underwriting decision making



4. Operating responsibly

- Running our business as a good corporate citizen, a responsible preserver of resources, and engaging constructively with all our stakeholders to the benefit of society
- Supporting wider society through our corporate and charitable activities including the Lancashire Foundation

3. Responsible investment

- Demonstrating our commitment to ESG, including responsibility for our environment, through the management of our investments

A positive environment

The Lancashire values underpin all the Group's activities and shape the way we operate not just on what we do but, importantly, how we do it.

Lancashire's culture fosters an environment that looks to give significant focus on developing, retaining and enhancing a positive working environment, ensuring that all our people are treated with respect and given the opportunity to thrive in a stimulating and rewarding environment.

Engaging with our people

In 2021, Lancashire continued to grow and welcomed many new colleagues across all areas of the business, ensuring we can sustain our ability to provide service excellence to our clients.

We saw our headcount increase from 255 at the end of 2020 to 306 at the end of 2021.

Lancashire benefits from an 'open door' philosophy where employees are actively encouraged to interact with senior executives. In addition, a more formalised communications calendar includes quarterly all staff 'Town Hall' events, led by Group Chief Executive Officer Alex Maloney. These events include attendance by a Non-Executive Director who outlines their experience of the work of the Board. Alex Maloney and the attending Non-Executive Director also invite questions from staff either submitted in advance or during the discussion. Due to the COVID-19 pandemic, a number of these events were held virtually in 2021.

Alex Maloney also ensures that employees are kept up to date on any significant corporate announcements and staff engagement channels are kept under review to ensure they remain appropriate and effective.

As a responsible employer, we are committed to listening to, and acting on, feedback from our people.

During 2021, the introduction of new agile working practices was a direct result of feedback from employees. In addition, flexible start times, to better support the work / life balance, were also introduced following requests from staff.

2021 employee survey

A full survey of employees was carried out in 2021, offering people the opportunity to give their feedback and comments across a broad range of areas. This important mechanism gives the Board and senior management a thorough and deep understanding of how employees consider Lancashire as an employer.

We were pleased that the number of employees participating remained at the high level of 75% recorded for the most recent previous survey in 2019.

The 2021 survey also saw the overall engagement score increasing by 3% to 88% from 2019.

The strongest scores were recorded in the categories:

- 'Company Alignment'
- 'Teamwork'
- 'Manager'
- 'Empowerment'

We believe that the enthusiasm of employees for their individual roles to contribute to the wider success of the Group sets us apart from our competitors.

To support this view, when employees were asked to state which words they consider describe Lancashire's culture, the most cited included:

- Collaborative
- Inclusive
- Hardworking
- Progressive
- Ambitious
- Innovative

To guarantee the anonymity and confidentiality of responses, the survey was coordinated by an independent company.

A summary of the results was presented to the LHL Board, the Group's subsidiary boards and Group Executive Committee team to assist in identifying areas of positive engagement and those which can be further strengthened.

In October 2021, Lancashire Insurance Company Limited was named a 'Top 10 Employer' in Bermuda in the annual awards run by the Royal Gazette newspaper. The awards process included consideration of a survey completed by employees.

In the award citation Lancashire was praised for 'taking good care of its employees and instilling a caring culture'.

Developing our people

Lancashire's reputation as an excellent employer means that we attract and retain talented people who share our values. Group employee turnover in 2021 was 15.3%.

One of Lancashire's strengths has been its programme of developing internal talent and offering employees, with the appropriate skills, the opportunity to be promoted to more senior roles.

We consider this to be a differentiator relative to our competitors which allows us to benefit from the commitment of people who have invested meaningful periods of their careers in Lancashire and who demonstrably share our values. A significant number of current senior executives have held previous roles with the Group meaning we continue to harness their experience and expertise.

Total years of service with the Company		Selection of roles held in the organisation
Alex Maloney*	16yrs	CUO LUK Group CUO Group CUO and LUK CEO Group CEO
Hayley Johnston*	15yrs	Claims and Reinsurance Assistant Specialty Lines and Re-insurance Coordinator Assistant Underwriter & Reinsurance Coordinator Deputy Chief Underwriting Officer & Reinsurance Coordinator LUK CUO and Reinsurance Manager – LUK LICL CEO & Reinsurance Manager
Denise O'Donoghue	14yrs	Corporate Finance Officer Group Head of Investments and Treasury Group Chief Investment Officer
Paul Gregory*	14yrs	Deputy Energy Underwriter/Marketer LUK CUO Group CUO Group CUO & LUK CEO Group CUO (stepped down as LUK CEO in 2019)
Natalie Kershaw*	12yrs	Group Financial Controller Group Financial Controller & LICL CFO Group Chief Accounting Officer Group CFO
Ben Readdy	11yrs	Actuary Head of Capital Modelling Deputy Chief Actuary Group Chief Actuary
Louise Wells*	10yrs	Group Head of Internal Audit CRO Group CRO & LICL COO
John Cadman*	8yrs	Group General Counsel Group General Counsel and LUK CEO
Emma Woolley*	5yrs	LSL Compliance Director LSL CEO

* Member of Group Executive Committee

We value the diversity of our workforce and understand that people who share our ideals come from all walks of life and backgrounds. The Lancashire Foundation has supported a number of organisations whose aim is to reduce social exclusion in wider society and we strive to keep that spirit within our own operations.

Lancashire continuously encourages all employees to develop their skills and experience and offers various in-house and external training programmes, financial support for continuing professional development and reimbursement for all professional body memberships. Due to the COVID-19 pandemic, the majority of training during 2021 was carried out virtually.

Training needs and requirements for employees are reviewed at least annually in partnership with the employee and their manager as a part of the performance review process whilst also encouraging people to proactively request training and to ensure they embrace any opportunities available to them through the year.

One of the longer-term consequences of the pandemic has been a wider shift to more online training for employees. During 2021, Lancashire began preparations for a new digital training platform which will utilise a wide range of resources and become the central hub for personal development. Employees will be able to record and track their progress, ensuring they receive the maximum benefit from the time they spend. An integrated authoring tool will also allow the business to create specific functional and entity-wide training in areas including Regulation, Compliance and HR.

Nurturing and developing our positive culture offers our people the opportunity to be their best and excel in their roles. Aligned to this high performance are our competitive compensation and reward structures which incentivise people to contribute fully to the success and growth of the business.

All permanent employees have an enhanced invested interest in the success of the Company through our RSS to ultimately become a shareholder in Lancashire Holdings Limited.

We are also an accredited living wage employer, for our business and our supply chain.

Regulatory and other training

In order to uphold our high standards, the Group has a comprehensive training programme for employees to ensure understanding of their responsibilities aligned to a clear set of policies and procedures.

Compulsory training is delivered to all new permanent staff, including employees working part time, and those on fixed-term contracts.

Topic covered include Tax/Regulatory Operating Guidelines, Disclosure (including the requirements of the Market Abuse Regulation 2016), Inspections, Financial Crime, ERM, Communications Etiquette/Equality, Diversity & Inclusion, GDPR and Conduct Rules.

Other training may be held on an ad hoc, one-off or refresher basis according to an individual's requirements.

New employees are expected to complete this training during the first three months of employment.

Due to the COVID-19 pandemic this training has been delivered virtually to ensure continuity in the programme and that awareness levels remain high.

Quarterly updates regarding attendance at these compulsory training sessions are provided to the Board for information purposes.

Valuing diversity

We value the diversity of our workforce and understand that people who share our ideals come from all walks of life and backgrounds.

The Lancashire Foundation has supported a number of organisations whose aim is to reduce social exclusion in wider society and we strive to keep that spirit within our own operations.

The Lancashire Diversity and Inclusion Group is chaired by Hayley Johnston, CEO of LICL and Reinsurance Manager, and its members are volunteers drawn from across the Group.

It provides a valuable platform to propose and discuss ideas to progress our diversity and inclusion activities. Initiatives are formally approved for implementation by the Group Executive Committee, ensuring full support from senior management.

As a responsible business we have a number of robust policies in place to ensure that people are not discriminated against either during the recruitment process or during their time with us. We operate a zero-tolerance approach to bullying and harassment.

The gender split of our employees is 63% male to 37% female.

The Group had for a number of years supported the work of the Hampton-Alexander and Davies Reviews on gender diversity. The FTSE Women Leaders Review, an independent, business-led framework supported by the Government, which sets recommendations to improve the representation of women on boards and in leadership positions, builds on these initiatives. The Group submits data annually to the review.

To ensure employees are aware of their responsibilities and the importance the Group places on fairness and inclusion, training sessions on diversity matters are included as part of the new employee induction programme. Training was also undertaken by all employees in Bermuda on Unconscious Bias during 2020 and is being rolled out further across the Group.

The Chairman's statement on our diversity policy, the representation of women on the Board and within executive and senior management, and in relation to ethnic diversity, is available on our website.

The Group carried out a full diversity and inclusion survey during 2020 to better understand employees' view in this important area. A further survey is planned for 2022 and participation from across the Group will again be actively encouraged.

Supporting our people

We strive to give our employees support across a range of areas focused on their health and wider wellbeing, and on ensuring we have policies and procedures in place to ensure they are not inhibited in reaching their full potential.

A Group Staff Handbook, distributed to employees on joining and available on our internal intranet, is supported by individual supplements relevant to our UK and Bermuda operations.

Keeping people safe and healthy

The health and safety of employees while on Company premises is of paramount importance.

With the reopening of the London office in September 2021 following closure due to the COVID-19 pandemic, new guidelines to ensure the health and wellbeing of staff were communicated and made available on the intranet. In addition, a full COVID-19 Risk Assessment was also made available.

As an office based business, we are less exposed to major incidents. However, the Company consults with and updates staff regularly on all health and safety issues and provides and maintains risk assessments for tasks carried out by employees where potential danger has been identified. Our full Health and Safety Policy is communicated to employees on joining and is available on the intranet. During 2021, we worked closely with our health and wellbeing providers to offer advice and support services to employees. These initiatives included information for parents home-schooling children during the COVID-19 pandemic, online gym classes, and sessions focused on mental wellbeing.

Additionally, in our London office, we provided a number of seminars and workshops which focused on financial resilience and planning.

The Company runs an 'open door' policy where employees are encouraged to engage with their manager or HR department concerning any matters of concern during their career at Lancashire.

This is supported by a Dispute Resolution Policy in instances where issues cannot be initially resolved. Employees are encouraged to use this mechanism without fear that they will be penalised in any way.

Employees are also invited to offer constructive ideas on how we can improve our operations, increase efficiency, eliminate waste, and improve working conditions.

As a responsible employer, our people have the reassurance that we comply with all relevant requirements with respect to human rights; rights of freedom of association; collective bargaining; and working time regulations.

We believe every employee, and prospective employee, should be treated with dignity, respect and fairness. As an equal opportunity employer, we do not discriminate, or tolerate discrimination, on grounds of race, age, sex, sexual orientation, marital or civil partnership status, gender reassignment, pregnancy or maternity, disability, religion and/or beliefs.

All employees have a duty to treat colleagues, visitors, clients, customers, suppliers and former staff members with dignity at all times.

Employees who believe they may have been discriminated against are encouraged to raise the matter through our Grievance Procedure.

Gender diversity

- Male: 5 (56%)
- Female: 4 (44%)

- Male: 193 (63%)
- Female: 113 (37%)

- Male: 8 (50%)
- Female: 8 (50%)

- Male: 41 (56%)
- Female: 32 (44%)

All gender composition data is shown as at 31 December 2021.

Read more about composition, diversity and succession planning in our Nomination Corporate Governance and Sustainability Committee report on pages 81 to 83.

Likewise, any employee who believes they may have been subject to harassment are encouraged to raise the matter through our Anti-Harassment and Bullying Policy.

Details of all internal policies are available to employees on our intranet site.

Protection and reassurance

Our internal policies and procedures cover a range of topics designed to protect the business and to offer reassurance to employees that they have the information they need to be able to act responsibly.

All businesses carry the risk of unknowingly harbouring malpractice but we believe our culture of openness and accountability is a key weapon in preventing such issues occurring.

Whistleblowing

Employees are encouraged to raise any concerns regarding malpractice with the Group General Counsel or HR department in line with our Whistleblowing Policy for which the Audit Committee of the Board has overall responsibility.

The aim of this policy is to ensure that staff are confident that they can raise any matters of genuine concern without fear of an improper investigation, reprisal, not being taken seriously or breach of confidentiality.

Each Group entity has a designated whistleblowing champion, a Non-Executive Director, who can be contacted if employees would prefer to raise concerns with them.

The UK Employment Rights Act 1996 as amended by the Public Interest Disclosure Act 1998, and the Bermuda Employment Act 2000, govern the making of disclosures concerning workplace activities and are intended to protect employees who report malpractice from any detriment or unfair dismissal.

Data protection and privacy

In order to operate efficiently, the Group must collect and use information about its staff and data protection policies are in place to ensure that information, however it is collected, recorded and used, is handled and dealt with correctly.

To this end the Group fully endorses and adheres to the principles of data protection as set out in the relevant UK data protection legislation.

All employees are expected to familiarise themselves and comply with the regulations, which are available on the Group intranet.

	2021	2020	2019
Number of employees (UK, Bermuda and Australia)	**306**	255	218
Percentage of female employees	**37.0%**	38.8%	38.5%
Percentage of women on the LHL Board	**44.4%**	37.5%	37.5%
Percentage of women on the Group Executive Committee	**50.0%**	50.0%	50.0%
Percentage of women in senior management positions	**50.0%**	50.0%	38.1%
Percentage of the workforce composed of third-party contractors	**7.1%**	6.9%	8.0%
Group employee turnover (annual)	**15.3%**	6.8%	13.8%
Percentage of permanent employees eligible for RSS awards	**100%**	100%	100%
Accredited London Living Wage employer	**Yes**	Yes	Yes

Honesty and accountability

Lancashire's primary business purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events.

By its nature, this long-held objective has, for many years, deeply embedded core elements of environmental, social and governance matters into our insurance operations.

We believe the insurance sector plays a crucial role in empowering people to be able to take decisions with confidence knowing that if the unexpected happens their insurance partners will mitigate the effects on their business and community.

Aligned to our Company values, we strive at all times to conduct our business in an accountable, open, honest and sustainable way.

We are committed to implementing and reporting against the UNEP FI Principles for Sustainable Insurance, a global framework for the insurance industry to address ESG risks and opportunities. The UN Principles aim to achieve a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for sustainable and effective risk protection and reporting.

Further information on Lancashire's reporting against the UNEP FI for 2021 can be found on our website.

During 2021, Lancashire has developed and implemented a number of internal underwriting guidelines focused on assisting with wider global efforts to tackle issues of climate change and other environmental, social and governance factors. These have been articulated by reference to the Lloyd's market and are being rolled out across all underwriting platforms. These guidelines are also linked to the Group's formal risk appetite statements. See the Underwriting Committee report pages 86 and 87.

These guidelines are in addition to Lancashire's long-standing underwriting processes and controls. Where possible, underwriting decisions are subject to peer review and other mechanisms to ensure any risks written outside predetermined criteria are identified and highlighted on a timely basis. The majority of our underwriters participate in our daily UMCC where the vast majority of potential business is discussed in an open forum, which includes senior management. When appropriate, these discussions include acknowledgement of sustainability factors.

We understand that there are no simple solutions to the challenges of today's complex world. We value our open and honest relationships as we continue our journey in this area and we are committed to working in partnership, across the sector, with a range of stakeholders.

Due to the specialist knowledge and expertise within Lancashire's underwriting teams, we have, for many years, been a valued risk partner for businesses in the energy sector and the solutions we provide to these clients assist in delivering safer operations and resilience.

Many of these clients are already transitioning away from carbon-based forms of energy and we fully support these efforts, while recognising that wholesale change of this nature may take some years.

Since Lancashire's formation in 2005, we have controlled and monitored exposures to a range of natural catastrophe and weather-related risks.

The management of climate change risk in this way is essential to the longer-term sustainability of our business. PML exposures to perils (including climate-related catastrophes) data is a significant tool for tracking the real-time potential impacts of climate risks and all other risks.

Lancashire's Board also determines on at least a quarterly basis the capital requirements of our business to meet all regulatory and rating agency requirements to place the Group in a strong capital position to service the needs of our clients and to meet the return expectations of our investors.

Further information on scenario analysis is outlined in the ERM and TCFD sections on page 27 and pages 56 to 63.

More broadly, Lancashire is also committed to supporting all our clients as the global economy adapts to a net-zero world.

Our shareholders

We value open and transparent communication with our shareholders and certain of the leading shareholder advisory services. This is led by our Group Head of Investor Relations, in collaboration with members of the Board and the executive team.

Our programme of meetings, presentations and periodic consultation initiatives (with both shareholders and industry analysts) includes discussion of the Group's financial performance and business strategy; capital initiatives; ESG matters; and the executive Remuneration Policy, among other matters.

We also seek feedback from the Group's corporate brokers on investor priorities, Lancashire's performance, and perception amongst investors. The Board meets our corporate brokers regularly as part of these discussions.

Service excellence for policyholders

Lancashire aspires to deliver a superior service to our policyholders at all times. In particular, our experienced teams of claims specialists, whether operating for our Company or collateralised carriers or Lloyd's Syndicates, have expert knowledge of our diverse product lines. We manage and investigate any loss our clients may sustain to achieve a timely, straightforward and fair resolution.

Our proactive, efficient, transparent and flexible approach is designed to enable our clients to effectively mitigate the impact of loss events as soon as practicable. We have many long-standing relationships with policyholders and engage with them, and with new prospective clients, regularly.

Brokers

The Group's engagement with brokers distributing its products is important and we maintain strong working relationships with both large international firms and smaller independent intermediaries.

We work hard to ensure that we continue to be viewed as a trusted partner and provider of solutions for clients' (re)insurance needs. We value traditional face-to-face contact with brokers while positively embracing virtual engagement during the COVID-19 pandemic.

Measurement and monitoring

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations.

Our investment guidelines, established by the Investment Committee of the Board, set the boundaries within which the Group's external investment managers must operate.

Compliance with the guidelines is monitored on a monthly basis and any adjustments are approved by the Investment Committee and the Board.

In addition, we measure and monitor our climate change transitional risk, with sensitivity to, and promotion of, responsible investment.

Our principal investment managers are signatories to the UN-supported 'Principles for Responsible Investment' and we encourage all of the Group's asset managers to consider signatory status.

These principles include a commitment to incorporate the governing six principles into the investment analysis and decision-making processes for the Group's portfolio.

During 2021, we also began reducing certain carbon intensive forms of investment for the Group's fixed maturity investments and we articulated and adopted a Climate Change at Risk metric aligned with the Paris Accord 1.5°C scenario (see Investment Committee report on pages 84 and 85).

We will continue to monitor our investments with a focus on sustainability as relevant analytics develop and evolve in the markets.

Responsibility and leadership

The Lancashire Way guides all our activities with an emphasis on ensuring that we show leadership and act in a straightforward way for the benefit and understanding of all stakeholders.

The Group operates in line with all relevant regulatory and legal requirements, giving particular regard to the environmental, social and governance regulations of the BMA; TCFD; PRA; FRC; FCA; Lloyd's; UNEP-FI; Mandatory Greenhouse Gas Emissions reporting / Streamlined Energy & Carbon Reporting (SECR); and Home Office (Modern Slavery Statement Registry).

We aim to run our business responsibly, as a good corporate citizen, a responsible preserver of resources, and holding our supply chain to the high standards we apply to ourselves.

Relations with regulators, rating agencies and lenders

We maintain constructive relationships with the relevant regulatory bodies who provide the Group with supervision and oversight.

Our programme of active engagement includes meetings, reporting or routine regulatory reviews and the Board and management monitors changes in regulatory and supervisory requirements closely.

Lancashire is subject to financial strength assessments by three major rating agencies: A.M. Best, S&P and Moody's. These assessments include creditworthiness and claims-paying ability of the Group's insurance subsidiaries, LICL and LUK. The Group's syndicates benefit from Lloyd's current ratings. In addition, all Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund.

We engage with each of our rating agencies annually as part of our rating review, quarterly to discuss current financial performance, and additionally when significant events occur such as loss events. Our strong ratings allow the Group to write business successfully in all major global insurance markets and to comply with reinsurance contracts under which the Group is reinsured, as well as its credit facilities which support underwriting obligations.

Our strong relationships with lenders allow the Group the flexibility to respond to changing business and economic conditions and to raise capital, when required, to execute our strategy. The Group has in place a number of long-term debt and financing arrangements with lenders which help to support and fund its underwriting operations and to comply with regulatory capital requirements. We routinely publish financial information for the benefit of all our capital providers, including our lenders.

Tax authorities

The Group maintains proactive relationships with relevant tax authorities in order to achieve compliance with all its tax obligations. This requires us to keep abreast of developments in tax legislation and to work with the tax authorities to manage our tax risk.

Collaboration with third parties

To ensure our operations are as efficient as possible, the Group employs a number of third-party suppliers and service providers to assist in the effective running of the business.

We value these partnerships and approach them in a collaborative manner to further develop good relations.

We seek to receive assurance that employers within the ancillary services and limited supply chains used by the Group pay a living wage.

Payments to service providers are made in accordance with the individual payment terms agreed. The Group's UK subsidiary, LUK, complies with its statutory reporting duty for payment practices and performance in relation to qualifying contracts on a half-yearly basis.

Lancashire has its own responsibilities to those within its limited supply chain. Any concerns arising over the ethical practices and human rights records of insureds and potential clients would be considered as part of the underwriting process.

Anti-slavery and human trafficking

We are proud of the conditions of employment for all our employees throughout the Lancashire Group. We also consider that there is minimal risk that, either within the Lancashire Group or the very limited supply chains which support our business activities, the Lancashire Group is involved in, supportive of, or complicit in slavery and human trafficking.

Our full Anti-Slavery and Human Trafficking Statement is available on our website.

Environmental impact and offsetting

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint annually with a view to minimising its negative impact through both mitigation strategies and by offsetting 100% of our calculated GHG emissions, in order to remain carbon neutral. In previous years, Lancashire has achieved its carbon neutral status through purchasing carbon credits, solely in carbon avoidance programmes, which assist in the creation and/or maintenance of systems and technologies which replace the use of carbon intensive processes. In 2021, for the first time, the Group offset 15% of its emissions via a carbon sequestration project, which aims to actively remove carbon from the atmosphere. The remaining 85% of the Group's 2021 offsetting has been procured via carbon avoidance projects. We have reported the 2021 emissions data for the Group in the table on page 54.

The Group recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning process (please refer to the Chairman's statement on pages 6 and 7 and the section on principal risks from pages 31 to 37 for further details). The Group CRO and the Board oversee the Company's annual submission to the CDP. The information which is requested as part of the reporting process is aligned with the recommendations of the TCFD. The business, led by the Group CRO, has further developed its understanding and reporting in line with the requirements of the TCFD. Please see pages 56 to 63 for more information on our TCFD journey.

Emissions are collated from 1 January 2021 to 31 December 2021 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO_2e) using the UK's Department for Business, Energy and Industrial Strategy (BEIS) 2019 factors. For the second year, Lancashire has also calculated its Scope 2 market-based emissions, which we disclose adjacent to our previous location-based figure, in line with the Greenhouse Gas Protocol's guidance on dual reporting[1].

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has typically incurred the bulk of its carbon footprint as a result of airline travel. Despite the impact of the COVID-19 pandemic, there has been more opportunity for employees to travel between our offices, and to meet clients and brokers during 2021. This has resulted in an increase in our business travel emissions from the 2020 level of 118.2 tCO_2e to 284.6 tCO_2e in 2021. However the number of flights taken is below the level of 2019 and prior pre-pandemic years.

We have procured 100% renewable electricity for our London operations and have applied an appropriate residual grid factor for our operations in Bermuda. Lancashire did not implement any energy efficiency measures in the business during 2021 due to limited control of its sites. However, our London office is already well optimised with 20 Fenchurch Street achieving a BREEAM 'excellent' environment performance rating.

Using an operational control approach, Lancashire has assessed its boundaries to identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 footprint, along with areas of our Scope 3 footprint with high levels of operational control, as detailed below. Calculations performed follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Group's emissions. Lancashire uses the number of FTEs as its intensity metric. Where data was not available for 2021, values have been extrapolated by using available data or calculated using industry benchmarks. Lancashire does not own company vehicles; thus business travel emissions fall entirely in Scope 3 and vehicle energy is not included in numbers below.

Total location based emissions for 2021 have increased by 50.4% compared to 2020. As FTEs have increased year-on-year, with a period of significant recruitment during 2021, emissions per FTE have increased by 27.3%. The table on page 54 sets out the Group's carbon footprint for the current and prior reporting period, broken down by emission source.

Results show that location-based GHG emissions in the year were 842.1 tCO_2e, comprised of direct emissions (Scope 1) amounting to 106.7 tCO_2e, and indirect location-based emissions (Scope 2) amounting to 279.7 tCO_2e. The source of other indirect emissions (Scope 3) comprised 455.6 tCO_2e. Scope 1 emissions have increased by 59.3% mostly due to our London site reopening after the UK COVID-19 lockdowns. Scope 2 emissions have increased by 13.5% compared with 2020, due to the reopening of our Fenchurch Street office after the COVID-19 lockdowns, as well as the opening of our meeting space in Fountain House for part of the year. Scope 3 emissions have also increased by 91.4% compared with 2020 due primarily to the lifting of some travel restrictions in 2021 resulting in an increase in business travel and hotel stays, albeit not to pre-pandemic levels.

Streamlined Energy & Carbon Reporting disclosure – January 2021 to December 2021

	Current reporting year		Previous reporting year	
	(UK & offshore)	UK Only	(UK & offshore)	UK Only
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use / tCO_2e	**106.7**	**106.7**	67.0	67.0
Emissions resulting from the purchase of electricity, heat, steam or cooling by the company for its own use (location based) / tCO_2e	**279.9**	**138.8**	253.5	113.4
Gross Emissions (Scope 1, 2)	**386.4**	**245.0**	320.5	180.4
Energy consumption used to calculate above emissions /kWh	**1,899,648.9**	**1,233,727.6**	1,450,033.6	849,398.9
Total gross emissions (Scope 1, 2, 3)/ tCO_2e	**842.1**		558.6	
tCO_2e per FTE	**2.8**		2.2	

1 https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021

Under the market-based methodology, the Group's Scope 2 emissions are 259.7 tCO_2e. This results in total market-based emissions of 822.1 tCO_2e. Our market-based emissions are lower than our location-based as the Group sources electricity for its Fenchurch Street offices via a renewable tariff, backed up by associated Renewable Energy Guarantees of Origin (REGOs).

The Group has fully offset its calculated 2021 GHG market-based emissions through EcoAct by purchasing verified credits in both carbon avoidance and carbon sequestration programmes. 85% of the Group's 2021 carbon credits have been purchased in the Gandhi India Wind Project and the Gaolin Wind Project, both of which generate renewable electricity in various states across India and China that have traditionally been reliant on fossil fuel generated energy. As a result these are described as carbon avoidance projects. The remaining 15% of the Group's 2021 carbon credits have been purchased in the Cherokee Forest project in the USA. This Improved Forest Management Project protects 8,485.58 acres of mixed hardwoods, oak hickory, cove forest, and oak-pine in northeast Tennessee. The park's management plan and governance are designed to preserve the mountain's forest habitat while also stimulating recreation-based tourism in an economically at-risk region. As a result this is a carbon sequestration project. These offsetting proposals were discussed and agreed with the Group CEO.

The Board will continue to monitor and offset the Group's emissions, mindful of the Group's strategic and business operational requirements.

In addition, we encourage the use of public transport by UK employees travelling to work to assist in reducing the number of car journeys. Incentives include a season ticket loan scheme and assistance in purchasing bicycles. We have designated storage for employees' bicycles at our London office.

Types of emissions	Activity	2021 tCO_2e	2020 tCO_2e
Direct (Scope 1)	Gas (measured in kWh)	**106.7**	67.0
	Refrigerant (measured in kg)	**0.0**	0.0
Indirect Energy (Scope 2) (location-based)	Electricity (measured in kWh)	**279.7**	253.5
Indirect Energy (Scope 2) (market-based)	Electricity (measured in kWh)	**259.7**	228.8
Indirect Other (Scope 3)	Business Travel (measured in miles and spend)	**284.6**	118.2
	Additional Upstream Activities (measured in kWh, litres, miles and spend)	**153.5**	87.4
	Water (measured in m3)	**6.9**	19.4
	Waste (measured in kg)	**1.3**	4.6
	Paper (measured in reams)	**2.8**	2.4
	Hotels (measured in hotel nights)	**6.6**	6.1
Gross emissions (tCO_2e) (location-based)		**842.1**	558.6
Gross emissions per FTE (tCO_2e/FTE)		**2.8**	2.2
Gross emissions (tCO_2e) (market-based)		**822.1**	533.9
Carbon credits		**823.0**	534.0
Total net emissions after offset (tCO_2e)		**0.0**	0.0

Please note: all numbers quoted have been rounded to one decimal place.
Additional Upstream Activities include Well-to-Tank and Transmission & Distribution emissions. These are emissions associated with the upstream processes of extracting, refining and transporting raw fuel and the emissions associated with the electrical energy lost during transmission to our business.

IT security

Keeping our information safe and protecting ourselves from online threats are crucial in today's inter-connected world.

Cyber criminals are becoming increasingly ambitious in their attempts to steal data and infiltrate IT systems. Our stakeholders are also taking this activity seriously and look to us to make sure our people have the support they need.

During 2021, we introduced a new mandatory online IT security training course which replaced previous in-person sessions, covering a range of topics to reinforce the importance of protecting our data. Training for all employees, including those on fixed-term contracts, will continue during 2022. Exercises to test employees' abilities to detect potentially harmful emails are also carried out.

A series of Annual Cyber Incident Response Plan (CIRP) Tabletop Exercises were also held, attended by relevant functional representatives, focused on increasing awareness of current cyber threats to the Group, validating the Group's capacity to respond effectively to potential cyber-attacks, and stress-testing our Cyber Incident Response Procedures.

The Board also received a report on the Group's Information Security protocols, testing and mitigation initiatives.

Anti-money laundering, bribery and financial crime

The Group seeks at all times to ensure that it operates effective and appropriate procedures to prevent and/or report incidents of money laundering, bribery and other forms of financial crime.

The Group has developed an Anti-Money Laundering, Bribery and Financial Crime Policy and Procedure with practical measures for the identification and control of any suspicious, dishonest or illegal transactions.

All Group employees are required to report to their local Money Laundering Reporting Officer any potentially suspicious transactions whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or illegality.

Conflicts of interest and share dealing

Due to the nature of insurance markets, business relationships are often strengthened through hospitality or other forms of engagement.

The Group's Conflicts of Interest Policy, for giving and accepting gifts and entertainment, sets out guidelines to ensure that gifts and entertainment are consistent with acceptable business practice.

The Group's Share Dealing Code places relevant restrictions on the trading of LHL's securities by employees and the Group's Disclosure Policy restricts and regulates the disclosure or discussion of confidential information.

A full suite of internal policies and procedures is available on the staff intranet and detailed in the employee handbook.

TCFD Report – Our journey

Lancashire supports the aims of the TCFD, and we have detailed below our progress against both the four pillars and the 11 recommendations.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Describe the Board's oversight of climate-related risks and opportunities.

The LHL Board retains ultimate responsibility for climate-related risks and opportunities. It oversees the Group's ERM activities and receives regular updates on material risks including ESG-related risks and opportunities. This is done through the Nomination, Corporate Governance and Sustainability Committee, the Underwriting and Underwriting Risk Committee, as well as the Investment Committee.

The Nomination, Corporate Governance and Sustainability Committee monitors issues of sustainability, including developments in climate change risk management and reporting.

The Board's Underwriting and Underwriting Risk Committee and the Investment Committee each have responsibility for monitoring the impacts of climate change, transition risk, as well as the broader ESG risks and to articulate appropriate appetites and tolerances for the Group.

Overall responsibility for the ESG programme sits with the Group CEO. The Board as a whole, reviews and approves the Group's risk framework and appetites which are ordinarily addressed within the quarterly ORSA report.

The Board receives a quarterly ORSA report from the Group CRO. This covers the full range of risks and controls identified through the Group's risk register and operated by the Group, including climate change and ESG risks and controls. Facilitated by the Group CRO, the Board discusses, agrees and monitors, performance against a range of risk appetites. The Board discussions also cover consideration of emerging risks.

Examples of Board ESG and climate change oversight in 2021 include:

- The Board's oversight of the implementation of the ESG Co-ordination Committee and associated working groups, the Climate Change Working Group and the Diversity & Inclusion Working Group
- Its review and approval of the Group's ESG framework
- Approval of the Group's ESG strategy
- Annual review and approval of the Group's risk appetite statements, including the tolerances for elemental PMLs and non-elemental RDSs. More information on this can be found on page 138. The risk appetite statements were enhanced during the year to include climate-related statements for both the asset and liability side of our business
- Oversight of the process undertaken, and scenario testing performed, for the BMA's Climate Change Exposure Assessment
- Review and approval of the annual ORSA report.
- Review of the quarterly ORSA reporting which contains information on all risk categories highlighting material risk considerations including climate-related risk where appropriate.
- Review of the output from stress tests performed as part of both the annual business planning exercise and the annual ORSA reporting process, including climate-related scenarios.

The actual business underwritten within the Group is monitored against both the strategic plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events) and is reported to the Board quarterly within the Group CRO's quarterly ORSA report. Please see page 28 for more information. In addition, the Group CUO and Group CRO regularly review current and emerging (re)insurance risks.

The Investment Committee oversees the management and performance of the Group's investment portfolio including investment risk parameters. During 2021, management developed some climate-related investment guidelines to be applied across the Group's fixed maturity portfolio. The Investment Committee and Board reviewed and approved the proposal to implement these guidelines. In addition, the Investment Committee and Board reviewed and approved a proposal to introduce a Climate VaR risk appetite statement to be monitored as part of the regular quarterly reporting process. This included an agreed preference for the financial impact of the Climate VaR on the Group's actual fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model and carbon sensitivity tool. Please see the Investment Committee report on pages 84 and 85 for more information.

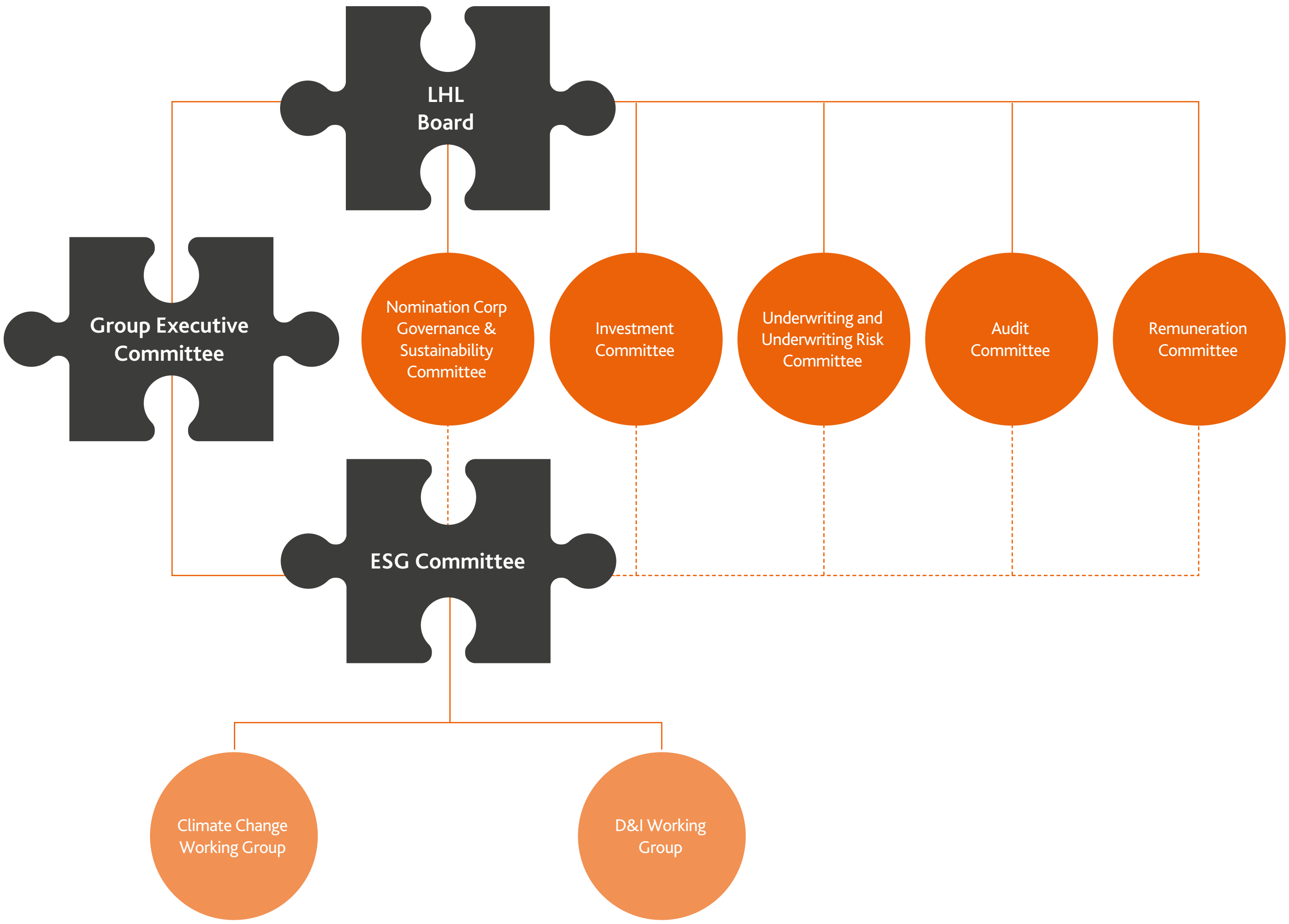
Describe management's role in assessing and managing climate-related risks and opportunities.

The Group CEO is accountable for the development and execution of the Group strategy, including the management of climate-related risks and opportunities.

The Group CRO is responsible for the overall management of the risk management framework, which includes facilitating the identification, assessment, evaluation and management of existing and emerging risks by management and the Board; ensuring these risks are given due consideration and are embedded within management's and the Board's oversight and decision-making process.

The ESG Committee, established by management in H1 2021, is tasked with the oversight, co-ordination and internal management of the Group's ESG strategy. The ESG Committee reports to the Group Executive Committee and is supported by both the Climate Change and Diversity & Inclusion Working Groups. Key developments are reported to the Nomination, Corporate Governance and Sustainability Committee as well as the Investment and the Underwriting and Underwriting Risk, Audit and Remuneration Committees as appropriate, and ultimately to the Board via the Group CRO's quarterly reporting.

Group ESG governance structure



The RRC evaluates and monitors the Group's modelled underwriting PML and RDS risk exposures against the Group's tolerance levels on a monthly basis. Lancashire underwrites predominantly short-tail business, with loss exposures usually crystallising within a policy period of 12 months. As a result, with PML levels updated monthly and shared internally, we ensure we closely track both market pricing and coverage conditions and the Group's modelled climate-related loss exposures. Please see page 138 for more information.

The IRRC is increasingly alive to the potential impacts of climate change-related transitional risk on assets within the Group's investment portfolio. The Group CRO has convened a Climate Change Working Group, which focuses on areas for enhancement in the assessment and management of climate change risk and related opportunity over the coming year to inform the work of the IRRC, the Investment Committee, the Underwriting and Underwriting Risk Committee, and the Nomination, Corporate Governance and Sustainability Committee.

The above diagram illustrates the Group Board, Board sub-committee and management committee governance structure as it pertains to ESG. The role and responsibilities of each of the Board's sub-Committees is explained within the Governance section starting on page 72 and in each Committee's Terms of Reference which can be found on the Group's website. The Group CRO is a member or attendee of all the fora shown above and provides a link between each individual forum and the management RRC and Group Executive Committee.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

We consider the actual and potential impacts of climate-related risks and opportunities on Lancashire's strategy and financial planning across the following timeframes: short term being up to five years, medium term being five to 15 years and long term being 15 to 30 years from now. Lancashire underwrites predominantly short-tail business, and so the principal impact of climate-related risks and opportunities is on short-term strategy. Such impact is mitigated by our ability to re-evaluate the portfolio on an annual basis and therefore re-price physical risks and reset exposure levels to take into account new data regarding the frequency and severity of elemental catastrophe events. We recognise that climate change does also impact the longer-term strategy in terms of emerging risk and accordingly management works with some of the leading external catastrophe model providers to understand the science which underlies and informs developments in the short and long-term climate-related assumptions in their stochastic models. These developments are included in the Group's management and Board- approved annual five-year business strategy and the three-year forward-looking business plan. More information can be found in the going concern and viability statement on page 114 of this report.

The Board also regularly discusses cycles and trends within the insurance sector as well as within the natural, commercial and political environment to which the Group's business is subject. We also recognise the potential impacts of transitional climate change risk on the Group's underwriting and investment portfolios and associated strategies. Whilst detailed strategic planning is based on short-term horizons (over a period of three to five years) the Board's strategic discussions are informed by consideration of potential future trends in the medium to longer term such as the make-up of global energy demand (which may be influenced by climate-related factors), the impact on travel and transportation (aviation, shipping, cruise ships) or the potential for political instability (for example over a period of five to 30 years).

During 2021 significant work was undertaken to identify and articulate the financial impacts of climate-related risks, both physical and transitional risks. For each risk identified, the loss amplification factors, time-frame and magnitude were considered, as were metrics by which these risks could be monitored and reported upon. Examples of short to medium-term risks identified included increased severity of tropical cyclones and heightened storm surge resulting from the enhanced strength and duration of storms combined with sea level rise; increased intensity of extratropical cyclones; increased intense rainfall due to the warming atmosphere thus increased risk of flooding; and increased risk of wildfire due to warming temperatures combined with shifting precipitation patterns. A longer-term risk being considered is the emergence of new natural catastrophe zones due to the shifting weather patterns. The potential financial impact from these risks is included within the metrics and targets section on page 61.

The physical risk to our own operations is less material. As a group operating out of two physical locations (Bermuda and London) we don't have significant physical assets to be impacted by physical risk; the main impact of physical risk arises from our underwriting portfolio in the form of losses arising from elemental catastrophic events. We do however have robust BCP processes in place.

Examples of transitional risks that may be faced by the Group include the probability of a declining premium environment in the traditional oil and gas sector or transportation classes over time, or the risk of exposure to climate change-related litigation. The potential impact in terms of premium is thought to range from low to medium for the relevant subsidiary, however the financial impact to the Group of these risks ranges from very low to low at this time due to the inherent responsiveness in the Group's nimble underwriting strategy. Our work in this area will be further developed and enhanced during 2022.

Risk radar

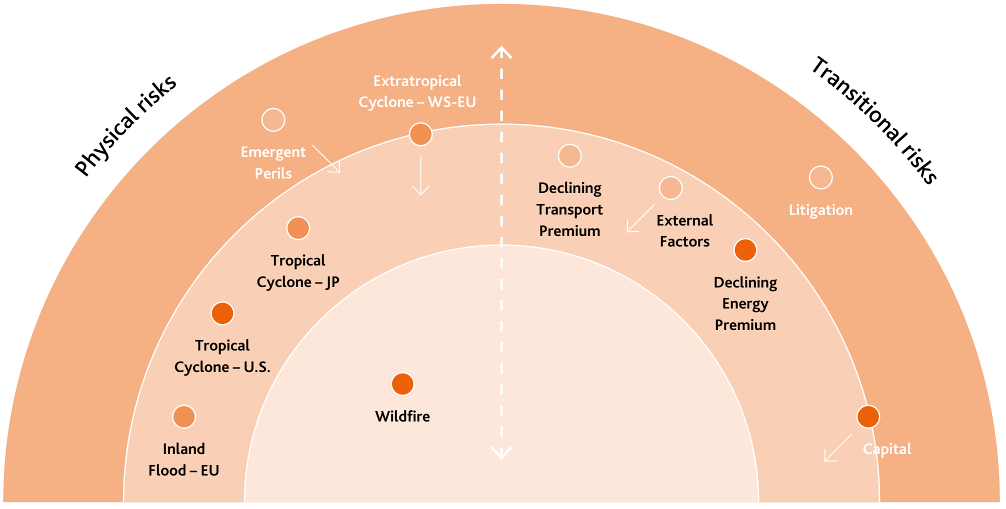
Lancashire's current internal view of the risks the Group may face from climate change, the potential time horizon over which they may be faced and potential magnitude of impact. The radar is updated on a periodic basis following each internal risk assessment.

Time horizon

- Long: 2030+
- Medium: 2025-2030
- Short: now – 2025

Magnitude

- High
- Medium
- Low



Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Lancashire is exposed to the risk of heightened severity and frequency of weather-related losses which may be influenced by climate change. We manage this risk by using the stochastic models from third-party vendors which have a long history of quality data governance. In addition, we adapt these models based upon our views of climate risk, as well as our clients' exposure data, to create aggregate loss scenarios. Further, individual risks that are likely to materially utilise the Group's capital are reviewed at the daily UMCC prior to binding. The modelling data and the capital deployment are closely monitored by executive management. Likewise, the Board monitors this on a quarterly basis as part of strategic risk and capital management, with the testing of the models leading to changes in risk levels, reinsurance purchasing and structuring strategy as required. As part of the financial planning process, the assumptions within the underwriting portfolio are reviewed including the expected rate adequacy and losses for each class of business. Our assumptions are driven by a number of factors, which include climate change-related factors such as frequency and severity of elemental events and the potential for associated claims inflation. The level and availability of capital, as well as capital utilisation by class of business, are also key considerations in the financial planning process. The business mix is also reviewed and new products and lines are considered where rates prove attractive and accretive.

Lancashire's exposure to physical risk in our own operations is modest. As a business with an office in Bermuda we recognise that this is an area of the world that is vulnerable to catastrophic windstorm events and may be affected by any future climate change trends. Both Lancashire offices have disaster recovery and BCP in place. Specifically, the Bermuda management team and Board consider hurricane and tsunami risk within the Bermuda office's BCP. Please see page 36 for more information.

Outside of physical risk, Lancashire has been a risk partner of businesses operating in the aviation, marine and energy sectors across the world for many years. The risk solutions which we provide help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We will continue to support our clients in the journey required to transition away from carbon-based forms of energy to a net zero state. Substantial investments will be required to meet both global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they navigate this transition.

We also recognise the potential impacts of climate-related risks and opportunities upon the Group's investment portfolio, in particular the potential impacts of the transition away from a carbon intensive economy. During 2021, we developed the tools used for the identification, measurement and management of these risks and opportunities through the work of the CCWG, the RRC and the Investment Committee; and we have enhanced the management information provided to each of these.

With respect to opportunities arising from climate change, immense investment in infrastructure will be required as the world transitions to a lower-carbon economy, such infrastructure will require insurance which lies within the Group's existing classes of business and appetite. The demand for environmental insurance products is also expected to increase.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Stress and scenario tests and reverse stress tests are performed as part of the business planning process and the annual ORSA reporting process. More information on these processes can be found on pages 27 to 29 of this report. The capital impacts from a range of scenarios, including climate-related risks and opportunities, are presented to the RRC and Board for review and discussion.

During 2021, the Group participated in the BMA's climate change exposure assessment exercise which covered both the asset and liability sides of our balance sheet. The liability side analysis requested by the BMA included the impact on the insurance portfolio of physical risk under three different scenarios: short, medium and long term (looking out five, ten and 25 years). The stress test undertaken featured two major elements for each of the three time horizons: i) climate change risk scenarios for selected major perils corresponding to the 2.5° scenario linked to RCP 4.5[1]; and ii) Company-specific inflation expectations. The BMA requested the work be performed on the portfolio in-force as at 31 December 2020. The results of these stress tests were presented to, and discussed at, the RRC before being submitted to the BMA. As expected, the impact from these climate events increased as the time horizon lengthened. We plan to develop our work in this area during 2022.

One of Lancashire's key operating principles, which supports the Group's strategy to produce an attractive risk-adjusted total return to shareholders over the long term, is to 'operate nimbly through the cycle'. Climate change may influence the severity and frequency of losses that impact our policyholders and Lancashire's quick response to such post-loss situations can therefore be seen as a competitive advantage. A similarly 'nimble' approach to the management of climate change transition risk helps inform asset allocation and investment portfolio management. As of 31 December 2021, 93.8% of our externally managed investment portfolio, excluding internally managed cash, is managed by signatories to the United Nation's Principles for Responsible Investment. Analysis of our investment portfolio, specifically the fixed maturity portfolio, has shown it is more resilient to the impacts of climate change than the relevant benchmark which we have linked to a 1.5C future pathway scenario. During 2021 we have developed our ESG and carbon intensity analytics in relation to the investment portfolio, and we plan to further enhance this work and add to the stress and scenario tests run during 2022 as part of our biennial strategic asset allocation study.

The CCWG has been a useful forum to progress our work in this area and the Group expects to report in more detail on likely scenario impacts in future years. Nonetheless, given the Group's predominately short-tail nature of, and the ability to model the geographical and economic impacts of climate risk on, the insurance products it sells and to price insurance premiums on the basis of a flexible and dynamic risk analysis, the Board and management consider that there is some resilience in both the Group's underwriting and investment strategy and its business model to the challenges of increased frequency and severity of physical damage and the effects of transition risk, as a result of climate change risk.

1 A set of parameter input assumptions used in climate science to project emissions of greenhouse gases over time to assess the sensitivity of the climate response. RCP 4.5 is a specific "middle range scenario", featuring slowly declining emissions from around 2050, with a likely 2.5C increase in global mean temperatures, above that of the Paris agreement target.

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are identified and assessed as part of the usual risk identification and management process which includes but is not limited to: discussions with risk owners and with subject matter experts across the Group, discussions at the Group's Emerging Risk Working Group, CCWG, and ESG Co-ordination Committee. Climate-related risks specific to the (re)insurance portfolios are identified and assessed as part of the day-to-day underwriting process by individual underwriters in their analysis of specific risk information, and more broadly in the context of the wider portfolio during the daily UMCC and the fortnightly RRC meetings. This includes, for example, the assets to be insured; their physical location; weather-related perils that have impacted that location; historical frequency and severity; as well as expected short and long-term changes. The individual entity annual underwriting strategy days and the Group annual catastrophe underwriting strategy day also provide a good basis for discussion of the climate-related risks of both current and anticipated future risks. Examples of such risks include transition risks arising from a decline in value of assets to be insured, changing energy costs and liability risks that could arise from climate-related litigation. Physical, transition and liability risks are considered by business segment and geographical location, and the expected impact from the risks identified is considered both with respect to magnitude and timescale.

Describe the organisation's processes for managing climate-related risks.

We recognise the potential environmental effects of carbon emissions and in a global commercial and political environment which currently remains reliant on carbon-based forms of energy production, we will work with our clients through a period of global energy transition to help manage their operational and catastrophe-exposure risks in a controlled and responsible way.

Nonetheless, climate-related risks (and opportunities) are a constituent part of the Group's underwriting and investment risks. As we have detailed in this TCFD report, such risks are managed in the same way as other risks: they are identified, monitored, mitigated and reported upon against tolerance as appropriate. Opportunities are monitored and taken advantage of where it makes sense to do so. More information can be found on pages 26 and 27 of this report.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

As noted in the ERM section, the Group subscribes to a 'three lines of defence' model with respect to the identification, ownership, monitoring and mitigation of risk. The management of climate-related risk falls within this same framework, which is fully embedded throughout the Group. Our ERM framework has been enhanced during 2021 with the formation of a CCWG which reports into the newly established ESG Committee. The ESG Committee reports through to the Group Executive Committee as well as providing updates on its work via the Group CRO to both the Nomination, Corporate Governance and Sustainability Committee and the LHL Board. The RRC considers all aspects of risk for the Group at a management level and reports through the Group CRO to the Board. The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors.

The Board considers the capital requirements of the business on at least a quarterly basis. The Group's exposures to natural catastrophe risks are one of the key drivers of the capital held by the Group to support its underwriting activities.

The IRRC is alive to the potential impacts of climate change-related transitional risk on the Group's assets within the Group's investment portfolio and its work is reported to the Board-level Investment Committee. During 2021, we built on our early climate sensitivity analysis work to further develop tools for the understanding of the impacts of climate change and transition risk on the investment portfolio as well as potential opportunities. This work has been embedded within both our processes and the day to day management of the investments by our investment managers and updates, including the exposure of the investment portfolio to climate-related risk, are provided to the Investment Committee on a quarterly basis.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Our underwriting strategy is based on a number of factors, including but not limited to: market conditions and opportunities, pricing adequacy and available capital. We define our risk appetite for underwriting risks as a percentage of capital we are willing to lose in a specific event, and we set a capital loss tolerance for and track the Company's modelled PMLs to weather-related hurricane perils.

On pages 58 and 59 we described the work undertaken in 2021 to identify and articulate the financial impacts of climate-related risks. The table below sets out the financial impact of physical risk.

Impact of climate-related risk

Physical: acute and chronic	Timeframe	Magnitude of impact	Potential financial impact Group net PML/ % of capital	Mitigation
Tropical Cyclone				
U.S. Windstorm – Gulf of Mexico	Medium	High	\$309.0 million / 18.2%	• Positive feedback loop in pricing models that reflect heightened risks from climate change • Lancashire adjusts gross risk appetite wherever the risk is viewed as inappropriately priced for the exposure • Outwards reinsurance is adapted to reflect the changing exposures • Robust internal controls ensuring PMLs are monitored monthly by the RCC • We continue to develop views on other perils.
U.S. Windstorm – Non-Gulf of Mexico	Medium	High	\$206.8 million / 12.2%	
Japan Windstorm	Medium	Medium	\$118.3 million / 7.0%	
Extratropical Cyclone				
European Windstorm	Medium – Long	Medium	\$154.1 million / 9.1%	

Our PMLs are derived using stochastic models licensed from third-party vendors. Our actuarial team assesses the assumptions within the licensed model and, where appropriate, applies loadings to it. Model outputs are regularly challenged at both the macro and specific account level. Our PMLs, and the actual in-force exposure versus tolerance are reviewed by the RRC on a monthly basis. The loadings applied to the model are reviewed by the RRC periodically to assess their ongoing appropriateness. Additionally, risk learning is performed following a large catastrophe event to compare the actual loss versus the modelled loss to further assess the appropriateness of the assumptions and loadings within the model and establish whether further adjustments are required.

Similarly, with respect to our investments, we have taken steps in 2021 to advance the previous approach for assessing our portfolio's exposure to climate-related risks looking at the carbon intensity and transition risk within our fixed maturity portfolio. The Climate Value at Risk (VaR) of our fixed maturity portfolio (as covered by MSCI) at the 1.5°C global warming goal is monitored and reported to the Board and Investment Committee on a quarterly basis. Management's target preference is for the impact of climate change to be less detrimental on our portfolio than the relevant benchmark at the same level.

Our portfolio at 31 December 2021 consisted of the following:

Fixed maturity securities	**78.4%**
Managed cash	**11.2%**
Private investment funds	**4.6%**
Hedge funds	**4.5%**
Index linked securities	**1.3%**
Total	**100.0%**

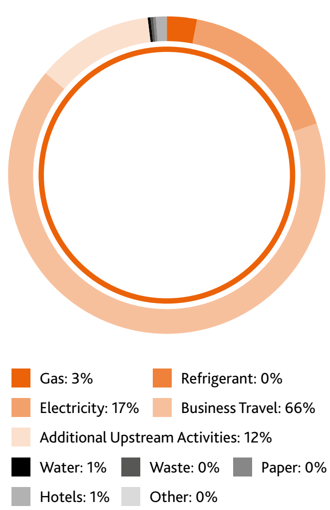
As shown in the table above, we have 89.6% allocated to managed cash and fixed maturities. The majority of the fixed maturities consist of government-related securities: U.S. government treasuries, non-U.S. government sovereign debt, U.S. agency debt and U.S. agency mortgage-backed securities. In addition, we have 28.7% allocated to corporate bonds, of which we have a small amount of exposure to climate-related risks. The Group itself does not hold any equities (although we have exposure to a small number of equities in the hedge fund portfolio).

Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint to minimise its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, in order to remain carbon neutral. Please see page 54 of this Annual Report and Accounts where we report our Scope 1, 2 and 3 GHG emissions. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning processes, as discussed above. The Group CRO and the Board oversee the Company's annual submission to the CDP and note that the information which is requested as part of that reporting process is aligned with the recommendations of the TCFD.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has (prior to the COVID-19 pandemic) incurred the bulk of its carbon footprint as a result of airline travel. We utilise a number of technologies to reduce inter-office travel, including full video and telephone conferencing facilities in all of our offices and our meeting rooms and boardrooms. The use of such technological solutions has remained high in 2021 as a result of the ongoing pandemic and continuing limited travel. However, we acknowledge the benefits of physical meetings and will expect to return to a more normal pattern of travel when possible during 2022, should it be safe for our employees to do so.

Average emissions by category 2015-2019



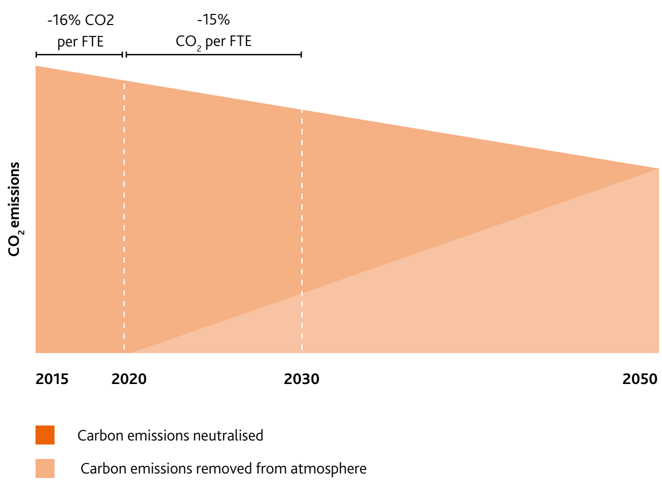
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

During 2021 the Group undertook to articulate its path to meeting the UK Government's net-zero target by 2050. As part of this work a review of our own emissions was performed and 2015 selected as our baseline year. 2015 was selected on the basis it was our first full year in our London office at 20 Fenchurch Street, an energy efficient building which achieved a BREEAM Excellent rating.

In the five years from 2015 up until the pandemic hit early in 2020 the Group's emissions reduced by 16% per FTE; whilst 2020 and 2021 have shown a significant decrease from the preceding years it is acknowledged this is due to the pandemic and reduction in business travel. As can be seen from the pie chart, business travel over that five-year period has averaged 66% of our total emissions.

Moving forward we would like to reduce our overall emissions further and increase the proportion of emissions which are removed from the atmosphere rather than simply offset, thereby moving from carbon neutrality, our current position, to carbon net-zero by 2050. This is illustrated by the following diagram which shows our initial target of a further reduction in emissions per FTE of 15% by 2030.

Lancashire's path to carbon net-zero in 2050



In terms of the Group's own emissions targets, we have a travel policy to reduce our impact on the environment whilst balancing the needs of our staff and Directors. Our policy is to not ordinarily book a business class airline ticket, if the duration of the flight is less than five hours long.

The Group also commits to continue to offset 100% of Scope 1 and 2 emissions and 100% of the Scope 3 emissions which we are able to accurately calculate at this time. These include business travel, waste generated in operations, and fuel and energy related activities not included in Scope 1 or Scope 2. As a small financial services company a number of the emissions categories are either not applicable to our operations, or we have minimal operational control over them. We are working alongside others in the industry to understand how to accurately calculate and track emissions within the unreported categories where applicable.

The Group will continue to source and utilise 100% renewable electrical energy for its 20 Fenchurch Street London offices. Other targets for the Group's own emissions remain under discussion but areas under consideration (outside of those related to business travel) include further reducing paper usage, improving the level of recycling, and eliminating the use of single-use plastics. Please see pages 53 and 54 for more information.

In relation to the Group's investments, we have a target of managing the impacts of our fixed maturity portfolio by reference to a Climate VaR appetite statement. It is our objective that the assets held (that are covered by MSCI) should have a less detrimental climate impact than a benchmark portfolio linked to a 1.5°C future climate scenario.

For the Group's underwriting exposure, Lancashire limits its tangible capital at risk by reference to a series of PML loss exposure scenarios (which include climate-related loss scenarios). PMLs are regularly monitored and reported to the Board on a quarterly basis and reflect real time changes in the Group's underwriting portfolio. The Group's stated tolerance is to expose not more than 25% of its tangible capital by reference to any one of its principal PMLs. For the reported outcomes of this process see page 138 which shows details of the Group's principal PMLs including those related to catastrophic weather loss events linked to climate change risk.

Strong relations

The very foundations to our strategy and success as a business are the solid pillars of engagement that we have built with our people, our stakeholders and society, and the creation of a healthy and sustainable corporate culture.

Since its foundation in 2005, the Group has focused on fostering relations with a broad range of stakeholders.

Our universe of stakeholders

Our people

We believe the talents of our people and our distinctive culture continue to set us apart from our competitors.

Our employees are the lifeblood of the organisation and the Group therefore strives to attract and retain excellent individuals who share our drive and appetite to outperform.

See pages 45 to 49 for further details.

Our policyholders

We place the highest value on the relationships we have built over the years with our existing policyholders and work hard at creating a lasting impression with new ones.

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly priced and useful products.

See page 50 for further details.

Our shareholders

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them.

As a premium-listed company on the LSE, LHL understands the importance of its obligations to shareholders. We work hard to foster good investor relations and pride ourselves on having an active programme of engagement with our diverse shareholder community.

See page 50 for further details.

Society and the environment

The Group is committed to measuring and offsetting carbon emissions for its own operations (see page 53) and in creating the governance structure, risk management and metrics for managing the effects of climate change on business strategy and aligning this with the global economy as it transitions to 'net zero' (see TCFD report pages 56 to 63).

Through the Lancashire Foundation, we utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable environment.

Our insurance products deliver social benefits in helping businesses and communities manage and mitigate the risks they face. Lancashire is strongly committed to giving back to the communities within which it operates and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events.

See page 42 and 43 for further details.

Responsible Board decision making

The 2018 UK Corporate Governance Code requires formal disclosure around the interests of and engagement with stakeholders, and the duties falling upon boards under Section 172 of the UK Companies Act 2006. Although the Company is incorporated in Bermuda and is therefore not subject to the UK Companies Act requirements, the Board continues to pay close attention to developments in English law and governance best practice.

In this 2021 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of our stakeholders in their discussions and decision making in all areas of performance review, strategy, risk and capital management. To that end, this engagement and sustainability segment should be considered together with the rest of this report as the Company's comprehensive account of its Directors' compliance with their Section 172 duties.

Section 172(1):	Duty to promote the success of the company, with regard to:	For further details, see:
a)	The likely consequences of any decision in the long term;	• The Group's statement of purpose – inside cover • The Group's business model – page 8 • The Group's strategic goal and three priorities: that underwriting comes first; to effectively balance risk and return; and to operate nimbly through the cycle – page 9 • The Board's assessment of the Group's viability and prospects as set out in the going concern and viability statement – page 114
b)	The interests of the company's employees;	• The importance of our people, and the business's focus on Lancashire's values, culture, diversity & inclusion, training & development and workforce engagement – pages 45 to 49
c)	The need to foster the company's business relationships with suppliers, customers and others;	• Our business depends upon the strong business relationships that we build and maintain with our core and broader stakeholders. All Board members attend the quarterly UURC and, during 2021, gave close consideration to business development opportunities as summarised in the Committee's report – pages 86 and 87
d)	The impact of the company's operations on the community and the environment;	• Society and the environment form part of our 'core' set of stakeholders. 2021 saw the establishment of the ESG Committee and CCWG (see the Group CEO review on pages 10 and 11). The Board is engaged with the impact of the Company's operations through its oversight of the Lancashire Foundation, the Group's submission to the CDP, the annual offsetting of our own operations' GHG emissions, and more recently the commitments to report against the UNEP FI Principles for Sustainable Insurance (see our website for details) and address the requirements of the TCFD – pages 56 to 63
e)	The desirability of the company maintaining a reputation for high standards of business conduct; and	• Through its compliance with the FRC's UK Corporate Governance Code, the Company strives to operate in line with high standards of governance expectation and business conduct. A healthy and sustainable corporate culture is embedded throughout the business, which is assessed by the Board through various channels – pages 40 and 41, page 64, and pages 81 to 83 • The Audit Committee oversees the Group's implementation of whistleblowing arrangements, and other systems and controls for the prevention of fraud, bribery and money laundering – pages 75 to 80
f)	The need to act fairly as between members of the company.	• The Board is committed to treating the Company's shareholders fairly, and engaging with them through a broad programme of investor relations activities, meetings (including the AGM), and targeted consultations; be that with our substantial shareholders, the Company's own employees, private individuals, or via shareholder advisory groups – see in this regard 'Section 172 responsibilities in focus' below, as well as pages 40 to 63 and page 93 • Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of dividends – pages 6 to 7, page 25 and page 112

Section 172 responsibilities in focus

2021 project to restructure the Group's debt

During the first quarter of 2021 the Board discussed and agreed a management proposal for the reconfiguration of the Group's debt structure, in particular to ensure alignment with current regulatory and rating agency expectations. As a result, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes due 2041. The net proceeds from the debt issuance were used by the Group principally to redeem its existing senior and subordinated indebtedness, with the balance being used for general corporate purposes. The new debt was approved as 'Tier 2 Ancillary Capital' by the BMA and, as such, has helped further improve the Group's coverage ratio of available statutory capital and surplus over the BMA's ECR.

In reaching its decision to reformulate the Group's debt structure, the LHL Board and the executive management team had regard to a number of stakeholder factors, including: policyholder demand and requirements; the growth and underwriting opportunities expected to continue to develop from the pricing environment, which continued to improve throughout 2021; the Group's rating agency and regulatory capital headroom requirements with regard to the terms of debt within the capital structure for insurers and the need to maintain a strong capital position to allow the business to take advantage of attractive underwriting opportunities; and the return expectations of the Company's major shareholders and the objective of ensuring effective capital deployment and delivering strong risk-adjusted returns.

Overall, the LHL Board considered it to have been in the best interests of the Company, all its shareholders, as well as the wider stakeholders of the Lancashire Group, to reconfigure the Group's debt structure.

STRAIGHTFORWARD

We are straightforward in conducting our business in an accountable, open, honest and sustainable way

A balanced Board

Peter Clarke
Non-Executive Chairman

Date of appointment to the Board: 9 June 2014

Board meeting attendance: 6/6

Skills, experience and qualifications:
Peter Clarke was Group Chief Executive of Man Group plc between April 2007 and February 2013. In 1993, Mr Clarke joined Man Group plc, a leading global provider of alternative investment products and solutions as well as one of the world's largest futures brokers. He was appointed to the board in 1997 and served in a variety of roles, including Head of Corporate Finance and Corporate Affairs and Group Company Secretary, before becoming the Group Finance Director in 2000. During this period, he was responsible for investing in and developing one of the leading providers of third-party capital insurance and reinsurance products.

In November 2005, he was given the additional title of Group Deputy CEO. Mr Clarke has previously served as the Chairman of the National Teaching Awards Trust. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

External appointments/Other roles:
Mr Clarke is currently a Non-Executive Director of RWC Partners Limited, Lombard Odier Asset Management and Sainsbury's Bank plc. He is a member of the Treasury Committee of King's College London.

Alex Maloney
Group Chief Executive Officer

Date of appointment to the Board: 5 November 2010

Board meeting attendance: 6/6

Skills, experience and qualifications:
Alex Maloney joined Lancashire in December 2005 and was appointed Group Chief Executive Officer in April 2014. On joining, Mr Maloney was responsible for establishing and building the energy underwriting team and account and, in May 2009, was appointed Group Chief Underwriting Officer. Since November 2010, Mr Maloney has served as a member of the Board. Mr Maloney has also been closely involved in the development of the Group's Lloyd's strategy. Mr Maloney has over 20 years' underwriting experience and has also worked in the New York and Bermuda markets.

Natalie Kershaw
Group Chief Financial Officer

Date of appointment to the Board: 1 March 2020

Board meeting attendance: 6/6

Skills, experience and qualifications:
Natalie Kershaw joined Lancashire in December 2009 as the Group Financial Controller and has also held the positions of Chief Financial Officer of Lancashire Insurance Company Limited and Group Chief Accounting Officer. She has over 20 years' experience of the insurance/reinsurance sector with previous roles at Swiss Re, ALAS (Bermuda) Ltd and PwC. Ms Kershaw graduated from Jesus College, Oxford in 1996 with a first class degree in Geography and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Michael Dawson
Non-Executive Director

Date of appointment to the Board: 3 November 2016

Board meeting attendance: 6/6

Skills, experience and qualifications:
Michael Dawson has more than 40 years' experience in the insurance industry, having started his career at Lloyd's in 1979. He joined Cox Insurance in 1986 where he was the Chief Executive from 1995 to 2002.

In 1991, Mr Dawson formed and became the underwriter of Cox's and subsequently Chaucer's specialist nuclear syndicate 1176. Between 2005 and 2008, Mr Dawson was appointed Chief Executive of Goshawk Insurance Holdings PLC and its subsidiary Rosemont Re, a Bermuda reinsurer. Mr Dawson served on the Council of Lloyd's from 1998 to 2001 and on the Lloyd's Market Board from 1998 to 2002.

External appointments/Other roles:
Mr Dawson is Deputy Chairman of the Management Committee of Nuclear Risk Insurers Limited. He is also a director of Knoll Investments Limited, and Glengau Limited, private family investment companies.

Simon Fraser
Senior Independent Non-Executive Director

Date of appointment to the Board: 5 November 2013

Board meeting attendance: 6/6

Skills, experience and qualifications:
Simon Fraser was Head of Corporate Broking at Merrill Lynch and subsequently Bank of America Merrill Lynch until his retirement in 2011. He began his career in the City in 1986 with BZW and joined Merrill Lynch in 1997. He led initial public offerings, rights issues, placings, demergers and mergers and acquisitions transactions during his career and advised many UK companies on stock market and LSE issues. Mr Fraser has an MA degree in Modern History from the University of St Andrews.

External appointments/Other roles:
Mr Fraser is a Non-Executive Director of Legal and General Investment Management (Holdings) Limited and Non-Executive Director SEGRO plc, where he sits on the Audit and Nominations Committees as well as Chair of the Remuneration Committee. Mr Fraser also serves as a Non-Executive Director of LSL.

Samantha Hoe-Richardson
Non-Executive Director

Date of appointment to the Board: 20 February 2013

Board meeting attendance: 6/6

Skills, experience and qualifications:
Since 2014, Samantha Hoe-Richardson has been Chair of the Audit Committee. Prior to this, she was Head of Environment & Sustainability for Network Rail and formerly Head of Environment for Anglo American plc, one of the world's leading mining and natural resources companies. She was also a director and founder of Anglo American Zimele Green Fund (Pty) Ltd, which supports entrepreneurs in South Africa. Prior to her role with Anglo American, Ms Hoe-Richardson worked in investment banking and audit and she holds a master's degree in Nuclear and Electrical Engineering from the University of Cambridge. She also has a Chartered Accountancy qualification.

External appointments/Other roles:
Ms Hoe-Richardson is a Non-Executive Director for 3i Infrastructure plc and a Non-Executive Director of Assured Guaranty UK Ltd and a Non-Executive Director of LUK. In addition, she is the Advisor on Climate Change and Sustainability to the Board of Laing O'Rourke.

Key

◯	B	A	I	N	R	U
Chair	Board of Directors	Audit Committee	Investment Committee	Nomination Corporate Governance and Sustainability Committee	Remuneration Committee	Underwriting and Underwriting Risk Committee

Robert Lusardi
Non-Executive Director

Date of appointment to the Board: 8 July 2016

Board meeting attendance: 6/6*

Skills, experience and qualifications:
From 1980 until 1998, Robert Lusardi was an investment banker, ultimately as Managing Director of the insurance and asset management industries. From 1998 until 2005, he was a member of the Executive Management Board of XL Group plc, first as Group CFO then as CEO of one of their three operating/reporting segments; from 2005 until 2010 he was an EVP of White Mountains (an insurance merchant bank) and CEO of certain subsidiaries; and from 2010 to 2015 he was CEO of PremieRe Holdings LLC (a private insurance entity). He has been a director of a number of insurance-related entities including Symetra Financial Corporation, Primus Guaranty Ltd., OneBeacon Insurance Group Ltd., Esurance Inc., Delos Inc., Pentelia Ltd. and FSA International Ltd. He received his BA and MA degrees in Engineering and Economics from Oxford University and his MBA from Harvard University.

External appointments/Other roles:
He is also on the boards of Symetra Financial Holdings, Inc., a life insurer, and Oxford University's 501(c)3 charitable organisation.

Irene McDermott Brown
Non-Executive Director

Date of appointment to the Board: 28 April 2021

Board meeting attendance: 2/2

Skills, experience and qualifications:
Irene McDermott Brown most recently held the position of Chief Human Resources Officer at M&G plc, a FTSE 100 international savings and investments firm, retiring from that role on 31 December 2021. Her executive career has included international human resources roles at Barclays, BP, and Cable and Wireless. Ms McDermott Brown's UK experience includes over 12 years at Mercury Communications, Digital Equipment Company and the Electricity Supply Industry. She has an MSc from the London School of Economics in Industrial Relations and is a Fellow of the Chartered Institute of Personnel and Development.

Sally Williams
Non-Executive Director

Date of appointment to the Board: 14 January 2019

Board meeting attendance: 5/6

Skills, experience and qualifications:
Sally Williams has more than 30 years' experience in the financial services sector, with extensive risk, compliance and governance experience, having held senior positions with Marsh, National Australia Bank and Aviva. Ms Williams is a chartered accountant and spent the first 15 years of her career with PwC, where she was a director specialising in financial services risk management and regulatory relationships. She also undertook a two-year secondment from PwC to the Supervision and Surveillance Department at the Bank of England.

External appointments/Other roles:
Ms Williams is a Non-Executive Director of Family Assurance Friendly Society Limited (OneFamily), where she is chair of their Audit Committee and a member of the Risk, Nominations, Member and Customer and With Profits Committees. Ms Williams is also a Non-Executive Director of Close Brothers Group plc and Close Brothers Limited, where she is a member of their Audit and Risk Committees.

* Robert Lusardi is resident in the U.S. and was unable to travel outside of the U.S. for two meetings due to restrictions necessitated by the COVID-19 pandemic. He was able to attend those proceedings via video conference. However, pursuant to the Group's strict tax and regulatory operating guidelines, he did not participate in those meetings for quorum and voting purposes.

Christopher Head
Company Secretary

Board meeting attendance: N/A

Skills, experience and qualifications:
Christopher Head joined Lancashire in September 2010. He was appointed Company Secretary of LHL in 2012 and advises on issues of corporate governance and generally on legal affairs for the Group. He also advises on the structuring of Lancashire's third-party capital underwriting initiatives, which have included the Accordion and Kinesis facilities. Prior to joining Lancashire, he was in-house Counsel with the Imagine Insurance Group, advising specifically on the structuring of reinsurance transactions. He transferred to Max at Lloyd's in 2008 as Lloyd's and London Counsel. Between 1998 and 2006, Mr Head was Legal Counsel at KWELM Management Services Limited, where he managed an intensive programme of reinsurance arbitration and litigation for insolvent members of the HS Weavers underwriting pool. Mr Head is a qualified solicitor having worked until 1998 at Barlow Lyde & Gilbert in the Reinsurance and International Risk Team. Mr Head has a History MA and legal qualification from Cambridge University.

Board Committees

Board and Committee administration

The Board of Directors is responsible for the leadership, strategy and control and the long-term success and sustainability of Lancashire's business. The Board has reserved a number of matters for its decision, including responsibility for setting the Group's values and standards, and approval of the Group's strategic aims and objectives. The Board has delegated certain matters to Committees of the Board, as described below. Copies of the Schedule of Board-Reserved Matters and Terms of Reference of the Board Committees are available on the Company's website at www.lancashiregroup.com.

The Board has approved and adopted a formal division of responsibilities between the Chairman and the Group CEO. The Chairman is responsible for the leadership and management of the Board and for providing appropriate support and advice to the Group CEO. The Group CEO is responsible for the management of the Group's business and for the development of the Group's strategy and commercial objectives. The Group CEO is responsible, along with the executive team, for implementing the Board's decisions.

The Board and its Committees meet on at least a quarterly basis. At the regular quarterly Board meetings, the Directors review all areas of the Group's business, strategy and risk management and receive reports from management on underwriting, reserving, finance, investments, capital management, internal audit, risk, legal and regulatory developments, compliance, climate change risk, ESG and sustainability and other matters affecting the Group. Management provides the Board with the information necessary for it to fulfil its responsibilities. In addition, presentations are made by external advisers such as the independent actuary, the investment managers, the external auditors, the remuneration consultants and the corporate brokers. The Board Committees are authorised to seek independent professional advice at the Company's expense.

The Board also meets to discuss strategic planning matters in addition to the customary schedule of quarterly meetings. The Board dedicated additional time to strategic opportunity and capital planning discussions prior to its decision to reconfigure the Group's debt structure, which took place in March 2021.

The Chair holds regular meetings with the Non-Executive Directors, without the Executive Directors present, to discuss a broad range of matters affecting the Group. The Chairman also holds regular meetings with the Chairs of the Group's principal operating subsidiaries: LICL, LUK, LSL and LCM.

All Directors attended the scheduled quarterly proceedings of the 2021 Board and Committees meetings. However, due to the restrictions necessitated by the COVID-19 pandemic, not all meetings could be convened in Bermuda or in an alternative offshore location. On the occasions where travel or physical attendance was not possible, and pursuant to the Group's strict tax and regulatory operating guidelines, some Directors located in the U.S. did not participate in certain of the meetings for quorum and voting purposes.

The Directors

Appointments to the Board are made on merit, against objective criteria, and with due regard to the right balance of skills, experience, knowledge, independence and diversity required for the Board to operate effectively as a whole. The Board considers all the Non-Executive Directors to be independent within the meaning of the Code. Michael Dawson, Simon Fraser, Samantha Hoe-Richardson, Robert Lusardi and Sally Williams are independent, as each is independent in character and judgement and has no relationship or circumstance likely to affect his or her independence. Peter Clarke was independent upon his appointment as Chairman on 4 May 2016.

Irene McDermott Brown joined the Board as a Non-Executive Director with effect from 28 April 2021. The appointment of Irene McDermott Brown was facilitated by the specialist recruitment agency of Oliver James which prepared an independent candidate report which was considered at the Nomination Corporate Governance and Sustainability Committee meeting held on 27 April 2021. The Board also considered the question of Irene's independence of character and judgement and considered that she should be considered independent on her appointment. Irene has extensive experience in human resources within a listed company environment in a range of industries, including financial services and recently as Chief HR Officer at M&G plc. Irene McDermott Brown was also appointed as a member of the Remuneration Committee and Nomination Corporate Governance and Sustainability Committee.

At the Board meeting held on 10 February 2022, further to a recommendation by the Nomination Corporate Governance and Sustainability Committee, the Board affirmed its judgement that six of the nine members of the Board are independent Non-Executive Directors. However, it was noted that Samantha Hoe-Richardson had been first appointed to the Board on 20 February 2013 and will have shortly completed nine years' service as a Director. Accordingly, Samantha Hoe-Richardson will not submit herself for re-election as a Non-Executive Director at the 2022 AGM. Therefore, in the Board's judgement, the Board's composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

In accordance with the provisions of the Company's Bye-laws and the Code, and for 2022 with the exception of Samantha Hoe-Richardson, all the Directors are subject to re-election annually at each AGM.

Information and training

On appointment, the Directors receive written information regarding their responsibilities as Directors and information about the Group. An induction process is tailored for each new Director in the light of his or her existing skill set and knowledge of the Group and includes meetings with senior management and visiting the Group's operations. Information and advice regarding the Company's official listing, legal and regulatory obligations and on the Group's compliance with the requirements of the Code is also provided on a regular basis. An analysis of the Group's compliance with the Code is collated and summarised in quarterly reports together with a more general summary of corporate governance developments, which are prepared by the Group's legal and compliance department for consideration by the Nomination Corporate Governance and Sustainability Committee. The Directors have access to the Company Secretary and the Group General Counsel who are responsible for advising the Board on all legal and governance matters.

The Directors also have access to independent professional advice as required. Regular sessions are held between the Board and management as part of the Company's quarterly Board meetings, during which in-depth presentations covering areas of the Group's business are made. During these presentations the Directors have the opportunity to consider, challenge and help shape the Group's commercial strategy. The Directors are also encouraged to seek supplementary know-how training suitable to their roles offered by the many external providers of training pertinent to governance, in particular the roles of Non-Executive Directors, and to consider their training needs and priorities as part of the year-end performance evaluation for the Board and its Committees.

Board performance – 2021 externally facilitated evaluation

A formal performance evaluation of the Board, its Committees and individual Directors is undertaken on an annual basis and the process is initiated by the Nomination Corporate Governance and Sustainability Committee. The aim of this work is to assess the effectiveness of the Board and its Committees in terms of performance and risk oversight, strategic development, composition, skillset, supporting processes and management of the Group. The evaluation is forward-looking in terms of identifying the strategic priorities and actions as well as considering performance, training and development needs for the Directors within the context of the work of each Committee and that of the Board. The 2019 and the 2020 evaluations were conducted internally, facilitated by the Company Secretary and the Chairman. In accordance with the Code requirements the 2021 evaluation was facilitated externally by Independent Audit, a London-based corporate advisory firm with no other connection to the Group. Independent Audit had full access to the Board papers for the 2021 year and they observed the meetings of the Board and each of its Committees for the Q3 meetings which were held on the 2 and 3 November 2021. They also attended some of the subsidiary Boards' Q3 meetings. Independent Audit also carried out a web-based questionnaire performance appraisal for each of the Group's principal operating subsidiaries: LICL, LUK, LSL and LCM. The draft reports covering the subsidiary boards and relevant committees including recommendations were discussed with the respective subsidiary chairs and have been discussed within the relevant subsidiary boards. Key themes from those subsidiary evaluations have also helped inform the process for the Lancashire Holdings Group Board effectiveness review.

The 2021 Lancashire Holdings Board and Committee evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other Committee members and members of senior management attending a series of one to one meetings with Independent Audit. Further to this interview process Independent Audit prepared a draft evaluation report for the Board which collated feedback from the interview sessions on an anonymised basis and identified a series of themes covering both areas of effectiveness and for development and identifying potential actions and areas for further discussion or development. The summary reports were discussed in draft with the Board Chairman before being distributed to each of the Directors. Independent Audit made a presentation of their findings and recommendations at a discussion session with all Directors held in February 2022.

The performance evaluation reports were formally tabled and discussed at meetings of the Nomination Corporate Governance and Sustainability Committee and the Board held in February 2022, and each of the other Committees discussed the report pertinent to its own operation and performance. The report identified a number of key strengths of the Board and its Committees, notably, dynamics and chairing; skills and expertise of both Non-Executive and Executive Directors; subsidiary governance; and company secretariat support.

Priorities highlighted for 2022 included a review of the longer-term strategic direction of the business, taking into account emerging ESG and sustainability topics; continued focus on risk assessment and risk management; and the ongoing consideration of organisational culture and Board succession planning. The Board discussions on the report were led by the Chairman.

In summary, in its consideration of the 2021 performance evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The Group CEO and the Group CFO, the Company's Executive Directors, were also found to be operating effectively.

The Board also concluded that appropriate infrastructure, processes and governance mechanisms are in place to support the effective performance of the Board and its Committees. The Board is also considered to manage risk effectively. Furthermore, the number of Directors on the Board is considered to be appropriate.

Further to the Board engagement with the evaluation process and consideration of the reports, the Board concluded that Board and Committee oversight of strategy, risk tolerances and controls had operated effectively. Engagement between the Board and the workforce was considered to be generally strong and beneficial to the operation of the business albeit that, particularly in the first half of 2021, the COVID-19 pandemic had diminished the opportunities for face-to-face meetings and necessitated the use of virtual meeting forums during the year to facilitate such dialogue. Notwithstanding these challenges, workforce engagement, in accordance with the expectations of the Code, had been constructive during the year. For further information on workforce engagement, please see Peter Clarke's introduction to the Sustainability and Governance sections on pages 40 and 41 and the report from the Nomination Corporate Governance and Sustainability Committee on pages 81 to 83.

Other strategic priorities identified by the Board for the year ahead included ensuring the maintenance of a robust capital base for the Group capable of supporting the strategic growth plans for the business and to position the business as a leading provider of (re) insurance products. The Board plans to keep under review the Group's capital structures. The Board is also committed to maintaining a close focus on recruitment, skills, employee retention and training to further strengthen and build a workforce equipped to deliver the current underwriting growth opportunity.

The Board identified a number of areas for training and specific themes for monitoring over the coming year, including the following:

- Preparedness for implementation of the IFRS 17 accounting requirements; and
- Monitoring expected legislative and regulatory changes in the area of UK financial reporting, audit and governance.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2022.

The Chair's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2021. The discussion and feedback were positive regarding the Chairman's performance. The Chair was considered to be effective in facilitating strategic decision making, whilst ensuring an appropriate level of challenge and a culture of open, honest and constructive discussion.

Following the year end, the Chair met with the Group CEO, and the Group CEO met with the Group CFO, to conduct a performance appraisal in respect of 2021 and to set targets for 2022. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 90.

Relations with shareholders

During 2021, the Group's Head of Investor Relations, usually accompanied by one or more of the Group CEO, the Group CUO, the Group CFO, the Chair or a senior member of the underwriting team, made presentations to major shareholders, analysts and the investor community. Formal reports of these meetings were provided to the Board on at least a quarterly basis.

In early 2021 both prior to and following the 2021 AGM, Simon Fraser, the Chair of the Remuneration Committee, conducted a consultation with the Company's significant shareholders concerning the Remuneration Policy implementation vote at the 2021 AGM. The Company subsequently issued a summary of those discussions on its website and a summary of the feedback, agreed actions and outcomes can be found in Simon Fraser's introduction to the Directors' Remuneration Report on pages 90 and 91.

Conference calls with shareholders and analysts hosted by senior management are held quarterly following the announcement of the Company's quarterly financial results or trading statements. The Group CEO, Group CUO and Group CFO are generally available to answer questions at these presentations.

Shareholders are invited to request meetings with the Chair, the Senior Independent Director and/or the other Non-Executive Directors by contacting the Group Head of Investor Relations. All of the Directors are expected to be available to meet virtually with shareholders at the Company's 2022 AGM.

The Company commissions regular independent shareholder analysis reports, and also receives a report on feedback from shareholders and analysts, following the announcement of the Company's quarterly results.

The Company's bye-laws are governed by Bermuda Company Law and subject to approval of shareholders in a general meeting. The bye-laws are available on the Company website. A copy of the Company's bye-laws is also available for inspection at the Company's registered office.

Enterprise risk management

The Board is responsible for setting the Group's risk appetites, defining its risk tolerances, and setting and monitoring the Company's risk management and internal control systems, including compliance with risk tolerances. During 2021, the Board carried out a robust assessment of the emerging and principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the emerging and principal risks affecting the Group, as well as the procedures in place to identify and manage them, can be found in the ERM section of this report on pages 26 to 30 and in the risk disclosures section on pages 136 to 155. The Group's reporting of climate change risk and its management within the business can be found in the TCFD Report on pages 56 to 63.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from pages 75 to 89 for further detail). The Group CRO reports directly to the Group and subsidiary boards and facilitates the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, loss events and near misses, key risk indicators, and an overview of the control environment (driven by key control testing and control affirmations, and supported by internal audit findings). Areas of particular focus during 2021 have been the risks associated with the COVID-19 pandemic, risk exposure and capital considerations associated with the improving (re)insurance market opportunity and recent growth, climate change risk management and the implementation of the TCFD recommendations and developments in the area of ESG risk management and reporting. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review. In this regard, please see the Audit Committee report on pages 75 to 80.

Committees

The Board has established Audit, Investment, Nomination Corporate Governance and Sustainability, Remuneration, and Underwriting and Underwriting Risk Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website. The Committees' Terms of Reference were reviewed and revised by the Board during 2021 and considered again as part of the year-end performance evaluation process. The Committees' Terms of Reference are considered to be in line with current best practice. The Committees are generally scheduled to meet quarterly, although additional meetings and information updates are arranged as business requirements dictate. Director attendance at the 2021 Board meetings is set out on pages 68 to 70. A report from each of the Committees, which covers Committee attendance, is set out from page 75.

Audit Committee

"As I approach the end of my tenure as Chair of the Audit Committee after nearly nine years of service, I take deep pride in the work conducted by the Committee over the years, particularly in the areas of financial controls and reporting, including the quality and integrity thereof, and rigorous risk oversight. I will be leaving the Committee in the capable hands of my successor to the role, Sally Williams, and I would like to take this opportunity to wish the business all the very best in its journey."

Samantha Hoe-Richardson
Chair of the Audit Committee

Committee members

Samantha Hoe-Richardson (Chair)	4/4
Simon Fraser	4/4
Robert Lusardi	4/4
Sally Williams	4/4

Committee membership

The Audit Committee comprises four independent Non-Executive Directors and is chaired by Samantha Hoe-Richardson, a qualified Chartered Accountant. The Board considers that the four independent Non-Executive Directors all have recent and relevant financial experience, with competence in accounting and/or auditing. The Audit Committee as a whole has competence in the specialty insurance and reinsurance sectors. The internal and external auditors have the right of direct access to the Audit Committee. The Audit Committee's detailed Terms of Reference are available on the Group's website.

Principal responsibilities of the Committee

- Financial and narrative reporting;
- External audit oversight;
- Internal audit oversight;
- Internal controls and risk management systems; and
- Compliance, speaking up and fraud.

Specific details of the Committee's responsibilities and activities in these five principal areas during the year are set out in the table on the following pages.

During 2021, the Committee focused on the adequacy of the Group's loss reserves, with particular regard to the large catastrophe loss events that occurred during the year; the continued monitoring of COVID-19 and its financial and operational impacts; the effectiveness of the business's control environment; the continued integrity of external financial reporting; the oversight of corporate and risk culture through the reporting of the internal audit and risk management functions; the identification of a new lead audit partner; and the progress of the Group's implementation plans for the IFRS 9 (Financial Instruments) and IFRS 17 (Insurance Contracts) accounting standards.

How the Committee discharged its responsibilities

Financial and narrative reporting

Committee responsibility	Committee activities
Monitors the integrity of the Group's consolidated financial statements, including its annual and half-yearly reports, annual reporting arising under applicable supervisory rules, interim management statements, preliminary announcements and any other formal statements relating to the Group's financial performance. Reviews and reports to the Board on significant financial reporting issues and judgements contained in the consolidated financial statements.	At each quarterly meeting the Committee reviews the Group's quarterly consolidated financial statements for the purposes of recommending their approval by the Board. The Group's annual regulatory reports, prepared in accordance with the BMA's reporting requirements, were reviewed in April 2021 at the Audit Committee meeting prior to the recommendation of their approval by the Board. The Committee also monitors the activities of the Group's Disclosure Committee and reviews the Group's quarterly financial releases, which it recommends to the Board for approval, and accompanying earnings call investor presentations. The Committee receives regular and ad hoc reports from management on: • loss reserving and developments to the Group's reserving process to take account of the new casualty class of business and the future implementation of the IFRS 17 accounting standards (see page 130 for further details), considered in conjunction with the comparison of the Group's reserves to the best estimates of its external auditors and external actuarial consultants; • developments in accounting and financial reporting requirements, including a summary of any updates to disclosures in the consolidated financial statements; • the quarterly activities of the Group finance team, including any recruitment initiatives; • any new and/or significant accounting treatments/transactions (including related party transactions) in the quarter, with a particular focus this year on the Group's debt refinancing project and the preparation for and compliance with the ESEF reporting requirements; • the assessment of the Group's ability to continue as a going concern (see page 114 for further details) which, for 2021, included detailed consideration of the financial and operational impacts and strategic assumptions of the Group in the face of COVID-19; • the progress of the Group's IFRS 9 and IFRS 17 implementation project and the related ongoing enhancements to the Group's finance IT framework; • the quarterly activities of LHL's subsidiary companies, including consideration of any risk issues; and • the Committee also receives quarterly reports on the consolidated financial statements from the external auditors, including an interim review report and a year-end audit results report. These reports are discussed with the external auditors at the Committee meetings. The Committee attended training sessions delivered by the management team to the Board on the topics of the Group's IFRS 17 implementation project, ESG matters, including TCFD reporting requirements, and enhancements to the Group's reserving process. In addition, the Audit Committee continued its constructive engagement with the Group CFO to ensure maintenance of high standards of financial controls and reporting. **Judgements and estimation in the consolidated financial statements** The Committee gives detailed consideration to the significant judgements and estimations applied in preparing the consolidated financial statements. See the summary on the areas of judgement and estimation and the related processes applied by management on page 79.
Reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.	The Committee reviewed the early drafts of the 2021 Annual Report and Accounts in order to keep apprised of its key themes and messages. During this review, the Committee carefully considered the clarity of disclosures made in respect of the material growth in Group premium income and the related developments in the business's underwriting portfolio; the impact of major market losses; the evolution of the Group's ESG strategy; the account of the Group's carbon footprint measurement and offsetting; the Group's TCFD report; and the ongoing effects of COVID-19. The Committee reviewed the final draft of the 2021 Annual Report and Accounts at the February 2022 Audit Committee meeting, together with the external auditor's report. The Committee advised the Board that, in its view, the 2021 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

How the Committee discharged its responsibilities (continued)

External audit oversight

Committee responsibility	Committee activities
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	The Committee approves the annual external audit plan, ensuring its consistency with the scope of the audit engagement, and receives reports from the external auditors at each quarterly Committee meeting, including an ongoing assessment of the effective performance of the audit compared to the plan. KPMG LLP's terms and scope of engagement are approved by the Committee at the start of each audit. Following the year-end audit, the Committee performs an assessment of the effectiveness of the external audit process. This assessment was last conducted, and designed to align with good practice guidance, at the April 2021 Audit Committee meeting and it was concluded that the external audit process was operating effectively, both with respect to the service provided by KPMG LLP and management's support of the audit process. Similarly, the Committee receives from the external auditors a management letter setting out certain findings and recommendations in respect of the audit of the most recent set of financial statements and receives regular updates from management on the steps taken in addressing the observations raised. The Committee also formally reviews the independence of the external auditors, in particular at the half-year and year-end meetings, taking into account any non-audit services provided. The Committee considers that KPMG LLP remain independent. The Committee Chair conducts informal meetings with the external auditors and the Group CFO prior to, during, and after the review of the quarterly results. The Committee meets quarterly in executive session with the external auditors to discuss any issues arising from the audit, and with management to obtain feedback on the audit process.
The development and implementation of a formal policy on the provision of non-audit services by the external auditors, taking into consideration any threats to the independence and objectivity of the external auditors.	The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis. The policy was last reviewed by the Group CFO in April 2021 and subsequently approved by the Committee at its first quarter meeting. The policy, which stipulates the approvals required for various types of non-audit services that may be provided by the external auditors, as well as those from which the external auditors are excluded, is on the Group's website. During 2021, KPMG LLP provided $0.4 million of non-audit services to the Group relating to the half-year reporting review, as well as Solvency II and Lloyd's regulatory returns. The Committee gave careful consideration to the nature of the non-audit services provided, the suitability of KPMG LLP as the most suitable supplier of the non-audit services and the level of fees charged and has determined that they do not affect the independence and objectivity of KPMG LLP as auditors.
Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Group's external auditors.	Following a competitive external audit tender process undertaken during 2016, the appointment of KPMG LLP as external auditors was first approved by shareholders at the 2017 AGM and has been approved at subsequent AGMs. The 2021 financial year was the fifth financial year in which KPMG LLP acted as the Group's external auditors. The incumbent lead audit partner is Rees Aronson. The external audit fee arrangements across the Group were originally agreed in 2016 as part of the audit tender process, with amounts fixed for the 2017-2019 year-end audits. During 2020, the Audit Committee discussed and agreed with KPMG LLP, with input from management, the fee structure for the 2020 and 2021 year-end audits. The Committee and the Board are recommending the re-appointment of KPMG LLP as external auditors at the 2022 AGM. Rees Aronson will have completed his fifth and final year as the Group's lead audit partner following the 2021 year-end audit. During the year, and in line with the guidance of the UK Ethical Standard, the Committee, with management, developed and oversaw the arrangements for the identification of the new lead audit partner. Salim Tharani will assume the role of Group lead audit partner for the 2022 financial year. The Committee continues to monitor the developments, recommendations and legislative proposals arising from the Independent Review of the FRC, led by Sir John Kingman, the final report published by the UK Competition and Markets Authority on the statutory audit services market, and Sir Donald Brydon's report setting out his views on the quality and effectiveness of audit. In particular, the Committee, management and KPMG LLP considered and discussed the UK Government's March 2021 consultation White Paper on 'Restoring trust in audit and corporate governance', and the potential impacts arising with regard to the future of corporate governance, corporate reporting and auditing.

How the Committee discharged its responsibilities (continued)

Internal audit oversight

Committee responsibility	Committee activities
Monitors and assesses the role and effectiveness of the Group's internal audit function in the overall context of the Group's risk management system, ensuring it has unrestricted scope, and the necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards.	The Group's internal audit function reports directly to the Committee. The Committee meets regularly in executive session with the Group Head of Internal Audit usually on a quarterly basis. Each year, the Group Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are considered for audit annually, whilst less critical risks are audited periodically as part of a flexible multi-year programme. The internal audit plan also considers emerging risks which may impact on the business, with input in this area from the Group risk management function. The findings of each internal audit are reported to the Committee at the quarterly meetings and the Committee reviews the actions taken by management to implement the recommendations of internal audit. Consideration is also given to the assessment of the Group's culture, including risk culture, for each audit undertaken and an overall summary of observations identified in respect of the Group's culture is presented to the Committee on a quarterly basis. During 2021, this assessment factored in consideration of the potential impacts of a remote working environment for the large part of the year, necessitated by the COVID-19 pandemic, as well as the programme of change and growth of the business. In the face of these challenges, as regards the COVID-19 pandemic, and opportunities, as regards business growth, the internal audit function was satisfied that there remained an effective, responsive, resilient and engaged business culture within the Group. During 2021, the Committee reviewed and approved the Internal Audit Charter. This can be viewed on the Group's website. The Committee assessed the level of internal audit resource, restructuring and recruitment initiatives, and the appropriateness of the skills and resources of the internal audit function. The Chair of the Committee undertook an annual review of the implementation of the internal audit programme during 2021 to ensure its continued efficiency and appropriate standing within the Group and the effectiveness of the internal audit function and its activities in the overall context of the Group's risk management system. The Committee discussed the report and its findings with the Group CRO and the Group Head of Internal Audit and concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system, has appropriate standing within the Group and that the Group Head of Internal Audit has the appropriate reporting lines to maintain independence.

Internal controls and risk management systems

Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management, including the assessment of principal risks and emerging risks and the viability statement.	The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee received from the Group CRO periodic reports detailing results of the quarterly risk and control affirmation review and testing work, together with an overview of the Group's control environment and its effective operation. The Committee also received additional reports from the Group CRO and Group Head of Internal Audit on the ongoing effective operation of key controls during the programme of change arising through recent growth in the business, the resultant increase in headcount across the Group and the prolonged period of remote working for a large part of the year, and more recently, the introduction of a mix of full-time and hybrid office working. For further detail of the emerging and principal risks affecting the Group, including those matters that have informed the Board's assessment of the Group's ability to continue as a going concern, as well as the risk mitigation procedures in place to identify and manage them, see pages 31 to 37. The Committee received from the Group Head of Internal Audit an annual assessment of the Group's governance, risk and control framework, together with an analysis of themes and trends from the internal audit work performed and their impact on the Group's risk profile. In 2021, the Committee and Board were satisfied that the governance, risk and control framework continue to remain both effective and appropriate for the Group.

How the Committee discharged its responsibilities (continued)

Compliance, speaking up and fraud

Committee responsibility	Committee activities
Reviews for adequacy and security the Group's compliance, speaking-up and fraud controls.	During 2021, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls to ensure their adequacy and effectiveness and recommended the adoption by the Board of updated policies and procedures in respect of: anti-money laundering; the prevention of bribery and financial crime (including the detection of fraud); conflicts of interest; whistleblowing arrangements; and sanctions monitoring. The operation of the controls that are documented in these policies and procedures are reported to the Committee on a quarterly basis in the form of confirmatory compliance statements from the Group's legal and compliance function, members of which include the Group Money Laundering Reporting Officer and Group Data Protection Officer. There were no whistleblowing reports made during the year, whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or impropriety. The Committee also keeps under review the adequacy and effectiveness of the Group's legal and compliance function and receives regular updates on compliance training delivered to staff across the Group (see page 47 for further details). The Group's whistleblowing policy and procedure provide an internal mechanism for the reporting, investigation and remediation of any workplace wrongdoing, with arrangements in place that allow for the proportionate and independent investigation of such matters and appropriate follow-up action. A whistleblowing champion has been appointed to each of the Group's principal operating subsidiaries, as well as at a parent company level, with the Chair of the Audit Committee serving in such capacity. The appointed whistleblowing champions have responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Company's policies and procedures on whistleblowing. This message, as well as the arrangements that are in place, are routinely delivered to all staff.

Significant areas of judgement and estimation

An annual paper is presented by management to the Committee that details the areas of judgement and estimation in the preparation of the consolidated financial statements and a semi-annual going concern assessment is also presented to the Committee.

The valuation of loss reserves and expenses

The most significant area of judgement and estimation considered by the Committee during 2021 was the valuation of loss reserves.

As detailed on pages 132 and 133 of the consolidated financial statements, the valuation of loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Chief Actuary. KPMG LLP conducts a detailed re-projection of the Group's loss reserves as part of the half-year review and full-year audit. The Committee also receives independent estimates of the Group's loss reserves from an external actuary and compares these third-party estimates to those of the Group at its second and fourth quarter Audit Committee meetings. The Committee meets in executive session with the Group's Chief Actuary twice a year (at half year and year end) to discuss the operation and effectiveness of the actuarial function and the reserving process. During 2021, the Committee focused its discussions pertaining to the Group's loss reserves on:

- the reserving for natural catastrophe loss events and larger risk loss events which occurred during the year;
- the difference between the Group's estimates and the independent review from external actuaries (these differences being viewed by management, the external third parties and the Committee to be within a reasonable range);
- prior year loss development, including 'back-testing' of the Group's prior year reserves;
- reserving for each insurance operating subsidiary; and
- refinements to the Group's reserving methodology as we transition to IFRS 17.

Having reviewed and challenged these areas, the Committee concurred with management's valuation of the Group's loss reserves and the relevant disclosures around loss reserving in the Group's consolidated financial statements.

The fair value of financial instruments

Less significant estimates are made in determining the fair value of certain financial instruments and management judgement is applied in determining impairment charges. The investment portfolio is of a high credit quality and highly liquid and the Audit Committee obtains comfort from the impairment policy being applied consistently over time. The estimation of the fair value, specifically 'Level (iii)' investments, is discussed on pages 131 and 133 and in note 11.

Valuation of premiums received which are estimated

A portion of the gross premiums written by the Group is based on estimates of the ultimate premiums expected. Judgement is therefore involved in determining the ultimate estimates to establish the appropriate premium value. The Audit Committee obtains comfort from quarterly reviews performed by management to validate the judgements and compare against actual premium received.

Going concern basis of accounting

During the year, the Audit Committee reviewed and challenged the going concern assessment prepared by management at both its July 2021 and February 2022 meetings, with particular consideration of the current balance sheet and liquidity, the business plan, rating agency and regulatory capital, the Group's ability to service its long-term financing arrangement, ultimate loss estimates, credit quality and valuation of the investment portfolio, the current market environment, including consideration of the ongoing COVID-19 pandemic, and climate change.

Having reviewed and challenged these areas, the Committee concurred with management's going concern assessment and the relevant disclosures around going concern in the Group's consolidated financial statements (see page 129).

Implementation plans for IFRS 9 and IFRS 17

During 2021, the Committee monitored on a quarterly basis the preparation by the Group for the implementation of IFRS 9 and IFRS 17 (see future accounting changes on page 130).

In particular, at the Q3 Board and Committee meetings the Audit Committee received a detailed project update from management covering:

- the approach adopted by the project team to ensure delivery of IFRS 17;
- the project governance framework, including planned internal and external audit validation;
- the potential business impacts;
- the high-level plan and milestones;
- the approach to parallel run and testing in 2022; and
- the key implementation risks.

Priorities for 2022

The Committee's key priorities for 2022 are:

- To maintain the focus on the effectiveness of the Group's control environment, the operation of the business's financial reporting systems and the integrity of external financial reporting;
- To continue to monitor the preparation by the Group for the implementation of IFRS 9 and IFRS 17;
- To continue to monitor and embed aspects of positive business culture in quarterly reporting, in particular regarding the Group's financial and risk control environment;
- To achieve an orderly and smooth transition of both (i) the Chair of the Committee; and (ii) the Group's lead audit partner; and
- To continue to monitor developments and recommendations with regard to corporate governance, corporate reporting and audit practice, including areas of potential change and reform.

Nomination Corporate Governance and Sustainability Committee

"The Group rigorously and systematically tracks its compliance with the requirements of the UK Corporate Governance Code in a process reviewed by the Committee on a quarterly basis. The Committee also assesses the skills required for the Board and considers the effective operation and oversight of the business which resulted in the appointment of Irene McDermott Brown during 2021."

Peter Clarke
Chair of the Nomination Corporate Governance and Sustainability Committee

Committee members

Peter Clarke (Chair)	4/4
Michael Dawson	4/4
Samantha Hoe-Richardson	4/4
Sally Williams	4/4
Irene McDermott Brown	2/2

The Committee's role is increasingly focussed on sustainability issues for the Group, which include evolving developments in climate change and ESG risk management, regulation, guidance and reporting. Lancashire has long prided itself on its vibrant and engaged culture and the creation of a business model which is both profitable and sustainable.

Committee membership

The majority of the Nomination Corporate Governance and Sustainability Committee members are independent Non-Executive Directors. The Committee Chairman is Peter Clarke, who is the Chair of the Board. Irene McDermott Brown joined the Committee effective from 28 April 2021.

Principal responsibilities of the Committee

- Reviews the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board and its engagement with the workforce;
- Considers succession planning for the Directors and other senior executives;
- Nominates candidates to fill Board vacancies;
- Makes recommendations to the Board concerning Non-Executive Director independence, membership of Committees, suitable candidates for the role of Senior Independent Director, and the re-election of Directors by shareholders;
- Reviews the Company's corporate governance arrangements and compliance with the Code;
- Monitors and makes recommendations to the Board regarding the environmental, social and governance responsibilities of the Company; and
- Makes recommendations to the Board concerning the charitable and corporate social responsibility activities of the Company and donations to the Lancashire Foundation.

How the Committee discharged its responsibilities

Corporate governance

Board composition and effectiveness	In accordance with the provisions of the Code, all of the Directors are subject to annual (re)election by shareholders. All of the Group's current Directors were elected or re-elected by shareholders at the 2021 AGM. The Committee also reviewed the composition of the Board at its November 2021 meeting and it considered that the balance of skills, knowledge, independence, experience and diversity continues to be appropriate for the Group's business to meet its strategic objectives. The Committee also regularly discussed in its meetings whether any additional skills and experience were needed to complement those already on the Board. The Committee considered questions of fitness and independence in recommending to the Board the appointment of Irene McDermott Brown, who was appointed as a Non-Executive Director with effect from 28 April 2021. See page 72 for further details. The Committee oversaw the process for the year-end review of the effectiveness of the Board, the Committees and each of the Directors. In 2021, further to a tender process, Independent Audit, a corporate services company with offices in London and no other connection to the Group, was appointed to facilitate an effectiveness review of the LHL Board, the Committees and each of the principal subsidiary boards within the Group. The Committee and the Board were satisfied that the Board and each of its Committees were operating effectively. Further details of the performance evaluation process and its outcomes can be found on page 73.
UK Code compliance	The Committee keeps under review the Company's corporate governance arrangements, particularly the Company's compliance with the FRC's UK Corporate Governance Code (the 'Code'). The Committee reviewed the Company Secretariat's checklist record of the Company's compliance with the Code on a quarterly basis. The Code can be viewed on the www.frc.org.uk website.
Governance documentation	The Committee considered the Terms of Reference for all the Committees which were considered fit for purpose: no further changes were implemented during 2021. In July 2021, the Committee reviewed and recommended to the Board revisions to the Board's Schedule of Reserved Matters, inter alios to reflect the Board's responsibilities for climate change, diversity and oversight of the Group's ORSA process. The Committee also carried out a review and revision of the document describing the division of responsibilities between the Group CEO and the Chairman.
Appointments and succession planning	The Committee reviewed and recommended the approval and adoption by the Board of the Company's succession plan and talent management and development programme for the 2021/2022 year in April 2021. The business has the objective of fostering a diverse workforce to meet the needs of the business. The Committee reviewed training and development proposals for a number of key employees across the Group as part of the succession planning process.
Workforce engagement	During 2021, the Company continued the practice of the Group CEO holding 'town hall' meetings with employees following the announcement of the Company's quarterly results. In order to further enhance arrangements for engagement between the Non-Executive Directors and members of the workforce, the Committee arranged for these town hall meetings to be periodically attended by the Chairman of the Board or another Non-Executive Director. Peter Clarke attended the town hall meetings held virtually in both February and May 2021; Irene McDermott Brown attended a virtual town hall meeting in August 2021 and Michael Dawson attended an in-person town hall meeting in November 2021 at our London offices, which was also streamed live to our Bermuda office and to employees working from home. The Board and Committee also received the results of a staff engagement survey which was undertaken in October 2021, and focused on questions of workforce engagement, training and satisfaction (see page 45 for further details of the survey). The Committee considered these and other tools for workforce engagement at its November 2021 meeting and discussed arrangements for workforce engagement during 2022. The Committee considers that the workforce's engagement and their feedback have an appropriately high profile and this, in turn, informs debate within the relevant Committees, the Board and the wider Group. The Committee and Board intend for these effective arrangements to continue in 2022.
Audit reform	The Committee has monitored developments in the area of audit market reform, regulation and practice during 2021, including proposals for UK legislative change as a result of the Kingman Review, the Brydon Report and the recommendations of the UK Competition and Markets Authority.
Brexit	The Committee and Board have considered the ongoing impact of Brexit on both the Company and its business. The Board is satisfied that measures adopted within the business have to date and will continue to help mitigate certain of the potential adverse impacts of Brexit.
Subsidiary boards	The Committee and Board monitored the composition and recommended appointments and changes to the Group's subsidiary boards during 2021.

How the Committee discharged its responsibilities (continued)

Sustainability

Sustainability and ESG reporting	The Committee has continued to monitor developments in the area of the Company's environmental, social and governance responsibilities throughout its work in 2021. The Committee has received reports from the management ESG Committee (which was established during the course of the year), regarding the current and developing ESG regulatory landscape as well as the Group's progress in these areas. Upon the recommendation of the Committee, the Board agreed the Group's 2021 ESG strategy and the Group's ESG framework, both of which have been embedded into the business. Please see pages 44 to 63 for further details.

Environment

	The Committee also periodically reviews developments in the areas of environmental sustainability and climate change, and the management of related risks and opportunities. For more information on these matters, please see the Group CRO's report on pages 26 to 37 and the TCFD report on pages 56 to 63.

Social responsibility

Diversity	The Committee considered statistics relevant to the gender composition of the Board, Group senior management (excluding LHL Non-Executive Directors), direct reports to Group senior management and overall Group employees. These statistics are shown on page 48 and illustrate the progress made in relation to the attainment of the Company's stated goals with regard to gender diversity. The Committee also reviewed comparative pay data by gender within the Lancashire Group in April 2021. The Committee noted that the Group had fewer than 250 UK employees at the point of review and therefore did not come under a formal UK public reporting requirement at that time. The Committee recommended approval by the Board of an updated diversity policy, which is posted on the Company's website and has committed to meeting the Parker Review target for minority ethnic representation by 2024.
The Lancashire Foundation	The Committee is responsible for monitoring and making recommendations to the Board in relation to the Company's charitable giving policy and the operation of, and reporting requirements for, the Lancashire Foundation. During 2021, the Committee received a report from the Foundation, including its objectives, governance, approach to funding for 2022 and beyond, alongside its investment strategy, donations policy and charitable activities, as well as the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that the Company make a donation to the Foundation of 0.75% of full-year Group profits (subject to a cap of $750,000 and a $250,000 collar), conditional on the determination of financial performance for the full year. 2021 marks 15 years of the Lancashire Foundation – for more information regarding the donations the Committee has approved, please see pages 42 and 43.
UK Modern Slavery Act 2015	During 2021, the Committee recommended the approval by the Board of an updated anti-slavery and human trafficking statement, a copy of which is posted on the Company's website.

Priorities for 2022

The Committee's key priorities for 2022 are:

- To continue to ensure that the Company is able to effectively discharge its governance responsibilities under the Code;
- To continue to develop the succession plans for Directors and senior executives, in line with the Group's strategic objectives, and to support management in the development of the talent pipeline;
- To review developments with regards to the Company's sustainability and, in particular, to monitor effective management of climate change risk and the implementation of the recommendations of the TCFD; and
- To monitor the Company's progress on diversity and to take steps to enhance minority ethnic representation amongst the Board membership.

Investment Committee

"The Group's investment portfolio has again proved resilient in the face of the volatile capital markets, the ongoing challenges posed by the COVID-19 pandemic and the threat of inflation. The Group has maintained a defensive short duration profile to protect against rising interest rates in an inflationary environment. The Committee's focus for the investment portfolio remains to preserve capital to support underwriting opportunities and to provide adequate liquidity to match the Group's risk exposures."

Robert Lusardi
Chair of the Investment Committee

Committee members

Robert Lusardi (Chair)	4/4
Peter Clarke	4/4
Natalie Kershaw	4/4
Denise O'Donoghue	4/4

Committee membership

The Terms of Reference of the Investment Committee provide that the Committee shall comprise at least two Non-Executive Directors (one of whom may be the Chairman of the Board) and the Group CFO and/or the Group CIO. Any Executive Director may also serve on the Committee.

The Investment Committee comprises one independent Non-Executive Director, the Chairman of the Board, one Executive Director (the Group CFO) and the Group CIO (who is not a Director).

Principal responsibilities of the Committee

- Recommends investment strategies, guidelines and policies to the Board and other Group entities to approve;
- Recommends and sets risk asset definitions and investment risk tolerance levels;
- Recommends to the relevant boards the appointment of investment managers to manage the Group's investments;
- Monitors the performance of investment strategies within the risk framework; and
- Establishes and monitors compliance with investment operating guidelines.

How the Committee discharged its responsibilities

The Committee focused on developments in the U.S. Federal Reserve's interest rate policy and the wider U.S. and global economic and political environment and potential impacts and implications for the investment portfolio including the ongoing consequences of the global COVID-19 pandemic. The Committee held regular discussions with the professional investment portfolio managers concerning the macro-economic environment and implications for investment asset classes and strategy.

The Committee considered regular reports on the performance of the Group's investment portfolios, including asset allocation and compliance with pre-defined guidelines and tolerances; and recommended amendments to portfolio investment guidelines to the Board and operating boards of LICL, LUK and LSL.

The Committee continues to work to articulate and support the Board's investment philosophy, which continues to be conservative in nature, and is intended to help support the Group's underwriting strategy to provide appropriate liquidity to match the Group's risk exposures and to contribute to the Group's growth in FCBVS.

A focus for the Committee throughout the year has been the increased risk of inflation and the potential impact this, and changes in the interest rate environment, would have on the Company's investment portfolio. The Committee discussed different strategies to mitigate the impact of rising rates on the portfolio and concluded that a combination of increased exposure to floating rate assets and low portfolio duration was the most cost-effective approach to hedging inflation risk at this time.

The Committee is mindful of the Group's duty to act as a responsible investor. To that end we have focused throughout the year on the development of the Company's investment reporting and monitoring in the context of ESG and climate change developments and expectations within the market. The Committee received a presentation from external investment managers on current best practices which provided an opportunity to benchmark Lancashire's position and identify areas where further improvements were possible.

The Committee noted that 93.8% of the Group's externally managed investment portfolio are signatories to the UNPRI. The Committee monitored the ESG profile of the Group's fixed maturity portfolio by reference to the MSCI ESG rating tool noting that the Lancashire portfolio sits within the average ESG category rating and that the proportion of the fixed maturity portfolio covered by the available rating methodology was approximately 46.4% of the public fixed maturity portfolio, due to the high number of U.S. treasuries and structured products that are not covered by the available methodology.

In this regard the Committee has noted that the MSCI index and other available carbon intensity and ESG measurement tools are in a state of development and intends to keep the range of potential analytical tools under review in consultation with the Group's external portfolio managers. The Committee proposed a framework for the measurement of climate sensitivity and recommended to the Board the introduction of a Climate Value at Risk metric (Climate VaR), which is aligned with the Paris Accord goal of limiting global temperature increases to a maximum of 1.5°C, for the Group's investment risk tolerance and preference statements. The Committee and Board agreed a preference for the financial impact of this scenario on the Group's actual fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model and carbon sensitivity tool. The fixed maturity portfolio's carbon intensity score was broadly consistent with the prior year and the Committee discussed and agreed to certain changes in asset allocation in order to reduce the carbon intensity scoring of the portfolio.

The Committee also recommended to the Board the introduction of ESG and carbon management investment guidelines in particular with respect to limitations upon assets linked to thermal coal, oil sands and Artic energy investments to be implemented by the Group's investment managers across the Group's fixed maturity investment portfolios.

Priorities for 2022

The Committee's key priorities for 2022 are:

- To maintain a continued focus on a diversified portfolio, continuation of its contribution to the Group's operating income and FCBVS, the preservation of capital, the maintenance of liquidity and the prudent management of investment risks aligned with the developing profile of the Group's underwriting portfolio;
- To focus on the implications of macro-economic trends, in particular the threat of more sustained inflationary pressures, the U.S. domestic and international political environment and the ongoing COVID-19 pandemic;
- To further develop the analysis and monitoring of the climate change risk sensitivity and ESG profile of the Group's investment portfolio to further enhance the levels of assurance and reporting on issues of sustainability; and
- To conduct a biennial asset allocation review and to consider the impact of the Group's casualty reinsurance portfolio reserves on the desired overall target investment portfolio duration and liquidity requirements.

Underwriting Committee

"The Committee's principal focus in 2021 was on the strategic deployment of the risk capital which the Group raised during 2020 and improved pricing and market conditions in most of the Group's existing lines of business and opportunities through the addition of new lines of business. The Group has delivered on its principal underwriting strategy of achieving the strongest growth in top-line premium since the Group's foundation in 2005."

Alex Maloney
Group CEO and Chair of the Underwriting and Underwriting Risk Committee

Committee members

Alex Maloney (Chair)	4/4
Jon Barnes	4/4
Michael Dawson	4/4
James Flude	4/4
Paul Gregory	4/4
James Irvine	4/4
Hayley Johnston	4/4
Ben Readdy	4/4
John Spence	4/4

Committee membership

During 2021, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and one Non-Executive Director, together with the Group CUO, the CUO of LICL, the CUO of LUK, the Active Underwriters for Syndicates 2010 and 3010, the LICL CEO and the Group Chief Actuary (who are not Directors).

Principal responsibilities of the Committee

- Reviews Group underwriting strategy, including consideration of new lines of business;
- Oversees the development of, and adherence to, underwriting criteria, limits, guidelines and authorities by operating company CUOs;
- Reviews underwriting performance;
- Reviews significant changes in underwriting rules and policies; and
- Monitors underwriting risk and its consistency with the Group's risk profile and risk appetite.

How the Committee discharged its responsibilities in 2021

The principal areas of focus for the Committee during 2021 were upon the improved pricing and market conditions in most of the Group's existing lines of business and the opportunities to grow and diversify the underwriting portfolio through the addition of new lines of business.

In June 2020 Lancashire had issued new common shares by way of an equity placing, which raised $340.3 million of new capital for the development of the Group's strategic underwriting plans, and the Committee monitored the implementation of the capital deployment throughout 2021. The Committee monitored an improving pricing trend which facilitated strong growth as the year developed. The Group's RPI, which shows the trend in renewal pricing on like-for-like contracts, was 109% for the full year across the portfolio. Gross premiums written for the full year increased to $1.2 billion, which was a 50.5% increase on 2020. Management implemented a revised dashboard style of reporting during the year which enhanced management information data and enabled the Committee to receive more granular detail of pricing trends and premium income by underwriting segment and by Group entity.

The Committee monitors underwriting performance on a quarterly basis to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. This is facilitated through regular update reports from the Active Underwriters of Syndicates 2010 and 3010, the CUOs for LUK and LICL and the CEO of LCM.

The Committee also discussed and monitored new business and growth opportunities during the year including the following areas:

- Marine and energy specialty reinsurance;
- Casualty reinsurance – escalated growth against business plan;
- Syndicate 3010 Lloyd's Australian D&F property class;
- Syndicate 3010 and LUK marine and energy liability growth initiatives;
- Construction and engineering class;
- Power and utilities expansion opportunity;
- New property D&F opportunity;
- Lloyd's casualty consortium participation; and
- U.S. trucking liabilities.

The Committee also received reports on a number of initiatives which were explored but were not pursued.

The Committee continued to monitor the impacts of the COVID-19 pandemic both operationally and as a (re)insurance loss event/events. In the face of the challenges of home working which was required periodically during the year, the Committee noted the operational resilience of the Group's risk trading platforms and the stability of the COVID-19 loss reserves first established during 2020.

The Committee also received a claims update on a quarterly basis and monitored the claims and reserving processes for the material natural catastrophe and risk losses as they developed during the year.

The Committee has been actively engaged during 2021 in the development and implementation of the Group's underwriting strategy. It considers the articulation of, and adherence to, formal underwriting risk tolerances, which are approved and monitored by the Committee and the Board. In particular, the Committee received quarterly risk data, tracking movements in the Group's exposures to modelled PMLs and RDSs. The Committee also reviews developments in the formal underwriting authorities implemented across the Group. In addition, the Committee discussed the risks and opportunities associated with climate change and the ESG profile of clients and received reports on the development of ESG and climate-related underwriting guidelines which have been articulated by reference to Lloyd's market guidance and are being rolled out across all underwriting platforms. These guidelines are also linked to the Group's formal risk appetite statements. The Committee and Board also discussed the challenges and opportunities faced by many of our clients in the energy sector during a period of global transition towards less carbon intensive forms of energy.

The Committee continued to monitor exposures to a range of natural catastrophe risks, including regional windstorm and hurricane exposures, and the articulation of an appropriate underwriting and risk management strategy and management preference for these and other risk exposures linked to climate change factors. The Committee considered loss information and developing trends in the frequency and severity of weather-related and other loss events and was satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk relating to these factors. For more detail, please see the ERM report on pages 26 to 30 and the Group's TCFD report on pages 56 to 63.

One area of work for the Committee during 2021 was to review and approve changes to the operation of the daily underwriting call, which is a distinctive feature of the Group's non-Lloyd's operations and a key risk management tool. The Committee approved changes to the terms of reference for the Underwriting Marketing and Coordination Committee (the UMCC) which will continue to retain oversight of the principal risks underwritten by the Group, in particular those risks which are the drivers of the Group's major exposures and related capital requirements. It also agreed a protocol for the oversight of the underwriting, approval and reporting of smaller non-Lloyd's underwriting risks outside the full UMCC. This marks a point of evolution in the Group's underwriting practices appropriate to accommodate the recent strategic growth whilst retaining the benefits of appropriate underwriting and risk oversight.

The Group's programme of outwards reinsurance protections is a core underwriting risk and exposure management tool. The Committee reviewed the structure, pricing and operation of the outwards reinsurance programmes and regularly discussed management reports covering outwards reinsurance developments. In particular the Committee held a dedicated strategic discussion at its November 2021 meeting to consider options for the development and focus of the Group's reinsurance programmes and opportunities for greater alignment and efficiencies across the Group.

The Committee also convened a number of other themed 'deeper dive' strategic sessions at its quarterly meeting involving the participation of underwriters from across the Group. These included sessions on the Group's casualty reinsurance initiative, Group aviation underwriting strategy and the Group's inward retrocessional reinsurance portfolio.

The Committee received management reports on the progress and approval by Lloyd's of the business plans for Syndicates 2010 and 3010, including the Lloyd's approval of planned growth plans for 2022.

The Committee also reviewed developments in the third-party reinsurance capital markets and developments within the LCM platform. At its November meeting the Committee discussed plans for succession within the LCM management team and approved the appointment of Paul Gregory as CEO of LCM further to the announcement of the departure of Darren Redhead from LCM, which will take place during 2022.

During 2021, the Committee meetings were open to attendance by all Board members. The Committee and Board seek to match the Company's capital to the underwriting requirements of the business in all parts of the underwriting cycle.

A more detailed analysis of the Group's underwriting performance appears in the business review on pages 21 to 25.

Priorities for 2022

The Committee's key priorities for 2022 are:

- To continue to monitor the development and implementation of a forward-looking and disciplined underwriting strategy with a focus on disciplined growth appropriate to the current market opportunities and nimble use of the Group's underwriting platforms, within a framework of appropriate risk tolerances;
- To work actively with management in the identification, analysis and consideration of new underwriting opportunities, including potential new lines of business and opportunities for the managed 'organic' growth in the Group's existing business lines;
- To consider opportunities for development of the Group's reinsurance structures including in the area of third party reinsurance capital; and
- To continue to foster a nimble, sustainable and responsive underwriting culture, capable of responding to the needs of clients, investors, employees and other stakeholders.

Remuneration Committee

"Lancashire's remuneration structures are designed and monitored to prioritise the right behaviours aligned with the strategic priorities of capital management, effective risk management and a nimble underwriting culture. We aim to incentivise, reward and retain talented people across our business to deliver on our strategy."

Simon Fraser
Chair of the Remuneration Committee

Committee members	
Simon Fraser (Chair)	4/4
Peter Clarke	4/4
Michael Dawson	4/4
Robert Lusardi	4/4
Irene McDermott Brown	2/2

The Committee's work helps embed the Group's healthy and sustainable corporate culture, consistent with the Group's purpose, values and strategy. The Board's objective is to deliver sustainable performance across the insurance cycle.

Committee membership

The Remuneration Committee comprises four independent Non-Executive Directors and the Chair of the Board.

Principal responsibilities of the Committee

- Sets the Remuneration Policy for all Directors and determines the total individual remuneration packages of the Company's Chair, the Executive Directors, Company Secretary and other designated senior executives, to deliver long-term benefits to the Group;
- Agrees financial and personal objectives for each Executive Director and the performance against these objectives for the annual bonus;
- Determines each year whether awards will be made under the Group's RSS and, if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives, and the performance targets to be used;
- Ensures that contractual terms on termination or retirement, and any payments subsequently made, are fair to the individual and the Company; and
- Oversees any major changes in employee benefit structures throughout the Group.

How the Committee discharged its responsibilities

Throughout the year the Committee kept under review the Group's performance and remuneration structures, in the light of investor and stakeholder input. In particular, the Committee discussed at length the 2021 AGM outcomes and feedback resulting from a shareholder engagement process led by Simon Fraser. The Committee agreed a range of future actions which are detailed in Simon Fraser's introduction to the Directors' Remuneration Report on pages 90 and 91.

The Directors' Remuneration Policy has a three-year term following its approval by shareholders at the 2020 AGM, with a majority of 88% of votes cast. The Committee discussed in the light of shareholder feedback received during the year following the outcome of the 2021 AGM the operation of the Policy and has concluded that the Policy remains fit for purpose. Whilst no Policy changes are being proposed for the coming year the Committee intends to carry out a detailed review of the Policy during 2022 in advance of a shareholder vote at the 2023 AGM.

More generally during 2021, the Committee reviewed the Group's incentive packages to ensure that remuneration is structured appropriately in order to promote the long-term success of the Company. The Committee also reviewed the RSS structures for Executive Directors to ensure that the performance metrics continue to align the interests of the Company with its investors and executive management. The Committee considered the salary and bonus awards for the Executive Directors, as well as other designated senior executives, and in this context had regard to remuneration levels and practices across the workforce. The Committee also approved the grant of long-term incentivisation awards under the Company's RSS, considering a range of factors including the Company's share price movement. For further discussion of the linkage between performance and remuneration outcomes, please see Simon Fraser's introduction to the Directors' Remuneration Report on pages 90 and 91.

The Committee held discussions throughout the year on areas of developing best practice, regulation and investor expectation. The Committee also considered developments in guidance from several of the leading shareholder advisory groups.

During 2021, the Committee reviewed Executive Directors' shareholdings in the context of the Company's share ownership guidelines for senior/key executives. Share ownership targets have either been met, or progress made in accordance with guideline requirements.

The Committee continued to monitor progress made during the year on the alignment of remuneration practices across the Group and reviewed the operation of the Group's remuneration policy.

The Committee welcomed Irene McDermott Brown as a new Director and Committee member during April 2021. Irene has extensive experience in the field of remuneration practice within the financial services sector, and it is planned that she will assume the role of Remuneration Committee Chair following the 2022 AGM, in succession to Simon Fraser.

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 90 to 111.

Priorities for 2022

The Committee's key priorities for 2022 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, ESG and carbon management strategy, changes in accounting and financial reporting in particular as a result of the introduction of IFRS 17, risk profile, objectives, risk management practices and long-term interests;
- To conduct a formal review of the Group's shareholder-approved Remuneration Policy, facilitated by advice from the Group's independent remuneration advisers, in preparation for the planned shareholder Remuneration Policy vote at the 2023 AGM;
- To ensure that remuneration across the wider Group meets the skills and staffing needs and staff retention requirements of the business; and
- To work with the Group's independent remuneration advisers to keep abreast of compensation levels amongst the Group's London, Bermudian and other international peers, and the latest remuneration-related regulations, guidance and market practices.

Annual statement

Dear Shareholder,

I am pleased to present the 2021 Directors' Remuneration Report to shareholders.

As we set out at the front of this report, 2021 has been a year of exceptional challenges. We have been impacted by above average natural catastrophe losses and a political violence loss in South Africa, whilst navigating the continued operational impacts of the COVID-19 pandemic. The business has faced these challenges responsibly, displaying operational resilience and strategic foresight. Disappointingly, the negative effect of significant (re)insurance losses on returns for the 2021 year has resulted in a combined ratio of 107.3% and a negative change in FCBVS of 5.8%. More positively, the decision to seek equity capital from our shareholders in June 2020 has enabled us to increase our gross premiums written by 50.5% compared to 2020. This has placed the Group in a strong position to maximise attractive underwriting opportunities in an improving pricing environment which we expect to continue throughout the course of 2022.

Against this background our total Group CEO remuneration has decreased in comparison to 2020 by 37.4% and the Group CFO remuneration has decreased in comparison to 2020 by 39% (see the comparison table for single figure remuneration on page 103).

Remuneration report voting outcome 2021 and shareholder engagement

The Board was naturally disappointed with the outcome of the resolution to approve the Annual Report on Remuneration at the 2021 AGM, where it was passed with slightly over 67% support. Following the vote, I engaged with the Company's major shareholders and other stakeholders in the advisory sector. This process also followed a period of shareholder consultation which we had conducted prior to the AGM.

It was clear from the consultation that the main reason for the disappointing level of the vote against the remuneration resolution at the 2021 AGM was the impact of the Company's June 2020 equity placing on the 2020 annual bonus targets which were aligned to growth in FCBVS.

The Committee will take the following specific actions to ensure that any future capital raise does not prompt similar concerns with shareholders:

- Ensure improved disclosure in our reporting of the impact of capital actions on performance metrics in future;
- Consider deferral of a greater percentage of annual bonus into time deferred long-term incentive awards where performance metrics have been beneficially influenced by capital actions; and
- Commit to ongoing and active consideration of the exercise of discretion to limit the impact of capital actions on remuneration outcomes, where appropriate.

In our meetings, a small number of shareholders also expressed a concern regarding the Company's use of growth in FCBVS in both the annual bonus for Executive Directors and the Company's longer-term RSS awards. The Committee has considered the potential use and relative merits of other financial metrics in the Executive Directors annual bonus and the longer-term RSS awards and will continue to do so in the future. The Committee considers that growth in FCBVS is the Group's principal key performance indicator and that it is an appropriate and comprehensive performance metric for both bonus and longer-term schemes. It is relatively straightforward, understood by investors and encompasses all aspects of the Company's performance, prioritising the right strategic and risk management priorities for our management team. We also note that, in the light of the introduction of the new IFRS 17 accounting standards at the beginning of 2023, insurance industry accounting will be in a period of radical transition in terms of financial reporting. This will be a close area of focus for the Committee during 2022. Taking all these elements together, as we implement and monitor these new accounting measures, we believe it is would be inappropriate to make changes to our longstanding and effective financial performance remuneration metrics before th e impacts of IFRS 17 are fully understood.

The Board and management continue to believe that the insurance industry is cyclical in its fundamental characteristics. The Board's strategic objective is to achieve attractive returns appropriate to overall risk levels across the (re)insurance market cycle. There is a strong link between the Remuneration Policy and the business strategy. As an underwriting Company our underwriting performance is the key driver of growth in FCBVS over time and therefore our Remuneration Policy is closely aligned to our strategy.

As always, the Committee and Board intend to keep remuneration performance metrics under review in future to ensure appropriate focus and alignment of our management team with the interests of our stakeholders and will undertake a further review ahead of setting next year's metrics and targets.

Performance outcomes for 2021

The Executive Directors' annual bonus performance targets for both financial and personal performance were stretching. The financial element which made up 75% of the annual bonus opportunity resulted in no bonus payout for this element as the threshold for payout was not met given the Company's Change in FCBVS in 2021 was below the threshold due to a very challenging loss environment.

However, the board considered that the Executive Directors had performed strongly in achieving significant organic growth in underwriting premium income, in establishing new lines of underwriting and in managing risk within the business (see page 9). The business not only demonstrated strong operational resilience in the face of the COVID-19 pandemic but has, for the second year in succession, delivered on the strategic objectives of recruiting underwriting expertise in both existing and new lines of business. In particular the Group has recruited expertise in construction risks and expanded its D&F property book in hiring a team in Sydney, Australia, whilst also continuing to strengthen the Company's supporting business functions. As we note on page 15, with regard to the work performed during 2021 in relation to capital requirements of the business, the Board also noted the dynamic action of management in restructuring the Group's debt in early 2021 to align better with regulatory and rating agency requirements. So, in the face of what was a challenging loss year, the Board considered that our Executive Directors have provided effective leadership, strong and targeted growth in premium income, an effective recruitment programme to broaden the talent base of the business in both underwriting and other business functions to service current market opportunities and a nimble and proactive approach to risk and capital management (see pages 105 and 106 for further details).

In relation to long-term incentives for Executive Directors and other senior management, the 2019 Performance RSS awards were 85% based on annual Change in FCBVS targets and 15% on compound annual growth TSR targets over the three-year period to 31 December 2021. The Company's TSR (calculated in U.S. dollars) for the performance period resulted in a compound annual rate of -1.1%, resulting in 0% vesting for the TSR component.

The Change in FCBVS performance over the three-year performance period was assessed based on the change for each of the separate financial years as disclosed on page 108, resulting in 56.7% of this component of the 2019 Performance RSS awards vesting. Therefore overall, the 2019 Performance RSS awards vested at 48.2%.

The Committee believes in setting challenging performance criteria and having a significant proportion of the overall package linked to Company performance. Furthermore, the Committee also continues to recognise the need to ensure that Executive Directors are appropriately remunerated and incentivised even in the more challenging phases of the insurance cycle. It is also important that the Committee and the Board ensure that Executive Director compensation is structured in such a way as to discourage excessive risk to the business.

Overall, in light of the annual and three-year performance delivered, the Committee notes the 48.2% vesting of the 2019 RSS and is satisfied that there has been sufficient linkage between performance and reward for Executive Directors; as a result no discretion was applied to the formulaic outcome. The Committee will continue to ensure that there is appropriate alignment between executive remuneration and Company performance in line with the Group's cross-cycle return expectations.

Application of Remuneration Policy for 2022

The Committee has reviewed and discussed the remuneration structures to be used in 2022 in some detail. As outlined above in response to shareholder feedback, this included a detailed review of the performance metrics. The Committee has concluded that the existing structure and performance metrics remain appropriate but this will be subject to further review ahead of setting next year's metrics and targets.

The Annual Report on Remuneration provides detailed disclosure on how the Policy will be implemented for 2022 and how Directors have been paid in relation to 2021.

The Board has decided to apply the targets for the annual bonus to be used in 2022 and to implement the three-year RSS awards for Executive Directors on the same basis as agreed for 2021. In addition targets will incorporate a specific ESG measure.

The disclosures provide our shareholders with the information necessary to form a judgement as to the link between Company performance and how the Executive Directors are paid. This Annual Statement, together with the Annual Report on Remuneration, will be subject to an advisory vote, and I hope that you will be able to support this resolution at the forthcoming AGM. The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters and I welcome any feedback you may have.

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

As a Company incorporated in Bermuda, LHL is not bound by UK law or regulation in the area of Directors' remuneration to the same extent that it applies to UK incorporated companies. However, by virtue of the Company's premium listing on the LSE, and for the purposes of explaining its compliance against the requirements of the Code, the Board is committed to providing full information on Directors' remuneration to shareholders.

The Company's Remuneration Policy was approved by shareholders at the 2020 AGM, which is effective for a period of three years. The 2020 Remuneration Policy was developed taking into account the principles of the Code and the views of our major shareholders.

The 2020 Remuneration Policy contains details of the Company's policy to govern future payments that will be made to Directors. The Annual Report on Remuneration also details the remuneration paid to Directors in respect of the 2020 financial year in accordance with the shareholder-approved Policy. The shareholder-approved 2020 Remuneration Policy table is set out on pages 77 to 80 of the 2019 Annual Report and Accounts which can be found on the Company's website.

The Remuneration Policy set out below contains minor wording changes to the 'How the views of employees are taken into account' section, updates to bonus and LTIP metrics, the Illustrations of annual application of Remuneration Policy and to reflect the appointment of the Group CFO during 2020.

The Remuneration Policy addresses the following principles as set out in the Code:

- Clarity – the Committee regularly engages with shareholders to take into account shareholder feedback, as it did in developing the current policy, to ensure there is transparency on the Remuneration Policy and its implementation. The Remuneration Policy has a clear objective: to enable the Group to attract, retain and motivate Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters.
- Simplicity – the Remuneration Policy is designed such that the arrangements are considered easy to communicate to all stakeholders. This includes variable pay which operates as an annual bonus plan and a single LTIP. The objective and rationale for each element of the Remuneration Policy is clearly explained in the Policy table.
- Risk – the Committee considers that the structure of remuneration does not encourage inappropriate risk-taking. The performance metrics used ensure remuneration aligns to the Board's strategic objective which is to achieve attractive returns appropriate to overall risk levels across the (re)insurance market cycle. There is a mixture of short-term and long-term performance metrics with an appropriate mix of performance conditions. Clawback provisions are in place across all incentive plans and the Committee has the ability to use its discretion to override formulaic outcomes. The Committee receives a report from the Group CRO with regard to risk management developments which may be relevant to remuneration outcomes, and also makes inquiry with the Group's external auditors.
- Predictability – the range of possible reward outcomes is shown in the 'Illustrations of annual application of Remuneration Policy' (see page 98 for full details), which demonstrates the potential threshold, on-target and maximum scenarios of performance and the resulting pay outcomes which could be expected.
- Proportionality – a significant proportion of pay is delivered through variable remuneration. No variable remuneration will be delivered for below threshold performance with incentives only paying out if strong performance has been delivered by the Executive Directors. The Committee has the discretion to override outcomes if they are deemed inappropriate to ensure a robust link between reward and performance.
- Alignment to culture – the Policy has been designed to support the delivery of the Group's long-term strategy, and the interests of its shareholders and employees. Annual bonus performance metrics include an assessment of whether each Executive Director's contribution aligns to the Group values. The Policy seeks to appropriately motivate Executive Directors to deliver long-term, sustainable performance which benefits all stakeholders.

Governance and approach

The Company's Remuneration Policy is geared towards providing a level of remuneration which attracts, retains and motivates Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters. The Remuneration Policy also seeks to ensure that Executive Directors are provided with appropriate incentives to drive individual performance and to reward them fairly for their contribution to the successful performance of the Company.

The Remuneration Committee and the Board have again considered whether any element of the Remuneration Policy could conceivably encourage Executive Directors to take inappropriate risks and have concluded that this is not the case, given the following:

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- in the case of Alex Maloney, the Group CEO, there is a high level of share ownership, and in the case of Natalie Kershaw, who assumed the role of Group CFO and Executive Director during 2020, there is an appropriate opportunity to acquire a longer-term equity holding on a measured basis, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, corporate failure and material damage to the Group's business or reputation or the Executive Director ceasing to be a Director and/or employee due to gross misconduct (see pages 94 to 97 for the full Policy details).

How the views of shareholders are taken into account

The Committee Chairman and, where appropriate, the Company Chairman consult with major investors and representative bodies on any significant remuneration proposal relating to Executive Directors. Views of shareholders at the AGM, and feedback received at other times, will be considered by the Committee.

How the views of employees are taken into account

The Remuneration Committee takes into account levels of pay elsewhere in the Group when determining the pay levels for Executive Directors. The Remuneration Policy for all staff is, in principle, broadly the same as that for Executive Directors in that any of the Group's employees may be offered similarly structured packages, with participation in annual bonus and long-term incentive plans, although award types (restricted cash, restricted stock or performance shares) and size may vary between different categories of staff. For Executive Directors, with higher remuneration levels, a higher proportion of the compensation package is subject to performance pay, share-based remuneration and deferral. This ensures that there is a strong link between remuneration, Company performance and the interests of shareholders.

Reflecting good practice in this area, Executive Directors' pension provision is the same as the standard pension contributions made to employees in the Group (in percentage of salary terms).

Whilst the Company does not expressly consult with employees on Executive Directors' remuneration, the Board and Committee, through the structured arrangements for regular workforce engagement do receive employee feedback, including where relevant to matters of remuneration. As noted above, the Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors. The Committee also reviews and approves the size of any annual bonus pot to be distributed amongst the staff population and the allocation of RSS awards, and its practice in this regard is well aligned with the expectations introduced within the revised Code.

Remuneration Policy table

Fixed pay

Base salary

Purpose and link to strategy

Helps recruit, motivate and retain high-calibre Executive Directors by offering salaries at market competitive levels.

Reflects individual experience and role.

Operation

Normally reviewed annually and fixed for 12 months, typically effective from 1 January. Positioning and annual increases influenced by:

- role, experience and performance;
- change in broader workforce salary;
- changes to the size and complexity of the business; and
- changes in responsibility or position.

Salaries are benchmarked periodically against insurance company peers in the UK, U.S. and Bermuda.

Opportunity

No maximum.

Benefits

Purpose and link to strategy

Market competitive structure to support recruitment and retention.

Medical cover aims to ensure minimal business interruption as a result of illness.

Operation

Executive Directors' benefits may include healthcare, dental, vision, gym membership and life insurance. Other additional benefits may be offered from time to time that the Committee considers appropriate based on the Executive Director's circumstances.

Executive Directors who are expatriates or are required to relocate may be eligible for a housing allowance or other relocation-related expenses.

Any reasonable business-related expense can be reimbursed, including any personal tax thereon if such expense is determined to be a taxable benefit.

Opportunity

No maximum.

Pension

Purpose and link to strategy

Contribution towards funding post-retirement lifestyle.

Operation

The Company operates a defined contribution pension scheme (via outsourced pension providers) or cash-in-lieu of pension.

There is a salary sacrifice structure in the UK.

There is the opportunity for additional voluntary contributions to be made by individuals, if elected.

Opportunity

Company contribution is currently 10% of base salary. The maximum pension payable to both existing and new Executive Directors will be at a rate not greater than that which is available to the majority of the Group workforce.

Annual bonus[1,2]

Purpose and link to strategy
Rewards the achievement of financial and personal targets.

Operation
The annual bonus is based on financial and personal performance.

The precise weightings may differ each year, although there will be a greater focus on financial as opposed to personal performance.

The Committee will have the ability to override the bonus outcome by either increasing or decreasing the amount payable (subject to the cap) to ensure a robust link between reward and performance.

At least 25% of each Executive Director's bonus is automatically deferred into shares as nil-cost options or conditional awards over three years, with one-third vesting each subsequent year.

A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil-cost options up to the point of exercise.

The bonus is subject to clawback if:

(i) the financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions of the bonus;

(ii) the Company has suffered an instance of corporate failure which has resulted in the appointment of a liquidator or administrator or resulted in the Company reaching a compromise arrangement with its creditors;

(iii) the Company or the relevant business unit for which the participant works suffers damage to its business or reputation which, in the determination of the Committee, is at least partly due to a breach of corporate risk policies/tolerances and to a failure in the management of the Company or relevant business unit and to which the participant made a material contribution; and/or

(iv) the Executive ceased to be a Director or employee due to gross misconduct.

Opportunity
The maximum bonus for Executive Directors for achieving the target level of performance as a percentage of salary is 200%. Maximum opportunity is two times target.

Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.

Performance metrics
The weightings that apply to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will be at least 75% of the overall opportunity, and no more than 25% will be based on personal or strategic objectives.

Financial performance
The financial component is based on the Company's key financial measures of performance. For any year, these may include the Change in FCBVS, growth in BVS, profit, comprehensive income, combined ratio, investment return or any other financial KPI[3].

Typically, a sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. Up to 25% of the total bonus opportunity is payable for achieving threshold/median, rising to maximum bonus for stretch/upper quartile performance.

The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year.

Personal performance
Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the payout for this part of the bonus.

Remuneration Policy table continued

Long Term Incentives (LTI)

Purpose and link to strategy

Rewards Executive Directors for achieving superior returns for shareholders over a longer time frame.

Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.

Operation[2,3]

RSS awards are normally made annually in the form of nil-cost options (or conditional awards) with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years.

The number of awards will normally be determined by reference to the share price around the time of grant unless the Committee, at its discretion, determines otherwise.

The Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set.

Awards are subject to clawback if there is a material misstatement in the Company's financial statements, an error in the calculation of any performance conditions, the Company has suffered an incident of corporate failure, material damage to the Group's business or reputation or if the Executive Director ceases to be a Director or employee due to gross misconduct.

A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise.

The Committee has the discretion, in exceptional circumstances, to settle an award made to Executive Directors in cash.

The Committee has the discretion, in exceptional circumstances, to scale back RSS vesting outcomes or to impose additional vesting conditions. The use of such discretion should be limited to exceptional circumstances, such as a downturn in the performance of the individual or the Company or Group.

A two-year post-vesting holding period applies to awards made to Executive Directors since 2016 (see page 102).

Opportunity

Award levels are determined primarily by seniority. A maximum individual grant limit of 350% of salary applies.

Note: The Committee may set the normal level of award at less than the percentage set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.

Performance metrics

Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant.

These may include measures such as TSR, the Change in FCBVS, growth in BVS, Company profitability, or any other relevant financial measures.

If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remain appropriate.

A sliding scale of targets applies for financial metrics with no more than 25% vesting for threshold performance.

For TSR, none of this part of the award will vest below median ranking or achievement of an index. No more than 25% of this part of the award will vest for achieving median or index.

Share ownership guidelines and requirements[4]

Under the guidelines, Executive Directors are expected to maintain an interest equivalent in value to no less than two times salary over time. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50% of the net of tax value of awards that vest under the RSS.

In respect of performance RSS and deferred bonus RSS awards made after 1 January 2020 there is to be a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

A nominee account may be established into which shares acquired under RSS awards (i.e. on exercise of (nil cost) options) will ordinarily be directed for the purposes of enforcing the guidelines and requirements. The Remuneration Committee shall retain a discretion to waive the requirements, in whole or in part, in exceptional circumstances such as death, critical illness or personal financial hardship.

In the event of a change of control (takeover) of LHL the guidelines and requirements shall cease to apply on the date of such change of control.

Chairman and Non-Executive Directors' fees

Purpose and link to strategy

Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.

Operation

The Chairman is paid a single fee for his responsibilities as Chairman. The level of these fees is reviewed periodically by the Committee and the Group CEO by reference to broadly comparable businesses in terms of size and operations.

In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken, including a Non-Executive Director role on a subsidiary board.

Any reasonable business-related expenses (including any personal tax payable) can be reimbursed.

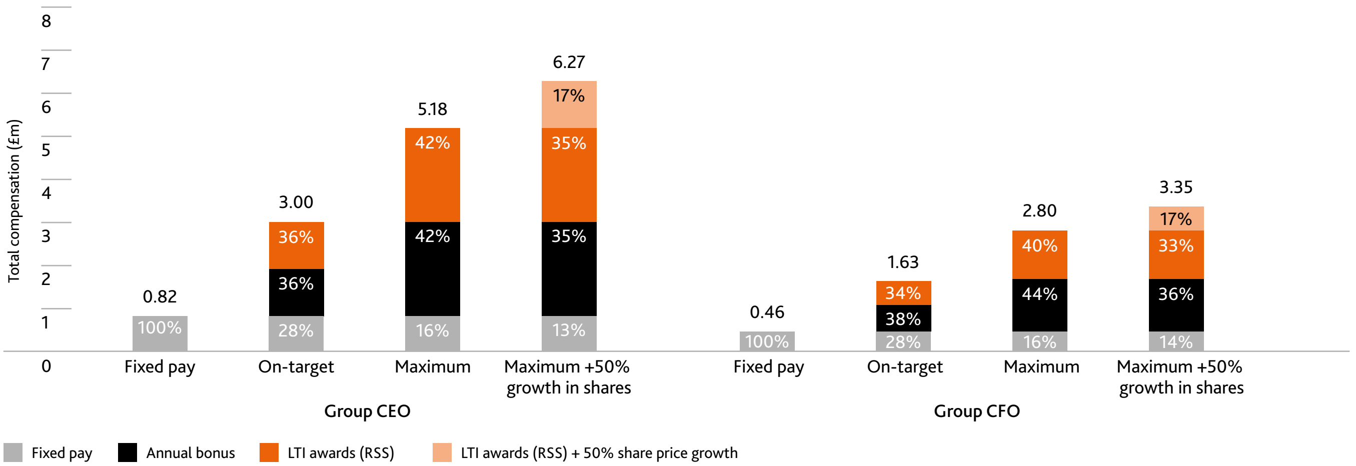
Opportunity

No maximum.

1. The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this Policy.
2. All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the Policy.
3. Performance measures: these may include the KPIs shown on page 2 or others described within the Annual Report and Accounts Glossary commencing on page 183 or any other measure that supports the achievement of the Company's short to long-term objectives.
4. Share ownership interest equivalent is defined as wholly-owned shares or the net of tax value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2022 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2022 Salary + Actual Value of 2021 Benefits + 2022 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2022 RSS grant (assuming 50% vesting with the face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2022 RSS grant (assuming 100% vesting with the face values of grant).

Maximum + 50% growth over performance period = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2022 RSS grant + 50% share price appreciation (assuming 100% vesting with the face values of grant).

Approach to recruitment remuneration

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and would take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. The Committee retains the flexibility to set base salary for a newly appointed Executive Director below the mid-market level and allow them to progress quickly to or around mid-market level once expertise and performance have been proven. This decision would take into account all relevant factors noted above.

The annual bonus and LTI potential would be in line with the Policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different bonus performance measures for the performance year during which he or she became an Executive Director. The Committee may grant an LTI award to an Executive Director shortly after joining, up to the plan limits set out in the Remuneration Policy table (assuming the Company is not in a closed period).

In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an Executive Director leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods (which may be less than three years), expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may agree that the Company will meet certain relocation expenses as appropriate and is able to provide expatriate benefits including housing, a relocation allowance, assignment-related costs or tax equalisation.

Service contracts and loss of office payment policy for Executive Directors

Executive Directors have service contracts with six-month notice periods. In the event of termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary plus the value of benefits to which the Executive Directors are contractually entitled for the unexpired portion of the notice period. The Company may pay statutory claims. No Executive Director has a contractual right in their employment terms to a bonus for any period of notice not worked.

The service contract for a new appointment will be on similar terms as existing Executive Directors, with the facility to include a notice period of no more than 12 months from either party.

The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service contract of any Executive Director. There are no special provisions in the service contracts for payments to Executive Directors on a change of control of the Company.

In the event of an exit of an Executive Director, the overriding principle will be to honour contractual remuneration entitlements and determine, on an equitable basis, the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Depending on the leaver classification, an Executive Director may be eligible for certain payments or benefits continuation after cessation of employment.

If an Executive Director resigns or is summarily dismissed, salary, pension and benefits will cease on the last day of employment and there will be no further payments.

Leaver on arranged terms or good leaver

If an Executive Director leaves on agreed terms, including compassionate circumstances, there may be payments after cessation of employment. Salary, pension and benefits will be paid up to the length of the agreed notice period or agreed period of garden leave.

Subject to performance, a bonus may be payable at the discretion of the Committee pro-rata for the portion of the financial year worked.

Vested but unexercised deferred bonus RSS awards will remain exercisable. Unvested deferred bonus RSS awards will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date or 12 months after the required post-vesting holding period required (see page 102).

Vested but unexercised RSS awards may remain exercisable for 12 months. Unvested awards may vest on the normal vesting date unless the Committee determines that such awards shall instead vest at the time of cessation. Unvested awards will only vest to the extent that the performance conditions have been satisfied (over the full or curtailed period as relevant). A pro-rata reduction in the size of awards may apply, based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year or other relevant vesting period.

The Committee has discretion to permit unvested RSS awards to vest early rather than continue on the normal vesting timetable and also retains discretion as to whether or not to apply (or to apply to a lesser extent) the pro-rata reduction to the RSS awards where it feels the reduction would be inappropriate.

In respect of RSS awards made to Executive Directors after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director (see page 102).

Depending upon circumstances, the Committee may consider other payments in respect of any claims in connection with a termination of employment where deemed appropriate, including an unfair dismissal award, outplacement support and assistance with legal fees.

Terms of appointment for Non-Executive Directors

The Non-Executive Directors serve subject to the Company's Bye-laws and under letters of appointment. They are appointed subject to re-election at the AGM and are also terminable by either party on six months' notice except in the event of earlier termination in accordance with the Bye-laws. The Non-Executive Directors are typically expected to serve for up to six years, although the Board may invite a Non-Executive Director to serve for an additional period. Their letters of appointment are available for inspection at the Company's registered office and at each AGM.

In accordance with best practice under the Code, the Board ordinarily submits the Directors individually for re-election by the shareholders at each AGM.

Legacy arrangements

In approving the Policy, authority is given to the Company for the duration of the Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company, which was approved by shareholders and was in effect at the time they were made); or (ii) to an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the revised Policy.

For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy approved at the 2014 AGM and the current Policy which was approved by shareholders at the 2020 AGM, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this Annual Report and Accounts (including for current Executive Directors as detailed on page 102) remain eligible for vesting or exercise based on their original award terms.

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chairman's statement, as detailed on pages 90 and 91, will be subject to an advisory vote at the 2022 AGM. The following sections in respect of Directors' emoluments have been audited by KPMG LLP:

- Single figure of remuneration.
- Non-Executive Director fees.
- 2022 annual bonus payments in respect of 2021 performance.
- Long-term share awards with performance periods ending in the year – 2019 RSS awards.
- Scheme interests awarded during the year.
- Performance and deferred bonus awards under the RSS.
- Directors' shareholdings and share interests.

Implementation of Remuneration Policy for 2022

Base salary and fees

Executive Directors

Salaries effective from 1 January 2022 are set out below:

- Group CEO – £727,630, a 4% increase.
- Group CFO – £406,250 a 4% increase.
- The average salary increase for Group employees for 2022 is 4%.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2022:

- The fee for the Chairman (Peter Clarke) will remain at $350,000 per annum.
- The Non-Executive Director fee will remain at $175,000 per annum.

Other fees

- Samantha Hoe-Richardson is a Non-Executive Director of LUK in which capacity she will continue to receive a fee of £50,000 per annum. pro-rated for time in role, as she is expected to step down in 2022.
- Simon Fraser is a Non-Executive Director of LSL in which capacity he will continue to receive a fee of $80,000 per annum.
- Sally Williams is expected to become a Non-Executive Director of LUK, subject to regulatory approval, during 2022 in which capacity she would receive a pro-rated fee of £50,000 per annum.

Annual bonus

For 2022, the Group CEO and the Group CFO will have a target bonus of 150% of salary and, therefore, a maximum opportunity of 300% of salary. This is within the approved policy limit and is in line with last year's opportunity and represents a maximum bonus opportunity which is 100% of salary less than the set policy limit.

The financial and personal portions of the annual bonus will remain unchanged with 75% on financial performance and 25% on personal performance.

Financial performance (75%)

The Company's most important financial KPI is the Change in FCBVS, which is the core indicator of the delivery of its strategic priorities of ensuring underwriting comes first, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on page 9). For 2022, the financial component for the annual bonus is again to be based on the performance of the Group's Change in FCBVS.

A sliding scale range of the Change in FCBVS targets has been set by reference to the Risk Free Rate of Return as follows:

- 25% of target bonus shall be payable at a threshold level of the Change in FCBVS equal to RFRoR + 6% (0% will be payable below this threshold).
- 50% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 7%.
- 100% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 8%.
- 200% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 14%.

There shall be linear interpolation between these points. The Board considers that these target ranges are appropriately challenging, given the current insurance market conditions, and will help to ensure a strong link between remuneration for the Executive Directors and the Company's financial performance, the strategy and risk profile of the business and the investment return environment, without encouraging excessive risk-taking.

Personal performance (25%)

This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2022 personal objectives for each Executive Director.

Executive Director	Personal performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. To further develop and deliver the Group's Climate and ESG strategy and values, to include: Climate, sustainability and ESG strategy • Management of the Group's investment portfolio in line with the Group's agreed Climate VaR linked to the Paris Agreement 1.5C scenario. • Management of underwriting exposures linked to climate-related catastrophes in line with the Group's agreed underwriting risk tolerances for climate-related and other modelled PML events within the agreed Group risk framework. • Effective delivery of systems to monitor, measure and offset the Group's own operations carbon emissions and to further develop plans for a Group net-zero delivery strategy for its own operations carbon emissions. • To oversee the effective development and delivery of the Group's TCFD reporting. • To oversee the ongoing development of strategies to strengthen skills and capabilities within the workforce, to continue to ensure effective engagement and broaden and embed all aspects of diversity within the business. Lancashire values • The company values will be role-modelled and led by the Group CEO to ensure a sustainable culture including the delivery of a sustainable approach to ESG and a tangible ESG strategy with appropriate metrics over time.
Natalie Kershaw	Effective management of the finance function and participation in Group management and the Board, including leading the transition and preparations for the implementation of IFRS 17 in 2023. Overall responsibility for the IT, Change and Data functions. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Climate, sustainability and ESG strategy and values Responsible investment • Development and oversight of the Group's responsible investment strategy and associated ESG and carbon intensity guidelines and metrics. Lancashire values • Contribution aligned to the Lancashire Group values characterised by engagement and a healthy sustainable culture.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2022 annual performance reviews, each Executive Director will receive a performance rating which will determine the level of personal performance bonus payout for which each Executive Director will be eligible.

Restricted Share Scheme

Performance conditions

For Executive Directors, 2022 RSS awards are subject to a range of performance conditions based on (i) annual Change in FCBVS; and (ii) absolute compound annual growth in TSR, both measured by reference to a period ending on 31 December 2024. These metrics aim to provide an appropriate focus on the Company's underlying financial performance and cycle management, and in the case of absolute TSR to provide an objective reward for delivering value to shareholders.

Weighting

For 2022, the weighting is 85% on annual Change in FCBVS and 15% on absolute compound annual growth in TSR.

Target ranges

The annual Change in FCBVS target range for 2022 awards is:

- threshold – 6%; and
- maximum – 13%.

Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. In each year, performance will be measured against the target range to determine the ultimate level of vesting in respect of one-third of the RSS award. Vesting will only occur after completion of the full three-year performance period, and continued employment of the Executive Director at the time of vesting.

The relevant elements of the RSS award will not vest if annual Change in FCBVS is below threshold, 25% of the relevant element of the RSS award will vest at threshold, and 100% of the relevant element of the RSS award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

The TSR target range for 2022 awards is:

- threshold – 8% compound annual growth; and
- maximum – 12% compound annual growth.

Absolute TSR will be measured for compound annual growth over the full three-year performance period rather than looking at each year separately.

None of the relevant elements of the award will vest if compound annual growth in TSR is below threshold, 25% of the award will vest at threshold, and 100% of the award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

Overriding downwards discretion

If any year produces a return that the Committee believes is significantly worse than competitors and reflects poor management decisions, the Remuneration Committee will use its discretion to determine the extent to which any relevant element of the RSS award shall vest fully (or to a lesser extent) based on the performance over the full three-year period.

Award levels

2022 RSS award levels are as follows:

- Group CEO – RSS awards in respect of shares to the value of £2,182,890 (being 300% of salary)
- Group CFO – RSS awards in respect of shares to the value of £1,117,188 (being 275% of salary)

The number of RSS awards in respect of shares which are awarded shall be determined based on the closing average share price for a period of five trading days immediately prior to the date of the award.

Post-vesting holding period

It is a term of RSS awards granted to Executive Directors that they are expected to hold vested RSS awards (or the resultant net of tax shares), which had a performance period of at least three years, for a further period of not less than two years following vesting.

Post-employment holding requirements

In respect of RSS awards made after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

Single figure of remuneration

The following table presents the Executive Directors' emoluments in GBP in respect of the years ended 31 December 2021 and 31 December 2020 for time served as an Executive Director.

Executive Directors		Salary £	Pension £	Taxable benefits[5] £	Total Fixed pay £	Annual bonus[2] £	Long-term incentives (RSS)[3,4] £	Total Variable pay £	Total £
Alex Maloney, Group CEO	**2021**	**699,644[6]**	**69,965**	**16,102**	**785,711**	**393,550**	**821,116**	**1,214,666**	**2,000,377**
	2020[1]	700,898	69,731	16,724[8]	787,353	1,271,403	1,134,875	2,406,279	3,193,632
Natalie Kershaw, Group CFO	**2021**	**390,625[7]**	**39,062**	**11,737**	**441,424**	**263,672**	**–**	**263,672**	**705,096**
	2020[1]	327,248	37,224	7,936[8]	372,407	783,224	–	783,224	1,155,631

The following charts set out the above disclosed 2021 total remuneration received by serving Executive Directors as a percentage of their total 2021 remuneration.

Alex Maloney

- Fixed pay: 39%
- Annual bonus: 20%
- LTI awards (RSS): 41%

Natalie Kershaw

- Fixed pay: 63%
- Annual bonus: 37%
- LTI awards (RSS): 0%

1. 2020 figures have been converted to GBP using the average exchange rate for the year ending 31 December 2020 which was 1.2777.
2. Bonus targets were set at the beginning of 2021 and are based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component did not pay out as it did not meet the required threshold. The final bonus payout to Executive Directors will be 19% of the maximum for the Group CEO, 23% of the maximum for the Group CFO. For full details of Executive Directors' bonuses and the associated performance delivered see page 105. 25% of the serving Executive Directors' annual bonus is deferred into RSS awards without performance conditions, vesting at 33.3% per year over a three-year period.
3. For 2021, the long-term incentive values are based on the 2019 Performance RSS awards which vested at 48.2% and are based on a three-year performance period that ended on 31 December 2021. The values above are based on the average share price for the final quarter of 2021, being £5.2023, and includes the value of dividends accrued on vested shares. The decrease in share price between the date of grant, being £6.365, and the final 2021 quarterly average share price of $5.2023 was a decrease of 18.27%. Natalie Kershaw was not granted 2019 Performance RSS awards, as she was not a serving Executive Director at the time.
4. For 2020, the long-term incentive values are based on the 2018 RSS awards which vested at 48.2%, and are calculated using the share price as at the date of vesting: (10 February 2021) which was 6.955.
5. Benefits comprise Private Medical Insurance, Dental Insurance, Travel Insurance, Life Insurance, Critical Illness cover and Income Protection.
6. There was no change in Alex Maloney's salary from 2020 to 2021. The apparent decrease has arisen due to exchange rates with his 2020 salary being paid in USD and converted to GBP.
7. There was no change in Natalie Kershaw's salary from 2020 to 2021. The apparent increase has arisen due to her 2020 salary being pro-rated based on her appointment as Group CFO on 1 March 2020.
8. 2020 Benefits figures omitted Critical Illness cover, correct figures now included.

Non-Executive Directors' fees

Current Non-Executive Directors		Fee $	Other $	Total $
Peter Clarke	**2021**	**350,000**	**–**	**350,000**
	2020	350,000	–	350,000
Michael Dawson	**2021**	**175,000**	**–**	**175,000**
	2020	175,000	–	175,000
Simon Fraser[1]	**2021**	**175,000**	**80,000**	**255,000**
	2020	175,000	80,000	255,000
Samantha Hoe-Richardson[2]	**2021**	**175,000**	**68,987**	**243,987**
	2020	175,000	64,531	239,531
Robert Lusardi	**2021**	**175,000**	**–**	**175,000**
	2020	175,000	–	175,000
Sally Williams	**2021**	**175,000**	**–**	**175,000**
	2020	175,000	–	175,000
Irene McDermott Brown[3]	**2021**	**117,639**	**–**	**117,639**
	2020	NA		NA

1. Simon Fraser's LSL fees are paid in USD.
2. Samantha Hoe-Richardson's LUK Fees are paid in GBP and converted at the average exchange rate for the month during which the payment is made.
3. Irene McDermott Brown was appointed in April 2021 so her fees have been pro-rated for time appointed.

2022 annual bonus payments in respect of 2021 performance

As detailed in the Remuneration Policy, each Executive Director participates in the annual bonus plan, under which performance is measured over a single financial year.

Bonus targets were set at the beginning of 2021 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The target value of bonus was 150% of salary for the Group CEO and Group CFO respectively, and the maximum payable was two times the target value.

Financial performance

75% of the 2021 bonus was based on Company performance conditions and the extent to which these were achieved is as follows:

Performance measure	Financial performance weighting (of total bonus) %	Threshold %	Target %	Max %	Actual performance %	% payout
Change in FCBVS	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	(5.8)	0% of target payable in respect of Company performance

In 2021, the Company financial performance component paid out at 0% of target (being 0% of the maximum) as the Change in FCBVS was -5.8% against a target level of RFRoR +8% and a threshold of RFRoR +6%.

Personal performance

25% of the 2021 bonus was based on performance against clearly defined personal objectives set at the start of the year.

The table below sets out a summary of the 2021 personal objectives for each Executive Director.

Executive Director	Personal performance	Factors relevant to the Board's determination for the 2021 performance year
Alex Maloney	• Effective leadership and management of the senior executive team and the Group. • Development of the general business strategy. • Contribution aligned to the Lancashire Group values characterised by engagement and a healthy sustainable culture.	• Delivering on the priority of growth in the underwriting team with the addition of teams in three new classes of business comprising accident and health, casualty reinsurance and specialty reinsurance. • Development of the Group Lloyd's platforms to establish a Group Lloyd's Australian underwriting branch to underwrite direct and facultative property business. • Achieving material growth within the Group's Lloyd's operations, particularly Syndicate 3010. • Driving a business transformation project with appropriate project management and management and Board reporting. • Achieving underwriting portfolio diversification and growth, in particular with the successful establishment of the Group's new casualty reinsurance class. • Taking a strong lead in the identification and development of the next generation of Lancashire leaders. • Achieving top line growth in a planned and strategic manner to achieve year on year growth in gross written premium of over 50%. • Leading in the area of dynamic capital management and deployment for both long-term stability and the shorter-term strategic requirements of the business. • Optimising the Group's debt capital structure through the successful issuance of $450 million of subordinate notes.
Natalie Kershaw	• Effective management of the finance function and participation in Group management and the Board. • Overall responsibility for the IT, Change and Data functions • Innovative contribution to strategic planning with particular focus on capital and business planning processes. • Contribution aligned to the Lancashire Group values characterised by engagement and a healthy sustainable culture.	• Demonstrating effective and strategic leadership of the project to optimise the Group's debt capital structure through the successful issuance of $450 million of subordinate notes. • Diligent review and presentation of quarter end financial results and Board papers including the introduction of enhancements to the presentation of financial results and financial and capital reporting to the Board. • Strong ownership of relations with analysts and rating agencies and assured participation in investor calls and presentations. • Enhancing the delivery of financial results and underwriting data from the finance department to management and business units on a timely basis. Delivery of further efficiencies within the finance team with regard to roles, processes and outputs. • Demonstrating diligent leadership, planning and oversight of the IFRS 17 and 9 implementation project. • Delivering strategic project planning and management and leadership and strong progress in the delivery of a group-wide target operating model including consistent systems and processes across the Group to drive efficiencies in the future and improved business and cultural integration. Managing the creation of a clear and comprehensive project reporting structure for the Board. • Effectively challenging third-party provider(s) to demonstrate overall cost savings and benefits to the project. • Discharging effective overall responsibility for the organisation and management of the Group's IT, Change and Data functions to deliver meaningful and tangible benefits across the group. • Improving the efficacy and alignment of the business planning process, in particular in relation to improved integration of underwriting data and strategy within the process. • Developing a clear five-year strategic view for the Group summarised within the Group's strategic plan. • Effectively operating and explaining the capital models relevant to the Group's operation both within the business and the Board and recommending appropriate capital management actions.

The personal targets were tailored to each of the Executive Directors, according to their respective roles and areas of personal development.

During the 2021 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus payout for which each Executive Director was eligible for the personal performance element of the bonus.

For the 2021 performance against personal objectives, the ratings were determined following a process for the evaluation of performance of the Executive Directors against the agreed personal targets and discussion and agreement of the outcomes with the Chair and members of the Board with particular focus on those factors identified as pertinent to 2021 performance. As a result of the 2021 personal performance evaluation process for the Executive Directors, a bonus at 150% of target (being 75% of the maximum personal element) for the Group CEO and 180% of target (being 90% of the maximum personal element) for the Group CFO were awarded for the personal component. The overall 2021 bonus outcomes are expressed as a percentage of the maximum award as illustrated in the table below. The Board considers the business to be well positioned for the business opportunities and challenges which lie ahead.

A table of performance measures and total 2021 bonus achievement is set out below:

Executive Director	Financial performance (max % of total bonus) %	Personal performance (max % of total bonus) %	Bonus % of maximum awarded %	Total bonus value £	Value of bonus paid in cash (75% of total bonus) £	Value of bonus deferred into RSS awards (25% of total bonus)[1] £
Alex Maloney[1]	75	25	19	393,550	295,163	98,388
Natalie Kershaw[1]	75	25	23	263,672	197,754	65,918

1. 25% of total bonus award will be deferred into RSS awards with one-third vesting annually, each year, over a three-year period with the first third becoming exercisable in February 2023, subject to the Company not being in a closed period. These awards vest on the relevant dates subject to continued employment.

Long-term share awards with performance periods ending in the year – 2019 RSS awards

The 2019 RSS awards were based on a three-year performance period ending on 31 December 2021 and vest following the determination of financial results by the Board. The tables below set out the achievement against the performance conditions attached to the award, resulting in aggregate vesting of 48.2%. This is calculated as 56.7% vesting of the Change in FCBVS element (for 85%) and zero vesting of the TSR element (for 15%).

	Absolute compound annual growth in TSR (relevant to 15% of the 2019 RSS awards)		Annual Change in FCBVS(within the three year performance period) (relevant to 85% of the 2019 RSS awards)[1]	
Performance level	Performance required (%)	% vesting	Performance required (%)	% vesting
Below threshold	Below 8	–	Below 6	0
Threshold	8	25	6	25
Stretch or above	12 or above	100	13 or above	100
Actual achieved	2.9	–	see note[1]	56.7

	2021	2020	2019
1. Change in FCBVS	(5.8%)	10.2%	14.1%
Vesting % of one third by performance year	0.0%	70.0%	100%
2019 RSS Awards	0.0%	23.3%	33.3%

The table above shows the growth in FCBVS for the performance period and the respective vesting for each financial year of the awards. The outcomes for the 2019 and 2020 years yielded a positive change in FCBVS of 14.1% and 10.2% respectively. The Committee noted that the decision to seek equity capital from investors in June 2020 and reported in the 2020-year end Annual Report and Accounts contributed approximately 7.8% to the positive change in FCBVS for the 2020 year. The Committee consulted with shareholders in the Spring of 2021 regarding the impacts of capital actions on remuneration outcomes following the 2021 AGM vote on remuneration, see page 90 for further details. The Committee considered several factors when agreeing the financial performance outcomes, including the strong capital position resulting from the 2020 equity placement, which placed the Group in a strong position to maximise underwriting opportunities and the resultant year on year growth in gross premium written of 50.5% achieved during 2021. We also wish to recognise the shareholder concern that capital actions should be reflected in longer term equity alignment, which is the intention of our multi-year RSS performance awards. In the circumstances the Committee considers the outcomes to be a fair reflection of performance and does not consider it in the interest of all stakeholders to exercise a downward discretion in respect of the 2020 contribution to the 2019 RSS award three-year performance. Details of the vesting for each serving Executive Director, based on the above, are shown in the table below:

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[1] £	Value of shares including dividend accrual £
Alex Maloney[2]	306,915	158,982	147,933	51,524	821,116
Natalie Kershaw[3]	N/A	N/A	N/A	N/A	N/A

1. Dividends accrue on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards net of tax required.
2. The value of Alex Maloney's vested shares is based on the 2019 RSS awards which vest at 48.2% and are based on a three-year performance period that ended on 31 December 2021. The average share price rate for the final quarter of 2021 is used for this calculation. There is a two-year post-vesting holding requirement for the 2019 RSS awards for Executive Directors.
3. Natalie Kershaw was not granted 2019 Performance RSS awards as she was not a serving Executive Director at the time of the award.

Scheme interests awarded during the year

The table below sets out the performance RSS awards that were granted to the serving Executive Directors as nil-cost options on 19 February 2021.

Executive Director	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] £	% vesting at threshold performance
Alex Maloney	19-Feb-21	313,321	2,098,937	25
Natalie Kershaw	19-Feb-21	160,356	1,074,225	25

1. The awards were based on the five-day average closing share price prior to the award date, being £6.699 and the awards were granted as nil-cost options.
2. These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2023 and becoming exercisable in the first open period following the release of the Company's 2023 year-end results after the meeting of the Board in February 2024.
3. The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Details of all outstanding share awards

In addition to awards made during the 2021 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

Performance and deferred bonus awards under the RSS[6]

	Grant date[1]	Exercise price	Awards held at 01-Jan-21	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-21	End of performance period
Alex Maloney, Group CEO									
Performance RSS	23-Feb-18	–	315,762	–	**152,197**	**163,565**	**152,197**	–	31-Dec-20
Deferred Bonus RSS[3]	23-Feb-18	–	4,363	–	**4,363**	–	**4,363**	–	
Performance RSS[2,4]	22-Feb-19	–	306,915	–	–	–	–	**306,915**	31-Dec-21
Deferred Bonus RSS[3]	22-Feb-19	–	9,312	–	**4,656**	–	**4,656**	**4,656**	
Performance RSS[2,4]	21-Feb-20	–	260,292	–	–	–	–	**260,292**	31-Dec-22
Deferred Bonus RSS[3]	21-Feb-20	–	50,326	–	**16,775**	–	**16,775**	**33,551**	
Performance RSS[2,4]	19-Feb-21	–	–	**313,321**	–	–	–	**313,321**	31-Dec-23
Deferred Bonus RSS[3]	19-Feb-21	–	–	**43,622**	–	–	–	**43,622**	
Total			**946,970**	**356,943**	**177,991**	**163,565**	**177,991**	**962,357**	
Natalie Kershaw, Group CFO									
Performance RSS	28-Feb-13	–	11,772	–	–	–	**11,772**	–	31-Dec-15
Performance RSS	19-Mar-13	–	3,750	–	–	–	**3,750**	–	31-Dec-15
Performance RSS	19-Feb-14	–	10,888	–	–	–	**10,888**	–	31-Dec-16
Deferred Bonus RSS[3]	19-Feb-14	–	1,351	–	–	–	**1,351**	–	
Performance RSS	12-Feb-15	–	4,267	–	–	–	**4,267**	–	31-Dec-17
Deferred Bonus RSS[3]	12-Feb-15	–	2,468	–	–	–	**2,468**	–	
Non-Performance RSS[5]	18-Feb-16	–	11,036	–	–	–	**11,036**	–	31-Dec-18
Non-Performance RSS[5]	26-Feb-17	–	9,590	–	–	–	**9,590**	–	31-Dec-19
Non-Performance RSS[5]	16-Feb-18	–	12,075	–	**12,075**	–	**12,075**	–	31-Dec-20
Non-Performance RSS[5]	15-Feb-19	–	12,075	–	–	–	–	**12,075**	31-Dec-21
Performance RSS[2,4]	21-Feb-20	–	133,216	–	–	–	–	**133,216**	31-Dec-22
Deferred Bonus RSS[3]	21-Feb-20	–	–	–	–	–	–	–	
Performance RSS[2,4]	19-Feb-21	–	–	**160,356**	–	–	–	**160,356**	31-Dec-23
Deferred Bonus RSS[3]	19-Feb-21	–	–	**26,873**	–	–	–	**26,873**	
Total			**212,488**	**187,229**	**12,075**	–	**67,197**	**332,520**	

1. The market values of the common shares on the dates of grant were:
   - 28 February 2013 £8.99
   - 19 March 2013 £8.21
   - 19 February 2014 £7.34
   - 12 February 2015 £6.36
   - 18 February 2016 £6.17
   - 26 February 2017 £6.81
   - 16 February 2018 £5.70
   - 23 February 2018 £5.69
   - 15 February 2019 £6.37
   - 22 February 2019 £6.54
   - 21 February 2020 £7.61
   - 19 February 2021: £6.37
2. The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:
   - 2019 – first open period following the release of the Company's 2021 year-end results;
   - 2020 – first open period following the release of the Company's 2022 year-end results; and
   - 2021 – first open period following the release of the Company's 2023 year-end results
3. The vesting dates of the RSS deferred bonus awards are subject to being out of a closed period and, for the 2019 to 2021 deferred bonus awards, are as follows:
   - 2019 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2019, 2020, and 2021;
   - 2020 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2020, 2021, and 2022;and
   - 2021 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2021, 2022, and 2023.
4. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 15% of each award is subject to a performance condition measuring the absolute compound annual growth in TSR performance of the Company over a three-year performance period. 25% of this part of the award vests for threshold performance (8% compound annual growth) by the Company, rising to 100% vesting of this part of the award for maximum performance (12% compound annual growth) by the Company or better. Performance between threshold and maximum is determined on a straight-line basis.
   - The other 85% of each award is subject to a performance condition based on the Change in FCBVS over a three-year performance period. 25% of this part of the award will vest if Change in FCBVS over the performance period exceeds the criteria set out in the table on page 101, whilst all of this part of the award will vest if the Company's Change in FCBVS is equal to the more stringent criteria set out in the table. Between these two points vesting will take place on a straight-line basis. Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. Details of this calculation method were disclosed on page 79 of the 2018 Annual Report and Accounts.
5. These RSS awards were granted to staff with no performance conditions attached. The awards were granted to Natalie Kershaw prior to becoming an Executive Director.
6. All RSS awards have an expiry date of 10 years from the date on which they were granted.

Absolute compound annual growth in TSR targets for RSS (15% weighting)*

	2019	2020	2021	2022
100%	12%	12%	12%	12%
25%	8%	8%	8%	8%
Nil	< 8%	<8%	<8%	<8%

Annual internal rate of return of the Change in FCBVS targets for RSS (85% weighting)*

	2019	2020	2021	2022
100%	13%	13%	13%	13%
25%	6%	6%	6%	6%
Nil	< 6%	<6%	<6%	<6%

* See page 102 for the vesting methodology to be applied for the RSS awards.

Directors' shareholdings and share interests

Formal shareholding guidelines were first introduced in 2012 and have subsequently been modified. The guidelines require the Group CEO and Group CFO to build and maintain a shareholding in the Company worth two times annual salary as set out in the Policy Report.

Details of the Directors' interests in shares are shown in the table below.

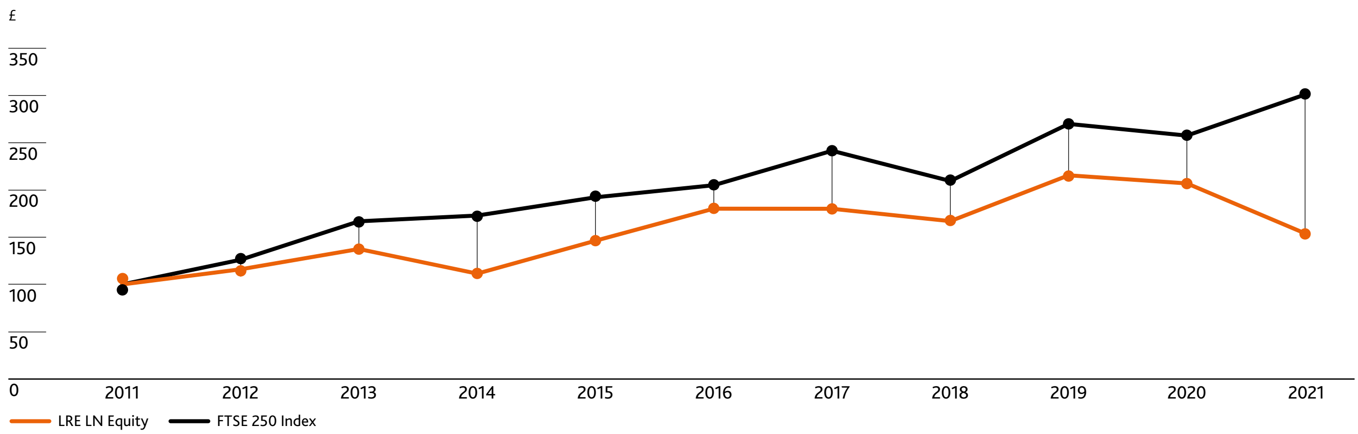
	Number of common shares							
	Total as at 1 January 2021	As at 31 December 2021						
Directors		Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Unvested and not subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	Shareholding guideline achieved?
Alex Maloney	1,640,415	**787,570**	**81,829**	**880,528**	**–**	**N/A**	**1,749,927**	**Yes**
Natalie Kershaw	212,488	**41,215**	**26,873**	**293,572**	**12,075**	**N/A**	**373,735**	**No**
Peter Clarke	60,000	**82,500**	**N/A**	**N/A**	**N/A**	**N/A**	**82,500**	**N/A**
Michael Dawson	15,000	**20,000**	**N/A**	**N/A**	**N/A**	**N/A**	**20,000**	**N/A**
Simon Fraser	1,000	**3,000**	**N/A**	**N/A**	**N/A**	**N/A**	**3,000**	**N/A**
Samantha Hoe-Richardson	5,356	**5,356**	**N/A**	**N/A**	**N/A**	**N/A**	**5,356**	**N/A**
Robert Lusardi	8,000	**28,000**	**N/A**	**N/A**	**N/A**	**N/A**	**28,000**	**N/A**
Irene McDermott Brown	N/A	**–**	**N/A**	**N/A**	**N/A**	**N/A**	**–**	**N/A**
Sally Williams	1,422	**11,082**	**N/A**	**N/A**	**N/A**	**N/A**	**11,082**	**N/A**

Note: Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus and/or non-performance RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

The Committee has noted the shareholdings maintained by Natalie Kershaw during her first two years as an Executive Director and considers that progress in establishing a shareholding has been made in accordance with guideline requirements.

Performance graph and total remuneration history for Group CEO

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index. The Company's common shares commenced trading on the main market of the LSE on 16 March 2009 and the Company joined the FTSE 250 Index on 22 June 2009 and is currently a constituent of this.



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2021, of £100 invested in LHL on 31 December 2011 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

The table below sets out the total single figure of remuneration for the Group CEOs over the last 10 years with the annual bonus paid as a percentage of the maximum and the percentage of long-term share awards vesting in each year.

	2012	2013	2014[1]	2014[2]	2015	2016	2017	2018	2019	2020	**2021**
Total remuneration (£000s[3])	6,599	6,511	6,088	1,453	2,511	2,758	1,517	1,067	2,398	3,193	**2,000**
Annual bonus (% of maximum)	73	80	80	73	72	76	17	19	80	60	**19**
LTI vesting (%)	99	100	61[1]	50	75	67	22.5	–	–	48.2	**48.2**

1. Richard Brindle was the Group CEO from 2005 until he retired from the Group and as a Director on 30 April 2014. Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values (as then defined) at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.
2. Alex Maloney was appointed Group CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.
3. For the years 2012 – 2020 these figures were converted to GBP using the average exchange rate for the relevant year.

The table above shows the total remuneration figure for the Group CEO during each of the relevant financial years; figures for the current Group CEO are shown since his appointment to the position on 1 May 2014. The total remuneration figure includes the annual bonus and LTI awards which vested based on performance in those years. The annual bonus and LTI percentages show the payout for each year as a percentage of the maximum.

Percentage change in Directors' remuneration

The following table sets out the percentage change in the aggregate value of salary, benefits and bonus for the Directors from the preceding year and the average percentage change in respect of the employees of the Group taken as a whole.

	2021			2020		
	Base salary/ Fees	Benefits[1]	Bonus	Base salary/ Fees	Benefits[1]	Bonus
Executive Directors						
Alex Maloney[2]	**(0.2)**	**(0.5)**	**(223.1)**	3.1	–	(27.9)
Natalie Kershaw[3]	**16.2**	**11.1**	**(197.0)**	N/A	N/A	N/A
Non-Executive Directors						
Peter Clarke	**–**	**–**	**N/A**	–	–	N/A
Michael Dawson	**–**	**–**	**N/A**	–	–	N/A
Simon Fraser	**–**	**–**	**N/A**	–	–	N/A
Samantha Hoe-Richardson	**–**	**–**	**N/A**	–	–	N/A
Robert Lusardi	**–**	**–**	**N/A**	–	–	N/A
Sally Williams	**–**	**–**	**N/A**	–	–	N/A
Employees of the parent company[4]	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A
Employees of the Group[5]	**15.2**	**27.5**	**(57.9)**	8.7	17.5	4.3

1. Benefits include pension and all taxable benefits as reported on page 103 in the Single Figure on Remuneration table.
2. There was no change in Alex Maloney's salary from 2020 to 2021. The apparent decrease has arisen due to exchange rates with his 2020 salary being paid in USD and converted to GBP.
3. There was no change in Natalie Kershaw's salary from 2020 to 2021. The apparent increase has arisen due to her 2020 salary being pro-rated based on her appointment as Group CFO on 1st March 2020.
4. As the parent company does not have any employees, it is not possible to provide a percentage change in their pay and therefore the comparison is to the Group as a whole.
5. The underlying salary increase from 2020 to 2021 for Group employees was a standard (4)%. The 15.2% increase reflects headcount increases across all locations, staff promotions and other adjustments made during the year.

Relative importance of the spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in the year ended 31 December 2021 compared with the year ended 31 December 2020.

	2021 $m	2020 $m	Percentage change %
Employee remuneration costs	**79.6**	86.6	(8.1)
Dividends	**36.4**	32.3	12.7

The principal factor influencing the year-on-year decrease in employee remuneration costs is the reduction in variable pay given the Company's financial performance in 2021. The Group has not utilised any COVID-19-related government grants or financial support programme and no employees have been furloughed during the year ended 31 December 2021.

CEO pay ratio

The Group has fewer than 250 UK employees and is not subject to the UK regulations governing CEO pay ratio reporting.

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2021, please refer to pages 88 and 89 of this Annual Report and Accounts.

The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website.

These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

The Remuneration Committee is advised by the Executive Compensation practice at Alvarez & Marsal Taxand UK LLP ('A&M'). A&M was appointed by the Remuneration Committee during 2020. A&M has discussions with the Remuneration Committee Chairman regularly on Committee processes and topics which are of particular relevance to the Company.

The primary role of A&M is to provide independent and objective advice and support to the Committee's Chairman and members. The Committee is satisfied that the advice that it receives is objective and independent. A&M is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to A&M in respect of its services to the Committee for the year ended 31 December 2021 were $77,389. Fees are predominantly charged on a 'time spent' basis.

Engagement with shareholders

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below along with the votes to approve the 2020 Remuneration Policy; any matters discussed with shareholders during the year are provided in the Annual Statement for 2021 starting on page 90. Details on the 2021 AGM vote are also outlined in the statement.

	Vote to approve 2020 Annual Report on Remuneration (at the 2021 AGM)		Vote to approve 2020-2022 Remuneration Policy (at the 2020 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	**124,435,611**	**67.2**	139,296,316	88.0
Against	**60,830,724**	**32.8**	18,944,612	12.0
Total	**185,266,335**	**100.0**	158,240,928	100.0
Abstentions	**6,531,943**		395,937	

Please see page 90 for the Chairman's discussion of the 2021 AGM Renumeration vote outcomes.

Approved by the Board of Directors and signed on behalf of the Board.

Simon Fraser
Chairman of the Remuneration Committee

10 February 2022

Overview of the Group

LHL is a Bermuda incorporated company (Registered Company No. 37415) with operating subsidiaries in Bermuda, London and Australia and two syndicates at Lloyd's.

The Company's common shares were admitted to trading on AIM in December 2005 and were subsequently moved up to the Official List and to trading on the main market of the LSE on 16 March 2009. The shares have been included in the FTSE 250 Index since 22 June 2009 and have a premium listing on the LSE.

Principal activities

The Company's principal activity, through its wholly-owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, the holding company of LSL, and in June 2013 established LCM, a third-party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the business review on pages 21 to 25.

Dividends

During the year ended 31 December 2021, the following dividends were declared:

- a final dividend of $0.10 per common share was declared on 10 February 2021 subject to shareholder approval, which was received at the 2021 AGM. The final dividend was paid on 4 June 2021 in pounds sterling at the pound/U.S. dollar exchange rate of 1.3912 or £0.07188039 per common share; and
- an interim dividend of $0.05 per common share was declared on 27 July 2021 and paid on 3 September 2021 in pounds sterling at the pound/U.S. dollar exchange rate of 1.3910 or £0.03594536 per common share.

Dividend policy

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) ordinary dividend, supplemented by special dividends from time-to-time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual ordinary dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

Current Directors

Peter Clarke (Non-Executive Chairman)

Alex Maloney (Group Chief Executive Officer)

Natalie Kershaw (Group Chief Financial Officer)

Michael Dawson (Non-Executive Director)

Simon Fraser (Senior Independent Non-Executive Director)

Samantha Hoe-Richardson (Non-Executive Director)

Robert Lusardi (Non-Executive Director)

Irene McDermott Brown (Non-Executive Director)

Sally Williams (Non-Executive Director)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2021 and 2020, including interests held by family members, were as follows:

Directors	**Common shares held as at 31 December 2021**	Common shares held as at 31 December 2020
Peter Clarke[1]	**82,500**	60,000
Michael Dawson[2]	**20,000**	15,000
Simon Fraser[3]	**3,000**	1,000
Samantha Hoe-Richardson	**5,356**	5,356
Natalie Kershaw[4]	**41,215**	–
Robert Lusardi[5]	**28,000**	8,000
Alex Maloney[6]	**787,570**	693,445
Irene McDermott Brown[7]	**–**	N/A
Sally Williams[8]	**11,082**	1,422

1. Peter Clarke conducted the following transactions in the Company's shares during 2021:
   - 30 July 2021 – purchase of 22,500 shares at a price of £6.37 costing £143,419.49
2. Michael Dawson conducted the following transactions in the Company's shares during 2021:
   - 5 November 2021 – purchase of 5,000 shares at a price of £5.04 costing £25,200
3. Simon Fraser conducted the following transactions in the Company's shares during 2021:
   - 10 December 2021 – purchase of 2,000 shares at a price of £5.18 costing £10,350.00
4. Natalie Kershaw conducted the following transactions in the Company's shares during 2021:
   - 16 March 2021 – exercise of 67,197 RSS awards and related sale of 25,982 shares to cover tax liabilities, at a price of £6.45 realising £167,583.90.
5. Robert Lusardi conducted the following transactions in the Company's shares during 2021:
   - 8 November 2021 – purchase of 20,000 shares at a price of $7.08 costing $141,600.00
6. Includes 155,722 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2021:
   - 24 May 2021 – exercise of 177,991 RSS awards and related sale of 83,866 shares to cover tax liabilities, at a price of £6.48 realising £543,480.03
7. Irene McDermott Brown was appointed to the Board with effect from 28 April 2021
8. Sally Williams conducted the following transactions in the Company's shares during 2021:
   - 8 November 2021 – purchase of 9,660 shares at a price of £5.18 costing £49,990.50

Transactions in own shares

The Company repurchased one million of its own common shares during 2021 in order to acquire shares to satisfy obligations referrable to share awards made under the Group's RSS.

The Company's current repurchase programme has 23,401,000 common shares remaining to be purchased as at 31 December 2021 (approximately $167.9 million at the 31 December 2021 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 176. The repurchase programme is subject to renewal at the 2022 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the Company. Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 90 to 111.

Substantial shareholders

As at 10 February 2022, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Shareholder	No of Shares	% of issued ISC
Baillie Gifford	**27,052,633**	11.09
Setanta Asset Management Limited	**25,361,566**	10.39
Polar Capital	**13,484,951**	5.53
Wellington Management	**13,053,641**	5.35
Vanguard Group	**11,163,880**	4.58
BlackRock, Inc,	**10,726,005**	4.40
GLG Partners	**9,389,664**	3.85
UBS Asset Management	**7,401,039**	3.03

Corporate governance – compliance statement

The Company's compliance with the Code is detailed in the Sustainability and Governance reporting sections of this Annual Report and Accounts on pages 64 and 65 and more particularly in Peter Clarke's introduction to those sections on page 40.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain' that the Company has applied the principles and complied with the provisions and guidance set out in the UK Corporate Governance Code throughout the year ended 31 December 2021.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions and TCFD reporting

The Group's greenhouse gas emissions are detailed in this Annual Report and Accounts on page 54. The Group's TCFD Report is included in this Annual Report and Accounts on pages 56 to 63.

Employees

The Group is an equal opportunities employer and does not tolerate discrimination of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other employment policies are available to all employees in the staff handbook which is located on the Group's intranet.

Creditor payment policy

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 26 to 30 and in the risk disclosures section on pages 136 to 155 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on page 133.

Accounting standards

The Group's consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. Where IFRS 4, Insurance Contracts is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

Annual General Meeting

The Notice of the 2022 AGM, to be held on 27 April 2022 at the Company's head office, Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The Notice of the AGM is also available on the Company's website.

Electronic and website communications

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

Going concern and viability statement

The business review section on pages 21 to 25 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 31 to 37. Starting on page 136 the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, climate change, pandemic, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. Further details of the Group's scenario testing and resilience to climate change risk can be found in the TCFD Report on pages 56 to 63.

The Board considers annually and on a rolling basis, a strategic plan for the business which the Company progressively implements. The strategic plan approved by the Board at its meeting on 27 July 2021 covered the five-year period, including the current year, from 2021 to 2025. The Board also approved at its meeting on 3 November 2021 a management proposal for a more detailed three-year business forecast covering 2022 to 2024, which (as in 2021 and prior years) will be revised and reviewed by the Board at each of its quarterly meetings throughout 2022. The three year business plan period aligns to the predominantly short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2021, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of severe but plausible scenarios and the impact on capital evaluated. As we note in the Audit Committee report on pages 75 to 80 and throughout this Annual Report and Accounts, the Board had a particular focus on the impacts of a number of major natural catastrophe loss events, including the U.S. weather events Winter Storm Uri and hurricane Ida and the series of European flooding events during the summer of 2021. The Board also continued to monitor the ongoing impacts of the COVID-19 global pandemic, as a liability event for the policies underwritten by the Group, for its ongoing effects on the global investment markets, as an operational risk to the business and in terms of the strategic risks and opportunities posed. The Audit Committee also considered a formal and thorough 'going concern' analysis from management at both its July 2021 and February 2022 meetings (for further details see page 76 in the Audit Committee report). The Directors believe that the Group is well placed to manage its business risks successfully, having considered the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2024, being the period considered under the Group's current three-year business plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2024. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2022 AGM to re-appoint KPMG LLP as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board.

Christopher Head

Christopher Head
Company Secretary

10 February 2022

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. Where IFRS, as adopted by the EU, is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. Further detail on the basis of preparation is described in the consolidated financial statements.

In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS as adopted by the EU are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, and also have general responsibility for safeguarding the assets of the Group, and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- the strategy and the business review sections of this Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

10 February 2022

1. Our opinion is unmodified

We have audited the consolidated financial statements of Lancashire Holdings Limited ("the Group") for the year ended 31 December 2021 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the statement of consolidated cash flows, and the related notes, including the accounting policies on pages 129 to 135 of this Annual Report and Accounts.

In our opinion:

- the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2021 and of the Group's loss for the year then ended; and
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other listed entities.

We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of insurance contract liabilities for losses and loss adjustment expenses of IBNR on a gross and net of outwards reinsurance basis

(2021: $1,291.1 million gross, $872.3 million net of outwards reinsurance, of which incurred but not reported represented $664.2 million gross, $364.1 million net of outwards reinsurance; 2020: $952.8 million gross, $614.1 million net of outwards reinsurance, of which incurred but not reported (IBNR) represented $422.7 million gross, $211.1 million net of outwards reinsurance)

Refer to pages 75 to 80 (Audit Committee report), page 132 (accounting policy) and pages 169 to 171 (financial disclosures)

Risk vs 2020: ◄►

The risk

The Group maintains insurance contract liabilities to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Group.

Subjective valuation:

Insurance contract liabilities represent the single largest liability for the Group. Valuation of the incurred but not reported liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as initial expected loss ratios, estimates of ultimate premium, claim development patterns and rate changes. The determination and application of the methodology and performance of the calculations are also complex.

These judgemental and complex calculations for insurance contract liabilities are also used to derive the valuation of the related reinsurance assets.

In setting the provision for insurance contract liabilities, an allowance is made for specific risks. The determination of the allowance is a subjective judgement based on the perceived uncertainty and potential for volatility in the underlying claims.

The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount. The consolidated financial statements (note 13) disclose the sensitivity estimated by the Group.

Our response

We have used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

Control design and implementation

Evaluating and testing the design and implementation of key controls around the review and approval of insurance contract liabilities.

Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the design and implementation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained.

Assessment of assumptions and methodology

Assessing and challenging the reserving assumptions and methodology (on a gross and net of outwards reinsurance basis) for reasonableness and consistency year on year based on our knowledge and understanding of the reserving policy within the Group. This has also involved comparing the Group's reserving methodology with industry practice and understanding the rationale for any key differences.

Historical experience

Challenging the quality of the Group's historical reserving estimates by monitoring the development of losses against initial estimates.

Independent re-projections

Applying our own assumptions, across all attritional classes of business, to perform re-projections on the insurance contract liabilities on both a gross and net of inwards reinsurance basis and comparing these to the Group's projected results including any allowance for specific risks. Where there were significant variances in the results, we have challenged the Group's assumptions.

Sector experience and benchmarking of large losses

Assessing and challenging the reserving assumptions by comparing the Group's loss experience to peers in the market, on a gross and net of inwards reinsurance basis, including on a contract by contract basis for large loss and catastrophe events. A large loss is defined as a single loss or event greater than $5m on a gross ultimate basis.

In addition to the procedures above, the audit team performed the following procedures:

Assessing transparency

Considering the adequacy of the Group's disclosures in respect of the valuation of insurance liabilities.

Valuation of premiums receivable from insureds and cedants which are estimated

(2021: $490.6 million, 2020: $371.9 million) included within inwards premiums receivable from insureds and cedants

Refer to pages 75 to 80 (Audit Committee report), page 132 (accounting policy) and page 171 (financial disclosures)

Risk vs 2020: ◄►

The risk	Our response
Subjective valuation: There is a material proportion of premiums written through the syndicates (LSL), UK and Bermudan insurers (LUK and LICL), pricing for which is based on a best estimate of ultimate premiums. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised with inwards premiums receivable from insureds and cedants recorded on the consolidated balance sheet at the year end. Adjustments are made to gross premiums written to reflect the underlying adjustment to ultimate premium estimates such as declarations received on binding authority contracts, reinstatement premiums on reinsurance contracts and other routine adjustments to premium income due to policy amendments. LICL's revenue has increased in 2021 driven by both growth in existing lines of business and new lines of business. As a result the level of premiums based on a best estimate of ultimate premiums has increased materially since the prior year resulting in a significant increase in this balance for the Group at the year end. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of inwards premiums receivable from insureds and cedants at the year-end has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount. It should however be noted that it is only a portion of the inwards premiums receivable from insureds and cedants balance (and of total gross premiums written in the consolidated statement of comprehensive income) that is subject to this valuation risk.	Our procedures included: **Control design and implementation** Evaluating and testing the design and implementation of key controls over the periodic review of premium estimates booked. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the design and implementation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained. **Methodology assessment** Assessing estimated premium balances for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time. **Retrospective analysis** Assessing the Group's past expertise in making premium estimates by comparing the estimates and actuals for prior year estimated debtor balance for a sample of policies. **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of premiums which are estimated.

Valuation of level 3 investments

(2021: $212.5 million, 2020: $178.1 million)
Refer to pages 75 to 80 (Audit Committee report), page 133 (accounting policy) and pages 164 to 167 (financial disclosures)

Risk vs 2020: ◄►

The risk	Our response
A proportion of the Group's invested assets comprise holdings in hedge funds and private investment funds which are classified as level 3 investments. The valuations of these investments are based on the relevant fund managers' valuation reports. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. The effect of these matters is that, as part of our risk assessment, we determined that valuation of level 3 investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount.	Our procedures included: **Control design and implementation** Evaluating and testing the design and implementation of the controls associated with the valuation of level 3 investments. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the design and implementation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained. **Comparing valuations** Obtaining the fund managers' valuation reports and comparing the valuations recorded by the Group to assess for any material valuation differences. **Benchmarking hedge funds & private debt funds** Understanding the strategy for each investment fund held by the Group to identify relevant comparable indices and comparing their valuations with the hedge funds and private investment funds held by the Group. Where this benchmarking identifies a material difference we investigate the possible reasons for differences and assess if any adjustment is required at the year-end. **Historical accuracy** Retrospectively assessing the historical accuracy of the valuations used by the Group by comparing interim fund manager valuation reports to the final year-end reports for prior periods. Where this identifies a material difference we investigate the possible reasons for differences and assess if any adjustment is required at the year end. **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of level 3 investments.

We continue to perform procedures over the impairment of goodwill and intangible assets. However, following improvement in the global economic environment, continued hardening of the insurance rating market and the financial performance of the cash generating units these assets are allocated to, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the consolidated financial statements as a whole was set at $9.7 million (2020: $7.3 million), determined with reference to a benchmark of gross premiums written (2020: gross premiums written), of which it represents 0.8% (2020: 0.9%). We consider gross premiums written to be the most appropriate benchmark given the size and complexity of the business as it provides a stable measure year on year. We also compared our materiality against other relevant benchmarks (total assets, net assets and loss before tax) to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the consolidated financial statements as a whole.

Performance materiality for the Group was set at 75% (2020: 75%) of materiality for the consolidated financial statements as a whole, which equates to $7.2 million (2020: $5.4million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.4 million (2020: $0.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

Of the Group's nine (2020: nine) reporting components we subjected five (2020: five) to full scope audits for Group purposes which were the parent company (LHL), UK insurance company (LUK), Bermudan insurance company (LICL), UK service entity (LISL) and the Group's participation in Lloyd's Syndicate 2010 and 3010. Including the audit of the consolidation adjustments our scope covered 100% (2020: 100%) of gross premiums written, total assets and total liabilities.

The four (2020: four) components out of scope were not individually financially significant enough to require a full scope audit for Group purposes nor did they present specific individual risks that needed to be addressed. However, as part of our planning and completion procedures we did conduct analytical reviews of financial information.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team determined the component materialities, which ranged from $2.4 million to $8.0 million (2019: $2.1 million to $7.2 million), having regard to the mix of size and risk profile of the Group across the components.

The work on four of the five full scope components (2020: four of the five components) was performed by component auditors with the audit of the parent company performed by the Group team.

As a result of the ongoing COVID-19 pandemic during 2021 the Group team were unable to visit the component location in Bermuda. However, video and telephone conference meetings were held with all component auditors throughout the year. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. The impact of climate change on our audit

In planning our audit, we performed a risk assessment, including enquiries of management, to determine how the impact of commitments made by the Group in respect of the transition to net zero carbon emissions, as well as the physical risks of climate change, and transition risks faced by the Group's customer base, could impact on the financial statements and our audit. We held discussions with our own climate change professionals to challenge our risk assessment. Through the procedures we performed, we did not identify any material impact of climate change on the Group's material accounting estimates and there was no significant impact of this assessment on our key audit matters.

The Group predominantly underwrites short-tail catastrophe risks. Climate change may result in an increase in the frequency and severity of climate-related catastrophe events, leading to higher insurance pay-outs. However, the short-term nature of the Group's insurance contracts means that the impact of losses from catastrophes for the year ended 31 December 2021 is already recorded within the group's insurance contract liabilities at the balance sheet date. The Group considers this loss experience in evaluating individual risk exposures, and the setting of insurance premium rates for both new policies and the periodic renewal of its existing insurance underwriting portfolio. The Group expects any increase in the frequency and severity of climate-related catastrophe events to be reflected in future market premium rates. These considerations are factored into the Group's going concern assessments, in the assessment of which the Group performed a specific climate change stress scenario.

The Group also holds investments and during the year introduced measures to start assessing climate risk exposure within the portfolio. Given the predominantly short-term nature of these investments, we have assessed that there is no significant risk related to climate with regards to the valuation of these investments at the balance sheet date.

Taking into account the extent of the headroom of the recoverable amount over the carrying amount of the cash generating units including the Group's intangible assets with indefinite useful lives, we assessed the risk of climate change to the carrying amount of these assets at the balance sheet date to be not significant.

We have read the disclosures of climate related information in the Annual Report and Accounts and considered their consistency with the consolidated financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report and Accounts.

5. Going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period was the valuation of insurance contract liabilities given the estimation and judgement involved in setting these reserves.

We also considered less predictable but realistic second order impacts that could affect demand in the Group's markets, such as the impact of climate change on the Group's results and operations, the performance of the investment portfolio, credit ratings for key insurance subsidiaries, solvency and capital adequacy.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios and the degree of downside assumptions that, individually and collectively, could result in a liquidity and solvency issue (a reverse stress test), taking into account the Company's current and projected financial resources.

We considered whether the going concern disclosure on page 129 of the consolidated financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement on page 114 of the consolidated financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for the going concern period, and we found the going concern disclosure on page 129 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, Internal Audit, the Risk function, Head of Group legal, the Company Secretary and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance conditions for management remuneration which includes the annual change in fully converted book value per share and absolute total shareholder return.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communications from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and requests to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the portion of premium which is estimated.

We also identified a fraud risk in relation to the following areas:

- The valuation of insurance contract liabilities due to the estimation required in setting these liabilities and the ability for changes in the valuation to be used to impact profit.
- Management compensation schemes and the pressure these place on management to deliver results.

Further detail in respect of our procedures around the valuation of insurance contract liabilities and the valuation of premiums which are estimated is set out in the key audit matter disclosures in section 2 of this independent auditor's report. The Audit Committee report on pages 75 to 80 also references the entity level controls in operation across the Group.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

With respect to the valuation of premiums receivable which are estimated, we evaluated and tested the design and implementation of key controls over the periodic review of premium estimates booked and assessed estimated premium balances for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash, consolidation journals and post-closing journals meeting certain criteria;
- Evaluating the business purpose of significant unusual transactions; and
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As certain entities with the Group are regulated, our assessment of risks involved gaining an understanding of the control environment including an entity's procedures for complying with regulatory requirements. This was achieved through the procedures noted above.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the consolidated financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines, litigation or loss of regulatory approval to write insurance contracts. We identified the following areas as those most likely to have such an effect: anti-bribery and certain aspects of company legislation recognising the financial and regulated nature of certain of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee and those charged with governance matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the consolidated financial statements. Our opinion on the consolidated financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our consolidated financial statements audit work, the information therein is materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' remuneration report

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company was required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our consolidated financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the consolidated financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report and Accounts describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the consolidated financial statements, and how these issues were addressed; and
- the section of the Annual Report and Accounts that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 115, the Directors are responsible for: the preparation of the consolidated financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Rees Aronson

Rees Aronson
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
10 February 2022

Consolidated statement of comprehensive (loss) income

For the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Gross premiums written	2	**1,225.2**	814.1
Outwards reinsurance premiums	2	**(409.1)**	(294.7)
Net premiums written		**816.1**	519.4
Change in unearned premiums	2	**(140.0)**	(51.5)
Change in unearned premiums on premiums ceded	2	**20.4**	7.9
Net premiums earned		**696.5**	475.8
Net investment income	3	**23.0**	29.0
Net other investment income	3	**3.8**	6.5
Net realised gains (losses) and impairments	3	**6.1**	12.8
Share of (loss) profit of associate	16	**(3.9)**	10.7
Other income	5	**18.2**	15.3
Net foreign exchange gains		**3.5**	1.4
Total net revenue		**747.2**	551.5
Insurance losses and loss adjustment expenses	2, 13	**667.6**	363.6
Insurance losses and loss adjustment expenses recoverable	2, 13	**(197.1)**	(79.8)
Net insurance losses		**470.5**	283.8
Insurance acquisition expenses	2, 4	**188.6**	139.0
Insurance acquisition expenses ceded	2, 4	**(31.6)**	(24.0)
Equity based compensation	7	**11.1**	12.3
Other operating expenses	6, 7, 20	**119.6**	114.4
Total expenses		**758.2**	525.5
Results of operating activities		**(11.0)**	26.0
Financing costs	8	**45.8**	20.1
(Loss) profit before tax		**(56.8)**	5.9
Tax charge	9	**(4.8)**	(1.4)
(Loss) profit for the year		**(61.6)**	4.5
(Loss) profit for the year attributable to:			
Equity shareholders of LHL		**(62.2)**	4.2
Non-controlling interests		**0.6**	0.3
(Loss) profit for the year		**(61.6)**	4.5
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 11	**(31.6)**	20.8
Tax credit (charge) on net change in unrealised gains/losses on investments	11, 15	**0.9**	(0.7)
Other comprehensive (loss) income		**(30.7)**	20.1
Total comprehensive (loss) income for the year		**(92.3)**	24.6
Total comprehensive (loss) income attributable to:			
Equity shareholders of LHL		**(92.9)**	24.3
Non-controlling interests		**0.6**	0.3
Total comprehensive (loss) income for the year		**(92.3)**	24.6
(Loss) earnings per share			
Basic	22	**($0.26)**	$0.02
Diluted	22	**($0.26)**	$0.02

Consolidated balance sheet

As at 31 December 2021

	Notes	2021 $m	2020 $m
Assets			
Cash and cash equivalents	10, 18	**517.7**	432.4
Accrued interest receivable		**7.1**	8.0
Investments	11, 12, 18	**2,048.1**	1,856.0
Inwards premiums receivable from insureds and cedants	14	**490.6**	371.9
Reinsurance assets			
• Unearned premiums on premiums ceded		**117.8**	97.4
• Reinsurance recoveries	13	**418.8**	338.7
• Other receivables	14	**38.2**	31.1
Other receivables	14	**18.8**	27.3
Investment in associate	12, 16	**118.7**	127.2
Property, plant and equipment		**0.8**	0.7
Right-of-use assets	20	**13.4**	16.1
Deferred acquisition costs		**121.6**	89.0
Intangible assets	17	**157.9**	154.5
Total assets		**4,069.5**	3,550.3
Liabilities			
Insurance contracts			
• Losses and loss adjustment expenses	13	**1,291.1**	952.8
• Unearned premiums		**597.9**	457.9
• Other payables		**20.3**	22.5
Amounts payable to reinsurers		**205.6**	151.7
Deferred acquisition costs ceded		**27.0**	19.6
Other payables		**37.4**	46.1
Corporation tax payable		**1.6**	1.5
Deferred tax liability	15	**12.2**	10.9
Lease liabilities	20	**17.9**	20.9
Long-term debt	18	**445.7**	327.5
Total liabilities		**2,656.7**	2,011.4
Shareholders' equity			
Share capital	19	**122.0**	122.0
Own shares	19	**(18.1)**	(21.2)
Other reserves	19	**1,221.6**	1,221.6
Accumulated other comprehensive income	11	**2.9**	33.6
Retained earnings		**83.9**	182.5
Total shareholders' equity attributable to equity shareholders of LHL		**1,412.3**	1,538.5
Non-controlling interests	23	**0.5**	0.4
Total shareholders' equity		**1,412.8**	1,538.9
Total liabilities and shareholders' equity		**4,069.5**	3,550.3

The consolidated financial statements were approved by the Board of Directors on 10 February 2022 and signed on its behalf by:

Peter Clarke
Director/Chairman

Natalie Kershaw
Director/CFO

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2021

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other comprehensive income $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2019		101.5	(13.3)	881.3	13.5	210.6	1,193.6	0.6	1,194.2
Total comprehensive income for the year		–	–	–	20.1	4.2	24.3	0.3	24.6
Issue of common shares	19	19.8	–	320.5	–	–	340.3	–	340.3
Shares purchased by the trust	19, 23	0.7	(15.0)	14.3	–	–	–	–	–
Distributed by the trust	19	–	7.1	(7.9)	–	–	(0.8)	–	(0.8)
Dividends paid on common shares	19	–	–	–	–	(32.3)	(32.3)	–	(32.3)
Dividends paid to minority interest holders	23	–	–	–	–	–	–	(0.5)	(0.5)
Net deferred tax	15	–	–	0.4	–	–	0.4	–	0.4
Equity based compensation		–	–	13.0	–	–	13.0	–	13.0
Balance as at 31 December 2020		122.0	(21.2)	1,221.6	33.6	182.5	1,538.5	0.4	1,538.9
Total comprehensive loss for the year		**–**	**–**	**–**	**(30.7)**	**(62.2)**	**(92.9)**	**0.6**	**(92.3)**
Share repurchases	19	**–**	**(6.9)**	**–**	**–**	**–**	**(6.9)**	**–**	**(6.9)**
Distributed by the trust	19	**–**	**9.9**	**(10.9)**	**–**	**–**	**(1.0)**	**–**	**(1.0)**
Shares donated to the trust	19	**–**	**0.1**	**(0.1)**	**–**	**–**	**–**	**–**	**–**
Dividends on common shares	19	**–**	**–**	**–**	**–**	**(36.4)**	**(36.4)**	**–**	**(36.4)**
Dividends paid to minority interest holders	23	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Net deferred tax	15	**–**	**–**	**(0.5)**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Equity based compensation		**–**	**–**	**11.5**	**–**	**–**	**11.5**	**–**	**11.5**
Balance as at 31 December 2021		**122.0**	**(18.1)**	**1,221.6**	**2.9**	**83.9**	**1,412.3**	**0.5**	**1,412.8**

Statement of consolidated cash flows

For the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
(Loss) profit before tax		**(56.8)**	5.9
Adjustments for:			
Tax paid		**(3.2)**	(1.6)
Depreciation	6, 20	**3.3**	3.3
Interest expense on long-term debt	8	**25.8**	15.7
Interest expense on lease liabilities	20	**1.1**	1.3
Interest income	3	**(34.1)**	(36.9)
Net amortisation of fixed maturity securities		**7.0**	4.9
Redemption cost on senior and subordinated loan notes	8	**12.8**	–
Net realised / unrealised losses (gains) on interest rate swaps	8	**3.4**	(1.1)
Equity based compensation	7	**11.1**	12.3
Foreign exchange gains		**(0.4)**	(3.2)
Share of loss (profit) of associate	16	**3.9**	(10.7)
Net other investment income		**(4.7)**	(7.4)
Net realised (gains) losses and impairments	3	**(6.1)**	(12.8)
Changes in operational assets and liabilities			
• Insurance and reinsurance contracts		**285.6**	84.5
• Other assets and liabilities		**(4.9)**	26.7
Net cash flows from operating activities		**243.8**	80.9
Cash flows used in investing activities			
Interest received		**42.7**	39.9
Purchase of property, plant and equipment		**(0.7)**	–
Purchase of underwriting capacity	17	**(0.2)**	–
Internally generated intangible asset	17	**(3.2)**	–
Investment in associate	23	**4.6**	(8.2)
Purchase of investments		**(1,348.5)**	(1,129.7)
Proceeds on sale of investments		**1,118.5**	837.9
Net cash flows used in investing activities		**(186.8)**	(260.1)
Cash flows from financing activities			
Interest paid		**(20.8)**	(15.9)
Interest rate swap	8	**(3.4)**	–
Lease liabilities paid	20	**(4.0)**	(3.5)
Proceeds from issue of common shares	19	**–**	340.3
Proceeds from issue of long-term debt	18	**445.4**	–
Redemption of long-term debt	18	**(339.6)**	–
Dividends paid	19	**(36.4)**	(32.3)
Dividends paid to minority interest holders	23	**(0.5)**	(0.5)
Share repurchases	19	**(6.9)**	–
Distributions by trust		**(1.0)**	(0.8)
Net cash flows from financing activities		**32.8**	287.3
Net increase in cash and cash equivalents		**89.8**	108.1
Cash and cash equivalents at beginning of year		**432.4**	320.4
Effect of exchange rate fluctuations on cash and cash equivalents		**(4.5)**	3.9
Cash and cash equivalents at end of year	10	**517.7**	432.4

Accounting policies

For the year ended 31 December 2021

Summary of significant accounting policies

The basis of preparation, use of judgements and estimates, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

BASIS OF PREPARATION

GOING CONCERN BASIS OF ACCOUNTING

The consolidated financial statements are prepared on a going concern basis using accounting policies consistent with IFRS Standards as adopted by the EU.

In assessing the Group's going concern position as at 31 December 2021, the Directors have considered a number of factors. These include the current balance sheet and liquidity position, the level and composition of the Group's capital and solvency ratios, the Group's ability to service its long-term debt financing arrangements, the current performance against the Group's strategic and financial business plan, the Group's dividend distribution policy, and the current market environment including consideration of the ongoing COVID-19 pandemic and climate change.

The Group's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these consolidated financial statements. To assesses the Group's going concern, the financial stability of the Group was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, among other analysis, a best estimate forecast as well as various scenarios. This incorporated different magnitudes of reserve releases and, attritional, large and catastrophe loss events plus optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Group, additional stress testing was performed. This included modelling the breakeven capital requirements of our regulators and rating agencies, the impact of potential management actions to reduce the Group's exposure to climate change-related risks, an operational risk stress of the main input assumption to the base case, the occurrence of a number of high severity loss events impacting the Group in 2022 alongside an investment shock and finally a reverse stress test scenario designed to render the business model unviable. The testing identified that even under the more severe but plausible stress scenarios, the Group had more than adequate liquidity and solvency headroom.

Based on the going concern assessment performed as at 31 December 2021, the Directors consider there to be no material uncertainties that may cast significant doubt over the Group's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these consolidated financial statements.

USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying financial statement disclosures. In the course of preparing the consolidated financial statements no key judgements have been made in the process of applying the Group's accounting policies that do not include a related element of estimation uncertainty.

The key assumptions and other sources of estimation uncertainty as at 31 December 2021, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year, are described below. Assumptions and estimates are based on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change or circumstances may arise, that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant judgements and estimates made by management are in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. These are discussed on page 132, within the risk disclosures section from page 137 and within note 13.

Less significant estimates are made in determining the fair value of certain financial instruments and judgement is applied in determining impairment charges. The estimation of the fair value, specifically 'Level (iii)' investments, is discussed on page 133 and in note 11.

The consolidated balance sheet includes indefinite life intangible assets and internally generated intangible assets. Whilst not significant, estimates are utilised in the valuation of these intangible assets and the assumptions made by management in performing annual impairment tests of these intangible assets are also subject to estimation uncertainty (see note 17).

A portion of gross premiums written is based on estimates of the ultimate premiums expected to be received (see the premium and acquisition costs accounting policy on page 132). Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received.

OTHER BASIS OF PREPARATION

Where IFRS 4, Insurance Contracts is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group’s management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

The consolidated balance sheet is presented in order of decreasing liquidity. All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

CHANGES IN ACCOUNTING STANDARDS

There were no new standards that became effective in the year ended 31 December 2021 that have had a material impact on the Group.

FUTURE ACCOUNTING CHANGES

IFRS 17, Insurance Contracts

IFRS 17, issued in May 2017, including amendments issued in June 2020, specifies the financial reporting for insurance contracts and supersedes IFRS 4, Insurance Contracts. IFRS 17 will be effective for accounting periods beginning on or after 1 January 2023.

The Group is currently in the 'build phase' of its IFRS 17 project with parallel testing of systems and processes due to commence in 2022. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition.

The IFRS 17 general measurement model requires insurance contract liabilities to be measured using:

- probability-weighted estimates of future cash flows;
- discounting;
- a risk adjustment for non-financial risk; and
- a contractual service margin representing the unearned profit that will be recognised over the coverage period.

IFRS 17 is a principles-based accounting standard. There are a number of accounting policy choices that are allowed under the standard and this will require the application of judgement and an increased use of estimation techniques. As an example, the Group has performed an assessment and currently anticipates that it will be eligible to apply the simplified model (premium allocation approach) to its portfolios and groups of contracts. This will however continue to be assessed throughout 2022.

IFRS 17 will result in a number of presentation differences compared to the existing IFRS 4 consolidated financial statements. The insurance service result will comprise insurance revenue, insurance service expense and insurance finance income or expense. Reinsurance contracts held are required to be presented separately from insurance contracts issued. Reinstatement premiums will be considered contingent on claims and therefore recognised against insurance service expense while commissions paid to cedants will be recognised as a deduction from insurance revenue. Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and expenses.

Under IFRS 17, insurance contracts that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. Each portfolio of insurance contracts is then divided into a minimum of three groups:

- A group of contracts that are onerous at initial recognition;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous; and
- A group of the remaining contracts in the portfolio.

A group of contracts that are considered onerous at initial recognition will result in a loss being recognised immediately in the consolidated statement of comprehensive (loss) income. In the consolidated balance sheet, we would be required to recognise a loss component in the liability for remaining coverage. The Group is currently reviewing its portfolios and groups of contracts to determine if there are any onerous contracts that may result in a transition adjustment on adoption of IFRS 17.

IFRS 17 requires that all future cash flows related to the fulfilment of insurance contracts be captured within portfolios and applied to groups of insurance contracts. The Group anticipates recognising a liability for the future expenses expected to be incurred in the servicing of insurance contracts. This will form part of the transition adjustment recognised by the Group on adoption of IFRS 17.

The Group currently anticipates that it will apply the fully retrospective transition approach when adopting IFRS 17.

In December 2021, the IASB issued initial application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17). The amendment was made to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 9 and IFRS 17. IFRS 17 has been endorsed by the EU and the UK Endorsement Board process is still ongoing.

The Group will continue to assess the impact that IFRS 17 will have on its results and its presentation and disclosure requirements.

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Group continues to qualify for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until the implementation date of IFRS 17 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. Applying the new requirements of IFRS 9, the Group currently anticipates that all investments held by the Group will be classified as at FVTPL mandatory, because they are managed on a fair value basis. As a result, all investments currently disclosed in note 11 as AFS will be reclassified as at FVTPL mandatory with changes in unrealised gains (losses) currently recorded within other comprehensive (loss) income to be reclassified and recorded within net investment income in profit or loss. The reclassification from AFS to FVTPL mandatory will not result in a change in the carrying value of the investments disclosed in note 11 of the consolidated financial statements. The change in classification from AFS to FVTPL mandatory will result in balances within accumulated other comprehensive income being reclassified to retained earnings on the date of transition.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2021. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The Group participates in two syndicates at Lloyd’s, which are managed by the Group’s managing agent subsidiary. In view of the several liability of underwriting members at Lloyd’s, the Group recognises its proportion of all the transactions undertaken by the syndicates in which it participates within its consolidated statement of comprehensive (loss) income. Similarly, the Group’s proportion of the syndicates’ assets and liabilities has been reflected in its consolidated balance sheet. This proportion is calculated by reference to the Group’s participation as a percentage of each syndicate’s total capacity for each year of account.

Subsidiaries’ accounting policies are generally consistent with the Group’s accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

ASSOCIATE

Investments in which the Group has significant influence over the operational and financial policies of the investee are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income from such investments in its consolidated statement of comprehensive (loss) income for the period. Adjustments are made to associate accounting policies, where necessary, in order to be consistent with the Group’s accounting policies.

FOREIGN CURRENCY

FUNCTIONAL CURRENCY

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which operations are conducted (the 'functional currency'). The consolidated financial statements are presented in U.S. dollars (the 'presentation currency').

TRANSACTIONS AND BALANCES

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on revaluation are recorded in the consolidated statement of comprehensive (loss) income within net foreign exchange gains (losses). Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined.

FOREIGN OPERATIONS

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate on the balance sheet date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting foreign exchange differences are recognised in other comprehensive income and as a separate component of shareholders' equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive (loss) income are recognised in profit or loss as part of the gain or loss on disposal.

INTANGIBLE ASSETS

The Group's intangible assets comprise indefinite life intangible assets and internally generated intangible assets.

The Group's indefinite life intangible assets comprise syndicate participation rights and goodwill. The cost of syndicate participation rights and goodwill acquired in a business combination is their fair value as at the date of acquisition. Additional syndicate participation rights may be purchased from time to time and are recorded at the cost on the date of the syndicate capacity auction. Goodwill and syndicate participation rights are considered to have an indefinite useful life and are not amortised. They are carried at cost less any accumulated impairment losses. Intangible assets with an indefinite useful life are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the CGU and related intangible assets. The useful life of an indefinite life intangible asset is reviewed annually to determine if the assessment continues to be supportable.

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing a cloud based target operating model. An internally generated intangible asset is recognised if it can be demonstrated that there is an intent, available resource and technical feasibility to complete the intangible asset so that it is available for use and that it will generate probable future economic benefits. The costs must be capable of being measured reliably. They are carried at cost less any accumulated impairment losses. Intangible assets not yet available for use are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the CGU and related intangible assets.

Internally generated intangible assets available for use are considered to have a finite life. Applying the cost model, intangible assets with finite lives are amortised over their estimated useful economic life and assessed for impairment whenever there are indicators of impairment.

INSURANCE CONTRACTS

CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the later of a contract's binding or inception date. The Group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned evenly over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are regularly reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts held entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for the reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses and ACR, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to profit or loss as they are incurred.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all insurance claims arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reported losses received from third parties. ACR are determined where management's best estimate of the reported loss is greater than that reported and are allocated with IBNR in the Group's financial reporting. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are estimated by management using various actuarial methods as well as a combination of the Group's own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

LIABILITY ADEQUACY TESTS

At each balance sheet date, the Group performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums for the period of unexpired risk by using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost and include cash in hand, deposits held on call with banks and other short-term, highly-liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

INVESTMENTS

The Group's fixed maturity securities include quoted and unquoted investments that are classified as either AFS or at FVTPL and are carried at fair value. The classification of the Group's financial assets is determined at the time of initial purchase and depends on the nature of the investment. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis or if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Equity securities classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. Fixed maturity securities classified as AFS are those that are intended to be held for an indefinite period. The composition, duration and allocation of these investments are reviewed by management on a regular basis in order to respond to needs for liquidity, changes in interest rates and other market conditions.

The Group has elected to designate certain fixed maturity securities, index linked securities, exchange traded funds and its private investment funds at FVTPL upon initial recognition. This category includes instruments in which the cash flows are linked to the performance of an underlying pool of securities. Presentation of these securities in the FVTPL category is consistent with how management monitors and evaluates the performance of these securities.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at fair value. Fair values are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager.

Regular way purchases and sales of investments are recognised at fair value including, in the case of investments not carried at FVTPL, transaction costs attributable to the acquisition of that investment on the trade date and are subsequently carried at fair value. The fair values of quoted and unquoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains and losses from changes in the fair value of AFS investments are included in accumulated other comprehensive income in shareholders' equity. Changes in fair value of investments classified at FVTPL are recognised in the consolidated statement of comprehensive (loss) income within net other investment income.

Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. On derecognition of an AFS investment, previously recorded unrealised gains and losses are recycled from accumulated other comprehensive income in shareholders' equity and included in the consolidated statement of comprehensive (loss) income as a realised gain or loss within net realised gains (losses) and impairments.

Amortisation and accretion of premiums and discounts on AFS fixed maturity securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity. Dividends on equity securities are recorded as income on the date the dividends become payable to the holders of record.

The Group regularly reviews the carrying value of its AFS investments for evidence of impairment. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive income in shareholders' equity and charged to current period profit or loss. Impairment losses on fixed maturity securities may be subsequently reversed through profit or loss while impairment losses on equity securities are not subsequently reversed through profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are classified as financial assets or liabilities at FVTPL. They are initially recognised at fair value on the date a contract is entered into, the trade date, and are subsequently carried at fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of derivative instruments are recognised in the consolidated statement of comprehensive (loss) income within net other investment income. The Group does not currently apply hedge accounting to any derivative contracts. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled or expired.

OTHER INCOME

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties.

NATURE OF SERVICES

The table below shows the nature, specific performance obligation and significant payment terms for the services within the scope of IFRS 15, Revenue from Contracts with Customers.

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
LCM underwriting fees	The Group recognises underwriting fees over the underwriting cycle based on the underlying exposure of the covered contracts. Underwriting fees are received by or before the collateral funding date, which is prior to commencement of the underwriting cycle.
LCM profit commission	The Group recognises profit commission following the end of the underwriting cycle based on the underlying performance of the covered contracts and as collateral is released. Profit commissions may only be received once the profit commission hurdle has been met.
LSL consortium management fees	The Group recognises consortium fees over the risk period based on the underlying exposure of the covered contracts. Consortium fees are received quarterly.
LSL consortium profit commission	The Group recognises profit commission in line with the underlying performance of covered contracts once the year of account closes, which is also when the profit commissions are received.
LSL managing agency fees	The Group recognises managing agency fees in line with services provided for each year of account. Managing agency fees are received quarterly.
LSL managing agency profit commission	The Group recognises profit commission on open years of account when measurement is highly probable. Profit commissions are received once the year of account closes.

LONG-TERM DEBT

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to profit or loss as incurred.

LEASES

The Group assesses whether a contract is, or contains, a lease at the inception of a contract for all contracts that have been entered into or modified on or after 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group is not a lessor to any lease contracts.

The lease liability is initially measured at the present value of the future lease payments at the lease commencement date. Lease payments are discounted using the rate implicit in the lease, if readily determinable, or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; or
- Payments in respect of purchase options, lease termination options or lease extension options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability and the related right-of-use asset whenever:

- The lease term changes as a result of the Group changing its assessment of whether it will exercise a purchase, extension or termination option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

Both the right-of-use assets and lease liabilities are presented as separate financial statement line items on the consolidated balance sheet.

EMPLOYEE BENEFITS

EQUITY COMPENSATION PLANS

The Group currently operates a RSS under which nil-cost options have been granted. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as equity based compensation expense in the consolidated statement of comprehensive income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred within the components of other reserves in shareholders' equity.

PENSIONS

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive (loss) income in the period when the services are rendered.

TAX

Income tax represents the sum of tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the consolidated statement of comprehensive (loss) income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the carrying value of the assets and liabilities in the consolidated balance sheet and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Where the current estimated fair value of equity based compensation awards differs from the estimated fair value at the time of grant, adjusted where applicable for dividends, the related corporation tax and deferred tax charge or credit is recognised directly in other reserves.

The Group determines, based on its tax compliance and transfer pricing study, the probability/certainty of the tax treatments being accepted by the taxation authorities and accounts for these in line with its determination.

OWN SHARES

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity-based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

Risk disclosures

For the year ended 31 December 2021

RISK DISCLOSURES: INTRODUCTION

The Group is exposed to risks from several sources, classified into six primary risk categories. These are insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM framework is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses the modelled potential catastrophe losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

CURRENT EVENTS

CLIMATE CHANGE

The Group is exposed to both climate-related risks and opportunities. The two major categories of risk being transition and physical risk.

Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). As a (re)insurance company, the Group is more significantly affected by physical risk through its exposure to acute and chronic climate change. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Group's strategic and risk management decisions around managing these risks. A risk radar has been prepared to illustrate the risks identified and the likelihood of these risks; this diagram can be found on page 58. The risk assessment also considers the products currently offered by the Group and how these might change over time during the transition to a lower carbon economy. The Group's current assessment of risk in relation to climate change is discussed in more detail within the ESG section on pages 60 to 63.

In our underwriting operations, we manage this risk effectively by supplementing our internal systems, data and procedures with external vendor models. Underwriting guidelines were developed in 2021 to support the underwriting process and provide guidance to assist underwriters in their decision making. Performance against guidelines is monitored via the UMCC and related reporting. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs. The risks to the asset side of the balance sheet from climate change are monitored through the use of a Climate VaR which is monitored versus the MSCI benchmark in part through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio.

GLOBAL TAX REFORM

The Group continues to monitor and assess the implications arising from the Organisation for Economic Co-operation and Development's inclusive framework agreement that aims to implement a global minimum tax rate of 15%, along with the potential impacts of other global tax reforms that are relevant to the Group's business operations.

COVID-19

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Group or the insurance industry will be. The Group continues to monitor the impact of the COVID-19 pandemic on our business. During the year ended 31 December 2021, the Group's ultimate loss estimate, net of reinsurance and the impact of inwards and outwards reinstatement premiums, for COVID-19 related losses has remained consistent with that booked in 2020.

ECONOMIC CAPITAL MODELS

The Group maintains economic capital models at the LICL, LUK and syndicate levels. These models are primarily focused on insurance risks, however they are also used to model other risks including market, credit and operational risks. The syndicate models are vetted by Lloyd's as part of its own capital and solvency regulations.

The economic capital models produce data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.

A. INSURANCE RISK

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Group considers insurance risk at an individual contract level, at a segment level, at a geographic level and at an aggregate portfolio level. This ensures that careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The five principal classes of business for the Group are property and casualty reinsurance, property and casualty insurance, aviation, energy and marine. These classes are deemed to be the Group's five operating segments. The level of insurance risk tolerance per peril is set by the Board and the boards of directors at individual entity level.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Group has a rolling three-year strategic plan that helps establish the over-riding business goals that the Board of Directors aims to achieve;
- a detailed business plan is produced annually, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for LSL, the syndicates' business forecasts and business plans are subject to review and approval by Lloyd's;
- economic capital models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are monitored on a regular basis;
- a daily underwriting call is held for LICL and LUK to peer review insurance proposals, opportunities and emerging risks;
- a daily post-binding review process with exception reporting to management based on underwriting authority operates at LSL;
- sophisticated pricing and aggregation models are utilised in certain areas of the underwriting process;
- a number of modelling tools are deployed to model catastrophes and resultant losses to the portfolio and the Group; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a facultative, excess of loss treaty or proportional treaty basis.

Some of the Group's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes, wildfires and floods) and is subject to potential seasonal variation and the effects of climate change. A proportion of the Group's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events. The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associate.

CATASTROPHE MANAGEMENT

The Group actively monitors risk levels and manages catastrophe risk accumulations using reinsurance and PML based risk tolerances, which are monitored as part of our climate-related risks as outlined on page 61. The Group's exposures to certain peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis. The exposure to catastrophe losses that would result in an impairment to the investment in associate is included in the figures below.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2021		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**309.0**	**18.2**	**558.2**	**32.8**
Non-Gulf of Mexico – U.S.	Hurricane	**206.8**	**12.2**	**600.5**	**35.3**
California	Earthquake	**160.5**	**9.4**	**325.4**	**19.1**
Pan-European	Windstorm	**154.1**	**9.1**	**228.5**	**13.4**
Japan	Typhoon	**118.3**	**7.0**	**131.7**	**7.7**
Japan	Earthquake	**89.9**	**5.3**	**143.3**	**8.4**
Pacific North West	Earthquake	**26.8**	**1.6**	**139.0**	**8.2**

1. Landing hurricane from Florida to Texas.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2020		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	166.5	9.7	323.0	18.9
Non-Gulf of Mexico – U.S.	Hurricane	108.9	6.4	361.2	21.1
California	Earthquake	111.9	6.5	151.2	8.8
Pan-European	Windstorm	71.8	4.2	85.7	5.0
Japan	Typhoon	60.4	3.5	71.7	4.2
Japan	Earthquake	63.7	3.7	105.9	6.2
Pacific North West	Earthquake	20.1	1.2	85.0	5.0

1. Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, the models contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2021		2020	
	$m	%	$m	%
U.S. and Canada	**465.2**	**38.0**	300.8	37.0
Worldwide – multi territory	**424.8**	**34.7**	284.5	34.9
Europe	**138.8**	**11.3**	80.9	9.9
Rest of world	**196.4**	**16.0**	147.9	18.2
Total	**1,225.2**	**100.0**	814.1	100.0

Details of annual gross premiums written by business segment and the associated insurance risks are provided below:

	2021		2020	
	$m	%	$m	%
Property and casualty reinsurance	**560.0**	**45.7**	279.8	34.3
Property and casualty insurance	**210.5**	**17.2**	147.1	18.1
Aviation	**176.4**	**14.4**	151.0	18.6
Energy	**184.8**	**15.1**	144.7	17.8
Marine	**93.5**	**7.6**	91.5	11.2
Total	**1,225.2**	**100.0**	814.1	100.0

I. PROPERTY AND CASUALTY REINSURANCE

Property catastrophe excess of loss covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Property risk excess of loss is written on an excess of loss basis through UNL treaty arrangements, predominantly covering fire and allied perils in addition to natural catastrophe exposure. The portfolio is written on a worldwide basis, with particular focus on the U.S. market.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on a UNL basis warranted on an overall industry loss, as measured by third party index providers, known as ILW coverage.

Accident & health is written on a direct and reinsurance basis. The vast majority of the reinsurance business is excess of loss, either facultative or treaty. The direct book is a combination of open-market placements, some binding authorities and broker lineslips, with the focus being Group and commercial personal accident and disability. The distribution is global but with a focus on the U.S., Canada, UK and EU. There is very little exposure in Asia, Australasia, Africa or South America. Typical coverage offered is death & disablement, medical expenses, evacuation and repatriation, and other limited ancillary expenses.

The casualty book is written predominantly on a quota share basis with a limited amount of excess of loss sold. The book is made up of predominantly U.S. exposure in general casualty and professional lines with some smaller specialty casualty deals and excess casualty.

The specialty reinsurance book is written predominantly on an excess of loss basis and comprises similar exposures to those underwritten out of our insurance operation with a focus on 'Blue Chip' clients.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming property catastrophe excess of loss and property retrocession portfolio risks. Exposure to such events is controlled and measured by setting limits on stochastic modelling exposures in certain classes per geographic zone and through loss modelling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses. Reinsurance may also be purchased to reduce the Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or proportional treaty arrangements may be entered into.

II. PROPERTY AND CASUALTY INSURANCE

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium-sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts is often multi-year reflecting the term of the underlying exposures. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground-up or on an excess of loss basis. Coverage that the Group provides in the political risk book is split between confiscation perils coverage and sovereign/quasi-sovereign obligor coverage. Confiscation perils coverage protects against CEND and may be extended to include other perils. Sovereign/quasi-sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a sovereign or quasi-sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The term of these contracts is often multi-year reflecting the term of the underlying exposures. The Group does not provide cover against purely private obligor credit risk.

Reinsurance may also be purchased to reduce the Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or proportional treaty arrangements may be entered into.

III. AVIATION

Aviation deductible business is a specialist area with small individual limits normally up to $1.0 million and covers the deductible the airline would normally have for each and every loss under the terms of their airline policy.

Aviation hull and liability provides cover to the airlines directly and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

AV52 is written on a risk-attaching excess of loss basis and provides coverage for third-party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does include some U.S. commercial airlines.

Aviation reinsurance provides excess of loss catastrophe cover to the insurers of the world's major airlines and aircraft manufacturers and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

Aviation war covers loss or damage to aviation assets from war, terrorism and similar causes.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis. Proportional treaty reinsurance is typically used to reduce the Group's exposure to aviation deductible and the aviation hull and liability business.

IV. ENERGY

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Upstream energy policies are typically package policies which may include physical damage, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple risk carriers.

Downstream energy risks are generally those with an operational hydrocarbon risk – either processing and/or storage and/or transmission – and may also include the production of chemicals and intermediates. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure and may be written on a proportional or excess of loss basis, often with loss limits set at a level commensurate with a modelled estimated maximum loss scenario. The portfolio encompasses a global spread of accounts. Critical natural catastrophe coverage is usually sub-limited, with underwriting assessment employing industry-accepted modelling tools to assess this exposure where possible. The sector provides cover for operational assets, albeit some construction risk is covered where it is not deemed the policy's primary exposure. Third-party liabilities are not covered except where required under legislation for small sub-limited property damage.

Power generation and utility business can be written either ground-up or on a primary or excess basis. The core composition of the portfolio is operational conventional thermal power generation, renewable energy and associated transmission and distribution assets.

The Group writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages policies, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides for variety of damages and loss to third parties. Coverage is generally restricted to upstream and midstream assets.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is measured through loss modelling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss.

Construction energy upstream contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Within the various energy sub-classes are also elements of energy renewables business written, which can cover the construction and subsequent operational phases of various renewable energy types. These cover a broad spectrum of power generation across the offshore and onshore renewable industry, including wind (offshore and onshore), solar, hydropower, geothermal and biomass.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, proportional treaty arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

V. MARINE

Marine cargo is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Most policies are written on a ground-up basis.

Marine liability is split into two main sections. The first is the general marine liability portfolio which encompasses a broad a spectrum of third-party risks emanating from global maritime industry and trade. The second area concerns Protection and Indemnity and is dominated by the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities arising from their members' activities.

Marine builders' risk covers the building of ocean-going vessels in specialised yards worldwide and their testing and commissioning. Marine hull war is mostly direct insurance of the loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance. Marine excess of loss is written on a treaty basis and covers ocean and inland marine risks.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs for removal of wrecks.

Reinsurance may be purchased to reduce the Group's exposure to both large risk losses and an accumulation of smaller, attritional losses. Reinsurance is typically purchased on a treaty excess of loss basis.

REINSURANCE

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of losses that may arise from events that could cause unfavourable underwriting results by entering into reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The RSC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case-by-case basis, and may require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. The RSC monitors the Group's reinsurers on an ongoing basis and formally reviews the Group's reinsurance arrangements at least quarterly. Exposure to the Group's reinsurance counterparties, compared to the Board-approved tolerances, is reported to the Board of Directors on a quarterly basis.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include ILW covers or proportional treaty arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and sub-class. The Group regularly reviews its catastrophe and other exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group can purchase both facultative and treaty reinsurance with varying cover and attachment points. The reinsurance coverage is not intended to be available to meet all potential loss circumstances. The Group will retain some losses, as the cover purchased is unlikely to transfer the totality of the Group's exposure. Any loss amount which exceeds the reinsurance programme would be retained by the Group. Some parts of the reinsurance programme have limited reinstatements, therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group, particularly given the nature of the business written.

Under GAAP, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Group's reserves are reported on an undiscounted basis.

Losses and loss adjustment expenses are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate an actuarial best estimate for the ultimate losses, along with a reserve margin, are utilised. This represents the management best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual independent review by external actuaries. The results of the independent review are presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent to which the reserving process relies on management's judgement is dependent on a number of factors including whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or pro-rata basis.

INSURANCE VERSUS REINSURANCE

Loss reserve calculations whether reserving for direct insurance business or for reinsurance classes are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. The estimates and judgements relied on in making loss reserve calculations are based on a number of factors and may be revised as additional experience or other data becomes available.

Loss reserve calculations are also reviewed as new or improved methodologies are developed and as laws or regulations change. Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Group, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and whether the losses are from policies in force with insureds, primary insurers, reinsurers or vendor binding authorities.

EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Group's business, management is aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity across many of our classes makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month time lag.

UNCERTAINTY

As a result of the time lag described above, an estimate must be made of IBNR reserves, which consists of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Group underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and are therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

The breakdown of losses and loss adjustment expenses between notified outstanding losses, ACR and IBNR is shown in note 13. The majority of the IBNR estimate relates to catastrophe events from 2017-2021, in addition to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Group was not made aware by the balance sheet date.

B. MARKET RISK

The Group is at risk of loss due to movements in market factors. The main risks include:

i. Insurance market risk;

ii. Investment risk;

iii. Debt risk; and

iv. Currency risk.

These risks, and the management thereof, are described below.

I. INSURANCE MARKET RISK

The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment including the UK's exit from the EU and the implications for the loss of business passporting within the EEA.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting call for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for LSL;
- reviews outputs from the economic capital models to assess up-to-date profitability of classes and sectors;
- holds a fortnightly RRC meeting to discuss risk and reinsurance;
- holds a quarterly UURC meeting to review underwriting strategy; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio.

Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. 93.8% of the Group's externally managed portfolio are managed by signatories of the UNPRI. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Committee and the Board of Directors.

The Group's fixed maturity portfolios are managed by five external investment managers. The Group also has a diversified low volatility multi-strategy portfolio of hedge funds, credit funds, principal protected products and private investment funds. The performance of the managers is monitored on an ongoing basis.

Within the Group's investment guidelines are subsets of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. These guidelines add a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the core and core plus portfolios and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core and core plus portfolios are invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The combined core and core plus portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core and core plus portfolios are typically held in the surplus portfolio. The surplus portfolio is invested in fixed maturity securities, principal protected products, derivative instruments, cash and cash equivalents, private investment funds, hedge funds and index linked securities. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolios.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform similarly in risk-on and risk-off environments. The Group endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The Investment Committee performs a strategic asset allocation study on a bi-annual basis, which assesses the Group's overall strategy and to determine alternative asset allocations to achieve the best risk-adjusted return within our risk tolerances. The IRRC meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework. During the year the Investment Committee approved the use of a climate-related VaR to monitor potential climate related financial impacts on our portfolio. This VaR will be monitored against an industry benchmark.

The investment mix of the fixed maturity portfolios is as follows:

As at 31 December 2021	Core $m	Core %	Core plus $m	Core plus %	Surplus $m	Surplus %	Total $m	Total %
• Short-term investments	**23.3**	**1.3**	**21.2**	**1.2**	**–**	**–**	**44.5**	**2.5**
• Fixed maturity funds	**17.6**	**1.0**	**–**	**–**	**–**	**–**	**17.6**	**1.0**
• U.S. treasuries	**223.5**	**12.4**	**289.0**	**15.9**	**51.7**	**2.9**	**564.2**	**31.2**
• Other government bonds	**11.7**	**0.6**	**–**	**–**	**47.1**	**2.6**	**58.8**	**3.2**
• U.S. municipal bonds	**4.1**	**0.2**	**14.8**	**0.8**	**5.4**	**0.3**	**24.3**	**1.3**
• U.S. government agency debt	**4.2**	**0.2**	**29.9**	**1.7**	**21.1**	**1.2**	**55.2**	**3.1**
• Asset backed securities	**9.3**	**0.5**	**19.5**	**1.1**	**75.3**	**4.2**	**104.1**	**5.8**
• U.S. government agency mortgage backed securities	**10.3**	**0.6**	**8.6**	**0.5**	**66.6**	**3.7**	**85.5**	**4.8**
• Non-agency mortgage backed securities	**–**	**–**	**4.6**	**0.3**	**28.6**	**1.6**	**33.2**	**1.9**
• Agency commercial mortgage backed securities	**–**	**–**	**–**	**–**	**0.1**	**–**	**0.1**	**–**
• Non-agency commercial mortgage backed securities	**–**	**–**	**–**	**–**	**20.1**	**1.1**	**20.1**	**1.1**
• Bank loans	**–**	**–**	**–**	**–**	**110.2**	**6.1**	**110.2**	**6.1**
• Corporate bonds	**244.2**	**13.5**	**327.0**	**18.0**	**91.2**	**5.0**	**662.4**	**36.5**
Total fixed maturity securities – AFS	**548.2**	**30.3**	**714.6**	**39.5**	**517.4**	**28.7**	**1,780.2**	**98.5**
Fixed maturity securities – at FVTPL	**–**	**–**	**–**	**–**	**28.9**	**1.5**	**28.9**	**1.5**
Total fixed maturity securities	**548.2**	**30.3**	**714.6**	**39.5**	**546.3**	**30.2**	**1,809.1**	**100.0**

As at 31 December 2020	Core $m	Core %	Core plus $m	Core plus %	Surplus $m	Surplus %	Total $m	Total %
• Short-term investments	34.6	2.1	51.3	3.1	1.0	0.1	86.9	5.3
• Fixed maturity funds	16.4	1.0	–	–	–	–	16.4	1.0
• U.S. treasuries	129.6	7.7	146.7	8.7	17.5	1.0	293.8	17.4
• Other government bonds	16.1	1.0	13.4	0.8	36.4	2.2	65.9	4.0
• U.S. municipal bonds	2.2	0.1	7.3	0.4	3.5	0.2	13.0	0.7
• U.S. government agency debt	4.2	0.3	31.4	1.9	66.5	4.0	102.1	6.2
• Asset backed securities	3.0	0.2	62.2	3.7	60.2	3.6	125.4	7.5
• U.S. government agency mortgage backed securities	13.9	0.8	12.6	0.8	105.3	6.2	131.8	7.8
• Non-agency mortgage backed securities	0.3	–	8.3	0.5	10.2	0.6	18.8	1.1
• Agency commercial mortgage backed securities	–	–	–	–	0.3	–	0.3	–
• Non-agency commercial mortgage backed securities	–	–	–	–	5.8	0.3	5.8	0.3
• Bank loans	–	–	–	–	110.5	6.6	110.5	6.6
• Corporate bonds	238.1	14.2	374.6	22.3	65.9	3.9	678.6	40.4
Total fixed maturity securities – AFS	458.4	27.4	707.8	42.2	483.1	28.7	1,649.3	98.3
Fixed maturity securities – at FVTPL	–	–	–	–	29.3	1.7	29.3	1.7
Total fixed maturity securities	458.4	27.4	707.8	42.2	512.4	30.4	1,678.6	100.0

Bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds by country are as follows:

As at 31 December 2021	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	**206.3**	**387.2**	**593.5**	**–**	**593.5**
Canada	**15.8**	**13.1**	**28.9**	**20.4**	**49.3**
United Kingdom	**29.5**	**12.0**	**41.5**	**–**	**41.5**
Japan	**15.5**	**8.6**	**24.1**	**–**	**24.1**
Netherlands	**4.7**	**5.7**	**10.4**	**1.1**	**11.5**
France	**5.2**	**4.5**	**9.7**	**0.6**	**10.3**
Sweden	**9.6**	**–**	**9.6**	**0.6**	**10.2**
Mexico	**3.3**	**4.2**	**7.5**	**1.5**	**9.0**
Switzerland	**5.5**	**2.8**	**8.3**	**–**	**8.3**
Qatar	**1.7**	**–**	**1.7**	**6.2**	**7.9**
Germany	**5.9**	**1.5**	**7.4**	**–**	**7.4**
Australia	**6.2**	**0.7**	**6.9**	**–**	**6.9**
United Arab Emirates	**5.3**	**0.9**	**6.2**	**–**	**6.2**
India	**–**	**4.7**	**4.7**	**1.5**	**6.2**
Indonesia	**–**	**0.5**	**0.5**	**4.8**	**5.3**
Other	**23.4**	**17.2**	**40.6**	**22.1**	**62.7**
Total	**337.9**	**463.6**	**801.5**	**58.8**	**860.3**

1. Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
2. Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

As at 31 December 2020	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	198.8	392.4	591.2	–	591.2
United Kingdom	26.6	20.4	47.0	–	47.0
Canada	18.3	4.7	23.0	18.7	41.7
Japan	14.9	12.3	27.2	–	27.2
France	17.6	5.8	23.4	0.8	24.2
Switzerland	9.7	3.7	13.4	5.1	18.5
Sweden	10.1	–	10.1	4.2	14.3
Netherlands	7.8	5.7	13.5	0.3	13.8
Germany	0.3	10.0	10.3	0.8	11.1
Spain	10.2	–	10.2	–	10.2
Australia	8.5	0.4	8.9	–	8.9
Italy	4.9	4.0	8.9	–	8.9
China	1.0	2.5	3.5	3.9	7.4
United Arab Emirates	2.5	1.5	4.0	1.5	5.5
Qatar	1.6	–	1.6	2.9	4.5
Other	11.2	11.0	22.2	27.7	49.9
Total	344.0	474.4	818.4	65.9	884.3

1. Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
2. Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

The sector allocation of bank loans, corporate bonds and fixed maturity securities at FVTPL is as follows:

	2021		2020	
As at 31 December	$m	%	$m	%
Industrial	**433.2**	**54.0**	437.7	53.5
Financial	**337.9**	**42.2**	344.0	42.0
Utility	**30.4**	**3.8**	36.7	4.5
Total	**801.5**	**100.0**	818.4	100.0

The Group's net asset value is directly impacted by movements in the fair value of investments held. Values can be impacted by movements in interest rates, credit ratings, exchange rates, the current economic environment and outlook.

The Group's investment portfolio is mainly comprised of fixed maturity securities and cash and cash equivalents. Fixed maturity funds are overseas deposits held by the syndicates in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed maturity securities. The Group also has a hedge fund portfolio as well as principal protected notes and has invested in private investment funds. The estimated fair value of the Group's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

	2021		2020	
As at 31 December	$m	%	$m	%
Immediate shift in yield (basis points)				
100	**(36.6)**	**(2.0)**	(33.7)	(2.0)
75	**(27.4)**	**(1.5)**	(25.2)	(1.5)
50	**(18.3)**	**(1.0)**	(16.8)	(1.0)
25	**(9.1)**	**(0.5)**	(8.4)	(0.5)
(25)	**9.2**	**0.5**	8.6	0.5
(50)	**18.4**	**1.0**	17.2	1.0
(75)	**27.7**	**1.5**	25.9	1.5
(100)	**36.9**	**2.0**	34.5	2.1

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. The duration of the core portfolio is matched to the modelled duration of the insurance reserves, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years and for the surplus portfolio is between one and five years.

The overall duration for fixed maturities, managed cash and cash equivalents and certain derivatives is 1.8 years (31 December 2020 – 2.0 years).

In addition to duration management, the Group monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option-adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the Investment Committee on behalf of the Board of Directors on an annual basis.

The Group's annual VaR calculations are as follows:

	2021		2020	
As at 31 December	$m	% of shareholders' equity	$m	% of shareholders' equity
99th percentile confidence level[1]	**50.4**	**3.6**	57.6	3.7

1. Including the impact of internal foreign exchange hedges.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments primarily to mitigate exposure to foreign currency risk, interest rate risk and credit risk. The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts.

The net (losses) gains on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive (loss) income are as follows:

As at 31 December 2021	Net realised (losses) gains $m	Net foreign exchange (losses) $m	Financing (losses) $m
Interest rate futures	(0.5)	–	–
Forward foreign currency contracts	–	(0.6)	–
Interest rate swaps	0.3	–	(3.4)
Total	(0.2)	(0.6)	(3.4)

As at 31 December 2020	Net realised gains $m	Net foreign exchange gains $m	Financing (losses) $m
Interest rate futures	2.0	–	–
Forward foreign currency contracts	–	0.3	–
Interest rate swaps	–	–	(0.9)
Total	2.0	0.3	(0.9)

The estimated fair values of the Group's derivative instruments are as follows:

	2021			2020		
As at 31 December	Other investments $m	Other receivables $m	Other payables $m	Other investments $m	Other receivables $m	Other payables $m
Forward foreign currency contracts	(0.3)	0.6	(0.6)	(0.7)	1.8	(0.3)
Interest rate swaps	(0.3)	–	–	–	–	–
Credit default swaps	0.5	–	–	–	–	–
Total	(0.1)	0.6	(0.6)	(0.7)	1.8	(0.3)

A. FUTURES

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This allows efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed maturity and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

The Group's exposure to interest rate futures is as follows:

	2021			2020		
As at 31 December	Notional long $m	Notional short $m	Net notional long (short) $m	Notional long $m	Notional short $m	Net notional long (short) $m
Interest rate futures	44.1	36.8	7.3	37.6	11.8	25.8

B. OPTIONS

Exchange-traded options on U.S. treasury futures and Euro dollar futures are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is $nil as at 31 December 2021 and 2020.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

C. FORWARD FOREIGN CURRENCY CONTRACTS

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt, insurance related currency exposures and/or expenses.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

	2021			2020		
As at 31 December	Notional long $m	Notional short $m	Net notional long (short) $m	Notional long $m	Notional short $m	Net notional long (short) $m
Canadian Dollar	**–**	**36.2**	**(36.2)**	–	24.6	(24.6)
Euro	**19.2**	**21.0**	**(1.8)**	18.2	27.9	(9.7)
Australian Dollar	**–**	**9.3**	**(9.3)**	–	11.3	(11.3)
Japanese Yen	**–**	**–**	**–**	6.7	–	6.7
Danish Krone	**–**	**3.9**	**(3.9)**	–	–	–
Sterling	**45.2**	**7.6**	**37.6**	58.9	7.6	51.3
Total	**64.4**	**78.0**	**(13.6)**	83.8	71.4	12.4

D. SWAPS

Interest rate swaps, traded primarily OTC, are used to manage interest rate exposure, portfolio duration or to capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio was $1.3 million as at 31 December 2021 (31 December 2020 – $nil). The notional amount of interest rate swaps held for hedging purposes was $nil as at 31 December 2021 and 2020.

The Group may utilise credit default swaps to add or reduce credit risk to an individual issuer, or a basket of issuers, without investing directly in their securities. The Group held credit default swaps of $13.4 million as at 31 December 2021 (31 December 2020 – $nil).

The Group entered into an interest rate swap, in the form of a 'Treasury lock', on 8 March 2021. This was in order to hedge the 10-year treasury rate on the issuance of the $450.0 million fixed-rate reset junior subordinated notes (see note 18), between the date that the Group announced the issuance of the Notes, and the finalisation of the transaction on 11 March 2021. The 10-year treasury reference rate reduced over the relevant period and a net payment was made of $3.4 million.

III. DEBT RISK

During 2021, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041 (see note 18). The fixed interest rate will reset on 18 September 2031 at a rate per annum equal to the prevailing five year treasury rate plus a credit spread of 4.08% and a relevant 100 basis point step up.

The Group is exposed to interest rate risk in the future if prevailing rates at the time of reset are materially different from the existing rates on the debt issue.

During 2021, the existing floating rate loan notes were redeemed in full and the Group is no longer exposed to interest rate risk on these notes or have any LIBOR risk exposure.

IV. CURRENCY RISK

The Group underwrites from multiple locations and risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. Exchange gains and losses can impact profit or loss.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable and dividends payable. The Group uses forward foreign currency contracts for the purposes of managing currency exposures.

The Group's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	**419.7**	**27.7**	**23.1**	**4.0**	**43.2**	**517.7**
Accrued interest receivable	**6.9**	**–**	**0.1**	**–**	**0.1**	**7.1**
Investments	**2,015.6**	**3.6**	**(0.6)**	**–**	**29.5**	**2,048.1**
Inwards premiums receivable from insureds and cedants	**377.9**	**53.2**	**39.0**	**7.1**	**13.4**	**490.6**
Reinsurance assets	**480.2**	**38.2**	**51.3**	**2.8**	**2.3**	**574.8**
Other receivables	**8.6**	**10.2**	**–**	**–**	**–**	**18.8**
Investment in associate	**118.7**	**–**	**–**	**–**	**–**	**118.7**
Property, plant and equipment	**0.7**	**0.1**	**–**	**–**	**–**	**0.8**
Right-of-use assets	**1.8**	**11.6**	**–**	**–**	**–**	**13.4**
Deferred acquisition costs	**88.4**	**7.3**	**18.4**	**1.7**	**5.8**	**121.6**
Intangible assets	**153.8**	**4.1**	**–**	**–**	**–**	**157.9**
Total assets as at 31 December 2021	**3,672.3**	**156.0**	**131.3**	**15.6**	**94.3**	**4,069.5**

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	**1,025.3**	**77.2**	**93.1**	**26.2**	**69.3**	**1,291.1**
Unearned premiums	**448.7**	**35.1**	**72.6**	**15.1**	**26.4**	**597.9**
Insurance contracts – other payables	**15.3**	**3.5**	**1.0**	**–**	**0.5**	**20.3**
Amounts payable to reinsurers	**154.8**	**27.2**	**17.3**	**2.8**	**3.5**	**205.6**
Deferred acquisition costs ceded	**19.7**	**0.4**	**6.3**	**0.4**	**0.2**	**27.0**
Other payables	**16.2**	**20.8**	**–**	**–**	**0.4**	**37.4**
Corporation tax payable	**–**	**1.6**	**–**	**–**	**–**	**1.6**
Deferred tax liability	**12.5**	**(0.3)**	**–**	**–**	**–**	**12.2**
Lease liabilities	**2.0**	**15.9**	**–**	**–**	**–**	**17.9**
Long-term debt	**445.7**	**–**	**–**	**–**	**–**	**445.7**
Total liabilities as at 31 December 2021	**2,140.2**	**181.4**	**190.3**	**44.5**	**100.3**	**2,656.7**

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	376.6	20.7	13.2	3.9	18.0	432.4
Accrued interest receivable	7.8	0.1	0.1	–	–	8.0
Investments	1,770.4	28.4	39.1	–	18.1	1,856.0
Inwards premiums receivable from insureds and cedants	280.6	25.0	48.0	3.2	15.1	371.9
Reinsurance assets	402.9	31.5	27.2	2.4	3.2	467.2
Other receivables	14.3	12.8	–	–	0.2	27.3
Investment in associate	127.2	–	–	–	–	127.2
Property, plant and equipment	0.3	0.4	–	–	–	0.7
Right-of-use assets	2.8	13.3	–	–	–	16.1
Deferred acquisition costs	62.6	5.6	14.6	1.1	5.1	89.0
Intangible assets	153.8	0.7	–	–	–	154.5
Total assets as at 31 December 2020	3,199.3	138.5	142.2	10.6	59.7	3,550.3

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	758.1	81.3	56.7	21.7	35.0	952.8
Unearned premiums	340.5	26.0	57.5	9.7	24.2	457.9
Insurance contracts – other payables	19.3	1.8	0.5	–	0.9	22.5
Amounts payable to reinsurers	108.4	8.7	28.8	2.4	3.4	151.7
Deferred acquisition costs ceded	14.3	0.2	4.5	0.2	0.4	19.6
Other payables	16.3	29.7	–	–	0.1	46.1
Corporation tax payable	–	1.5	–	–	–	1.5
Deferred tax liability	9.0	1.9	–	–	–	10.9
Lease liabilities	3.0	17.9	–	–	–	20.9
Long-term debt	284.4	–	43.1	–	–	327.5
Total liabilities as at 31 December 2020	1,553.3	169.0	191.1	34.0	64.0	2,011.4

The impact on net income of a proportional foreign exchange movement of 10.0% up and 10.0% down against the U.S. dollar at the year end spot rates would be an increase or decrease of $3.9 million (2020 – $5.5 million).

C. LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Group's main exposures to liquidity risk are with respect to its insurance and investment activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group can be exposed to daily calls on its available investment assets, principally to settle insurance claims and to fund trust accounts following a large catastrophe loss.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame or fund trust accounts;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Group's fixed maturity portfolio are as follows:

As at 31 December 2021	**Core $m**	**Core plus $m**	**Surplus $m**	**Total $m**
Less than one year	**119.0**	**144.7**	**18.5**	**282.2**
Between one and two years	**198.1**	**255.4**	**25.4**	**478.9**
Between two and three years	**102.3**	**133.3**	**38.6**	**274.2**
Between three and four years	**61.9**	**89.6**	**40.8**	**192.3**
Between four and five years	**30.2**	**33.6**	**55.1**	**118.9**
Over five years	**17.1**	**25.3**	**177.2**	**219.6**
Asset backed and mortgage backed securities	**19.6**	**32.7**	**190.7**	**243.0**
Total fixed maturity securities	**548.2**	**714.6**	**546.3**	**1,809.1**

As at 31 December 2020	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	100.2	164.7	11.1	276.0
Between one and two years	115.0	167.0	12.9	294.9
Between two and three years	115.3	131.5	31.4	278.2
Between three and four years	45.1	74.7	41.4	161.2
Between four and five years	53.7	57.8	95.2	206.7
Over five years	11.9	29.0	138.6	179.5
Asset backed and mortgage backed securities	17.2	83.1	181.8	282.1
Total fixed maturity securities	458.4	707.8	512.4	1,678.6

Financials

The maturity profile of the insurance contracts and financial liabilities of the Group is as follows:

As at 31 December 2021	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	**1,291.1**	**676.6**	**425.1**	**114.3**	**75.1**	**1,291.1**
Insurance contracts – other payables	**20.3**	**13.7**	**6.6**	**–**	**–**	**20.3**
Amounts payable to reinsurers	**205.6**	**205.6**	**–**	**–**	**–**	**205.6**
Other payables	**37.4**	**37.4**	**–**	**–**	**–**	**37.4**
Lease liabilities	**17.9**	**3.7**	**6.4**	**5.1**	**6.1**	**21.3**
Long-term debt[1]	**445.7**	**25.3**	**50.6**	**50.6**	**576.6**	**703.1**
Total	**2,018.0**	**962.3**	**488.7**	**170.0**	**657.8**	**2,278.8**

1. The maturity profile of long-term debt includes interest.

As at 31 December 2020	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	952.8	496.1	326.3	85.1	45.3	952.8
Insurance contracts – other payables	22.5	20.5	2.0	–	–	22.5
Amounts payable to reinsurers	151.7	151.7	–	–	–	151.7
Other payables	46.1	46.1	–	–	–	46.1
Lease liabilities	20.9	3.8	7.5	5.1	8.7	25.1
Long-term debt[1]	327.5	17.0	152.7	15.9	296.1	481.7
Total	1,521.5	735.2	488.5	106.1	350.1	1,679.9

1. The maturity profile of long-term debt includes interest.

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

As at 31 December 2021, cash and cash equivalents were $517.7 million (31 December 2020 – $432.4 million). The Group manages its liquidity risks via its investment strategy to hold high-quality, liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core and core plus portfolios with their subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlook and reallocates assets as it deems necessary.

As at 31 December 2021, the Group considers that it has more than adequate liquidity to pay its obligations as they fall due.

D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed maturity portfolio is mitigated through the Group's policy to invest in instruments of high-credit-quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 15.0% of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt, should exceed 5.0% of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies and other highly-rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and settling of unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral amounts exceeding predetermined thresholds to be posted for positions which have accrued gains.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2021	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	**355.6**	–	–
AA+, AA, AA-	**816.0**	–	**2.8**
A+, A, A-	**754.4**	**28.2**	**369.2**
BBB+, BBB, BBB-	**280.4**	**2.1**	**2.2**
Other[1]	**120.4**	**517.3**	**44.6**
Total	**2,326.8**	**547.6**	**418.8**

1. Reinsurance recoveries classified as 'other' include $38.2 million of reserves that are fully collateralised.

As at 31 December 2020	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	469.6	–	–
AA+, AA, AA-	650.8	0.4	4.4
A+, A, A-	591.7	28.0	229.0
BBB+, BBB, BBB-	291.8	–	3.0
Other[1]	107.1	401.9	102.3
Total	2,111.0	430.3	338.7

1. Reinsurance recoveries classified as 'other' include $95.8 million of reserves that are fully collateralised.

As at 31 December 2021, the average credit quality of the fixed maturity portfolio was A+ (31 December 2020 – A+).

The following table shows inwards premiums receivable that are past due but not impaired:

	2021 $m	2020 $m
Less than 90 days past due	**59.1**	37.0
Between 91 and 180 days past due	**13.7**	12.3
Over 180 days past due	**8.2**	7.9
Total	**81.0**	57.2

As at 31 December 2021 there has been no change in our counterparty credit risk exposure, however, it is an area we continue to monitor given the ongoing COVID-19 pandemic. Provisions of $7.0 million (31 December 2020 – $5.6 million) have been made for impaired or irrecoverable balances and $1.4 million (2020 – $1.5 million) was charged to the consolidated statement of comprehensive (loss) income in respect of the provision for bad debts.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems or external events. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modelled within the subsidiaries' capital models. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the Group CRO's quarterly ORSA report to the LHL Board and entity boards and in the LSL RCCC reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. Key risk indicators have been established and are monitored on a regular basis and a formal loss event and near-miss reporting process has been implemented. The Group's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration for audit for all other areas varies from quarterly at the most frequent to a minimum of once every four years, on a rotational basis.

As in 2020, the majority of the Group's employees spent much of 2021 working from home, again with no noticeable adverse impact on the Group's operating effectiveness. The operational cyber risk that comes with employees working from home is managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans, and our cyber security incident response plan.

F. STRATEGIC RISK

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of failing to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required;
- the risks of succession planning, staff retention and key man risks; and
- the risks of organisational stretch as the Group grows, in terms of volume of business written and number of employees, as well as from transformation programmes to ensure the Group has appropriate systems and infrastructure and data in place to support the business.

I. BUSINESS PLAN RISK

The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- evaluation of climate change and the potential short, medium and long-term implications/considerations for the business.

The forward-looking business planning process covers a three-year period from 2022 to 2024 and applies a number of sensitivity, stress and scenario tests. These tests include consideration of climate change risks. The sensitivity and stress testing identified that even under the more extreme stress scenarios the Group had more than adequate liquidity and solvency headroom.

II. CAPITAL MANAGEMENT RISK

The total capital of the Group is as follows:

As at 31 December	2021 $m	2020 $m
Shareholders' equity	**1,412.3**	1,538.5
Long-term debt	**445.7**	327.5
Total capital	**1,858.0**	1,866.0
Intangible assets	**(157.9)**	(154.5)
Total tangible capital	**1,700.1**	1,711.5

Risks associated with the effectiveness of the Group's capital management are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the LSL management team regarding Lloyd's capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost-effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in industry groups such as the International Underwriters Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, rating agency and regulatory capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board of Directors.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. These approaches are used by management in decision making.

During the year, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed rate reset junior subordinated notes due on 18 September 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with $400.0 million issued on 18 March 2021 and $50.0 million issued on 31 March 2021. The majority of the net proceeds from the long-term issuance were used by the Group to redeem its then-existing senior and subordinated indebtedness, with the balance being used for general corporate purposes. The new long-term debt was approved as 'Tier 2 Ancillary Capital' by the Bermuda Monetary Authority.

The Group's aim is to maximise risk-adjusted returns for our shareholders across the cycle through a purposeful and sustainable business culture. The return is measured by management in terms of the Change in FCBVS in the period (see APM on page 189). This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs by adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

The primary source of capital used by the Group is equity shareholders' funds and borrowings (note 18). As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

Both the Group and LICL are regulated by the BMA and are required to monitor their enhanced capital requirement under the BMA's regulatory framework, which has been assessed as equivalent to the Solvency II regime. The Group and LICL's capital requirement are calculated using the BSCR standard formula model. For the years ended 31 December 2021 and 2020, both the Group and LICL were more than adequately capitalised under the BMA's regulatory regime.

The Group's UK regulated insurance companies are required to comply with the Solvency II regime and are regulated by the PRA and FCA. LSL is also regulated by Lloyd's. Under Solvency II, the basis for assessing capital and solvency comprises a market-consistent economic balance sheet and an SCR, determined using either an internal model or the standard formula.

LUK calculates its SCR using the standard formula. LUK's Solvency II own funds are primarily comprised of Tier 1 items for the years ended 31 December 2021 and 2020. Tier 1 capital is the highest-quality capital under Solvency II with the greatest loss-absorbing capacity, comprising share capital and retained earnings. For the years ended 31 December 2021 and 2020, LUK was more than adequately capitalised under the Solvency II regime. The Group is closely monitoring consultations and proposals related to changes to the UK Solvency regime post the UK's departure from the EU on 31 December 2020. The areas under review are not currently expected to have a material impact on the solvency position of any of the Group's UK regulated entities.

The Group's underwriting capacity in its Lloyd's syndicates must be supported by providing a deposit in the form of cash, securities or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage. Solvency II internal models are used to determine capital requirements for Syndicate 2010 and Syndicate 3010 based on the uSCR. Lloyd's has the discretion to take into account other factors at syndicate or member level to uplift the calculated uSCR. This may include perceived deficiencies in the internal model result as well as the need to maintain Lloyd's overall security rating. Currently, as a minimum, Lloyd's applies a 35.0% uplift to each syndicate's uSCR to arrive at the ECA.

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirements, which is backed by FAL. For the 2022 calendar year the Group's corporate member's FAL requirement was set at 74.0% (2021 – 80.4%) of underwriting capacity supported. Further solvency adjustments are made to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has met its FAL requirement of £344.0 million as at 31 December 2021 (31 December 2020 – £302.2 million).

For the years ended 31 December 2021 and 2020 the capital requirements of all the Group's regulatory jurisdictions were met.

III. RETENTION RISK

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts;
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon; and
- training schemes.

Notes to the accounts

1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in London, Bermuda and Australia. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the Official List and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007, LHL's shares have had a secondary listing on the BSX. LHL's head office and registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

The consolidated financial statements for the year ended 31 December 2021 include the Company's subsidiary companies, the Company's investment in associate, and the Group's share of the syndicates' assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 23.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: property and casualty reinsurance, property and casualty insurance, aviation, energy, and marine. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

The Group's operating segments for the purpose of segmental reporting have been revised in the current year. The revenue and expenses previously reported in the property segment are now reported within the property and casualty reinsurance and the property and casualty insurance segments. The aviation, energy and marine segments remain unchanged. Comparative figures for the year ended 31 December 2020 have been re-presented in conformity with the current year view.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2021	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written by geographic area						
U.S. and Canada	281.6	106.2	13.0	53.1	11.3	465.2
Worldwide – multi territory	162.3	19.3	80.7	90.6	71.9	424.8
Europe	52.9	42.7	29.1	10.2	3.9	138.8
Rest of world	63.2	42.3	53.6	30.9	6.4	196.4
Total	560.0	210.5	176.4	184.8	93.5	1,225.2
Outwards reinsurance premiums	(177.6)	(75.0)	(85.6)	(53.8)	(17.1)	(409.1)
Change in unearned premiums	(82.2)	(20.4)	(20.8)	(11.4)	(5.2)	(140.0)
Change in unearned premiums on premiums ceded	(3.1)	6.9	13.5	3.2	(0.1)	20.4
Net premiums earned	297.1	122.0	83.5	122.8	71.1	696.5
Insurance losses and loss adjustment expenses	(433.9)	(114.9)	(38.4)	(46.4)	(34.0)	(667.6)
Insurance losses and loss adjustment expenses recoverable	160.8	11.3	19.8	4.2	1.0	197.1
Insurance acquisition expenses	(66.5)	(36.0)	(28.2)	(32.0)	(25.9)	(188.6)
Insurance acquisition expenses ceded	9.0	4.2	16.5	1.6	0.3	31.6
Net underwriting (loss) profit	(33.5)	(13.4)	53.2	50.2	12.5	69.0
Net unallocated income and expenses						(125.8)
Loss before tax						(56.8)
Net loss ratio	91.9%	84.9%	22.3%	34.4%	46.4%	67.6%
Net acquisition cost ratio	19.4%	26.1%	14.0%	24.8%	36.0%	22.5%
Expense ratio	–	–	–	–	–	17.2%
Combined ratio	111.3%	111.0%	36.3%	59.2%	82.4%	107.3%

2. SEGMENTAL REPORTING CONTINUED

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2020	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written by geographic area						
U.S. and Canada	165.1	85.3	10.9	33.2	6.3	300.8
Worldwide – multi territory	36.8	13.9	80.0	81.0	72.8	284.5
Europe	25.8	20.5	19.4	9.1	6.1	80.9
Rest of world	52.1	27.4	40.7	21.4	6.3	147.9
Total	279.8	147.1	151.0	144.7	91.5	814.1
Outwards reinsurance premiums	(106.4)	(51.5)	(71.3)	(47.7)	(17.8)	(294.7)
Change in unearned premiums	(21.3)	5.6	(18.1)	(6.7)	(11.0)	(51.5)
Change in unearned premiums on premiums ceded	(0.1)	(1.6)	8.8	1.0	(0.2)	7.9
Net premiums earned	152.0	99.6	70.4	91.3	62.5	475.8
Insurance losses and loss adjustment expenses	(91.0)	(68.4)	(79.6)	(85.1)	(39.5)	(363.6)
Insurance losses and loss adjustment expenses recoverable	(9.6)	24.2	47.5	18.3	(0.6)	79.8
Insurance acquisition expenses	(31.8)	(30.5)	(25.8)	(28.0)	(22.9)	(139.0)
Insurance acquisition expenses ceded	6.4	3.7	12.4	1.2	0.3	24.0
Net underwriting profit (loss)	26.0	28.6	24.9	(2.3)	(0.2)	77.0
Net unallocated income and expenses						(71.1)
Profit before tax						5.9
Net loss ratio	66.2%	44.4%	45.6%	73.2%	64.2%	59.6%
Net acquisition cost ratio	16.7%	26.9%	19.0%	29.4%	36.2%	24.2%
Expense ratio	–	–	–	–	–	24.0%
Combined ratio	82.9%	71.3%	64.6%	102.6%	100.4%	107.8%

Financials

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the year ended 31 December 2021	Net investment income and net other investment income[1] $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains/losses on AFS[2] $m	Total investment return excluding foreign exchange $m	Net foreign exchange (losses)/gains $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	**22.9**	**2.7**	**(31.6)**	**(6.0)**	**(2.9)**	**(8.9)**
Fixed maturity securities – at FVTPL	**1.7**	**(0.1)**	**–**	**1.6**	**–**	**1.6**
Index linked securities - at FVTPL	**0.5**	**–**	**–**	**0.5**	**–**	**0.5**
Hedge funds – at FVTPL	**(0.6)**	**3.7**	**–**	**3.1**	**–**	**3.1**
Private investment funds – at FVTPL	**2.3**	**–**	**–**	**2.3**	**–**	**2.3**
Other investments	**(0.1)**	**(0.2)**	**–**	**(0.3)**	**0.7**	**0.4**
Cash and cash equivalents	**0.1**	**–**	**–**	**0.1**	**1.7**	**1.8**
Total investment return	**26.8**	**6.1**	**(31.6)**	**1.3**	**(0.5)**	**0.8**

1. Net unrealised gains/(losses) on our FVTPL investments are included within net investment income and net other investment income.
2. In 2023 when we apply IFRS 9, the net change in unrealised gains /(losses) on AFS will be classified within net investment income and net other investment income.

For the year ended 31 December 2020	Net investment income and net other investment income[1] $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains/losses on AFS[2] $m	Total investment return excluding foreign exchange $m	Net foreign exchange (losses)/gains $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	26.8	2.0	20.8	49.6	7.2	56.8
Fixed maturity securities – at FVTPL	(0.3)	3.2	–	2.9	–	2.9
Hedge funds – at FVTPL	(1.0)	5.7	–	4.7	–	4.7
Private investment funds – at FVTPL	7.3	–	–	7.3	–	7.3
Other investments	0.5	1.9	–	2.4	(0.1)	2.3
Cash and cash equivalents	2.2	–	–	2.2	(2.2)	–
Total investment return	35.5	12.8	20.8	69.1	4.9	74.0

1. Net unrealised gains/(losses) on our FVTPL investments are included within net investment income and net other investment income.
2. In 2023 when we apply IFRS 9, the net change in unrealised gains /(losses) on AFS will be classified within net investment income and net other investment income.

Net investment income includes $34.1 million (2020 – $36.9 million) of interest income on our AFS investment portfolio and cash and cash equivalents. Net realised gains (losses) and impairments includes impairment losses of $nil (2020 – $0.7 million) recognised on fixed maturity securities.

Refer to pages 147 to 148 in the risk disclosures section for the fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments.

Included in net investment income and net other investment income is $4.8 million (2020 – $4.3 million) of investment management, accounting and custodian fees.

4. NET INSURANCE ACQUISITION EXPENSES

For the year ended 31 December	2021 $m	2020 $m
Insurance acquisition expenses	**221.2**	146.3
Changes in deferred insurance acquisition expenses	**(32.6)**	(7.3)
Insurance acquisition expenses ceded	**(39.0)**	(26.0)
Changes in deferred insurance acquisition expenses ceded	**7.4**	2.0
Total net insurance acquisition expenses	**157.0**	115.0

5. OTHER INCOME

For the year ended 31 December	2021 $m	2020 $m
Lancashire Capital Management		
• underwriting fees	**10.6**	10.0
• profit commission	**5.2**	1.8
Lancashire Syndicates		
• managing agency fees	**1.1**	1.0
• consortium fees	**0.6**	0.7
• consortium profit commission	**0.7**	1.8
Total other income	**18.2**	15.3

As at 31 December 2021, contract assets in relation to other income amounted to $0.7 million (31 December 2020 – $1.8 million).

6. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

For the year ended 31 December	2021 $m	2020 $m
Depreciation on owned assets	**0.6**	0.5
Auditor's remuneration		
• Group audit fees	**2.1**	1.9
• Other services	**0.4**	0.3
Total	**3.1**	2.7

During 2021 and 2020, KPMG LLP provided non-audit services in relation to the Group's half-year reporting review, Solvency II reporting, Lloyd's reporting and the long-term debt refinancing. Fees for non-audit services provided in 2021 totalled $0.4 million (2020 – $0.3 million).

7. EMPLOYEE BENEFITS

For the year ended 31 December	2021 $m	2020 $m
Wages and salaries	**49.2**	42.7
Pension costs	**4.3**	3.6
Bonus and other benefits	**15.0**	28.0
Total cash compensation	**68.5**	74.3
RSS – performance	**3.7**	4.9
RSS – ordinary	**6.0**	6.5
RSS – bonus deferral	**1.4**	0.9
Total equity based compensation	**11.1**	12.3
Total employee benefits	**79.6**	86.6

EQUITY BASED COMPENSATION

The Group's equity based compensation scheme is its RSS. All outstanding and future RSS grants have an exercise period of ten years from the grant date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2021 and 2020:

Assumptions	2021	2020
Dividend yield	**–**	–
Expected volatility[1]	**28.0%**	22.4%
Risk-free interest rate[2]	**0.1%**	0.5%
Expected average life of options	**3.0 years**	3.0 years
Share price	**$8.92**	$10.46

1. The expected volatility of the LHL share price is calculated based on the movement in the share price over a period prior to the grant date, equal in length to the expected life of the award.
2. The risk-free interest rate is consistent with three–year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – PERFORMANCE

The performance RSS options vest three years from the date of grant and are dependent on certain performance criteria. A maximum of 85.0% (2020 – 85.0%) of the performance RSS options will vest only on the achievement of a change in FCBVS in excess of a required amount. A maximum of 15.0% (2020 – 15.0%) of the performance RSS options will vest only on the achievement of an absolute TSR in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Total number of restricted shares
Outstanding as at 31 December 2019	2,952,192
Granted	859,344
Exercised	(20,910)
Forfeited	(124,977)
Lapsed	(916,253)
Outstanding as at 31 December 2020	2,749,396
Granted	**1,386,635**
Exercised	**(377,522)**
Forfeited	**(14,615)**
Lapsed	**(480,182)**
Outstanding as at 31 December 2021	**3,263,712**

Exercisable as at 31 December 2020	80,217
Exercisable as at 31 December 2021	**104,346**

	2021 Total restricted shares	2020 Total restricted shares
Weighted average remaining contractual life	**9.0 years**	8.0 years
Weighted average fair value at date of grant during the year	**$7.99**	$9.30
Weighted average share price at date of exercise during the year	**$9.12**	$10.28

RSS – ORDINARY

The ordinary RSS options vest three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted shares
Outstanding as at 31 December 2019	2,483,444
Granted	836,251
Exercised	(628,665)
Forfeited	(71,905)
Outstanding as at 31 December 2020	2,619,125
Granted	**1,035,202**
Exercised	**(561,366)**
Forfeited	**(208,990)**
Outstanding as at 31 December 2021	**2,883,971**

Exercisable as at 31 December 2020	265,329
Exercisable as at 31 December 2021	**520,249**

7. EMPLOYEE BENEFITS CONTINUED

	2021 Total restricted shares	2020 Total restricted shares
Weighted average remaining contractual life	**8.4 years**	7.9 years
Weighted average fair value at date of grant during the year	**$8.92**	$10.35
Weighted average share price at date of exercise during the year	**$9.35**	$10.20

RSS – BONUS DEFERRAL

The vesting periods of the bonus deferral RSS options range from one to three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted shares
Outstanding as at 31 December 2019	196,521
Granted	182,816
Exercised	(102,804)
Forfeited	(25,928)
Outstanding as at 31 December 2020	250,605
Granted	**183,185**
Exercised	**(83,638)**
Outstanding as at 31 December 2021	**350,152**

Exercisable as at 31 December 2020	59,698
Exercisable as at 31 December 2021	**59,329**

	2021 Total restricted shares	2020 Total restricted shares
Weighted average remaining contractual life	**8.9 years**	8.1 years
Weighted average fair value at date of grant during the year	**$8.92**	$10.46
Weighted average share price at date of exercise during the year	**$8.84**	$10.19

RSS – LANCASHIRE SYNDICATES LIMITED ACQUISITION

The vesting periods of the LSL acquisition RSS options ranged from three to five years and were dependent on certain performance criteria. These options vested in full on 31 December 2018. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vested.

	Total number of restricted shares
Outstanding as at 31 December 2019	107,242
Exercised	(42,500)
Outstanding as at 31 December 2021 and 2020	**64,742**

Exercisable as at 31 December 2021 and 2020	**64,742**

	2021 Total restricted shares	2020 Total restricted shares
Weighted average remaining contractual life	**1.9 years**	2.9 years
Weighted average fair value at date of grant	**$13.01**	$13.01
Weighted average share price at date of exercise during the year	**–**	$10.35

8. FINANCING COSTS

For the year ended 31 December	2021 $m	2020 $m
Interest expense on long-term debt	**25.8**	15.7
Redemption cost on senior and subordinated loan notes	**12.8**	–
Interest rate swap	**3.4**	–
Interest expense on lease liabilities	**1.1**	1.3
Other financing costs	**2.7**	3.1
Total	**45.8**	20.1

The increase in financing costs during the year ended 31 December 2021 compared to 2020 was driven by $18.7 million of one-off costs associated with the refinancing of the long-term debt.

Refer to note 18 for details of long-term debt and financing arrangements.

9. TAX

BERMUDA

LHL, LICL and LCM have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

For the year ended 31 December	2021 $m	2020 $m
Corporation tax charge for the period	**2.9**	0.5
Adjustments in respect of prior period corporation tax	**0.2**	0.1
Deferred tax credit for the period	**(2.5)**	(0.3)
Adjustment in respect of prior period deferred tax	**0.8**	(0.3)
Tax rate change adjustment	**3.4**	1.4
Total tax charge	**4.8**	1.4

Tax reconciliation[1]	2021 $m	2020 $m
(Loss) profit before tax	**(56.8)**	5.9
Tax calculated at the standard corporation tax rate applicable in Bermuda 0%	**–**	–
Effect of income taxed at a higher rate	**0.8**	(0.9)
Adjustments in respect of prior period	**1.0**	(0.2)
Differences related to equity based compensation	**1.0**	0.8
Other expense permanent differences	**(1.4)**	0.3
Tax rate change adjustment	**3.4**	1.4
Total tax charge	**4.8**	1.4

1. All tax reconciling balances have been classified as recurring items.

The current tax charge as a percentage of the Group's profit before tax is negative 8.5% (2020 – 23.7%). Non-taxable income relates to profits of companies within the Group that are non-tax resident in the UK and the share of (loss) profit of associate.

Refer to note 11 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive income within shareholders' equity.

10. CASH AND CASH EQUIVALENTS

As at 31 December	2021 $m	2020 $m
Cash at bank and in hand	**275.8**	226.9
Cash equivalents	**241.9**	205.5
Total cash and cash equivalents	**517.7**	432.4

The carrying amount of cash and cash equivalents approximates fair value. Refer to note 18 for the cash and cash equivalent balances on deposit as collateral. Cash and cash equivalents include managed cash of $260.7 million (31 December 2020 – $170.2 million).

11. INVESTMENTS

As at 31 December 2021	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Fair value[1] $m
Fixed maturity securities – AFS				
• Short-term investments	**44.5**	**–**	**–**	**44.5**
• Fixed maturity funds	**17.6**	**–**	**–**	**17.6**
• U.S. treasuries	**566.9**	**0.6**	**(3.3)**	**564.2**
• Other government bonds	**59.5**	**0.3**	**(1.0)**	**58.8**
• U.S. municipal bonds	**24.0**	**0.4**	**(0.1)**	**24.3**
• U.S. government agency debt	**54.2**	**1.1**	**(0.1)**	**55.2**
• Asset backed securities	**104.8**	**0.3**	**(1.0)**	**104.1**
• U.S. government agency mortgage backed securities	**85.5**	**1.1**	**(1.1)**	**85.5**
• Non-agency mortgage backed securities	**33.1**	**0.3**	**(0.2)**	**33.2**
• Agency commercial mortgage backed securities	**0.2**	**–**	**(0.1)**	**0.1**
• Non-agency commercial mortgage backed securities	**20.2**	**–**	**(0.1)**	**20.1**
• Bank loans	**110.1**	**0.7**	**(0.6)**	**110.2**
• Corporate bonds	**657.4**	**8.6**	**(3.6)**	**662.4**
Total fixed maturity securities – AFS	**1,778.0**	**13.4**	**(11.2)**	**1,780.2**
Fixed maturity securities – at FVTPL	**24.8**	**5.5**	**(1.4)**	**28.9**
Private investment funds – at FVTPL	**106.0**	**1.1**	**(1.4)**	**105.7**
Hedge funds – at FVTPL	**93.3**	**14.8**	**(5.2)**	**102.9**
Index linked securities – at FVTPL	**30.0**	**0.5**	**–**	**30.5**
Other investments	**0.3**	**0.1**	**(0.5)**	**(0.1)**
Total investments	**2,032.4**	**35.4**	**(19.7)**	**2,048.1**

1. When IFRS 9, Financial Instruments: Classification and Measurement, is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

As at 31 December 2020	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Fair value[1] $m
Fixed maturity securities – AFS				
• Short-term investments	86.9	–	–	86.9
• Fixed maturity funds	16.4	–	–	16.4
• U.S. treasuries	291.0	2.9	(0.1)	293.8
• Other government bonds	64.4	1.5	–	65.9
• U.S. municipal bonds	12.3	0.7	–	13.0
• U.S. government agency debt	98.7	3.4	–	102.1
• Asset backed securities	121.9	4.0	(0.5)	125.4
• U.S. government agency mortgage backed securities	128.9	3.0	(0.1)	131.8
• Non-agency mortgage backed securities	18.2	0.6	–	18.8
• Agency commercial mortgage backed securities	0.4	–	(0.1)	0.3
• Non-agency commercial mortgage backed securities	5.6	0.2	–	5.8
• Bank loans	110.6	1.0	(1.1)	110.5
• Corporate bonds	654.1	24.6	(0.1)	678.6
Total fixed maturity securities – AFS	1,609.4	41.9	(2.0)	1,649.3
Fixed maturity securities – at FVTPL	25.7	3.6	–	29.3
Private investment funds – at FVTPL	91.7	5.6	(1.2)	96.1
Hedge funds – at FVTPL	72.7	13.4	(4.1)	82.0
Other investments	–	–	(0.7)	(0.7)
Total investments	1,799.5	64.5	(8.0)	1,856.0

1. When IFRS 9, Financial Instruments: Classification and Measurement, is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

Accumulated other comprehensive income in relation to the Group's AFS fixed maturity is as follows:

As at 31 December	2021 $m	2020 $m
Unrealised gains	**13.4**	41.9
Unrealised losses	**(11.2)**	(2.0)
Net unrealised foreign exchange losses (gains) on fixed maturity securities – AFS	**1.1**	(5.0)
Tax provision	**(0.4)**	(1.3)
Accumulated other comprehensive income	**2.9**	33.6

The Group determines the fair value of each individual security utilising the highest-level inputs available. Prices for the Group's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors and broker-dealers. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry-accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, interest rates, prepayment speeds and default rates.

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement. The Group determines securities classified as Level (iii) to include hedge funds, private investment funds and loans to the Lloyd's central fund.

The fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The fair value of the Group's private investment funds are determined using statements received from each fund's investment managers on either a monthly or quarterly in arrears basis. In addition these valuations will be compared with benchmarks or other indices to assess the reasonableness of the estimated fair value of each fund. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between statements and the final NAVs reported by the investment managers.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to $133.8 million and transfers from Level (ii) to (i) securities amounted to $51.0 million during the year ended 31 December 2021.

11. INVESTMENTS CONTINUED

The fair value hierarchy of the Group's investment holdings is as follows:

As at 31 December 2021	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
• Short-term investments	**42.2**	**2.3**	**–**	**44.5**
• Fixed maturity funds	**–**	**17.6**	**–**	**17.6**
• U.S. treasuries	**564.2**	**–**	**–**	**564.2**
• Other government bonds	**31.5**	**27.3**	**–**	**58.8**
• U.S. municipal bonds	**–**	**24.3**	**–**	**24.3**
• U.S. government agency debt	**33.5**	**21.7**	**–**	**55.2**
• Asset backed securities	**–**	**104.1**	**–**	**104.1**
• U.S. government agency mortgage backed securities	**–**	**85.5**	**–**	**85.5**
• Non-agency mortgage backed securities	**–**	**33.2**	**–**	**33.2**
• Agency commercial mortgage backed securities	**–**	**0.1**	**–**	**0.1**
• Non-agency commercial mortgage backed securities	**–**	**20.1**	**–**	**20.1**
• Bank loans	**5.0**	**105.2**	**–**	**110.2**
• Corporate bonds	**197.7**	**464.7**	**–**	**662.4**
Total fixed maturity securities – AFS	**874.1**	**906.1**	**–**	**1,780.2**
Fixed maturity securities – at FVTPL	**–**	**25.0**	**3.9**	**28.9**
Private investment funds – at FVTPL	**–**	**–**	**105.7**	**105.7**
Hedge funds – at FVTPL	**–**	**–**	**102.9**	**102.9**
Index linked securities – at FVTPL	**–**	**30.5**	**–**	**30.5**
Other investments	**–**	**(0.1)**	**–**	**(0.1)**
Total investments	**874.1**	**961.5**	**212.5**	**2,048.1**

As at 31 December 2020	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
• Short-term investments	83.7	3.2	–	86.9
• Fixed maturity funds	–	16.4	–	16.4
• U.S. treasuries	293.8	–	–	293.8
• Other government bonds	25.9	40.0	–	65.9
• U.S. municipal bonds	–	13.0	–	13.0
• U.S. government agency debt	91.0	11.1	–	102.1
• Asset backed securities	–	125.4	–	125.4
• U.S. government agency mortgage backed securities	–	131.8	–	131.8
• Non-agency mortgage backed securities	–	18.8	–	18.8
• Agency commercial mortgage backed securities	–	0.3	–	0.3
• Non-agency commercial mortgage backed securities	–	5.8	–	5.8
• Bank loans	8.3	102.2	–	110.5
• Corporate bonds	262.1	416.5	–	678.6
Total fixed maturity securities – AFS	764.8	884.5	–	1,649.3
Fixed maturity securities – at FVTPL	–	29.3	–	29.3
Private investment funds – at FVTPL	–	–	96.1	96.1
Hedge funds – at FVTPL	–	–	82.0	82.0
Other investments	–	(0.7)	–	(0.7)
Total investments	764.8	913.1	178.1	1,856.0

The table below analyses the movements in investments classified as Level (iii) investments:

	Private investment funds $m	Hedge funds $m	Fixed maturity securities[1] $m	Total $m
As at 31 December 2019	15.5	150.0	–	165.5
Purchases	82.2	5.8	–	88.0
Sales	(6.0)	(79.4)	–	(85.4)
Net realised gains recognised in profit or loss	–	5.7	–	5.7
Net unrealised gains (losses) in profit or loss	4.4	(0.1)	–	4.3
As at 31 December 2020	96.1	82.0	–	178.1
Purchases	**17.1**	**39.9**	**5.3**	**62.3**
Sales	**(2.8)**	**(23.0)**	**–**	**(25.8)**
Net realised gains recognised in profit or loss	**–**	**3.7**	**–**	**3.7**
Net unrealised (losses) gains in profit or loss	**(4.7)**	**0.3**	**(1.4)**	**(5.8)**
As at 31 December 2021	**105.7**	**102.9**	**3.9**	**212.5**

1. Included within fixed maturity securities are central fund loans classified at Level (iii) within the fair value hierarchy.

12. INTERESTS IN STRUCTURED ENTITIES

CONSOLIDATED STRUCTURED ENTITIES

The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT (see note 23).

UNCONSOLIDATED STRUCTURED ENTITIES IN WHICH THE GROUP HAS AN INTEREST

As part of its investment activities, the Group invests in unconsolidated structured entities. The Group does not sponsor any of the unconsolidated structured entities.

12. INTERESTS IN STRUCTURED ENTITIES CONTINUED

A summary of the Group's interest in unconsolidated structured entities is as follows:

As at 31 December 2021	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
• Asset backed securities	**104.1**	–	**104.1**
• U.S. government agency mortgage backed securities	**85.5**	–	**85.5**
• Non-agency mortgage backed securities	**33.2**	–	**33.2**
• Agency commercial mortgage backed securities	**0.1**	–	**0.1**
• Non-agency commercial mortgage backed securities	**20.1**	–	**20.1**
Total fixed maturity securities	**243.0**	–	**243.0**
Investment funds			
• Private investment funds	**105.7**	–	**105.7**
• Hedge funds	**102.9**	–	**102.9**
Total investment funds	**208.6**	–	**208.6**
Specialised investment vehicles			
• KHL (note 16)	–	**118.7**	**118.7**
Total	**451.6**	**118.7**	**570.3**

As at 31 December 2020	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
• Asset backed securities	125.4	–	125.4
• U.S. government agency mortgage backed securities	131.8	–	131.8
• Non-agency mortgage backed securities	18.8	–	18.8
• Agency commercial mortgage backed securities	0.3	–	0.3
• Non-agency commercial mortgage backed securities	5.8	–	5.8
Total fixed maturity securities	282.1	–	282.1
Investment funds			
• Private investment funds	96.1	–	96.1
• Hedge funds	82.0	–	82.0
Total investment funds	178.1	–	178.1
Specialised investment vehicles			
• KHL (note 16)	–	127.2	127.2
Total	460.2	127.2	587.4

The fixed maturity structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed maturity securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories detailed above.

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the consolidated balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in the term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosures for these financial instruments and other investments are provided on pages 143 to 152. The total assets of these structured entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group holds as at 31 December 2021 and 31 December 2020. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and regularly through the holding period for the security. The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there is no intention to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

As at 31 December 2021 the Group has a commitment of $100.0 million (31 December 2020 – $100.0 million) in respect of two credit facility funds. The Group, via the funds, provides collateral for revolving credit facilities purchased at a discount from financial institutions and is at risk for its portion of any defaults on those revolving credit facilities. The Group's proportionate share of these revolving credit facilities purchased by the funds as at 31 December 2021 is $39.7 million (31 December 2020 – $60.3 million), which currently remains unfunded. The maximum exposure to the credit facility funds is $100.0 million and as at 31 December 2021 there have been no defaults under these facilities.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at 31 December 2019	874.5	(327.5)	547.0
Net incurred losses for:			
Prior years	(64.2)	12.2	(52.0)
Current year	427.8	(92.0)	335.8
Exchange adjustments	11.9	(1.3)	10.6
Incurred losses and loss adjustment expenses	375.5	(81.1)	294.4
Net paid losses for:			
Prior years	221.8	(49.1)	172.7
Current year	75.4	(20.8)	54.6
Paid losses and loss adjustment expenses	297.2	(69.9)	227.3
As at 31 December 2020	952.8	(338.7)	614.1
Net incurred losses for:			
Prior years	**(118.8)**	**32.3**	**(86.5)**
Current year	**786.4**	**(229.4)**	**557.0**
Exchange adjustments	**(17.2)**	**1.5**	**(15.7)**
Incurred losses and loss adjustment expenses	**650.4**	**(195.6)**	**454.8**
Net paid losses for:			
Prior years	**192.5**	**(106.7)**	**85.8**
Current year	**119.6**	**(8.8)**	**110.8**
Paid losses and loss adjustment expenses	**312.1**	**(115.5)**	**196.6**
As at 31 December 2021	**1,291.1**	**(418.8)**	**872.3**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 137. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20.0% increase in estimated losses would lead to a $258.2 million (31 December 2020 – $190.6 million) increase in gross loss reserves and a $174.5 million (31 December 2020 – $122.8 million) increase in net loss reserves. During the year the Group refined its reserving methodology to make our margin more explicit as we transition to IFRS 17.

The breakdown of net losses and loss adjustment expenses between notified outstanding losses, ACR and IBNR is shown below:

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
Outstanding losses	354.0	(95.9)	258.1
Additional case reserves	176.1	(31.2)	144.9
Losses incurred but not reported	422.7	(211.6)	211.1
As at 31 December 2020	952.8	(338.7)	614.1
Outstanding losses	**402.6**	**(86.9)**	**315.7**
Additional case reserves	**224.3**	**(31.8)**	**192.5**
Losses incurred but not reported	**664.2**	**(300.1)**	**364.1**
As at 31 December 2021	**1,291.1**	**(418.8)**	**872.3**

The Group's losses and loss expenses as at 31 December 2021 and 2020 had an estimated duration of approximately two years.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of LSL in 2013, the Group assumed additional loss reserves relating to 2001 and subsequent years.

Accident year	2011 & prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total $m
Gross Group losses												
Estimate of ultimate liability[1]												
At end of accident year	1,132.5	250.3	280.0	274.8	276.0	298.5	580.1	429.7	332.4	432.1	777.6	
One year later	1,087.9	350.4	259.8	226.7	214.6	310.7	547.1	462.0	328.7	392.6		
Two years later	1,275.7	338.8	224.0	206.0	196.2	274.4	511.3	431.1	294.8			
Three years later	1,258.8	326.9	224.4	196.5	189.6	235.0	493.1	413.1				
Four years later	1,261.0	313.3	222.1	193.4	184.1	232.3	473.1					
Five years later	1,266.2	308.7	218.4	192.4	182.6	223.5						
Six years later	1,265.5	299.5	213.7	190.1	181.5							
Seven years later	1,227.9	292.8	215.7	187.8								
Eight years later	1,226.1	293.4	218.3									
Nine years later	1,226.2	284.8										
Ten years later	1,228.7											
Current estimate of cumulative liability	**1,228.7**	**284.8**	**218.3**	**187.8**	**181.5**	**223.5**	**473.1**	**413.1**	**294.8**	**392.6**	**777.6**	**4,675.8**
Paid	**(1,178.2)**	**(272.9)**	**(207.5)**	**(178.1)**	**(166.8)**	**(214.7)**	**(406.8)**	**(313.3)**	**(161.5)**	**(165.3)**	**(119.6)**	**(3,384.7)**
Total Group gross liability	**50.5**	**11.9**	**10.8**	**9.7**	**14.7**	**8.8**	**66.3**	**99.8**	**133.3**	**227.3**	**658.0**	**1,291.1**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

Accident year	2011 & prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total $m
Reinsurance												
Estimate of ultimate recovery[1]												
At end of accident year	124.7	48.9	9.9	17.8	15.3	73.1	177.6	139.3	114.6	93.0	228.4	
One year later	118.6	121.8	8.9	14.1	12.2	98.5	185.0	189.9	115.0	90.4		
Two years later	205.7	122.0	8.8	13.1	12.6	96.7	179.7	181.9	97.1			
Three years later	199.3	121.2	8.0	11.5	13.0	76.5	181.2	172.3				
Four years later	209.6	121.2	8.0	11.9	13.0	73.9	178.6					
Five years later	209.7	121.2	8.0	9.6	13.0	73.7						
Six years later	211.2	120.9	7.4	9.6	13.4							
Seven years later	207.2	120.9	7.2	9.0								
Eight years later	206.9	120.8	7.3									
Nine years later	204.0	120.8										
Ten years later	204.3											
Current estimate of cumulative recovery	**204.3**	**120.8**	**7.3**	**9.0**	**13.4**	**73.7**	**178.6**	**172.3**	**97.1**	**90.4**	**228.4**	**1,195.3**
Paid	**(191.5)**	**(118.2)**	**(7.2)**	**(8.8)**	**(13.0)**	**(72.7)**	**(166.7)**	**(117.5)**	**(30.4)**	**(41.7)**	**(8.8)**	**(776.5)**
Total Group gross recovery	**12.8**	**2.6**	**0.1**	**0.2**	**0.4**	**1.0**	**11.9**	**54.8**	**66.7**	**48.7**	**219.6**	**418.8**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

Accident year	2011 & prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total $m
Net Group losses												
Estimate of ultimate liability[1]												
At end of accident year	1,007.8	201.4	270.1	257.0	260.7	225.4	402.5	290.4	217.8	339.1	549.2	
One year later	969.3	228.6	250.9	212.6	202.4	212.2	362.1	272.1	213.7	302.2		
Two years later	1,070.0	216.8	215.2	192.9	183.6	177.7	331.6	249.2	197.7			
Three years later	1,059.5	205.7	216.4	185.0	176.6	158.5	311.9	240.8				
Four years later	1,051.4	192.1	214.1	181.5	171.1	158.4	294.5					
Five years later	1,056.5	187.5	210.4	182.8	169.6	149.8						
Six years later	1,054.3	178.6	206.3	180.5	168.1							
Seven years later	1,020.7	171.9	208.5	178.8								
Eight years later	1,019.2	172.6	211.0									
Nine years later	1,022.2	164.0										
Ten years later	1,024.4											
Current estimate of cumulative liability	**1,024.4**	**164.0**	**211.0**	**178.8**	**168.1**	**149.8**	**294.5**	**240.8**	**197.7**	**302.2**	**549.2**	**3,480.5**
Paid	**(986.7)**	**(154.7)**	**(200.3)**	**(169.3)**	**(153.8)**	**(142.0)**	**(240.1)**	**(195.8)**	**(131.1)**	**(123.6)**	**(110.8)**	**(2,608.2)**
Total Group net liability	**37.7**	**9.3**	**10.7**	**9.5**	**14.3**	**7.8**	**54.4**	**45.0**	**66.6**	**178.6**	**438.4**	**872.3**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2021.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

For the year ended 31 December	2021 $m	2020 $m
2016 accident year and prior	**17.7**	(0.9)
2017 accident year	**18.4**	20.7
2018 accident year	**7.1**	25.3
2019 accident year	**8.8**	6.9
2020 accident year	**34.5**	–
Total favourable development	**86.5**	52.0

The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. 2021 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property and casualty reinsurance segment, as well as some beneficial claims settlements from earlier accident years. The Group's COVID-19 related losses remained stable during 2021.

In the prior year, the Group benefited from general IBNR releases across most lines of business due to a lack of reported claims. There was favourable development on the 2017 catastrophe loss events partially offset by a number of late reported losses from the 2019 accident year, reserve deterioration on a couple of marine claims in the 2017 and 2019 accident years, and adverse development on the 2010 New Zealand earthquake.

In February 2021, Winter Storm Uri was a major winter and ice storm that had widespread impacts across the U.S., Northern Mexico and parts of Canada. In July 2021, the European Floods resulted from a series of storms that occurred in several European countries, resulting in widespread flooding in regions of Germany and other neighbouring countries. These events were followed by hurricane Ida, which made landfall on 29 August 2021, in the U.S. state of Louisiana and continued its path across the U.S. mainland into the north-eastern region, causing significant property and flooding damage. Our net losses in relation to these combined natural catastrophe events, excluding the impacts of reinstatement premiums, were $213.3 million. Large risk losses for the year amounted to $68.8 million, and were principally related to the unrest in South Africa in July 2021.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

There were no other individually significant net loss events for the year ended 31 December 2021 and 2020.

14. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

All receivables are considered current other than $29.2 million (31 December 2020 – $22.8 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Group's receivables.

15. PROVISION FOR DEFERRED TAX

As at 31 December	2021 $m	2020 $m
Equity based compensation	**(4.2)**	(5.1)
Claims equalisation reserves	**–**	2.1
Syndicate underwriting profits	**(0.7)**	(0.5)
Syndicate participation rights	**18.8**	14.4
Other temporary differences	**(1.7)**	–
Net deferred tax liability	**12.2**	10.9

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2021 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the years ended 31 December 2021 and 2020, the Group had no uncertain tax positions.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2021 increasing the tax rate to 25% from 19%, effective 1 April 2023. As at 31 December 2021, this has resulted in the recognition of deferred tax assets and liabilities at 25% on items where the tax reversal is expected to take effect on or after 1 April 2023, with a related tax expense of $3.4 million.

A deferred tax credit of $0.9 million (31 December 2020 – $0.7 million charge) was recognised in accumulated other comprehensive income in relation to the Group's AFS fixed maturity securities.

A deferred tax charge of $0.5 million (31 December 2020 – $0.4 million credit) was recognised in other reserves which relates primarily to unexercised equity based compensation awards where the estimated market value is in excess of the cumulative expense at the reporting date.

All deferred tax assets and liabilities are classified as non-current.

16. INVESTMENT IN ASSOCIATE

The Group holds an interest in the preference shares of each segregated account of KHL. KHL is a company incorporated in Bermuda and its operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2021, the carrying value of the Group's investment in KHL was $118.7 million (31 December 2020 – $127.2 million). The Group's share of comprehensive (loss) income for KHL for the period was a loss of $3.9 million (2020 – $10.7 million gain). Key financial information for KHL is as follows:

	2021 $m	2020 $m
Assets	**887.6**	1,200.3
Liabilities	**273.6**	178.3
Shareholders' equity	**613.9**	1,022.0
Gross premium earned	**137.3**	127.5
Comprehensive (loss) income	**(57.9)**	83.1

The Group has the power to participate in the operational and financial policy decisions of KHL and KRL through the provision of essential technical information by LCM and has therefore classified its investment in KHL as an investment in associate.

When IFRS 9, Financial Instruments: Classification and Measurement, is implemented, KHL will continue to classify all its financial assets at FVTPL. There will therefore be no impact on the estimated fair value of the assets disclosed in the table above.

Refer to note 23 for details of transactions between the Group and its associate.

17. INTANGIBLE ASSETS

	Syndicate participation rights $m	Goodwill $m	Internally generated intangible asset $m	Total $m
Net book value as at 31 December 2020 and 2019	83.3	71.2	–	154.5
Additions	**0.2**	**–**	**3.2**	**3.4**
Net book value as at 31 December 2021	**83.5**	**71.2**	**3.2**	**157.9**

SYNDICATE PARTICIPATION RIGHTS AND GOODWILL

On 20 October 2021, the Group's corporate member acquired additional syndicate participation rights in Syndicate 2010, which takes the Group's share on the 2022 year of account to 62.3%.

Indefinite life intangible assets are tested annually for impairment. For the purpose of impairment testing, the syndicate participation rights and goodwill have been allocated to the LSL's CGU.

The recoverable amount of the LSL's CGU is determined based on its value in use. Value in use is calculated using projected cash flows of the LSL's CGU. These are approved by management and cover a three-year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, expected future market conditions, premium growth rates, outwards reinsurance expenditure, projected loss ratios, investment returns and current events such as climate change and the ongoing COVID-19 pandemic. A pre-tax discount rate of 8.6% (2020 – 7.4%) has been used to discount the projected cash flows, which reflects a combination of factors including the Group's expected weighted average cost of equity and cost of borrowing. This has been calculated using independent measures of the risk-free rate of return and is indicative of the Group's risk profile relative to the market. The higher pre-tax discount rate is primarily due to an overall increase in the equity market risk premium which is an input into the Group's weighted average cost of capital calculation. The growth rate used to extrapolate the cash flows is 3.0% (2020 – 3.0%) based on historical growth rates and management's best estimate of future growth rates.

Sensitivity testing has been performed to model the impact of reasonably possible changes in input assumptions to our base case impairment analysis and headroom. The discount rate has been flexed to 100 basis points above the central assumption (18% reduction in headroom), the growth rate has been flexed to 100 basis points below the central assumption (16% reduction in headroom) and the pre-tax projected cash flows have been flexed 500 basis points below the central assumption (6% reduction in headroom). Within these ranges, the recoverable amount remains supportable.

No impairment loss has been recognised for the years ending 31 December 2021 and 2020.

INTERNALLY GENERATED INTANGIBLE ASSETS

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing a cloud-based target operating model. As at 31 December 2021, the internally generated intangible assets are not yet in use. They are carried at cost less any accumulated impairment losses and are tested annually for impairment at the CGU level.

$5.5 million of project costs have been expensed and no impairment loss has been recognised for the year ending 31 December 2021.

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

LONG-TERM DEBT

During the year ended 31 December 2021, the Company issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with $400.0 million issued on 18 March 2021 and $50.0 million issued on 31 March 2021. Interest is payable semi-annually in arrears on 18 March and 18 September of each year, beginning on 18 September 2021. The fixed interest rate will reset on 18 September 2031, and each reset date thereafter, at a rate per annum equal to the prevailing five year treasury rate plus a credit spread of 4.08% and a 100 basis point step up. The net proceeds from the long-term debt issuance were used to redeem in whole, prior to the respective maturity dates, the Group's outstanding senior and subordinated loan notes, with the balance being used for general corporate purposes.

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

The table below outlines the early redemption dates of the prior years' loan notes and also the carrying value of the junior subordinated notes as at 31 December 2021:

As at 31 December	2021 $m	2020 $m
Junior subordinated notes		
$450.0 million 5.625% fixed-rate reset notes issued March 2021, due September 2041	**445.7**	–
Senior notes		
$130.0 million 5.7% unsecured notes due October 2022, redeemed 13 May 2021	–	130.0
Subordinated notes, floating rate		
$97.0 million loan notes due December 2035, redeemed 15 June 2021	–	97.0
€24.0 million loan notes due June 2035, redeemed 15 June 2021	–	29.5
€12.0 million loan notes due August 2034, redeemed 24 May 2021	–	13.6
$10.0 million loan notes due September 2034, redeemed 15 June 2021	–	10.0
$25.0 million loan notes due June 2035, redeemed 15 June 2021	–	23.7
$25.0 million loan notes due December 2035, redeemed 15 June 2021	–	23.7
Carrying value	**445.7**	327.5

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

The following table outlines the cash and non-cash changes in our long-term debt balances arising from financing activities during the year:

	2021 $m
As at 31 December 2020	327.5
Fair value, net of transaction costs on issuance of $450.0 million reset junior subordinated notes	**445.4**
Early redemption costs on senior and subordinated loan notes	**12.8**
Amortisation of $450.0 million reset junior subordinated notes	**(0.4)**
Redemption of senior and subordinated loan notes	**(339.6)**
As at 31 December 2021	**445.7**

The fair value of the long-term debt is $482.1 million (31 December 2020 – $374.6 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy. The fair value is based on observable data.

The interest accrued on the long-term debt was $7.2 million (31 December 2020 – $2.2 million) at the balance sheet date and is included in other payables. Refer to note 8 for details of the interest expense for the year included in financing costs.

The Company has the option to redeem some or all of the junior subordinated notes, in whole or in part, prior to the maturity date. There are no negative or financial covenants attached to the newly issued junior subordinated notes. As at 31 December 2020, the Group was in compliance with all covenants under its previously issued senior and subordinated loan notes.

LETTERS OF CREDIT

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral.

LHL and LICL have a $250.0 million syndicated collateralised credit facility with a $50.0 million loan sub-limit that has been in place since 20 March 2020 and will expire on 20 March 2025. There was no outstanding debt under this facility as at 31 December 2021 and 2020.

The facility is available for the issue of LOCs to ceding companies. The facility is also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The following LOCs have been issued:

As at 31 December	2021 $m	2020 $m
Issued to third parties	**27.1**	27.6

These LOCs are required to be fully collateralised.

The terms of the $250.0 million syndicated collateralised credit facility include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation;
- a maximum subordinated unsecured indebtedness of $350.0 million; and
- a maximum aggregated indebtedness (i) under any syndicate arrangement entered into by Lancashire Syndicates in connection with the underwriting business carried on by all such members of the syndicates and (ii) incurred by CCL 1998, LHL or LICL in the ordinary course of business in connection with coming into line requirements, of $200.0 million.

On 3 March 2021, LHL and LICL obtained a waiver from their lenders in relation to the limits on debt incurrence under the $250.0 million syndicated collateralised credit facility, which allowed LHL to issue its $450.0 million 5.625% fixed-rate reset junior subordinated notes due in 2041.

An uncollateralised facility has been in place since 30 July 2019, for an original amount of $31.0 million. The facility was most recently increased to $115.5 million on 29 October 2021 (from $95.0 million effective 2 November 2020). It is available for utilisation by LICL and guaranteed by LHL for FAL purposes. As at 31 December 2021, $115.5 million of LOCs were issued under this facility and will expire on 31 December 2025.

The terms of the $115.5 million uncollateralised facility include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation; and
- maintenance of a minimum net worth requirement.

As at all reporting dates the Group was in compliance with all covenants and waivers under these facilities.

SYNDICATE BANK FACILITIES

As at 31 December 2021 and 2020, Syndicate 2010 had in place a $60.0 million and an $80.0 million catastrophe facility, respectively. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Under the terms of the $80.0 million catastrophe facility that was in place as at 31 December 2020, while up to $80.0 million in aggregate was available for utilisation by way of an LoC or an RCF to assist Syndicate 2010's gross funding requirements, only $40.0 million of this amount was available for utilisation by way of an RCF. With effect from 1 January 2021, the RCF element was removed and the facility now solely operates as an LoC facility, available up to a maximum amount of $60.0 million. A separate uncommitted overdraft facility of $20.0 million is available to Syndicate 2010.

There are no balances outstanding under the Syndicate catastrophe facility as at 31 December 2021 or 2020. The Syndicate catastrophe facility is not available to the Group other than through its participation on Syndicate 2010.

TRUSTS AND RESTRICTED BALANCES

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL established a MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at and for the years ended 31 December 2021 and 2020, LICL had been granted accredited or trusteed reinsurer status in all U.S. States. The MBRT is subject to the rules and regulations of the aforementioned States and the respective deeds of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at and for the years ended 31 December 2021 and 2020, the Group was in compliance with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacities of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See page 155 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying the syndicates' claims and expenses. See page 155 for more information regarding the capital requirements for Syndicate 2010 and Syndicate 3010.

The following cash and cash equivalent and investment balances were held in trust, other collateral accounts in favour of third parties, or are otherwise restricted:

	2021			2020		
As at 31 December	Cash and cash equivalents $m	Fixed maturity securities $m	Total $m	Cash and cash equivalents $m	Fixed maturity securities $m	Total $m
FAL	**108.1**	**227.3**	**335.4**	36.4	299.7	336.1
MBRT accounts	**0.3**	**259.9**	**260.2**	0.8	179.3	180.1
Syndicate accounts	**90.9**	**164.3**	**255.2**	59.5	116.3	175.8
In trust accounts for policyholders	**16.2**	**19.3**	**35.5**	14.7	14.8	29.5
In favour of LOCs	**2.1**	**32.3**	**34.4**	4.9	29.8	34.7
Loan to Lloyd's Central Fund	**–**	**3.9**	**3.9**	–	–	–
In favour of derivative contracts	**1.4**	**1.9**	**3.3**	1.8	–	1.8
Total	**219.0**	**708.9**	**927.9**	118.1	639.9	758.0

19. SHARE CAPITAL AND OTHER RESERVES

Authorised common shares of $0.50 each	Number	$m
As at 31 December 2021 and 2020	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
As at 31 December 2019	202,941,918	101.5
Shares issued	41,068,089	20.5
As at 31 December 2021 and 2020	**244,010,007**	**122.0**

During the year ended 31 December 2021 no new shares were issued by the Group. On 10 June 2020 LHL issued 39,568,089 new common shares, raising a total of $340.3 million, $19.8 million of which is included in share capital and $320.5 million of which is included in contributed surplus, net of offering expenses. A further 1,500,000 new common shares at par value of $0.7 million were issued during 2020 to fund future RSS exercises. Refer to note 23 for further details on the share issuance.

19. SHARE CAPITAL AND OTHER RESERVES CONTINUED

Own shares	Number held in treasury	$m	Number held in Trust	$m	Total number of own shares	$m
As at 31 December 2019	–	–	1,488,303	13.3	1,488,303	13.3
Shares distributed	–	–	(790,204)	(7.1)	(790,204)	(7.1)
Shares purchased by trust	–	–	1,500,000	15.0	1,500,000	15.0
As at 31 December 2020	–	–	2,198,099	21.2	2,198,099	21.2
Shares distributed	**–**	**–**	**(1,027,201)**	**(9.9)**	**(1,027,201)**	**(9.9)**
Shares repurchased	**1,000,000**	**6.9**	**–**	**–**	**1,000,000**	**6.9**
Shares donated to trust	**(1,000,000)**	**(6.9)**	**1,000,000**	**6.8**	**–**	**(0.1)**
As at 31 December 2021	**–**	**–**	**2,170,898**	**18.1**	**2,170,898**	**18.1**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2021 was 244,010,007 (31 December 2020 – 244,010,007).

SHARE REPURCHASES

At the AGM held on 28 April 2021, LHL's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 24,401,000 common shares, with such authority to expire on the conclusion of the 2022 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed. During the year ended 31 December 2021, 1,000,000 common shares were repurchased by the Company under its Repurchase Programme, at a weighted average share price of £5.11. As at 31 December 2021, the Company's current Repurchase Programme has 23,401,000 common shares remaining. There were no common shares repurchased during 2020.

DIVIDENDS

The Board of Directors has authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	11 May 2020	5 June 2020	20.2
Interim	$0.05	14 Aug 2020	11 Sep 2020	12.1
Final	**$0.10**	**7 May 2021**	**4 June 2021**	**24.3**
Interim	**$0.05**	**6 Aug 2021**	**3 Sep 2021**	**12.1**

OTHER RESERVES

The Group's other reserves of $1,221.6 million (31 December 2020 – $1,221.6 million) comprises contributed surplus and an equity based compensation reserve. The equity based compensation reserve comprises $34.3 million (31 December 2020 – $32.5 million) of this balance and relates to the Group's equity compensation plans (see note 7).

20. LEASES

The Group leases three properties and several items of office equipment.

RIGHT-OF-USE ASSETS

The Group had the following right-of-use assets in relation to leases entered into.

	Property $m	Equipment $m	Total $m
As at 31 December 2019	18.0	0.2	18.2
Additions	0.1	0.2	0.3
Change in lease terms	0.4	–	0.4
Depreciation charge	(2.7)	(0.1)	(2.8)
As at 31 December 2020	15.8	0.3	16.1
Depreciation charge	**(2.6)**	**(0.1)**	**(2.7)**
As at 31 December 2021	**13.2**	**0.2**	**13.4**

LEASE LIABILITIES

As at 31 December	2021 $m	2020 $m
Due in less than one year	**3.7**	3.8
Due between one and five years	**11.5**	12.6
Due in more than five years	**6.1**	8.7
Total undiscounted lease liabilities	**21.3**	25.1
Total discounted lease liabilities	**17.9**	20.9
Current	**2.8**	2.8
Non-current	**15.1**	18.1

The Group does not face a significant liquidity risk with regards to its lease liabilities.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

For the year ended 31 December	2021 $m	2020 $m
Depreciation of right-of-use assets	**2.7**	2.8
Interest expense on lease liabilities	**1.1**	1.3
Expenses relating to short-term leases, low value leases and variable leases	**1.0**	0.8
Total	**4.8**	4.9

For the year ended 31 December 2021, the total lease payments included in the consolidated cash flow statement amounted to $4.0 million (31 December 2020 – $3.5 million).

21. COMMITMENTS AND CONTINGENCIES

CREDIT FACILITY FUND

As at 31 December 2021 the Group has a commitment of $100.0 million (31 December 2020 – $100.0 million) relating to two credit facility funds (refer to note 12).

PRIVATE INVESTMENT FUNDS

On 28 July 2021, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of $34.0 million. As at 31 December 2021, there was a remaining undrawn commitment in the amount of $27.9 million.

On 9 December 2020, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of $25.0 million. As at 31 December 2021, there was a remaining undrawn commitment in the amount of $8.1 million.

On 5 November 2019, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of $25.0 million. As at 31 December 2021, there was a remaining undrawn commitment in the amount of $1.0 million.

LEGAL PROCEEDINGS AND REGULATIONS

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

22. EARNINGS PER SHARE

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

For the year ended 31 December	2021 $m	2020 $m
(Loss) profit for the year attributable to equity shareholders of LHL	**(62.2)**	4.2

	2021 Number of shares	2020 Number of shares
Basic weighted average number of shares	**242,447,761**	223,611,114
Dilutive effect of RSS	**3,151,016**	3,232,649
Diluted weighted average number of shares	**245,598,777**	226,843,763

(Loss) earnings per share	2021	2020
Basic	**($0.26)**	$0.02
Diluted[1]	**($0.26)**	$0.02

1. Diluted EPS excludes dilutive effect of RSS when in a loss making position.

22. EARNINGS PER SHARE CONTINUED

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares.

23. RELATED PARTY DISCLOSURES

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998[2]	Lloyd’s corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CUL	Non trading	United Kingdom
LAPL[6]	Non trading	Australia
LCM[3]	Insurance agent services	Bermuda
LCMMSL	Support services	United Kingdom
LICL	General insurance business	Bermuda
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LHAPL[6]	Holding company	Australia
LMSCL	Support services	Canada
LSL	Lloyd’s managing agent	United Kingdom
LUAPL[6]	Lloyd's service company	Australia
LUK	General insurance business	United Kingdom
Associate		
KHL[4]	Holding company	Bermuda
Other controlled entities		
EBT	Trust	Jersey
LHFT[5]	Trust	United States

1. Unless otherwise stated, the Group owns 100% of the ordinary share capital and voting rights in its subsidiaries listed.
2. 61.8% participation on the 2021 year of account and 62.3% participation on the 2022 year of account for Syndicate 2010.
3. 93.5% owned by the Group.
4. The Group has an 12.4% holding through its interest in the preference shares of each segregated account of KHL.
5. LHFT was dissolved in August 2021.
6. Entities incorporated in April 2021.

During 2021, the Group redeemed in full its subordinated loan notes held via a trust vehicle - LHFT; refer to note 18. Subsequent to the redemption, LHFT was dissolved during August 2021. LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT and the ability of the Group to influence the actions of the EBT is limited by the trust deed, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes, and is in essence controlled by the Group, and is therefore consolidated.

The Group has a Loan Facility Agreement (the 'Facility') with RBC Cees Trustee Limited, the trustee of the EBT. The Facility is an interest free revolving credit facility under which the trustee can request advances on demand, within the terms of the Facility, up to a maximum aggregate amount of $80.0 million. The Facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2021, the Group had made advances of $1.0 million (31 December 2020 – $1.0 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2021, LHL donated 1,000,000 common shares (repurchased under its Repurchase Programme) to the EBT for a total market value of $6.8 million at the prevailing rate. LHL did not issues any common shares to the EBT during the year ended 31 December 2021. During the year ended 31 December 2020, LHL issued 1,500,000 common shares to the EBT at a par value of $0.7 million and a total value of $15.0 million at the prevailing market rate.

LICL holds $211.8 million (31 December 2020 – $212.6 million) of cash and cash equivalents, fixed maturity securities and accrued interest in trust for the benefit of LUK relating to intra-group reinsurance agreements. In addition, LICL is required to provide 100% of the required FAL to support the underwriting activities of Syndicate 2010 and 3010 and in relation to intra-group reinsurance agreements. LICL holds $335.4 million (31 December 2020 – $268.2 million) of cash and cash equivalents and fixed maturity securities in FAL with the remaining FAL requirement covered by an LOC facility, (refer to note 18).

As at 31 December 2021, the senior management team shareholding in LCM represents a minority interest of 6.5% (31 December 2020 – 6.5%). This investment represents the non-controlling interest listed in the Group's consolidated balance sheet. During the year ended 31 December 2021 dividends of $0.5 million (31 December 2020 – $0.5 million) were paid to minority interest holders.

As at 31 December 2021, Mr Alex Maloney, a Director of LHL, had a 1.2% (31 December 2020 – 1.2%) interest in LCM.

Mr Maloney and his spouse acquired 100.0% of the shares in Nameco on 7 November 2016. Nameco provides capacity to a number of Lloyd's syndicates including Syndicate 2010 which is managed by LSL. Nameco has provided $0.2 million of capacity to Syndicate 2010 for the 2022 year of account (2021 year of account – $0.2 million). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

KEY MANAGEMENT COMPENSATION

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

For the year ended 31 December	2021 $m	2020 $m
Short-term compensation	**2.0**	5.2
Equity based compensation	**1.8**	3.0
Directors' fees and expenses	**2.4**	2.2
Total	**6.2**	10.4

Elaine Whelan, the Group's former CFO, stood down from the Board on 28 February 2020 and retired from the Group on 31 August 2020. The table above includes her retirement package.

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

TRANSACTIONS WITH ASSOCIATE AND ITS SUBSIDIARY

In 2013, LCM entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the year ended 31 December 2021, the Group recognised $15.8 million (2020 – $11.8 million) of service fees and profit commissions in other income (refer to note 5) in relation to this agreement.

During 2021, the Group committed an additional $60.8 million (31 December 2020 – $67.3 million) of capital to KHL. During 2021, KHL returned $65.4 million (31 December 2020 – $59.1 million) of capital to the Group.

Refer to note 16 for further details on the Group's investment in associate.

23. RELATED PARTY DISCLOSURES CONTINUED

During 2021 and 2020, the Group entered into reinsurance agreements with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated balance sheet	2021 $m	2020 $m
Unearned premiums on premiums ceded	**3.1**	3.5
Reinsurance recoveries	**25.0**	–
Amounts payable to reinsurers	**2.8**	3.1
Deferred acquisition cost ceded	**0.4**	0.4

Consolidated statement of comprehensive (loss) income	2021 $m	2020 $m
Outwards reinsurance premiums	**(13.9)**	(7.0)
Change in unearned premiums on premiums ceded	**(0.3)**	(0.3)
Insurance losses and loss adjustment expenses recoverable	**25.0**	–
Insurance acquisition expenses ceded	**0.9**	0.9

24. SUBSEQUENT EVENTS

DIVIDEND

On 10 February 2022, the Board of Directors declared the payment of an ordinary dividend of $0.10 per common share, subject to a shareholder vote of approval at the AGM on 27 April 2022, which will result in an aggregate payment of approximately $24.2 million. On the basis that the final dividend is so approved by the shareholders at the AGM, then the dividend will be paid on 10 June 2022 to shareholders of record on 13 May 2022. An amount equivalent to the dividend accrues on all RSS awards and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Annual General Meeting

The Company's AGM is scheduled for 27 April 2022 and is to be held at the Company's registered and head office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Notice of this year's AGM and forms of proxy and direction shall be delivered to shareholders by electronic means. If you have any queries regarding the notice or AGM voting requirements please contact Chris Head, Company Secretary, using Tel: +44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Further information about the Group including this Annual Report and Accounts, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements containing the words 'believes', 'anticipates', 'aims', 'plans', 'projects', 'forecasts', 'guidance', 'intends', 'expects', 'estimates', 'predicts', 'may', 'can', 'likely', 'will', 'seeks', 'should' or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: the actual development of losses and expenses impacting estimates for claims which arise as a result of the COVID-19 pandemic which is an ongoing event as at the date of this report, the Kentucky tornadoes, hurricane Ida and the European storms which occurred in the second half of 2021, winter storm Uri which occurred during the first quarter of 2021, hurricanes Laura and Sally, the Midwest Derecho storm and the wildfires in California which occurred in 2020, the 2020 and 2021 large loss events across the Group's specialty business lines, typhoon Hagibis in the fourth quarter of 2019, hurricane Dorian and typhoon Faxai in the third quarter of 2019, the Californian wildfires and hurricane Michael which occurred in the fourth quarter of 2018, hurricane Florence, the typhoons and marine losses that occurred in the third quarter of 2018, hurricanes Harvey, Irma and Maria and the earthquakes in Mexico, that occurred in the third quarter of 2017 and the wildfires which impacted parts of California during 2017; the impact of complex and unique causation and coverage issues associated with attribution of losses to wind or flood damage or other perils such as fire or business interruption relating to such events; potential uncertainties relating to reinsurance recoveries, reinstatement premiums and other factors inherent in loss estimations; the Group's ability to integrate its business and personnel; the successful retention and motivation of the Group's key management; the increased regulatory burden facing the Group; the number and type of insurance and reinsurance contracts that the Group writes or may write; the Group's ability to successfully implement its business strategy during 'soft' as well as 'hard' markets; the premium rates which may be available at the time of such renewals within its targeted business lines; potentially unusual loss frequency; the impact that the Group's future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than the Group's underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; increased competition from existing alternative capital providers and insurance-linked funds and collateralised special purpose insurers, and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in the Group's operating subsidiaries' ratings with A.M. Best, S&P Global Ratings, Moody's or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed maturity investments; the impact of swings in market interest rates, currency exchange rates and securities prices; changes by central banks regarding the level of interest rates; the impact of inflation or deflation in relevant economies in which the Group operates; the effect, timing and other uncertainties surrounding future business combinations within the insurance and reinsurance industries; the impact of terrorist activity in the countries in which the Group writes risks; a rating downgrade of, or a market decline in, securities in its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its Bermudian subsidiaries becoming subject to income taxes in the United States or in the United Kingdom; the impact of the change in tax residence on stakeholders of the Group; and the impact of the expiration of the transition period on 31 December 2020 following the United Kingdom's withdrawal from the European Union on the Group's business, regulatory relationships, underwriting platforms or the industry generally, the focus and scrutiny on ESG-related matters regarding the insurance industry from key stakeholders of the Group, and any adverse asset, credit, financing or debt or capital market conditions generally which may affect the ability of the Group to manage its liquidity.

Any estimates relating to loss events involve the exercise of considerable judgement and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgements in relation to loss arising from natural catastrophe and man-made events are influenced by complex factors. The Group cautions as to the preliminary nature of the information used to prepare such estimates as subsequently available information may contribute to an increase in these types of losses.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the LSE) to disseminate any updates or revisions to any forward-looking statement to reflect any changes in the Group's expectations or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

Accident year loss ratio

The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned

Active Underwriter

The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate

Additional case reserves (ACR)

Additional reserves deemed necessary by management

AFS

Available for sale

Aggregate

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

AGM

Annual General Meeting

AIM

A sub-market of the LSE

AIR

AIR Worldwide

A.M. Best Company (A.M. Best)

A.M. Best is a full-service credit rating organisation dedicated to serving the financial services industry, focusing on the insurance sector

APMs

Alternative performance measures

BCP

Business Continuity Plan

BMA

Bermuda Monetary Authority

Board of Directors; Board

Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)

Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BREEAM

Building Research Establishment Environmental Assessment Method

BSCR

Bermuda Solvency Capital Requirement

BSX

Bermuda Stock Exchange

CCHL

Cathedral Capital Holdings Limited

CCL

Cathedral Capital Limited

CCL 1998

Cathedral Capital (1998) Limited

CCL 1999

Cathedral Capital (1999) Limited

CCWG

Climate Change Working Group

CDP

Carbon Disclosure Project

Ceded

To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEND

Confiscation, Expropriation, Nationalisation and Deprivation

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CGU

Cash generating unit

Change in FCBVS

The IRR of the change in FCBVS in the period plus accrued dividends

CIO

Chief Investment Officer

The Code

UK Corporate Governance Code published by the UK FRC (www.frc.org.uk)

Combined ratio

Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned

Compound Annual Change in FCBVS adjusted for dividends

The calculation is the internal rate of return on the movement in Fully Converted Book Value since inception on an annualised basis plus dividends accrued

Consolidated financial statements

Includes the independent auditor's report, consolidated primary statements, accounting policies, risk disclosures and related notes

Consolidated primary statements

Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

COO

Chief Operating Officer

CRO

Chief Risk Officer

CSX

Cayman Islands Stock Exchange

CUL

Cathedral Underwriting Limited

CUO

Chief Underwriting Officer

D&F

Direct and facultative (re)insurance

Deferred acquisition costs

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

Delegated authorities

Arrangements under which a managing agent or (re)insurer delegates its authority to another to enter into contracts of insurance on its behalf

Diluted earnings per share

Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity-based compensation awards into common shares under the treasury stock method

Directors' fees and expenses

Unless otherwise stated includes fees and expenses of all Directors across the Group

Dividend yield

Calculated by dividing the annual dividends per share by the share price on the last day of the given year

Duration

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

Earnings per share (EPS)

Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT

Lancashire Holdings Employee Benefit Trust

ECA

Economic Capital Assessment

ECR

Enhanced Capital Requirement

EEA

European Economic Area

ERM

Enterprise Risk Management

ESG

Environmental, Social and Governance matters

EU

European Union

EURIBOR

The Euro Interbank Offered Rate

Excess of loss

Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

Facultative reinsurance

A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FAL

Funds at Lloyd's

FCA

Financial Conduct Authority

Financial industry category

Includes banks, insurance companies, real estate and other financial institutions

FRC

Financial Reporting Council

FSMA

The Financial Services and Markets Act 2000 (as amended from time to time)

FTE

Full-Time Employee

Fully converted book value per share (FCBVS)

Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised

FVTPL

Fair value through profit or loss

G10

Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States

GDPR

General Data Protection Regulation

GHG

Greenhouse gas emissions covers carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF_3) and sulphur hexafluoride (SF_6)

The Group or the Lancashire Group

LHL and its subsidiaries

GWP

Gross premiums written. Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

ICM

International Care Ministries

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standard(s)

IFRS 9

International Financial Reporting Standard on Financial Instruments

IFRS 17

International Financial Reporting Standard on Insurance Contracts

ILS

Insurance Linked Securities

Incurred but not reported (IBNR)

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

Industry loss warranty (ILW)

A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

Internal Audit Charter

A formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors and regulatory bodies of the internal audit function with the Company and its subsidiaries

International Accounting Standard(s) (IAS)

Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)

An international panel of accounting experts responsible for developing IAS and IFRS

IRR

Internal rate of return

IRRC

Investment Risk and Return Committee

ISA

International Standards on Auditing (UK)

ISE

Irish Stock Exchange

KHL

Kinesis Holdings I Limited

Kinesis

The Group's third-party capital management division encompassing LCM, LCMMSL and the management of KHL and KRL

KPMG LLP

KPMG LLP, a UK limited liability partnership

KPI

Key performance indicator

KRI

Key risk indicator

KRL (Kinesis Re)

Kinesis Reinsurance I Limited

Lancashire Foundation or Foundation

The Lancashire Foundation is a charity registered in England and Wales

Lancashire Insurance Companies

LICL and LUK

LAPL

Lancashire Australia Pty Ltd

LCM

Lancashire Capital Management Limited. Formerly Kinesis Capital Management Limited

LCMMSL

LCM Marketing Services Limited. Formerly KCM Marketing Services Limited

LHAPL

Lancashire Holdings Australia Pty Limited

LHFT

Lancashire Holdings Financing Trust I Limited

LHL (The Company)

Lancashire Holdings Limited

LIBOR

London Interbank Offered Rate

LICL

Lancashire Insurance Company Limited

LIHL
Lancashire Insurance Holdings (UK) Limited

LIMSL
Lancashire Insurance Marketing Services Limited

LISL
Lancashire Insurance Services Limited

Listing Rules
The listing rules made by the FCA under part VI of FSMA (as amended from time to time)

Lloyd's
The Society of Lloyd's

Lloyd's Brussels
Lloyd's Insurance Company SA, the insurer that Lloyd's has established in Brussels

LMSCL
Lancashire Management Services (Canada) Limited

LOC
Letter of credit

Losses
Demand by an insured for indemnity under an insurance contract

LSE
London Stock Exchange

LSL or Lancashire Syndicate
Lancashire Syndicates Limited. Formerly Cathedral Underwriting Limited. The managing agent of the syndicates

LUAPL
Lancashire Underwriting Australia Pty Ltd

LUK
Lancashire Insurance Company (UK) Limited

Managed cash
Managed cash includes both cash managed by external investment managers and non-operating cash managed internally

MBRT
Multi-beneficiary reinsurance trust

Moody's Investors Service (Moody's)
Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

MSCI
A provider of tools and services for the global investment community

MSF
Médecins Sans Frontières

Nameco
Nameco (No. 801) Ltd

NAV
Net asset value

Net acquisition cost ratio
Ratio, in per cent, of net insurance acquisition expenses to net premiums earned

Net expense ratio
Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned

Net loss ratio
Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums earned
Net premiums earned is equal to net premiums written less the change in unearned premiums and change in unearned premiums on premiums ceded

Net premiums written
Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

Official List
The official list of the UK Listing Authority

ORSA
Own Risk and Solvency Assessment

OTC
Over the counter

PIPA
Personal Information Protection Act

PML
Probable maximum loss. The Group's exposure to certain peak zone elemental losses

PRA
Prudential Regulation Authority

Pro-rata/proportional
Reinsurance or insurance where the reinsurer or insurer shares a proportional part of the original premiums and losses of the reinsured or insured

RCCC
Risk Capital and Compliance Committee

RCF
Revolving credit facility

RCP
Representative Concentration Pathway

RDS

Realistic Disaster Scenarios

Renewal Price Index (RPI)

The RPI is an internal methodology that management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI written in the respective segments is calculated on a per-contract basis and reflects management's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The RPI does not include new business, to offer a consistent basis for analysis. The calculation involves a degree of judgement in relation to comparability of contracts and assessment noted above. To enhance the RPI methodology, management may revise the methodology assumptions underlying the RPI, so that the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in the portfolio of contracts. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates. RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in the corresponding year.

Retrocession

The insurance of a reinsurance account

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

Risk Free Rate of Return (RFRoR)

Being the 13 week U.S. Treasury bill rate, unless otherwise stated

RMF

Risk Management Framework

RMS

Risk Management Solutions

RRC

Risk and Return Committee

RSC

Reinsurance Security Committee

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as a benchmark for assessing the financial strength of insurance-related organisations

SCR

Solvency Capital Requirement

SECR

Streamlined Energy and Carbon Reporting

SGT

St Giles Trust

Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL. The Group provides capital to support 62.3% of the stamp for the 2022 underwriting year

Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL. The Group provides capital to support 100.0% of the stamp

TCFD

Task Force on Climate-related Financial Disclosures

The syndicates

Syndicate 2010 and 3010

TOBA

Terms of business agreement

Total Investment Return

Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group's managed investment portfolio

Total Shareholder Return (TSR)

The increase/(decrease) in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends

Treaty reinsurance

A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

UK

United Kingdom

UMCC

Underwriting Marketing Conference Call

Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

UNEP FI

The United Nations Environment Programme Finance Initiative

UNL

Ultimate net loss

UNPRI

UN-supported Principles for Responsible Investment

uSCR

Ultimate solvency capital requirement

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

UURC

The Underwriting and Underwriting Risk Committee, a committee of the Board

Value at Risk (VaR)

A measure of the risk of loss of a specific portfolio of financial assets

Alternative Performance Measures ('APMs')

As is customary in the insurance industry, the Group utilises certain non-GAAP measures in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. Management believes that the APMs included in the Annual Report and Accounts are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly labelled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

In compliance with the Guidelines on APMs of the European Securities and Markets Authority and as suggested by the FRC, as applied by the FCA, information on APMs which the Group uses is described below. This information has not been audited.

All amounts, excluding share data, percentages or where otherwise stated, are in millions of U.S. dollars.

Net loss ratio: Ratio, in per cent, of net insurance losses to net premiums earned. This ratio gives an indication of the amount of claims expected to be paid out per $1.00 of net premium earned in the financial year. The net loss ratio may also be presented with net insurance losses absent catastrophe and other large losses.

	31 December 2021	31 December 2020
Net insurance losses	470.5	283.8
Divided by net premiums earned	696.5	475.8
Net loss ratio	67.6%	59.6%

Net acquisition cost ratio: Ratio, in per cent, of net insurance acquisition expenses to net premiums earned. This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per $1.00 of net premium earned in the financial year.

	31 December 2021	31 December 2020
Net acquisition expenses	157.0	115.0
Divided by net premiums earned	696.5	475.8
Net acquisition cost ratio	22.5%	24.2%

Net expense ratio: Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned. This ratio gives an indication of the amount of operating expenses expected to be paid out per $1.00 of net premium earned in the financial year.

	31 December 2021	31 December 2020
Other operating expenses	119.6	114.4
Divided by net premiums earned	696.5	475.8
Net expense ratio	17.2%	24.0%

Combined ratio (KPI): Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned. The Group aims to price its business to ensure that the combined ratio across the cycle is less than 100%.

	31 December 2021	31 December 2020
Net loss ratio	67.6%	59.6%
Net acquisition cost ratio	22.5%	24.2%
Net expense ratio	17.2%	24.0%
Combined ratio	107.3%	107.8%

Accident year loss ratio: The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned. This ratio shows the amount of claims expected to be paid out per $1.00 of net premium earned in an accident year.

	31 December 2021	31 December 2020
Current accident year ultimate liability	557.0	339.1
Divided by net premiums earned*	687.9	474.9
Accident year loss ratio	81.0%	71.4%

* For the accident year loss ratio, net premiums earned excludes inwards and outwards reinstatement premium from prior accident years.

Fully converted book value per share ('FCBVS') attributable to the Group: Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised. Shows the Group net asset value on a diluted per share basis for comparison to the market value per share.

	31 December 2021	31 December 2020
Shareholders' equity attributable to the Group	1,412,308,553	1,538,466,664
Common voting shares outstanding*	241,839,109	241,811,908
Shares relating to dilutive restricted stock	2,805,365	3,333,356
Fully converted book value denominator	244,644,474	245,145,264
Fully converted book value per share	$5.77	$6.28

* Common voting shares outstanding comprise issued share capital less amounts held in trust (see note 19).

Change in FCBVS (KPI): The internal rate of return of the Change in FCBVS in the period plus accrued dividends. Sometimes referred to as ROE. The Group's aim is to maximise risk-adjusted returns for shareholders across the cycle through a purposeful and sustainable business culture.

	31 December 2021	31 December 2020
Opening FCBVS	**($6.28)**	($5.84)
Q1 dividend per share	**–**	–
Q2 dividend per share	**$0.10**	$0.10
Q3 dividend per share	**$0.05**	$0.05
Q4 dividend per share + closing FCBVS	**$5.77**	$6.28
Change in FCBVS*	**(5.8%)**	10.2%

* Calculated using the internal rate of return.

Total investment return (KPI): Total investment return, in percentage terms, is calculated by dividing the total investment return excluding foreign exchange by the investment portfolio net asset value, including managed cash on a daily basis. These daily returns are then annualised through geometric linking of daily returns. The return can be approximated by dividing the total investment return excluding foreign exchange by the average portfolio net asset value, including managed cash. The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

	31 December 2021	31 December 2020
Total investment return	**1.3**	69.1
Average invested assets*	**2,167.5**	1,873.9
Approximate total investment return	**0.1%**	3.7%
Reported total investment return	**0.1%**	3.9%

* Calculated as the average between the opening and closing investments as per note 11 and externally managed cash as per note 10.

Total shareholder return (KPI): The increase/(decrease) in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends. The Group's aim is to maximise the Change in FCBVS over the longer term and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the Change in FCBVS in the immediate term. The total return measurement basis used will generally approximate the simple method of calculating the increase/(decrease) in share price adjusted for dividends as recalculated below.

	31 December 2021	31 December 2020
Opening share price	**($9.88)**	($10.17)
Q1 dividend per share	**–**	–
Q2 dividend per share	**$0.10**	$0.10
Q3 dividend per share	**$0.05**	$0.05
Q4 dividend per share + closing share price	**$7.17**	$9.88
Total shareholder return	**(25.8%)**	(1.4%)

Comprehensive income returned to shareholders (KPI): The percentage of comprehensive income returned to shareholders equals the total capital returned to shareholders through dividends and share repurchases in a given year, divided by the Group's comprehensive income. The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.

	31 December 2021	31 December 2020
Capital returned	43.3	32.3
Comprehensive income attributable to the Group	(92.9)	24.3
Comprehensive income returned to shareholders	**n/a***	132.9%

* The % comprehensive income returned to shareholders is n/a when reporting a comprehensive loss for the period.

Gross premiums written under management (KPI): The gross premiums written under management equals the total of the Group's consolidated gross premiums written plus the external Names' portion of the gross premiums written in Syndicate 2010 plus the gross premiums written in LCM on behalf of KRL. The Group aims to operate nimbly through the cycle. We will grow in existing and new classes where favourable and improving market conditions exist, whilst monitoring and managing our risk exposures and not seek top-line growth for the sake of it in markets where we do not believe the right opportunities exist.

	31 December 2021	31 December 2020
Gross premiums written by the Group	**1,225.2**	814.1
LSL Syndicate 2010 – external Names' portion of gross premiums written (unconsolidated)	**142.3**	126.6
LCM gross premiums written (unconsolidated)	**135.9**	126.4
Total gross premiums written under management	**1,503.4**	1,067.1

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MIX
Paper from responsible sources
FSC® C107262

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