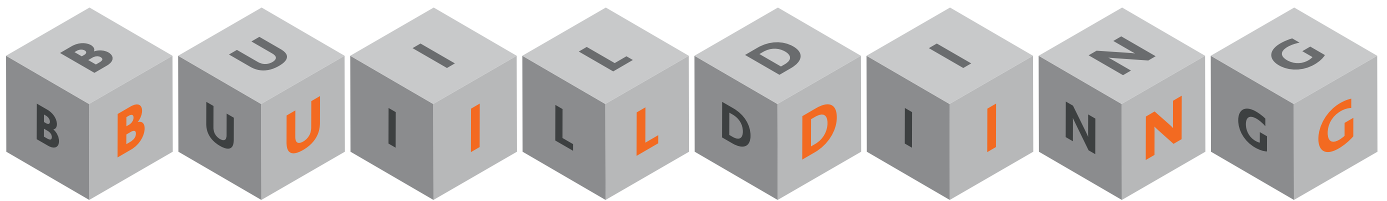
Lancashire
Holdings Limited



OUR FUTURE

Consolidated financial statements for the year ended 31 December 2020

1. Our opinion is unmodified

We have audited the consolidated financial statements of Lancashire Holdings Limited ("the Group") for the year ended 31 December 2020 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 124 to 130.

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 2020 and of its profit for the year then ended; and
- 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 3 May 2017. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities for losses and loss adjustment expenses on a gross basis and net of outwards reinsurance

(2020: $952.8 million gross, $614.1 million net of outwards reinsurance, of which incurred but not reported represented $422.7 million gross, $211.1 million net of outwards reinsurance; 2019: $874.5 million gross, $547.0 million net of outwards reinsurance, of which incurred but not reported represented $383.7 million gross, $168.2 million net of outwards reinsurance)

Refer to page 71 (Audit Committee report), page 127 and 128 (accounting policy) and pages 166 to 168 (financial disclosures)

Risk vs 2019: ◀▶

Risk	Response

Risk

The Group maintains insurance contract liabilities to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events, including any arising from the COVID-19 global pandemic 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 these 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) discloses the sensitivity estimated by the Group.

Completeness and accuracy of data:

For the 2020 year end audit the completeness and accuracy of data no longer forms part of our key audit matter. Whilst the valuation of insurance liabilities depends on complete and accurate data over the volume, amount and pattern of current and historical claims we no longer view this to be part of our key audit matter. Specifically, we note that the data involved is of low complexity and subjectivity and has low estimation uncertainty. There is also no manual manipulation of data within the process. This view is aligned across all the components in the Group.

Response

We have used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

- **Control operation**

Evaluating and testing the design and implementation of key controls around the review and approval of reserves.

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 operation 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 basis and net of outwards reinsurance) 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 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 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.

Our Results

We found the valuation of the gross and net insurance contract liabilities for loss and loss adjustment expenses to be acceptable (2019 result: acceptable).

Valuation of premiums receivable from insureds and cedants which are estimated

(2020: $371.9 million, 2019: $350.5 million) included within inwards premiums receivable from insureds and cedants

Refer to page 71 (Audit Committee report), page 127 (accounting policy) and page 168 (financial disclosures)

Risk vs 2019: ◄►

Risk	Response
Subjective valuation: There is a material proportion of premiums written through the syndicates and UK insurer, 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. 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 operation** 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 operation 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 years. • **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of premiums which are estimated. **Our Results** We found the valuation of premium estimates to be acceptable (2019 result: acceptable).

Impairment of goodwill and intangible assets

(2020: $154.5 million, 2019: $154.5 million) comprised of syndicate participation rights (2020: $83.3 million, 2019: $83.3 million) and goodwill (2020: $71.2 million, 2019: $71.2 million)

Refer to page 71 (Audit Committee report), page 126 (accounting policy) and pages 169 and 170 (financial disclosures)

New risk

Risk	Response
Forecast-based assessment: The impairment of goodwill and intangible assets has been elevated to a significant risk area for the 2020 audit. Goodwill and intangible assets are significant and at risk of irrecoverability due to the current global economic conditions as well as the historical financial performance. The estimated recoverable amount, based on a value in use calculation, is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and intangible assets 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.	Our procedures included: • **Control operation** Evaluating and testing the design and implementation of key controls over the Group's business planning procedures upon which the cash flow forecasts are based. 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 operation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained. • **Sector experience** Evaluating assumptions used, in particular those relating to expected future market conditions, gross written premium growth rates, outwards reinsurance expenditure, projected loss ratios and investment returns. • **Methodology assessment** Assessing and challenging both the value in use model used by the Group and the inputs to that calculation including the key assumptions noted above. • **Retrospective analysis** Assessing the Group's past expertise in forecasting cash flows by comparing forecasts to actuals for prior years. • **Benchmarking assumptions** Comparing the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth, rating environment, and discount rates. • **Sensitivity analysis** Performing sensitivity analysis over all the inputs into the value in use model and determining the impact on headroom. The analysis also included consideration of reasonably probable changes in the inputs noted above • **Assessing transparency** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and intangible assets. **Our Results** We found the Group's conclusion that there is no impairment of goodwill and intangible assets to be acceptable (2019 result: acceptable).

Valuation of level 3 investments

(2020: $178.1 million, 2019: $165.5 million)

Refer to page 71 (Audit Committee report), page 128 (accounting policy) and pages 161 to 164 (financial disclosures)

Risk vs 2019: ◀▶

Risk	Response
Subjective valuation: A proportion of the Group's invested assets comprise holdings in hedge and private investment funds which are classified as level 3 investments. During the year, the Group has reduced its hedge fund portfolio, and increased its holding in private investment funds. The valuation of these investments are based on fund manager's 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 operation** 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 operation 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 manager's 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 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. **Our Results** We found the valuation of Level 3 investments to be acceptable (2019 result: acceptable).

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 $7.3 million (2019: $6.3 million), determined with reference to a benchmark of gross premiums written (2019: gross premiums written), of which it represents 0.9% (2019: 0.9%). We consider gross premiums written to be the most appropriate benchmark given the size and complexity of the business and as it provides a stable measure year on year. We also compared our materiality against other relevant benchmarks (total assets, net assets and profit 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% (2019: 75%) of materiality for the consolidated financial statements as a whole, which equates to $5.4 million (2019: $4.8million). 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 $0.3 million (2019: $0.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2019: nine) reporting components we subjected five (2019: five) to full scope audits for Group purposes which were the parent company, UK insurance company, Bermudan insurance company, UK service entity and the Group's participation in Lloyd's Syndicate 2010 and 3010. Including the audit of the consolidation adjustments our scope covered 100% (2019: 100%) of gross premiums written, total assets and total liabilities.

The four (2019: 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 approved the component materialities, which ranged from $2.1 million to $7.2 million (2019: $1.1 million to $6.2 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 (2019: 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 global travel restrictions during 2020 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. 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 its 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 its 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 COVID-19 on the Group's results and operations, the failure of counterparties who transact with the Group (such as policyholders and reinsurers), 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 108 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 109 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 108 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 will continue in operation.

5. 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 usual 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 communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request 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 revenue is recorded in the wrong period, 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 debt covenants due to the pressure these place on management to deliver results.

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 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.

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 report. The Audit Committee report on page 70 also references the entity level controls in operation across the Group.

To address the pervasive risk as it relates to management override, we also performed the following 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.
- Evaluated the business purpose of significant unusual transactions
- 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 the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the 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 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 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 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.

6. 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.

Based on the above procedures, we have concluded that the above disclosures are materially consistent with the consolidated financial statements and our audit knowledge

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 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 109, the directors are responsible for: the preparation of consolidated financial statements that 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.

8. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company 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
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square London, E14 5GL

9 February 2021

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020 $m	2019 $m
Gross premiums written	2	**814.1**	706.7
Outwards reinsurance premiums	2	**(294.7)**	(282.0)
Net premiums written		**519.4**	424.7
Change in unearned premiums	2	**(51.5)**	(35.8)
Change in unearned premiums on premiums ceded	2	**7.9**	32.8
Net premiums earned		**475.8**	421.7
Net investment income	3	**29.0**	37.7
Net other investment income	3	**6.5**	8.0
Net realised gains (losses) and impairments	3	**12.8**	8.9
Share of profit of associate	16	**10.7**	5.9
Other income	5	**15.3**	11.4
Net foreign exchange gains (losses)		**1.4**	(1.5)
Total net revenue		**551.5**	492.1
Insurance losses and loss adjustment expenses	2, 13	**363.6**	264.5
Insurance losses and loss adjustment expenses recoverable	2, 13	**(79.8)**	(134.7)
Net insurance losses		**283.8**	129.8
Insurance acquisition expenses	2, 4	**139.0**	124.4
Insurance acquisition expenses ceded	2, 4	**(24.0)**	(19.0)
Equity based compensation	7	**12.3**	9.6
Other operating expenses	6, 7, 21	**114.4**	106.0
Total expenses		**525.5**	350.8
Results of operating activities		**26.0**	141.3
Financing costs	8	**20.1**	21.8
Profit before tax		**5.9**	119.5
Tax charge	9	**(1.4)**	(1.3)
Profit for the year		**4.5**	118.2
Profit for the year attributable to:			
Equity shareholders of LHL		**4.2**	117.9
Non-controlling interests		**0.3**	0.3
Profit for the year		**4.5**	118.2
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 11	**20.8**	28.6
Tax charge on net change in unrealised gains/losses on investments	11	**(0.7)**	(0.8)
Other comprehensive income		**20.1**	27.8
Total comprehensive income for the year		**24.6**	146.0
Total comprehensive income attributable to:			
Equity shareholders of LHL		**24.3**	145.7
Non-controlling interests		**0.3**	0.3
Total comprehensive income for the year		**24.6**	146.0
Earnings per share			
Basic	23	**$0.02**	$0.59
Diluted	23	**$0.02**	$0.58

Consolidated balance sheet

As at 31 December 2020

	Notes	2020 $m	2019 $m
Assets			
Cash and cash equivalents	10, 18	**432.4**	320.4
Accrued interest receivable		**8.0**	7.2
Investments	11, 12, 18	**1,856.0**	1,525.1
Inwards premiums receivable from insureds and cedants	14	**371.9**	350.5
Reinsurance assets			
– Unearned premiums on premiums ceded		**97.4**	89.5
– Reinsurance recoveries	13	**338.7**	327.5
– Other receivables	14	**31.1**	16.9
Other receivables	14	**27.3**	51.7
Investment in associate	12, 16	**127.2**	108.3
Property, plant and equipment		**0.7**	1.2
Right-of-use assets	21	**16.1**	18.2
Deferred acquisition costs		**89.0**	81.7
Intangible assets	17	**154.5**	154.5
Total assets		**3,550.3**	3,052.7
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	13	**952.8**	874.5
– Unearned premiums		**457.9**	406.4
– Other payables		**22.5**	27.4
Amounts payable to reinsurers		**151.7**	126.6
Deferred acquisition costs ceded		**19.6**	17.6
Other payables		**46.1**	47.5
Corporation tax payable		**1.5**	2.4
Deferred tax liability	15	**10.9**	9.6
Interest rate swap		**—**	1.1
Lease liabilities	21	**20.9**	21.9
Long-term debt	18	**327.5**	323.5
Total liabilities		**2,011.4**	1,858.5
Shareholders' equity			
Share capital	19	**122.0**	101.5
Own shares	19	**(21.2)**	(13.3)
Other reserves	20	**1,221.6**	881.3
Accumulated other comprehensive income	11	**33.6**	13.5
Retained earnings		**182.5**	210.6
Total shareholders' equity attributable to equity shareholders of LHL		**1,538.5**	1,193.6
Non-controlling interests	24	**0.4**	0.6
Total shareholders' equity		**1,538.9**	1,194.2
Total liabilities and shareholders' equity		**3,550.3**	3,052.7

The consolidated financial statements were approved by the Board of Directors on 9 February 2021 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 2020

	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 2018		101.0	(9.4)	869.0	(14.3)	120.9	1,067.2	0.3	1,067.5
Impact of adoption of IFRS 16 – Leases		—	—	—	—	2.0	2.0	—	2.0
Total comprehensive income for the year		—	—	—	27.8	117.9	145.7	0.3	146.0
Shares purchased by the Trust	19, 20, 24	0.5	(9.3)	8.8	—	—	—	—	—
Distributed by the Trust	19, 20	—	5.4	(6.7)	—	—	(1.3)	—	(1.3)
Dividends on common shares	19	—	—	—	—	(30.2)	(30.2)	—	(30.2)
Equity based compensation	20	—	—	10.2	—	—	10.2	—	10.2
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, 20	**19.8**	**—**	**320.5**	**—**	**—**	**340.3**	**—**	**340.3**
Shares purchased by the Trust	19, 20, 24	**0.7**	**(15.0)**	**14.3**	**—**	**—**	**—**	**—**	**—**
Distributed by the Trust	19, 20	**—**	**7.1**	**(7.9)**	**—**	**—**	**(0.8)**	**—**	**(0.8)**
Dividends on common shares	19	**—**	**—**	**—**	**—**	**(32.3)**	**(32.3)**	**—**	**(32.3)**
Dividends paid to minority interest holders	24	**—**	**—**	**—**	**—**	**—**	**—**	**(0.5)**	**(0.5)**
Net deferred tax	15	**—**	**—**	**0.4**	**—**	**—**	**0.4**	**—**	**0.4**
Equity based compensation	20	**—**	**—**	**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**

Statement of consolidated cash flows

For the year ended 31 December 2020

	Notes	2020 $m	2019 $m
Cash flows from operating activities			
Profit before tax		**5.9**	119.5
Tax paid		**(1.6)**	(2.1)
Depreciation	6, 21	**3.3**	3.9
Interest expense on long-term debt	8	**15.7**	18.5
Interest expense on lease liabilities	21	**1.3**	1.3
Interest and dividend income	3	**(36.9)**	(39.7)
Net amortisation of fixed maturity securities		**4.9**	(1.3)
Equity based compensation	7	**12.3**	9.6
Foreign exchange (gains) losses		**(3.2)**	2.5
Share of profit of associate	16	**(10.7)**	(5.9)
Net other investment income		**(7.4)**	(8.8)
Net realised (gains) losses and impairments	3	**(12.8)**	(8.9)
Net unrealised (gains) losses on interest rate swaps		**(1.1)**	0.7
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**84.5**	(46.0)
– Other assets and liabilities		**26.7**	(8.8)
Net cash flows from operating activities		**80.9**	34.5
Cash flows (used in) from investing activities			
Interest and dividends received		**39.9**	41.1
Purchase of property, plant and equipment		**—**	(1.1)
Purchase of underwriting capacity	17	**—**	(0.7)
Investment in associate	24	**(8.2)**	(35.3)
Purchase of investments		**(1,129.7)**	(948.3)
Proceeds on sale of investments		**837.9**	1,127.7
Net cash flows (used in) from investing activities		**(260.1)**	183.4
Cash flows from (used in) financing activities			
Interest paid		**(15.9)**	(18.5)
Lease liabilities paid	21	**(3.5)**	(3.6)
Proceeds from issue of common shares	19	**340.3**	—
Dividends paid	19	**(32.3)**	(30.2)
Dividends paid to minority interest holders	24	**(0.5)**	—
Distributions by trust		**(0.8)**	(1.3)
Net cash flows from (used in) financing activities		**287.3**	(53.6)
Net increase in cash and cash equivalents		**108.1**	164.3
Cash and cash equivalents at beginning of year		**320.4**	154.6
Effect of exchange rate fluctuations on cash and cash equivalents		**3.9**	1.5
Cash and cash equivalents at end of year	10	**432.4**	320.4

Accounting policies

For the year ended 31 December 2020

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 in accordance with IFRS as adopted by the EU. The Directors have performed an assessment of the Group's ability to continue as a going concern, including the impact of the COVID-19 pandemic.

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. 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 and has heightened the inherent uncertainty in the Group's going concern assessment.

In response to the COVID-19 pandemic, the Group initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of our loss reserving. The current best estimate financial impact of COVID-19 is $42.2 million, net of reinsurance and including the impact of reinstatement premiums. This constitutes 6.9% of our total net loss reserves and 2.7% of our net assets and relates primarily to our property segment.

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, resilience and response to the COVID-19 pandemic, 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 with scenario analysis covering the impact of reserve releases, attritional, large and catastrophe loss events alongside optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Group, additional scenario 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, the continuation of the COVID-19 pandemic throughout 2021 negatively impacting the economy, travel industry, global events and counterparty credit risk, the occurrence of a number of high severity loss events impacting all three of our underwriting platforms in 2021 and 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.

In addition to the above, the following factors were also considered as part of our going concern assessment:

- The Group does not write the following lines of business: travel insurance; trade credit; and long-term life and prior to the COVID-19 pandemic did not write Directors' and Officers' liability or medical malpractice. The Group underwrites a small number of event cancellation contracts and has minimal exposure through mortgage, accident and health business.
- on 15 January 2021, the UK Supreme Court delivered its judgement on the FCA's business interruption test case. The aim of the test case was to obtain clarity on insurance contract wording and determine whether certain business interruption clauses were triggered by the COVID-19 pandemic. For the insurance industry, this means that in certain instances, policyholders will now have their COVID-19 related business interruption claims paid where previously these claims may have been denied. It may also impact the reinsurance industry as insurers will seek to recover from the reinsurance protection they have in place. In light of the UK Supreme Court ruling, the Group has performed a detailed review of the business interruption clauses in its insurance and reinsurance contracts and concluded that there is no material impact on the COVID-19 best estimate loss booked for the year ended 31 December 2020.
- the Group's long-term strategy is to deploy more capital into a hardening market, in which pricing strengthens due to market capital constraints, and to lower the amount of capital deployed in a softer market, where pricing is weaker due to over-supply of risk capital. The COVID-19 pandemic has generated (re)insurance market losses both in terms of the claims environment and the impact on financial markets. In the face of these challenges there has been a retrenchment in (re)insurance markets risk capital and capacity. This in turn has led to continued rate increases in many of the Group's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Group expects the momentum of rising rates to continue in this and other classes of business across its portfolio throughout 2021 and beyond. The Group expects to take advantage of this rating improvement by writing increased levels of business at higher pricing levels.
- on 10 June 2020, the Group raised an additional $340.3 million of equity capital which will be used to fund organic growth and take advantage of the much improved market opportunities. As at 31 December 2020, the Group has total capital of $1,866.0 million available.
- the maintenance of financial strength ratings are a key factor impacting on the ability of the Group to continue as a going concern. A ratings downgrade to lower than A- could adversely impact on the ability of the Group to source and write new business, retain existing business or enter into new financing arrangements. A.M. Best has assigned LICL and LUK a financial strength rating of A (Excellent). This was reaffirmed on 22 September 2020 and the outlook for all entities is stable. Lancashire syndicates 3010 and 2010 also benefit from an A.M. Best rating of A (Excellent) assigned to all Lloyd's of London syndicates. This was reaffirmed on 15 July 2020 and the outlook is stable.
- as at 31 December 2020, the Group considers that it has more than adequate liquidity to pay its obligations as they fall due. The Group held cash and cash equivalents of $432.4 million and fixed maturity investments with maturity dates of less than one year of $276.0 million. In addition to the cash and investment portfolio, the Group also has access to a number of LOC and revolving credit facilities (see note 18). Additional liquidity risk disclosures are set out on pages 147 and 148.

- as at 31 December 2020, the average credit quality of the fixed maturity portfolio was A+ (31 December 2019 – A+) and there has not been a change in our counterparty credit exposure as a result of the COVID-19 pandemic. However, it is an area we continue to monitor. Additional credit risk disclosures are set out on pages 149 and 150.
- the Group financing arrangements are disclosed in note 18. During the year-ended 31 December 2020, there has been no restructuring of the Group's long-term debt as a result of the COVID-19 pandemic and the Group was in compliance with its financial covenants under each of its financing arrangements. In addition, no uncertainties have been identified around the ability to meet the interest payments of the Group's long-term debt.
- whilst considering guidance from both regulatory and shareholder bodies in relation to the use of capital, including payments of dividends, the Group's dividend policy has remained unchanged from prior years. The Board considers that the business is well capitalised to meet all of its obligations to our policyholders and to afford appropriate headroom for growth opportunities. In view of this, the Group paid its final ordinary dividend of $0.10 per common share in relation to the 2019 financial year and declared an interim dividend of $0.05 per common share during the year. There is currently no expectation to amend the Group's dividend policy for the foreseeable future.
- the Group has not entered into any rent concessions or other lease modifications during the year ended 31 December 2020 as a result of the COVID-19 pandemic and is not expected to enter into any rent concessions or modifications in the foreseeable future.
- the Group has not applied for, or received, any grants offered by the UK government to support businesses during the ongoing COVID-19 pandemic and is not expected to in the foreseeable future. None of our employees have been furloughed and we are not expected to furlough any employees in the foreseeable future.

Based on the going concern assessment performed as at 31 December 2020, 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 judgment 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 at 31 December 2020, 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 127, within in the risk disclosures section from page 137 and within note 13 on page 168.

Less significant estimates are made in determining the estimated 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 pages 128 and in note 11.

Whilst not significant, estimates are also utilised in the valuation of intangible assets. The fair value of intangible assets recognised on the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The assumptions made by management in performing annual impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are contained in note 17.

OTHER BASIS OF PREPARATION

Where IFRS 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

While a number of amended IFRS standards have become effective during the year ended 31 December 2020, none of these standards have had a material impact on the Group.

FUTURE ACCOUNTING CHANGES

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts. In June 2020, the IASB published a number of amendments to the standard including a change to the effective date of the standard to accounting periods beginning on or after 1 January 2023. 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 Group will continue to assess the impact that the new standard will have on its results and its presentation and disclosure requirements. IFRS 17 has not yet been endorsed by the EU and will need separate assessment by the UK Endorsement Board, following Brexit.

IFRS 9, Financial Instruments: Classification and Measurement, 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 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 2020. 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 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 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

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars.

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 income within net foreign exchange 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.

INTANGIBLE ASSETS

The Group's 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 as the cost at date of auction. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the CGU and related intangible assets. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Syndicate participation rights and goodwill are considered to have an indefinite life.

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 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. 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 and equity securities include quoted and unquoted investments that are classified as either AFS or at FVTPL and are carried at estimated 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 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 estimated fair value. Estimated 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 estimated 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 estimated fair value. The estimated 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 estimated fair value of AFS investments are included in accumulated other comprehensive income in shareholders' equity. Changes in estimated fair value of investments classified at FVTPL are recognised in the consolidated statement of comprehensive 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 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 estimated fair value on the date a contract is entered into, the trade date, and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative estimated 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. Estimated 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 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 details the type of services from which the Group derives its other income, which are within the scope of IFRS 15, Revenue from Contracts with Customers, and disclosed in note 5.

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 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 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 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 2020

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 six primary risk categories are discussed in detail on pages 132 to 152.

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

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 impacts of the COVID-19 pandemic on our risk profile are discussed on pages 138 to 152.

CLIMATE CHANGE

The Group is exposed to both climate-related risk and opportunities. The two major categories of risk are 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 group, Lancashire 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 mitigated by the Group's strategic and risk management decisions on managing these risks. The Group's work in relation to climate change is discussed in more detail within the ESG section on pages 42 to 61.

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, 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 four principal classes of business for the Group are Property, Aviation, Energy and Marine. These classes are deemed to be the Group's four 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. 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 2020		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**166.5**	**9.7**	**323.0**	**18.9**
California	Earthquake	**111.9**	**6.5**	**151.2**	**8.8**
Non-Gulf of Mexico – U.S.	Hurricane	**108.9**	**6.4**	**361.2**	**21.1**
Pan-European	Windstorm	**71.8**	**4.2**	**85.7**	**5.0**
Japan	Earthquake	**63.7**	**3.7**	**105.9**	**6.2**
Japan	Typhoon	**60.4**	**3.5**	**71.7**	**4.2**
Pacific North West	Earthquake	**20.1**	**1.2**	**85.0**	**5.0**

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 2019		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	139.7	10.3	311.0	22.8
California	Earthquake	85.2	6.3	161.1	11.8
Non-Gulf of Mexico – U.S.	Hurricane	72.8	5.3	307.8	22.6
Pan-European	Windstorm	59.8	4.4	88.1	6.5
Japan	Earthquake	51.3	3.8	165.7	12.2
Japan	Typhoon	26.8	2.0	36.4	2.7
Pacific North West	Earthquake	12.7	0.9	56.1	4.1

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:

	2020		2019	
	$m	%	$m	%
U.S. and Canada	**300.8**	**37.0**	226.2	32.0
Worldwide – multi territory	**284.5**	**34.9**	276.7	39.1
Europe	**80.9**	**9.9**	72.7	10.3
Rest of world	**147.9**	**18.2**	131.1	18.6
Total	**814.1**	**100.0**	706.7	100.0

Details of annual gross premiums written by business segment are provided below:

	2020		2019	
	$m	%	$m	%
Property	**426.9**	**52.4**	382.1	54.1
Aviation	**151.0**	**18.6**	119.6	16.9
Energy	**144.7**	**17.8**	128.1	18.1
Marine	**91.5**	**11.2**	76.9	10.9
Total	**814.1**	**100.0**	706.7	100.0

Further details of the gross premiums written and the risks associated with each of these four principal business segments are described on the following pages.

I. PROPERTY

Gross premiums written, for the year:

	2020 $m	2019 $m
Property catastrophe excess of loss	**200.1**	171.3
Property direct and facultative	**97.5**	72.7
Terrorism	**34.7**	39.9
Property risk excess of loss	**29.7**	24.3
Property retrocession	**23.6**	26.1
Property political risk	**14.9**	33.1
Other property	**26.4**	14.7
Total	**426.9**	382.1

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 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 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 an ILW basis, meaning that loss payments are linked to the overall industry insured loss as measured by independent third-party loss index providers.

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.

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. The Group's appetite and exposure guidelines for large losses are set out on pages 132 and 133.

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. AVIATION

Gross premiums written, for the year:

	2020 $m	2019 $m
Aviation deductible	**54.3**	51.4
Aviation hull and liability	**42.3**	28.8
AV 52	**18.4**	16.1
Aviation reinsurance	**17.4**	8.7
Aviation war	**16.8**	13.4
Other aviation	**1.8**	1.2
Total	**151.0**	119.6

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.

III. ENERGY

Gross premiums written, for the year:

	2020 $m	2019 $m
Upstream energy	**67.9**	67.3
Downstream energy	**31.0**	21.1
Power	**26.8**	15.7
Energy liabilities	**8.7**	6.7
Gulf of Mexico energy	**5.5**	6.3
Construction energy upstream	**1.7**	4.8
Other energy	**3.1**	6.2
Total	**144.7**	128.1

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 & 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. The Group's appetite and exposure guidelines to large losses are set out on pages 132 and 133.

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.

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.

IV. MARINE

Gross premiums written, for the year:

	2020 $m	2019 $m
Marine cargo	**41.3**	35.8
Marine hull and total loss	**23.0**	16.2
Marine liability	**11.0**	9.3
Marine builders' risk	**10.6**	10.7
Marine hull war	**3.5**	3.6
Other marine	**2.1**	1.3
Total	**91.5**	76.9

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.

With the exception of marine liability, where excess layers are written, most policies are written on a ground-up basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine liability is mostly the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities. 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 a point estimate for the ultimate losses are utilised. This represents management's 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. Generally, the Group writes most of its business on a direct excess of loss basis and the Group does not currently write a significant amount of long-tail business.

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.

As at 31 December 2020, management's estimates for IBNR represented $211.1 million or 34.4% of total net loss reserves (31 December 2019 – $168.2 million or 30.9%). The majority of the estimate relates to catastrophe events from 2017-2020, 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 risk;

II. Investment risk;

III. Debt risk; and

IV. Currency risk.

These risks, and the management thereof, are described below.

I. INSURANCE 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 Underwriting and Underwriting Risk Committee 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.

From 2013 to 2017, the market for almost all of our products experienced a period of oversupply and relatively lower levels of catastrophe losses. This resulted in protracted 'softer' pricing conditions within the international (re)insurance markets. Since 2017, the market has faced three challenging years featuring a large number of catastrophe losses, following which the rating environment started to improve. At the beginning of 2020, the Group undertook the decision to retain most of its 2019 profits, by not paying a special dividend, in anticipation of continued improving market conditions, which were evidenced during the year ended 31 December 2020.

In the face of these challenges there has been a retrenchment in re(insurance) market risk capital and capacity. This in turn has led to continued rate increases in many of the Group's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Group expects the momentum of rising rates to continue in this and other classes of business across its portfolio throughout 2021. The rapid increase in rates and dislocation in reinsurance and retrocession markets that are currently being witnessed imply a return to a traditional 'hard' market over the next year. The Group expects to take advantage of this rating improvement by writing increased levels of business at better pricing levels.

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. All of the Group's fixed income managers and private debt managers are signatories of the UNPRI, which approximates to 90.0% of the Group's managed assets. 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 and hedge funds. 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.

Our investment portfolio has been impacted by the ongoing uncertainty and volatility in financial markets caused by the COVID-19 pandemic. It is also subject to elevated credit risk as the COVID-19 pandemic increases the risk of defaults across many industries, this risk is particularly high in our bank loan portfolio. We continue to closely monitor the credit risk across the whole of our investment portfolio. The COVID-19 pandemic has coincided with historically low interest rate levels, which are expected to remain low for the next two to three years. We continue to focus on the most significant risks in our investment portfolio: interest rate risk, credit risk and liquidity risk, and have built our stress testing and risk analytics around these risks to ensure they remain within our tolerances and preferences, including specific pandemic related scenarios.

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.

The investment mix of the fixed maturity portfolios is as follows:

	Core		Core plus		Surplus		Total	
As at 31 December 2020	$m	%	$m	%	$m	%	$m	%
– 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**

	Core		Core plus		Surplus		Total	
As at 31 December 2019	$m	%	$m	%	$m	%	$m	%
– Short-term investments	37.7	2.8	43.0	3.2	4.1	0.3	84.8	6.3
– Fixed maturity funds	12.8	0.9	—	—	—	—	12.8	0.9
– U.S. treasuries	80.1	5.9	74.1	5.4	7.4	0.5	161.6	11.8
– Other government bonds	15.0	1.1	23.3	1.7	9.2	0.7	47.5	3.5
– U.S. municipal bonds	2.2	0.2	6.2	0.5	—	—	8.4	0.7
– U.S. government agency debt	2.8	0.2	37.5	2.8	20.4	1.5	60.7	4.5
– Asset backed securities	3.5	0.3	65.3	4.8	56.2	4.1	125.0	9.2
– U.S. government agency mortgage backed securities	16.0	1.2	17.2	1.3	64.3	4.7	97.5	7.2
– Non-agency mortgage backed securities	0.1	—	13.8	1.0	1.5	0.1	15.4	1.1
– Agency commercial mortgage backed securities	—	—	1.2	0.1	1.0	0.1	2.2	0.2
– Bank loans	—	—	—	—	101.7	7.5	101.7	7.5
– Corporate bonds	186.7	13.7	371.2	27.3	34.3	2.5	592.2	43.5
Total fixed maturity securities – AFS	356.9	26.3	652.8	48.1	300.1	22.0	1,309.8	96.4
Fixed maturity securities – at FVTPL	—	—	—	—	50.3	3.6	50.3	3.6
Total fixed maturity securities	356.9	26.3	652.8	48.1	350.4	25.6	1,360.1	100.0

Bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds by country are as follows:

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.

As at 31 December 2019	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	185.9	325.6	511.5	—	511.5
United Kingdom	41.8	21.2	63.0	5.6	68.6
Canada	17.3	8.7	26.0	20.6	46.6
France	15.5	11.4	26.9	0.6	27.5
Japan	10.7	13.4	24.1	—	24.1
Netherlands	5.8	5.6	11.4	6.9	18.3
Switzerland	9.6	5.5	15.1	—	15.1
Sweden	5.7	—	5.7	5.0	10.7
Spain	9.4	—	9.4	—	9.4
Germany	1.3	5.1	6.4	3.0	9.4
Italy	4.7	3.8	8.5	—	8.5
Australia	8.3	—	8.3	—	8.3
Supranational	7.2	—	7.2	—	7.2
Luxembourg	—	7.0	7.0	—	7.0
China	1.7	1.2	2.9	1.2	4.1
Other	5.8	5.0	10.8	4.6	15.4
Total	330.7	413.5	744.2	47.5	791.7

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:

As at 31 December	2020 $m	2020 %	2019 $m	2019 %
Industrial	**437.7**	**53.5**	390.4	52.5
Financial	**344.0**	**42.0**	323.5	43.5
Utility	**36.7**	**4.5**	23.1	3.1
Supranationals	**—**	**—**	7.2	0.9
Total	**818.4**	**100.0**	744.2	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:

As at 31 December	2020 $m	2020 %	2019 $m	2019 %
Immediate shift in yield (basis points)				
100	**(33.7)**	**(2.0)**	(26.8)	(2.0)
75	**(25.2)**	**(1.5)**	(20.1)	(1.5)
50	**(16.8)**	**(1.0)**	(13.4)	(1.0)
25	**(8.4)**	**(0.5)**	(6.7)	(0.5)
(25)	**8.6**	**0.5**	7.5	0.5
(50)	**17.2**	**1.0**	15.0	1.1
(75)	**25.9**	**1.5**	22.5	1.6
(100)	**34.5**	**2.1**	29.9	2.2

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 2.0 years (31 December 2019 – 1.8 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:

As at 31 December	2020 $m	2020 % of shareholders' equity	2019 $m	2019 % of shareholders' equity
99th percentile confidence level[1]	**57.6**	**3.7**	32.2	2.7

1. Including the impact of internal foreign exchange hedges.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, and OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use OTC or exchange-traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group currently invests in the following derivative financial instruments:

a. Futures;

b. Options;

c. Forward foreign currency contracts; and

d. Swaps.

The net gains (losses) on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive income are as follows:

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)**

As at 31 December 2019	Net realised gains $m	Net foreign exchange gains $m	Financing losses $m
Interest rate futures	0.1	—	—
Forward foreign currency contracts	—	0.4	—
Interest rate swaps	—	—	(1.0)
Total	0.1	0.4	(1.0)

The estimated fair values of the Group's derivative instruments are as follows:

	2020				2019			
As at 31 December	Other investments $m	Other receivables $m	Other payables $m	Interest rate swaps $m	Other investments $m	Other receivables $m	Other payables $m	Interest rate swaps $m
Forward foreign currency contracts	**(0.7)**	**1.8**	**(0.3)**	—	(0.5)	1.4	(0.6)	—
Interest rate swaps	—	—	—	—	—	—	—	(1.1)
Total	**(0.7)**	**1.8**	**(0.3)**	—	(0.5)	1.4	(0.6)	(1.1)

A. FUTURES

The Group's investment guidelines permit the use of futures which 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 approach allows the Group more 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:

	2020			2019		
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	**37.6**	**11.8**	**25.8**	107.2	15.4	91.8
Total	**37.6**	**11.8**	**25.8**	107.2	15.4	91.8

B. OPTIONS

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Euro dollar futures, which 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 2020 and 2019.

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:

	2020			2019		
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	**—**	**24.6**	**(24.6)**	—	20.7	(20.7)
Euro	**18.2**	**27.9**	**(9.7)**	—	27.0	(27.0)
Australian Dollar	**—**	**11.3**	**(11.3)**	—	5.1	(5.1)
Japanese Yen	**6.7**	**—**	**6.7**	—	7.1	(7.1)
Swedish Krona	**—**	**—**	**—**	—	2.7	(2.7)
Mexican Peso	**—**	**—**	**—**	0.4	—	0.4
Malaysian Ringgit	**—**	**—**	**—**	3.9	—	3.9
British Pound	**58.9**	**7.6**	**51.3**	69.2	1.8	67.4
Total	**83.8**	**71.4**	**12.4**	73.5	64.4	9.1

D. SWAPS

The Group's investment guidelines permit the use of interest rate swaps and credit default swaps which are traded primarily OTC.

Interest rate swaps 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 is not material as at 31 December 2020 and 2019. Through the use of interest rate swaps, the Group fixed the interest rate on Lancashire's subordinated loan notes until 15 December 2020. Effective from 16 December 2020 the interest rate is floating. As at 31 December 2020 the notional amount of interest rate swaps held for hedging purposes was $nil (31 December 2019 – $123.9 million).

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 did not hold any credit default swaps at 31 December 2020 or 31 December 2019.

III. DEBT RISK

The Group has issued long-term debt as described in note 18. The LHL subordinated loan notes due in 2035 bear interest at a floating rate that is reset on a quarterly basis, plus a fixed margin of 3.70%. The Group is subject to interest rate risk on the coupon payments of these subordinated loan notes.

	Maturity date	Interest hedged
Subordinated loan notes $97.0 million	15 December 2035	100%
Subordinated loan notes €24.0 million	15 June 2035	100%

The Group had a fixed interest rate of 5.80% on the LHL subordinated loan notes due in 2035 until 15 December 2020, when the interest rate swaps expired. Effective from 16 December 2020 the interest rate is floating. The Group did not extend or renew the interest rate swap on the long-term debt given the expected low rate environment for the next few years. This will be reviewed on a periodic basis.

The senior unsecured notes maturing 1 October 2022 bear interest at a fixed rate of 5.70% and therefore the Group is not exposed to cash flow interest rate risk on this long-term debt.

The Group is subject to interest rate risk on the coupon payments on CCHL's long-term debt described in note 18. An increase of 100 basis points on the EURIBOR and LIBOR three-month deposit rates would result in an increase in the interest expense on long-term debt for the Group of approximately $3.3 million on an annual basis.

The FCA has announced that it will no longer publish the LIBOR benchmark interest rate from 31 December 2021. LIBOR is used as a reference rate in some of the Group's long-term debt and financing arrangements (see note 18). The long term debt agreements contain fall back language if the reference rate, LIBOR, is not available. Lancashire is working with the calculation agent in the agreements to ensure there is an agreed upon replacement reference rate after LIBOR ceases to be published. Note that on 30 November 2020, the administrator of LIBOR announced it will consult on its intention to extend the publication of certain U.S. dollar LIBOR tenors until 30 June 2023. This would include the three–month LIBOR which is included in the long term debt agreements. The consultation will be part of a broader consultation on cessation plans for GBP, EUR, CHF and JPY settings and is expected to be completed in January 2021. The Group has determined that it currently has limited exposure to the transition from LIBOR and will continue to monitor the risks and challenges of a potential replacement of LIBOR.

IV. CURRENCY RISK

The Group underwrites from two locations, Bermuda and London, although 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. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. 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, dividends payable and the Euro-denominated subordinated loan notes discussed in note 18. The Group uses forward foreign currency contracts for the purposes of managing currency exposures. See page 144 for a listing of the Group's open forward foreign currency contracts.

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	**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**

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	242.9	14.3	29.4	5.4	28.4	320.4
Accrued interest receivable	7.0	0.1	0.1	—	—	7.2
Investments	1,415.3	18.1	60.5	3.4	27.8	1,525.1
Inwards premiums receivable from insureds and cedants	276.5	22.4	37.0	2.0	12.6	350.5
Reinsurance assets	362.8	40.3	26.0	1.8	3.0	433.9
Other receivables	40.8	10.7	0.1	—	0.1	51.7
Investment in associate	108.3	—	—	—	—	108.3
Property, plant and equipment	0.4	0.8	—	—	—	1.2
Right-of-use assets	3.6	14.6	—	—	—	18.2
Deferred acquisition costs	57.8	5.2	13.2	1.0	4.5	81.7
Intangible assets	153.8	0.7	—	—	—	154.5
Total assets as at 31 December 2019	2,669.2	127.2	166.3	13.6	76.4	3,052.7

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	670.7	92.3	54.7	22.8	34.0	874.5
Unearned premiums	299.5	22.9	53.6	8.3	22.1	406.4
Insurance contracts – other payables	22.1	2.7	1.2	—	1.4	27.4
Amounts payable to reinsurers	93.5	10.2	18.7	2.2	2.0	126.6
Deferred acquisition costs ceded	12.3	0.2	4.6	0.1	0.4	17.6
Other payables	16.7	30.7	—	—	0.1	47.5
Corporation tax payable	—	2.4	—	—	—	2.4
Deferred tax liability	7.8	1.8	—	—	—	9.6
Interest rate swap	0.4	—	0.7	—	—	1.1
Lease liabilities	3.7	18.2	—	—	—	21.9
Long-term debt	284.4	—	39.1	—	—	323.5
Total liabilities as at 31 December 2019	1,411.1	181.4	172.6	33.4	60.0	1,858.5

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 $5.5 million (2019 – $0.6 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 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**

As at 31 December 2019	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	106.6	139.6	35.4	281.6
Between one and two years	81.4	113.3	16.2	210.9
Between two and three years	56.8	123.6	15.1	195.5
Between three and four years	42.8	74.7	24.8	142.3
Between four and five years	32.9	71.3	28.7	132.9
Over five years	16.8	32.8	107.2	156.8
Asset backed and mortgage backed securities	19.6	97.5	123.0	240.1
Total fixed maturity securities	356.9	652.8	350.4	1,360.1

The maturity profile of the insurance contracts and financial liabilities of the Group is as follows:

		Years until liability becomes due – undiscounted values				
As at 31 December 2020	**Balance sheet $m**	**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.

		Years until liability becomes due – undiscounted values				
As at 31 December 2019	Balance sheet $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	874.5	467.8	278.8	87.5	40.4	874.5
Insurance contracts – other payables	27.4	27.1	0.3	—	—	27.4
Amounts payable to reinsurers	126.6	126.6	—	—	—	126.6
Other payables	47.5	47.5	—	—	—	47.5
Interest rate swap	1.1	1.1	—	—	—	1.1
Lease liabilities	21.9	3.6	7.0	6.0	10.7	27.3
Long-term debt[1]	323.5	14.6	164.4	19.7	313.2	511.9
Total	1,422.5	688.3	450.5	113.2	364.3	1,616.3

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 2020, cash and cash equivalents were $432.4 million (31 December 2019 – $320.4 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.

The Group has modelled a series of COVID-19 pandemic stress tests and assessed the potential impact on future cash flows and liquidity. As at 31 December 2020, 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. Given the dislocation in the market, the COVID-19 pandemic may adversely impact on our ability to collect amounts due to the Group.

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, as discussed on page 136.

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 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 2019	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	409.6	—	—
AA+, AA, AA-	471.2	—	—
A+, A, A-	509.6	133.2	200.3
BBB+, BBB, BBB-	204.9	—	—
Other[1]	85.2	285.9	127.2
Total	1,680.5	419.1	327.5

1. Reinsurance recoveries classified as 'other' include $111.6 million of reserves that are fully collateralised.

The COVID-19 pandemic has increased the risk of defaults across many industries and we continue to monitor credit risk during this time of volatility. While interest rates are at all-time lows and expected to remain low, credit spreads will remain volatile in the near-term. As at 31 December 2020, the average credit quality of the fixed maturity portfolio was A+ (31 December 2019 – A+).

The following table shows inwards premiums receivable that are past due but not impaired:

	2020 $m	2019 $m
Less than 90 days past due	**37.0**	13.2
Between 91 and 180 days past due	**12.3**	5.1
Over 180 days past due	**7.9**	2.9
Total	**57.2**	21.2

As at 31 December 2020 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 $5.6 million (31 December 2019 – $4.1 million) have been made for impaired or irrecoverable balances and $1.5 million (2019 – $1.2 million) was charged to the consolidated statement of comprehensive income in respect of 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. 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.

The COVID-19 pandemic has challenged the robustness of the Group's operational risk management framework. We are pleased with the Group's operational resilience and the business continuity arrangements that have been successfully demonstrated in the face of the COVID-19 pandemic. The majority of our employees have been working from home since March 2020 with no noticeable adverse impact on the Group's operating effectiveness. The Group recognises that it may be exposed to an increased level of operational cyber risk as a result of all employees working from home. The risk is being 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 development of a 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 the failure 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; and
- the risks of succession planning, staff retention and key man risks.

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;
- responding to current events such as the COVID-19 pandemic and the impact on the business; and
- evaluation of climate change and the potential long-term implications/considerations for the business.

The forward-looking business planning process covers a three-year period from 2021 to 2023 and applies a number of sensitivity, stress and scenario tests. These tests include consideration of COVID-19 pandemic and 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	2020 $m	2019 $m
Shareholders' equity	**1,538.5**	1,193.6
Long-term debt	**327.5**	323.5
Total capital	**1,866.0**	1,517.1
Intangible assets	**(154.5)**	(154.5)
Total tangible capital	**1,711.5**	1,362.6

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.

The COVID-19 pandemic has contributed to a significant hardening in the market. On 10 June 2020, the Group raised an additional $340.3 million of equity capital which will be used to fund organic growth and take advantage of the improved market opportunities during 2021. The Group's strategy is to maximise risk-adjusted returns for its shareholders across the long term by deploying more capital into a hardening market, in which pricing strengthens due to market capital constraints and to lower the amount of capital deployed in softer markets, where pricing is weaker due to oversupply. The return is generated within a broad framework of risk parameters.

The return is measured by management in terms of the Change in FCBVS in the period. The Group's aim is to maximise risk-adjusted returns for our shareholders across the cycle through a purposeful and sustainable business culture. 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 Change in FCBVS achieved is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2020	**10.2**	**17.3**	**988.9**
31 December 2019	14.1	17.4	847.5

The Change in FCBVS achieved in excess of the three-month treasury yield is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2020	**9.9**	**16.2**	**971.1**
31 December 2019	12.0	16.3	830.0

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 EU's Solvency II regime. The Group and LICL's capital requirement are calculated using the BSCR standard formula model. For the years ended 31 December 2020 and 2019, 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 EU's 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 2020 and 2019. 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 2020 and 2019, 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 2021 calendar year the Group's corporate member's FAL requirement was set at 80.4% (2020 – 66.8%) 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 £302.2 million as at 31 December 2020 (31 December 2019 – £222.3 million).

For the years ended 31 December 2020 and 2019 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 and Bermuda. 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 2020 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 24.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its four principal segments: Property, Aviation, Energy, and Marine. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 134 to 136. 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 Lancashire Syndicates segment are now reported across the four principal operating segments. Comparative figures for the year ended 31 December 2019 have been re-presented in conformity with the current year view.

2. SEGMENTAL REPORTING CONTINUED

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2020	Property $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written by geographic area					
U.S. and Canada	250.4	10.9	33.2	6.3	300.8
Worldwide – multi territory	50.7	80.0	81.0	72.8	284.5
Europe	46.3	19.4	9.1	6.1	80.9
Rest of world	79.5	40.7	21.4	6.3	147.9
Total	426.9	151.0	144.7	91.5	814.1
Outwards reinsurance premiums	(157.9)	(71.3)	(47.7)	(17.8)	(294.7)
Change in unearned premiums	(15.7)	(18.1)	(6.7)	(11.0)	(51.5)
Change in unearned premiums on premiums ceded	(1.7)	8.8	1.0	(0.2)	7.9
Net premiums earned	251.6	70.4	91.3	62.5	475.8
Insurance losses and loss adjustment expenses	(159.4)	(79.6)	(85.1)	(39.5)	(363.6)
Insurance losses and loss adjustment expenses recoverable	14.6	47.5	18.3	(0.6)	79.8
Insurance acquisition expenses	(62.3)	(25.8)	(28.0)	(22.9)	(139.0)
Insurance acquisition expenses ceded	10.1	12.4	1.2	0.3	24.0
Net underwriting profit (loss)	54.6	24.9	(2.3)	(0.2)	77.0
Net unallocated income and expenses					(71.1)
Profit before tax					5.9
Net loss ratio	57.6%	45.6%	73.2%	64.2%	59.6%
Net acquisition cost ratio	20.7%	19.0%	29.4%	36.2%	24.2%
Expense ratio	—	—	—	—	24.0%
Combined ratio	78.3%	64.6%	102.6%	100.4%	107.8%

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2019	Property $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written by geographic area					
U.S. and Canada	194.6	5.2	20.0	6.4	226.2
Worldwide – multi territory	59.1	68.1	89.4	60.1	276.7
Europe	44.7	18.9	4.8	4.3	72.7
Rest of world	83.7	27.4	13.9	6.1	131.1
Total	382.1	119.6	128.1	76.9	706.7
Outwards reinsurance premiums	(167.0)	(56.7)	(43.6)	(14.7)	(282.0)
Change in unearned premiums	(3.0)	(28.2)	(0.3)	(4.3)	(35.8)
Change in unearned premiums on premiums ceded	14.4	16.5	1.3	0.6	32.8
Net premiums earned	226.5	51.2	85.5	58.5	421.7
Insurance losses and loss adjustment expenses	(185.3)	(36.2)	(27.5)	(15.5)	(264.5)
Insurance losses and loss adjustment expenses recoverable	111.5	17.6	8.5	(2.9)	134.7
Insurance acquisition expenses	(60.4)	(17.5)	(27.0)	(19.5)	(124.4)
Insurance acquisition expenses ceded	9.5	7.9	1.4	0.2	19.0
Net underwriting profit	101.8	23.0	40.9	20.8	186.5
Net unallocated income and expenses					(67.0)
Profit before tax					119.5
Net loss ratio	32.6%	36.3%	22.2%	31.5%	30.8%
Net acquisition cost ratio	22.5%	18.8%	29.9%	33.0%	25.0%
Expense ratio	—	—	—	—	25.1%
Combined ratio	55.1%	55.1%	52.1%	64.5%	80.9%

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

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 gains (losses) $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.

For the year ended 31 December 2019	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 gains (losses) $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	33.4	(0.3)	31.3	64.4	(0.5)	63.9
Fixed maturity securities – at FVTPL	3.9	1.4	—	5.3	—	5.3
Equity securities – AFS	—	6.5	(2.7)	3.8	—	3.8
Hedge funds – at FVTPL	1.8	1.2	—	3.0	—	3.0
Other investments	2.3	0.1	—	2.4	0.3	2.7
Cash and cash equivalents	4.3	—	—	4.3	1.6	5.9
Total investment return	45.7	8.9	28.6	83.2	1.4	84.6

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 $36.9 million (2019 – $39.7 million) of interest income on our AFS investment portfolio and cash and cash equivalents. Net realised gains (losses) and impairments includes impairment losses of $0.7 million (2019 – $0.3 million) recognised on fixed maturity securities.

Refer to pages 143 to 144 in the risk disclosures section for the estimated 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 $4.3 million (2019 – $4.4 million) of investment management, accounting and custodian fees.

4. NET INSURANCE ACQUISITION EXPENSES

For the year ended 31 December	2020 $m	2019 $m
Insurance acquisition expenses	**146.3**	131.9
Changes in deferred insurance acquisition expenses	**(7.3)**	(7.5)
Insurance acquisition expenses ceded	**(26.0)**	(29.5)
Changes in deferred insurance acquisition expenses ceded	**2.0**	10.5
Total net insurance acquisition expenses	**115.0**	105.4

5. OTHER INCOME

For the year ended 31 December	2020 $m	2019 $m
Lancashire Capital Management		
– underwriting fees	**10.0**	7.9
– profit commission	**1.8**	1.0
Lancashire Syndicates		
– managing agency fees	**1.0**	1.1
– consortium fees	**0.7**	0.7
– consortium profit commission	**1.8**	0.7
Total other income	**15.3**	11.4

As at 31 December 2020, contract assets in relation to other income amounted to $1.8 million (31 December 2019 – $9.4 million).

6. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

For the year ended 31 December	2020 $m	2019 $m
Depreciation on owned assets	**0.5**	1.3
Auditor's remuneration		
– Group audit fees	**1.9**	1.2
– Other services	**0.3**	0.4
Total	**2.7**	2.9

During 2020 and 2019, KPMG LLP provided non-audit services in relation to the Group's half year reporting review, Solvency II and Lloyd's reporting. Fees for non-audit services provided in 2020 totalled $0.3 million (2019 – $0.4 million).

7. EMPLOYEE BENEFITS

For the year ended 31 December	2020 $m	2019 $m
Wages and salaries	**42.7**	39.3
Pension costs	**3.6**	3.2
Bonus and other benefits	**28.0**	26.4
Total cash compensation	**74.3**	68.9
RSS – performance	**4.9**	3.4
RSS – ordinary	**6.5**	5.7
RSS – bonus deferral	**0.9**	0.5
Total equity based compensation	**12.3**	9.6
Total employee benefits	**86.6**	78.5

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 2020.

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.

There have been no amendments or curtailments of the Group's equity based compensation scheme as a result of the ongoing COVID-19 pandemic.

7. EMPLOYEE BENEFITS CONTINUED

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2020 and 2019:

Assumptions	2020	2019
Dividend yield	—	—
Expected volatility[1]	**22.4%**	24.3%
Risk-free interest rate[2]	**0.5%**	0.7%
Expected average life of options	**3.0 years**	3.0 years
Share price	**$10.46**	$8.39

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 vesting periods of the performance RSS options range from one to three years from the date of grant and are dependent on certain performance criteria. A maximum of 85.0% (2019 – 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% (2019 – 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 stock
Outstanding as at 31 December 2018	2,980,783
Granted	978,331
Exercised	(81,137)
Forfeited	(113,828)
Lapsed	(811,957)
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**

Exercisable as at 31 December 2019	145,658
Exercisable as at 31 December 2020	**80,217**

	2020 Total restricted stock	2019 Total restricted stock
Weighted average remaining contractual life	**8.0 years**	8.0 years
Weighted average fair value at date of grant during the year	**$9.30**	$7.63
Weighted average share price at date of exercise during the year	**$10.28**	$9.38

RSS – ORDINARY

The ordinary RSS options were issued for the first time in 2016 and vest three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. The 2016 awards became exercisable in February 2019.

	Total number of restricted stock
Outstanding as at 31 December 2018	2,100,197
Granted	809,397
Exercised	(324,860)
Forfeited	(101,290)
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**
Exercisable as at 31 December 2019	159,999
Exercisable as at 31 December 2020	**265,329**

	2020 Total restricted stock	2019 Total restricted stock
Weighted average remaining contractual life	**7.9 years**	8.1 years
Weighted average fair value at date of grant during the year	**$10.35**	$8.44
Weighted average share price at date of exercise during the year	**$10.20**	$8.59

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 for vesting. 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 stock
Outstanding as at 31 December 2018	340,589
Granted	35,060
Exercised	(177,135)
Forfeited	(1,993)
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**
Exercisable as at 31 December 2019	66,269
Exercisable as at 31 December 2020	**59,698**

	2020 **Total restricted stock**	2019 Total restricted stock
Weighted average remaining contractual life	**8.1 years**	7.3 years
Weighted average fair value at date of grant during the year	**$10.46**	$8.39
Weighted average share price at date of exercise during the year	**$10.19**	$8.73

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. A maximum of 75.0% of the LSL acquisition RSS options vested on the achievement of a combined ratio for Cathedral Capital Limited, the ultimate holding company of LSL, below a required amount. A maximum of 25.0% of the LSL acquisition RSS options vested on the achievement of an LHL Change in FCBVS 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 vested.

7. EMPLOYEE BENEFITS CONTINUED

	Total number of restricted stock
Outstanding as at 31 December 2018	168,258
Exercised	(61,016)
Outstanding as at 31 December 2019	107,242
Exercised	**(42,500)**
Outstanding as at 31 December 2020	**64,742**

Exercisable as at 31 December 2019	107,242
Exercisable as at 31 December 2020	**64,742**

	2020 Total restricted stock	2019 Total restricted stock
Weighted average remaining contractual life	**2.9 years**	3.9 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**	$8.51

8. FINANCING COSTS

For the year ended 31 December	2020 $m	2019 $m
Interest expense on long-term debt	**15.7**	18.5
Net losses on interest rate swaps	**0.9**	1.0
Interest expense on lease liabilities	**1.3**	1.3
Other financing costs	**2.2**	1.0
Total	**20.1**	21.8

Refer to note 18 for details of long-term debt and financing arrangements.

9. TAX

BERMUDA

LHL, LICL, LUK 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	2020 $m	2019 $m
Corporation tax charge for the period	**0.5**	5.8
Adjustments in respect of prior period corporation tax	**0.1**	(2.0)
Deferred tax credit for the period	**(0.3)**	(3.0)
Adjustment in respect of prior period deferred tax	**(0.3)**	0.5
Tax rate change adjustment	**1.4**	—
Total tax charge	**1.4**	1.3

Tax reconciliation[1]	2020 $m	2019 $m
Profit before tax	**5.9**	119.5
Tax calculated at the standard corporation tax rate applicable in Bermuda 0%	**—**	—
Effect of income taxed at a higher rate	**(0.9)**	1.0
Adjustments in respect of prior period	**(0.2)**	(1.5)
Differences related to equity based compensation	**0.8**	(0.6)
Other expense permanent differences	**0.3**	2.4
Tax rate change adjustment	**1.4**	—
Total tax charge	**1.4**	1.3

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 23.7% (2019 – 1.1%). Non-taxable income relates to profits of companies within the Group that are non-tax resident in the UK and the share of profit of associate.

The previously announced reduction in the rate of UK corporation tax from 19% to 17% with effect from 1st April 2020 was rescinded in the 2020 UK budget. This has resulted in recognition of deferred tax assets and liabilities at 19% at 31 December 2020 where lower rates were previously applied with a related tax expense of $1.4 million.

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	2020 $m	2019 $m
Cash at bank and in hand	**226.9**	167.7
Cash equivalents	**205.5**	152.7
Total cash and cash equivalents	**432.4**	320.4

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their 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 $170.2 million (31 December 2019 – $196.6 million).

11. INVESTMENTS

As at 31 December 2020	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated 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.

11. INVESTMENTS CONTINUED

As at 31 December 2019	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value[1] $m
Fixed maturity securities – AFS				
– Short-term investments	84.8	—	—	84.8
– Fixed maturity funds	12.8	—	—	12.8
– U.S. treasuries	160.8	0.9	(0.1)	161.6
– Other government bonds	47.1	0.5	(0.1)	47.5
– U.S. municipal bonds	8.2	0.2	—	8.4
– U.S. government agency debt	59.5	1.3	(0.1)	60.7
– Asset backed securities	127.8	0.5	(3.3)	125.0
– U.S. government agency mortgage backed securities	96.8	1.1	(0.4)	97.5
– Non-agency mortgage backed securities	15.4	—	—	15.4
– Agency commercial mortgage backed securities	2.2	—	—	2.2
– Bank loans	101.7	0.6	(0.6)	101.7
– Corporate bonds	581.2	11.4	(0.4)	592.2
Total fixed maturity securities – AFS	1,298.3	16.5	(5.0)	1,309.8
Fixed maturity securities – at FVTPL	45.7	4.6	—	50.3
Private investment funds – at FVTPL	15.5	—	—	15.5
Hedge funds – at FVTPL	140.6	14.5	(5.1)	150.0
Other investments	—	—	(0.5)	(0.5)
Total investments	1,500.1	35.6	(10.6)	1,525.1

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.

Accumulated other comprehensive income in relation to the Group's AFS fixed maturity and equity securities is as follows:

As at 31 December	2020 $m	2019 $m
Unrealised gains	**41.9**	16.5
Unrealised losses	**(2.0)**	(5.0)
Net unrealised foreign exchange (gains) losses on fixed maturity securities – AFS	**(5.0)**	2.6
Tax provision	**(1.3)**	(0.6)
Accumulated other comprehensive income	**33.6**	13.5

Fixed maturity securities are presented in the risk disclosures section on page 147. Refer to note 18 for financing arrangements.

The Group determines the estimated 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 and private investment funds.

The estimated 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 estimated 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 estimated valuations 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 $86.4 million and transfers from Level (ii) to (i) securities amounted to $76.3 million during the year ended 31 December 2020.

The fair value hierarchy of the Group's investment holdings is as follows:

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

11. INVESTMENTS CONTINUED

As at 31 December 2019	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
– Short-term investments	80.7	4.1	—	84.8
– Fixed maturity funds	—	12.8	—	12.8
– U.S. treasuries	161.6	—	—	161.6
– Other government bonds	13.2	34.3	—	47.5
– U.S. municipal bonds	—	8.4	—	8.4
– U.S. government agency debt	50.6	10.1	—	60.7
– Asset backed securities	—	125.0	—	125.0
– U.S. government agency mortgage backed securities	—	97.5	—	97.5
– Non-agency mortgage backed securities	—	15.4	—	15.4
– Agency commercial mortgage backed securities	—	2.2	—	2.2
– Bank loans	0.8	100.9	—	101.7
– Corporate bonds	225.4	366.8	—	592.2
Total fixed maturity securities – AFS	532.3	777.5	—	1,309.8
Fixed maturity securities – at FVTPL	—	50.3	—	50.3
Private investment funds – at FVTPL	—	—	15.5	15.5
Hedge funds – at FVTPL	—	—	150.0	150.0
Other investments	—	(0.5)	—	(0.5)
Total investments	532.3	827.3	165.5	1,525.1

The table below analyses the movements in investments classified as Level (iii) investments:

	Private investment funds $m	Hedge funds $m	Total $m
As at 31 December 2018	—	149.2	149.2
Purchases	15.5	17.7	33.2
Sales	—	(21.3)	(21.3)
Total net realised and unrealised gains recognised in profit or loss	—	4.4	4.4
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)**
Total net realised and unrealised gains recognised in profit or loss	**4.4**	**5.6**	**10.0**
As at 31 December 2020	**96.1**	**82.0**	**178.1**

Total net unrealised gains on level 3 investments included in net realised and unrealised gains above was $4.3 million (2019: $3.2 million).

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 24).

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.

A summary of the Group's interest in unconsolidated structured entities is as follows:

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**

As at 31 December 2019	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
– Asset backed securities	125.0	—	125.0
– U.S. government agency mortgage backed securities	97.5	—	97.5
– Non-agency mortgage backed securities	15.4	—	15.4
– Agency commercial mortgage backed securities	2.2	—	2.2
Total fixed maturity securities	240.1	—	240.1
Investment funds			
– Private investment funds	15.5	—	15.5
– Hedge funds	150.0	—	150.0
Total investment funds	165.5	—	165.5
Specialised investment vehicles			
– KHL (note 16)	—	108.3	108.3
Total	405.6	108.3	513.9

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 139 to 149. 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 2020 and 31 December 2019. 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 2020 the Group has a commitment of $100.0 million (31 December 2019 – $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 2020 is $60.3 million (31 December 2019 – $59.6 million), which currently remains unfunded. The maximum exposure to the credit facility funds is $100.0 million and as at 31 December 2020 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 2018	915.0	(322.9)	592.1
Net incurred losses for:			
Prior years	(66.0)	(22.0)	(88.0)
Current year	330.5	(112.7)	217.8
Exchange adjustments	5.3	(1.8)	3.5
Incurred losses and loss adjustment expenses	269.8	(136.5)	133.3
Net paid losses for:			
Prior years	269.6	(126.3)	143.3
Current year	40.7	(5.6)	35.1
Paid losses and loss adjustment expenses	310.3	(131.9)	178.4
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**

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 $190.6 million (31 December 2019 – $174.9 million) increase in gross loss reserves and a $122.8 million (31 December 2019 – $109.4 million) increase in net loss reserves. There was no change to the Group's reserving methodology during the year. The split of losses and loss adjustment expenses between notified outstanding losses, ACR assessed by management and IBNR is shown below:

	2020		2019	
As at 31 December	$m	%	$m	%
Outstanding losses	**354.0**	**37.1**	352.0	40.2
Additional case reserves	**176.1**	**18.5**	138.8	15.9
Losses incurred but not reported	**422.7**	**44.4**	383.7	43.9
Total	**952.8**	**100.0**	874.5	100.0

The Group's losses and loss expenses as at 31 December 2020 and 2019 had an estimated duration of approximately two years.

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	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Gross Group losses												
Estimate of ultimate liability[1]												
At end of accident year	904.7	397.0	250.3	280.0	274.8	276.0	298.5	580.1	429.7	332.4	432.1	
One year later	735.5	371.9	350.4	259.8	226.7	214.6	310.7	547.1	462.0	328.7		
Two years later	716.0	447.0	338.8	224.0	206.0	196.2	274.4	511.3	431.1			
Three years later	828.7	450.4	326.9	224.4	196.5	189.6	235.0	493.1				
Four years later	808.4	460.0	313.3	222.1	193.4	184.1	232.3					
Five years later	801.0	450.7	308.7	218.4	192.4	182.6						
Six years later	815.5	452.6	299.5	213.7	190.1							
Seven years later	812.9	446.9	292.8	215.7								
Eight years later	781.0	446.0	293.4									
Nine years later	780.1	445.8										
Ten years later	780.4											
Current estimate of cumulative liability	**780.4**	**445.8**	**293.4**	**215.7**	**190.1**	**182.6**	**232.3**	**493.1**	**431.1**	**328.7**	**432.1**	**4,025.3**
Paid	**(745.6)**	**(426.5)**	**(272.5)**	**(206.5)**	**(176.2)**	**(165.9)**	**(210.9)**	**(385.3)**	**(289.3)**	**(118.4)**	**(75.4)**	**(3,072.5)**
Total Group gross liability	**34.8**	**19.3**	**20.9**	**9.2**	**13.9**	**16.7**	**21.4**	**107.8**	**141.8**	**210.3**	**356.7**	**952.8**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

Accident year	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Reinsurance												
Estimate of ultimate recovery[1]												
At end of accident year	81.7	56.2	48.9	9.9	17.8	15.3	73.1	177.6	139.3	114.6	93.0	
One year later	68.5	52.6	121.8	8.9	14.1	12.2	98.5	185.0	189.9	115.0		
Two years later	66.0	92.4	122.0	8.8	13.1	12.6	96.7	179.7	181.9			
Three years later	113.3	88.9	121.2	8.0	11.5	13.0	76.5	181.2				
Four years later	110.4	103.3	121.2	8.0	11.9	13.0	73.9					
Five years later	106.3	102.8	121.2	8.0	9.6	13.0						
Six years later	106.9	106.1	120.9	7.4	9.6							
Seven years later	105.1	105.4	120.9	7.2								
Eight years later	101.8	105.5	120.8									
Nine years later	101.4	105.3										
Ten years later	98.7											
Current estimate of cumulative recovery	**98.7**	**105.3**	**120.8**	**7.2**	**9.6**	**13.0**	**73.9**	**181.2**	**181.9**	**115.0**	**93.0**	**999.6**
Paid	**(87.3)**	**(102.2)**	**(118.1)**	**(7.2)**	**(8.6)**	**(12.8)**	**(72.6)**	**(130.3)**	**(81.1)**	**(19.9)**	**(20.8)**	**(660.9)**
Total Group gross recovery	**11.4**	**3.1**	**2.7**	**—**	**1.0**	**0.2**	**1.3**	**50.9**	**100.8**	**95.1**	**72.2**	**338.7**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

Accident year	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Net Group losses												
Estimate of ultimate liability[1]												
At end of accident year	823.0	340.8	201.4	270.1	257.0	260.7	225.4	402.5	290.4	217.8	339.1	
One year later	667.0	319.3	228.6	250.9	212.6	202.4	212.2	362.1	272.1	213.7		
Two years later	650.0	354.6	216.8	215.2	192.9	183.6	177.7	331.6	249.2			
Three years later	715.4	361.5	205.7	216.4	185.0	176.6	158.5	311.9				
Four years later	698.0	356.7	192.1	214.1	181.5	171.1	158.4					
Five years later	694.7	347.9	187.5	210.4	182.8	169.6						
Six years later	708.6	346.5	178.6	206.3	180.5							
Seven years later	707.8	341.5	171.9	208.5								
Eight years later	679.2	340.5	172.6									
Nine years later	678.7	340.5										
Ten years later	681.7											
Current estimate of cumulative liability	**681.7**	**340.5**	**172.6**	**208.5**	**180.5**	**169.6**	**158.4**	**311.9**	**249.2**	**213.7**	**339.1**	**3,025.7**
Paid	**(658.3)**	**(324.3)**	**(154.4)**	**(199.3)**	**(167.6)**	**(153.1)**	**(138.3)**	**(255.0)**	**(208.2)**	**(98.5)**	**(54.6)**	**(2,411.6)**
Total Group net liability	**23.4**	**16.2**	**18.2**	**9.2**	**12.9**	**16.5**	**20.1**	**56.9**	**41.0**	**115.2**	**284.5**	**614.1**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

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	2020 $m	2019 $m
2015 accident year and prior	**(1.8)**	19.0
2016 accident year	**0.9**	19.3
2017 accident year	**20.7**	30.8
2018 accident year	**25.3**	18.9
2019 accident year	**6.9**	—
Total favourable development	**52.0**	88.0

The favourable development in both 2020 and 2019 was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The second half of 2020 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property segment. This was somewhat offset in the first half of the year 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 the property segment. In the prior year, the Group benefited from favourable development on the 2017 catastrophe loss events partially offset by 2018 accident year claims in the energy segment.

In response to the COVID-19 pandemic, the Group initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of our loss reserving. The current best estimate financial impact of COVID-19 is $42.2 million, net of reinsurance and including the impact of reinstatement premiums. This constitutes 6.9% of our total net loss reserves and 2.7% of our net assets and relates primarily to our property segment.

COVID-19 is an unprecedented event for the insurance industry and the effects of COVID-19 as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. The Group does not write the following lines of business: travel insurance; trade credit; and long-term life and prior to the COVID-19 pandemic did not write Directors' and Officers' liability or medical malpractice. The Group underwrites a small number of event cancellation contracts and has minimal exposure through mortgage, accident and health business. Reserving for the impacts of the COVID-19 pandemic is exceptionally difficult, both in estimating the direct impacts of the pandemic itself and also in allowing for additional reserves related to the secondary impacts of lockdowns on the costs of settling claims across all lines of business. Given the uncertainty noted above and the continuation of the impacts of the pandemic into 2021 our final COVID-19-related losses may be materially different from those booked to date.

There were no other individually significant net loss events for the year ended 31 December 2020 and 31 December 2019.

14. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

All receivables are considered current other than $22.8 million (31 December 2019 – $39.5 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	2020 $m	2019 $m
Equity based compensation	**(5.1)**	(4.1)
Claims equalisation reserves	**2.1**	3.9
Syndicate underwriting profits	**(0.5)**	(1.6)
Syndicate participation rights	**14.4**	12.5
Other temporary differences	**—**	(1.1)
Net deferred tax liability	**10.9**	9.6

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. The Group has considered the current impact of the COVID-19 pandemic on future taxable profits. 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 2020 and 2019, the Group had no uncertain tax positions.

The previously announced reduction in the rate of UK corporation tax from 19% to 17% with effect from 1st April 2020 was rescinded in the 2020 UK budget. This has resulted in recognition of deferred tax assets and liabilities at 19% at 31 December 2020 where lower rates were previously applied with a related tax expense of $1.4 million.

All deferred tax assets and liabilities are classified as non-current.

A deferred tax credit of $0.4 million (31 December 2019 – $nil) 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.

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 2020, the carrying value of the Group's investment in KHL was $127.2 million (31 December 2019 – $108.3 million). The Group's share of comprehensive income for KHL for the period was $10.7 million (2019 – $5.9 million). Key financial information for KHL is as follows:

	2020 $m	2019 $m
Assets	**1,200.3**	1,266.7
Liabilities	**178.3**	183.4
Shareholders' equity	**1,022.0**	1,083.3
Gross premium earned	**127.5**	99.9
Comprehensive income	**83.1**	59.0

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 24 for details of transactions between the Group and its associate.

17. INTANGIBLE ASSETS

	Syndicate participation rights $m	Goodwill $m	Total $m
Net book value as at 31 December 2018	82.6	71.2	153.8
Additions	0.7	—	0.7
Net book value as at 31 December 2020 and 2019	**83.3**	**71.2**	**154.5**

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 the COVID-19 pandemic and Brexit. A pre-tax discount rate of 7.4% (2019 – 7.5%) has been used to discount the projected cash flows, which reflects a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows is 3.0% (2019 – 3.0%) based on historical growth rates and management's best estimate of future growth rates.

17. INTANGIBLE ASSETS CONTINUED

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 (23% reduction in headroom), the growth rate has been flexed to 100 basis points below the central assumption (25% reduction in headroom) and the pre-tax projected cash flows have been flexed 500 basis points below the central assumption (7% reduction in headroom). Within these ranges, the recoverable amount remains supportable.

No impairment has therefore been recognised for the years ending 31 December 2020 and 2019.

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

During the year ended 31 December 2020, there have been no changes made to the Group's long-term debt and financing arrangements as a result of the COVID-19 pandemic.

LONG-TERM DEBT

On 5 October 2012, LHL issued $130.0 million 5.70% senior unsecured notes due 1 October 2022 pursuant to a private offering to U.S. Qualified Institutional Buyers. Interest on the principal is payable semi-annually. The notes were listed and admitted to trading on the LSE on 16 October 2012.

On 15 December 2005, LHL issued $97.0 million and €24.0 million in aggregate principal amount of floating rate subordinated loan notes. The U.S. dollar subordinated loan notes are repayable on 15 December 2035. Interest on the principal is based on a set margin, 3.70%, above the three-month LIBOR rate (see page 145 for consideration and management of the possible impact of LIBOR reform) and is payable quarterly. The loan notes were issued via a trust company. The Euro subordinated loan notes are repayable on 15 June 2035. Interest on the principal is based on a set margin, 3.70%, above the EURIBOR rate and is payable quarterly. On 21 October 2011, the CSX admitted to the official list the LHL U.S. dollar and Euro subordinated loan notes.

In 2013, the Group assumed loan notes, issued by CCHL and listed on the ISE, as part of the LSL acquisition. The loan notes acquired are set out as follows:

- €12.0 million floating rate subordinated loan note issued on 18 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75%, above the three-month EURIBOR;
- $10.0 million floating rate subordinated loan note issued on 26 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75%, above the three-month LIBOR;
- $25.0 million floating rate subordinated loan note issued on 13 May 2005 and repayable in June 2035, paying interest quarterly based on a set margin, 3.25%, above the three-month LIBOR; and
- $25.0 million floating rate subordinated loan note issued on 18 November 2005 and repayable in December 2035, paying interest quarterly based on a set margin, 3.25%, above the three-month LIBOR.

The Group has the option to redeem its senior unsecured notes and all of its subordinated loan notes, in whole or in part, prior to the respective maturity dates.

The terms of the $130.0 million senior unsecured notes include standard default and cross-default provisions which require certain covenants to be adhered to. These include a maximum debt to capital ratio of 30.0%, where the subordinated loan notes are included as both total consolidated debt and total consolidated capital in this calculation.

There are no such covenants for either the $97.0 million and €24.0 million in aggregate floating rate subordinated loan notes or the loan notes issued by CCHL.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The carrying values of the notes are shown below:

As at 31 December	2020 $m	2019 $m
Long-term debt $130.0 million	**130.0**	130.0
Long-term debt $97.0 million	**97.0**	97.0
Long-term debt €24.0 million	**29.5**	26.9
Long-term debt €12.0 million	**13.6**	12.2
Long-term debt $10.0 million	**10.0**	10.0
Long-term debt $25.0 million	**23.7**	23.7
Long-term debt $25.0 million	**23.7**	23.7
Carrying value	**327.5**	323.5

The Group is exposed to cash flow interest rate risk and currency risk on its long-term debt. Further information is provided in the risk disclosures section on pages 145 to 146.

The fair value of the long-term debt is estimated as $374.6 million (31 December 2019 – $375.3 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy. The fair value is estimated as discounted cash flows based on observable data.

The interest accrued on the long-term debt was $2.2 million (31 December 2019 – $2.4 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.

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. The following LOCs have been issued:

As at 31 December	2020 $m	2019 $m
Issued to third parties	**27.6**	38.2

These LOCs are required to be fully collateralised.

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 which will expire on 20 March 2025. There was no outstanding debt under this facility, or the prior facility which it replaced, as at 31 December 2020 and 2019.

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 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 subordinated loan 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.

A $31.0 million uncollateralised facility has been in place since 30 July 2019, for an original amount of $31.0 million. The facility was increased from $31.0 million to $44.0 million on 28 October 2019 and further increased from $44.0 million to $95.0 million on 2 November 2020 and will expire on 31 December 2024. It is available for utilisation by LICL and guaranteed by LHL for FAL purposes. As at 31 December 2020 $90.5 million of LOCs were issued under this facility.

The terms of the $95.0 million uncollateralised facility includes standard default and cross-default provisions and 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 subordinated loan notes are excluded as debt from this calculation;
- a maximum subordinated unsecured indebtedness of $350.0 million; and
- maintenance of a minimum net worth requirement.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

SYNDICATE BANK FACILITIES

As at 31 December 2020 and 2019, Syndicate 2010 had in place an $80.0 million catastrophe facility. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. While up to $80.0 million in aggregate can be utilised by way of an LoC or an RCF to assist Syndicate 2010's gross funding requirements, only $40.0 million of this amount can be utilised by way of an RCF. With effect from 1 January 2021, the RCF element has been removed and the facility now solely operates as a letter of credit facility, available up to a maximum amount of $60.0 million. A separate uncommitted overdraft facility will be made available to Syndicate 2010 of $20.0 million.

There are no balances outstanding under the Syndicate bank facility as at 31 December 2020 or 2019. The Syndicate bank facility is not available to the Group other than through its participation on the syndicates it supports.

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 entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at and for the years ended 31 December 2020 and 2019, 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 2020 and 2019, the Group was in compliance with all covenants under its trust facilities.

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

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 152 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 152 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:

	2020			2019		
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	**36.4**	**299.7**	**336.1**	3.4	308.9	312.3
MBRT accounts	**0.8**	**179.3**	**180.1**	48.7	125.9	174.6
Syndicate accounts	**59.5**	**116.3**	**175.8**	72.1	93.7	165.8
In favour of LOCs	**4.9**	**29.8**	**34.7**	2.7	39.4	42.1
In trust accounts for policyholders	**14.7**	**14.8**	**29.5**	2.9	23.0	25.9
In favour of derivative contracts	**1.8**	**—**	**1.8**	1.9	—	1.9
Total	**118.1**	**639.9**	**758.0**	131.7	590.9	722.6

19. SHARE CAPITAL

Authorised common shares of $0.50 each	Number	$m
As at 31 December 2020 and 2019	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
As at 31 December 2018	201,941,918	101.0
Shares issued	1,000,000	0.5
As at 31 December 2019	202,941,918	101.5
Shares issued	**41,068,089**	**20.5**
As at 31 December 2020	**244,010,007**	**122.0**

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.

1,500,000 new common shares at a par value of $0.7 million were issued to fund future RSS exercises (2019 – 1,000,000 new common shares at par value of $0.5 million). Refer to note 24 for further details on the share issuance.

Own shares	Total number of own shares	$m
As at 31 December 2018	1,132,451	9.4
Shares distributed	(644,148)	(5.4)
Shares purchased by trust	1,000,000	9.3
As at 31 December 2019	1,488,303	13.3
Shares distributed	**(790,204)**	**(7.1)**
Shares purchased by trust	**1,500,000**	**15.0**
As at 31 December 2020	**2,198,099**	**21.2**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2020 was 244,010,007 (31 December 2019 – 202,941,918).

SHARE REPURCHASES

At the AGM held on 29 April 2020, LHL's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 20,294,192 shares, with such authority to expire on the conclusion of the 2021 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed. There were no share repurchases during either 2020 or 2019.

DIVIDENDS

The Board of Directors has authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	22 Feb 2019	27 Mar 2019	20.1
Interim	$0.05	9 Aug 2019	6 Sep 2019	10.1
Final	**$0.10**	**11 May 2020**	**5 June 2020**	**20.2**
Interim	**$0.05**	**14 Aug 2020**	**11 Sep 2020**	**12.1**

20. OTHER RESERVES

Other reserves consist of the following:

	Contributed surplus $m	Equity based compensation $m	Total other reserves $m
As at 31 December 2018	843.7	25.3	869.0
Shares purchased by the trust	8.8	—	8.8
Distributed by the trust	(6.7)	—	(6.7)
Equity based compensation – exercises	8.1	(8.1)	—
Equity based compensation	—	10.2	10.2
As at 31 December 2019	853.9	27.4	881.3
Issue of common shares	**320.5**	—	**320.5**
Shares purchased by the trust	**14.3**	—	**14.3**
Distributed by the trust	**(7.9)**	—	**(7.9)**
Net deferred tax	—	**0.4**	**0.4**
Equity based compensation – exercises	**8.3**	**(8.3)**	—
Equity based compensation	—	**13.0**	**13.0**
As at 31 December 2020	**1,189.1**	**32.5**	**1,221.6**

21. LEASES

The Group leases three properties and several items of office equipment.

During the year ended 31 December 2020, the Group has not received any rent concessions as a result of the COVID-19 pandemic.

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 2018	—	—	—
Initial application of IFRS 16	16.0	0.4	16.4
Additions	4.4	—	4.4
Depreciation charge	(2.4)	(0.2)	(2.6)
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**

21. LEASES CONTINUED

LEASE LIABILITIES

As at 31 December	2020 $m	2019 $m
Due in less than one year	**3.8**	3.6
Due between one and five years	**12.6**	13.0
Due in more than five years	**8.7**	10.7
Total undiscounted lease liabilities	**25.1**	27.3
Total discounted lease liabilities	**20.9**	21.9
Current	**2.8**	2.5
Non-current	**18.1**	19.4

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	2020 $m	2019 $m
Depreciation of right-of-use assets	**2.8**	2.6
Interest expense on lease liabilities	**1.3**	1.3
Expenses relating to short-term leases, low value leases and variable leases	**0.8**	1.2
Total	**4.9**	5.1

For the year ended 31 December 2020, the total lease payments included in the consolidated cash flow statement amounted to $3.5 million (31 December 2019 – $3.6 million).

22. COMMITMENTS AND CONTINGENCIES

CREDIT FACILITY FUND

As at 31 December 2020 the Group has a commitment of $100.0 million (31 December 2019 – $100.0 million) relating to two credit facility funds (refer to note 12).

PRIVATE INVESTMENT FUNDS

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 2020, there was a remaining undrawn commitment in the amount of $18.6 million. The remaining capital commitment is expected to be drawn in the first half of 2021.

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 2020, 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.

23. 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	2020 $m	2019 $m
Profit for the year attributable to equity shareholders of LHL	**4.2**	117.9

	2020 Number of shares	2019 Number of shares
Basic weighted average number of shares	**223,611,114**	201,240,104
Dilutive effect of RSS	**3,232,649**	2,629,528
Diluted weighted average number of shares	**226,843,763**	203,869,632

Earnings per share	2020	2019
Basic	**$0.02**	$0.59
Diluted	**$0.02**	$0.58

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.

24. 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
LSL	Lloyd’s managing agent	United Kingdom
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
LMSCL	Support services	Canada
LUK	General insurance business	United Kingdom
Associate		
KHL[4]	Holding company	Bermuda
Other controlled entities		
EBT	Trust	Jersey
LHFT	Trust	United States

1. Unless otherwise stated, the Group owns 100% of the ordinary share capital and voting rights in its subsidiaries listed below.
2. 59.7% participation on the 2020 year of account and 61.8% participation on the 2021 year of account for Syndicate 2010.
3. 93.5% owned by the Group.
4. The Group has an 11.6% holding through its interest in the preference shares of each segregated account of KHL.

24. RELATED PARTY DISCLOSURES CONTINUED

The Group has issued subordinated loan notes via a trust vehicle – LHFT, refer to note 18. The Group effectively has 100.0% of the voting rights in LHFT. These rights are subject to the property trustee's obligations to seek the approval of the holders of LHFT's preferred securities in case of default and other limited circumstances where the property trustee would enforce its rights. While the ability of the Group to influence the actions of LHFT is limited by the trust agreement, LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes, and is in essence controlled by the Group, and is therefore consolidated.

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 2020, the Group had made advances of $1.0 million (2019 – $nil) to the EBT under the terms of the Facility.

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. During the year ended 31 December 2019, LHL issued 1,000,000 common shares to the EBT at a par value of $0.5 million and a total value of $9.3 million at the prevailing market rate.

LICL holds $212.6 million (31 December 2019 – $203.3 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 85.0% of the required FAL to support the underwriting activities of Syndicate 2010 and 3010 and in relation to intra-group reinsurance agreements. LICL holds $268.2 million (31 December 2019 – $265.4 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 2020, the senior management team shareholding in LCM represents a minority interest of 6.5% (31 December 2019 – 6.5%). This investment represents the non-controlling interest listed in the Group's consolidated balance sheet. During the year ended 31 December 2020 dividends of $0.5 million (31 December 2019 – $nil) were paid to minority interest holders.

As at 31 December 2020, Mr Alex Maloney, a Director of LHL, had a 1.2% (31 December 2019 – 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 2021 year of account (2020 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	2020 $m	2019 $m
Short-term compensation	**5.2**	4.6
Equity based compensation	**3.0**	2.0
Directors' fees and expenses	**2.2**	2.2
Total	**10.4**	8.8

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 2020, the Group recognised $11.8 million (2019 – $8.9 million) of service fees and profit commissions in other income (refer to note 5) in relation to this agreement.

During 2020, the Group committed an additional $67.3 million (31 December 2019 – $48.0 million) of capital to KHL. During 2020, KHL returned $59.1 million (31 December 2019 – $12.7 million) of capital to the Group.

Refer to note 16 for further details on the Group's investment in associate.

During 2020 and 2019, the Group entered into reinsurance agreements with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated balance sheet	2020 $m	2019 $m
Unearned premiums on premiums ceded	**3.5**	3.8
Amounts payable to reinsurers	**3.1**	3.3
Deferred acquisition cost ceded	**0.4**	0.5

Consolidated statement of comprehensive income	2020 $m	2019 $m
Outwards reinsurance premiums	**(7.0)**	(7.6)
Change in unearned premiums on premiums ceded	**(0.3)**	3.8
Insurance acquisition expenses ceded	**0.9**	0.5

25. PART VII TRANSFER OF EEA POLICIES AND RELATED LIABILITIES TO LLOYD'S BRUSSELS

On 30 December 2020, the members and former members of Syndicate 2010 and Syndicate 3010 transferred their EEA non-life insurance policies written between 2001 and 2020 to Lloyd's Insurance Company S.A. ('Lloyd's Brussels') pursuant to Part VII of FSMA. The value of the net liabilities transferred was $4.5 million for Syndicate 2010 and $2.9 million for Syndicate 3010. The syndicates transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the syndicates on the same day. The reinsurance premiums received were of the same amount of $4.5 million for Syndicate 2010 and $2.9 million for Syndicate 3010. There was no gain or loss arising on either transaction.

Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in the gross premium written line within the statement of consolidated comprehensive income. This is the appropriate treatment that best reflects the economic substance of both the Part VII transfer and the associated reinsurance arrangement.

On the consolidated balance sheet, certain policy-level balances impacted by the transfer, that were previously reflected as amounts arising from direct insurance operations, have been reclassified to amounts arising from inwards reinsurance business.

The transactions had no impact on the consolidated equity of the Group.

26. SUBSEQUENT EVENTS

DIVIDEND

On 9 February 2021, 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 28 April 2021, which will result in an aggregate payment of approximately $24.4 million. On the basis that the final dividend is so approved by the shareholders at the AGM, then the dividend will be paid on 4 June 2021 to shareholders of record on 7 May 2021. 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.