Lancashire
Holdings Limited

Investor Day 2022

Strong *forward* momentum

IFRS17

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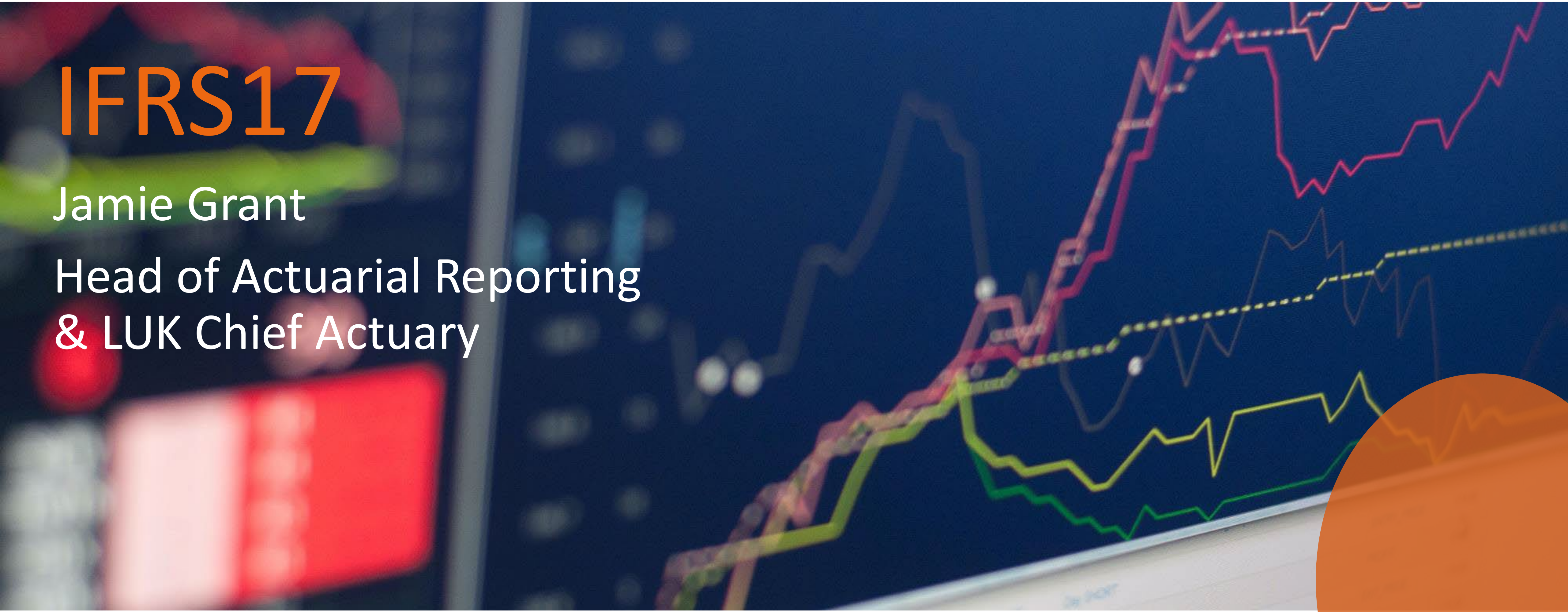


Agenda

Lancashire Holdings Limited

- History
- Principles
- Presentational & Valuation Impacts
- Next Steps
- Q&A

This presentation will build on the Deloitte-run market educational session on 27 September 2022.

What we will cover*:*

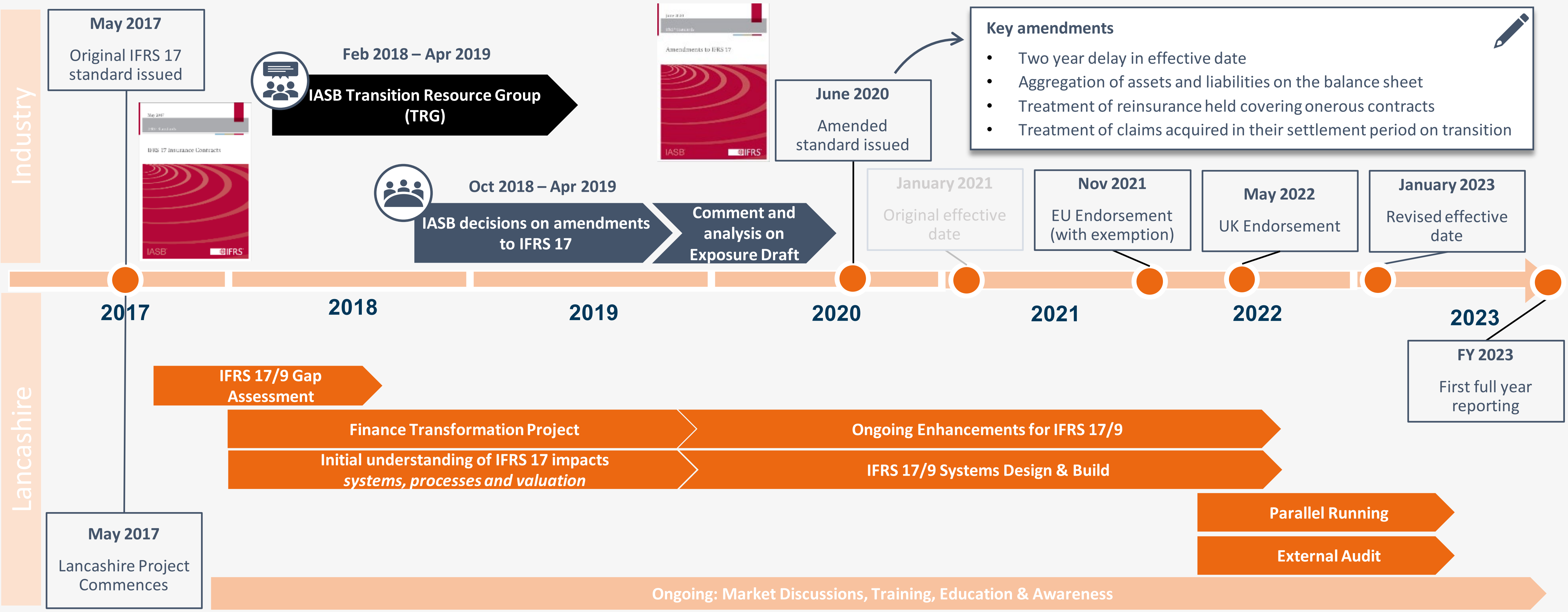
- *The application of IFRS 17 to Lancashire Group*
- *Focus on judgements and interpretations*
- *Key outcomes*

What we won't cover*:*

- *Definitive financial impacts*
- *What others are doing*

The statements being made today are Lancashire's current expectations upon implementation and transition to IFRS 17. There is no guarantee that these will not change prior to the first reporting date in 2023.

IFRS 17 History



Lancashire Holdings Limited

No change to strategy, fundamentals or risk appetite

Underwriting Strategy

- **Unchanged**
- Initial prudence on new lines of business may give rise to onerous contracts

Reserve Strength

(“Liability for Incurred Claims”)

- **Unchanged**
- Retain prudence
- Risk Adjustment within Liability for Incurred Claims explicitly disclosed
- Percentile disclosed
- Liability for Incurred Claims has other valuation adjustments

Investment Strategy

- **Unchanged**
- Gains/Losses on investments may be partially offset by movements in discounted insurance contract liabilities – but basis differs
- IFRS 9 also applies from 2023 with all investments classified as fair value through P&L (investment result)

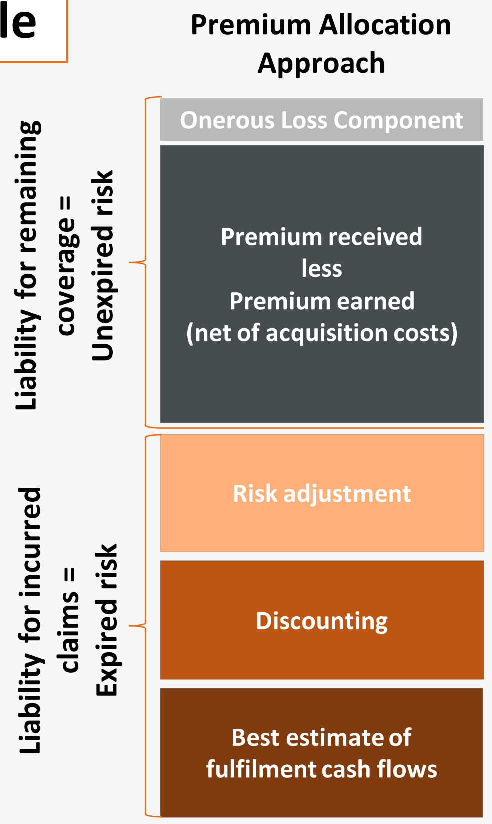
Capital Management

- **Unchanged**
- Do not expect material changes in rating agency or regulatory capital requirements as a result of IFRS 17

Model Choice

We intend to apply the Premium Allocation Approach (PAA) as widely as possible

- ✓ Better aligns with management of business
- ✓ More comparable to current IFRS 4 basis
- ✓ To be used by the majority of P&C IFRS reporters
- ✓ Required to demonstrate that the difference with the General Model is not material
- ✓ Focus on Liability for Incurred Claims / Reserves



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Other Accounting Policy Choices

Lancashire Holdings Limited

The IFRS 17 Standard requires a number of accounting policy choices (which may not be consistent with peers)...

Accounting Area	Decision	Alternatives

Discount Rates	• Bottom-up approach (Risk-Free + Illiquidity Premium)
	  • More transparent
	  • Consistent with regulatory reporting (BMA & Solvency II)
		• Top-Down approach
		  • based on representative portfolio adjusted for expected defaults

Movements in Discount Rates	• Through P&L (in Insurance Finance Income/Expense) • Aligns to FVTPL for Investment Portfolio	• Through Other Comprehensive Income

Risk Adjustment	• Maintain IFRS 4 reserve strength
	• $ amount determined by management based on prevailing loss environment and risk appetite
		• No prescribed method, other available options include:
		  • Fixed percentile approach
		  • Cost of capital (similar to Solvency II)

Transition Approach	• Fully retrospective
	  • Short-term contracts
	  • No retrospective assumptions required under the PAA
		• Modified Retrospective
		• Fair value

Insurance Acquisition Cashflows	• Deferred over coverage period of contracts
	  • Alignment with premium revenue
	  • Consistent with IFRS 4
		• Expensed upon occurrence

Transitional Valuation Impact on Shareholders' Equity

Lancashire Holdings Limited

- Liability for Incurred Claims (Expired Coverage)
  - Now includes allocation of Directly Attributable Expenses
  - Discounting for time value of money
- Liability for Remaining Coverage (Future Coverage)
  - Onerous Loss Component

We currently expect a **small** reduction in SHE upon transition, however this is entirely timing of profit recognition

no impact on ultimate profitability or cashflow

Minimal Transitional Impact on Total Shareholders' Equity

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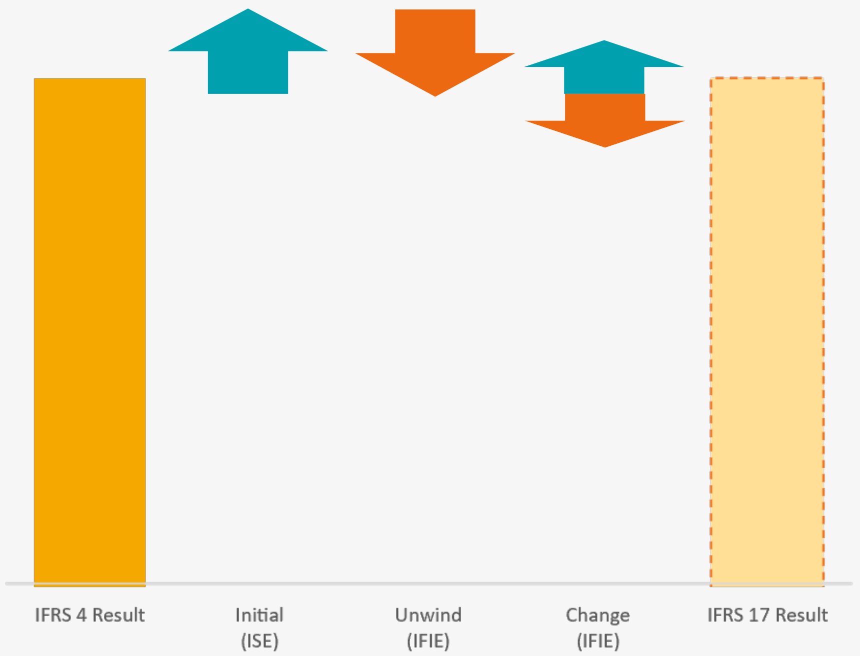
P&L Impacts

- Key additional consideration under IFRS 17 will be impact of discounting on P&L
- All Liabilities for Incurred Claims discounted at current rates
- Change in Discount Credit on Insurance Liabilities expected to (partially) offset Unrealised Gains/Losses on Investments
- **Impacts timing of profit recognition only, no impact on ultimate profitability of business**
- There are other presentation differences under IFRS 17 vs IFRS 4 which will distort comparisons…

IFRS 4 vs IFRS 17 Earnings



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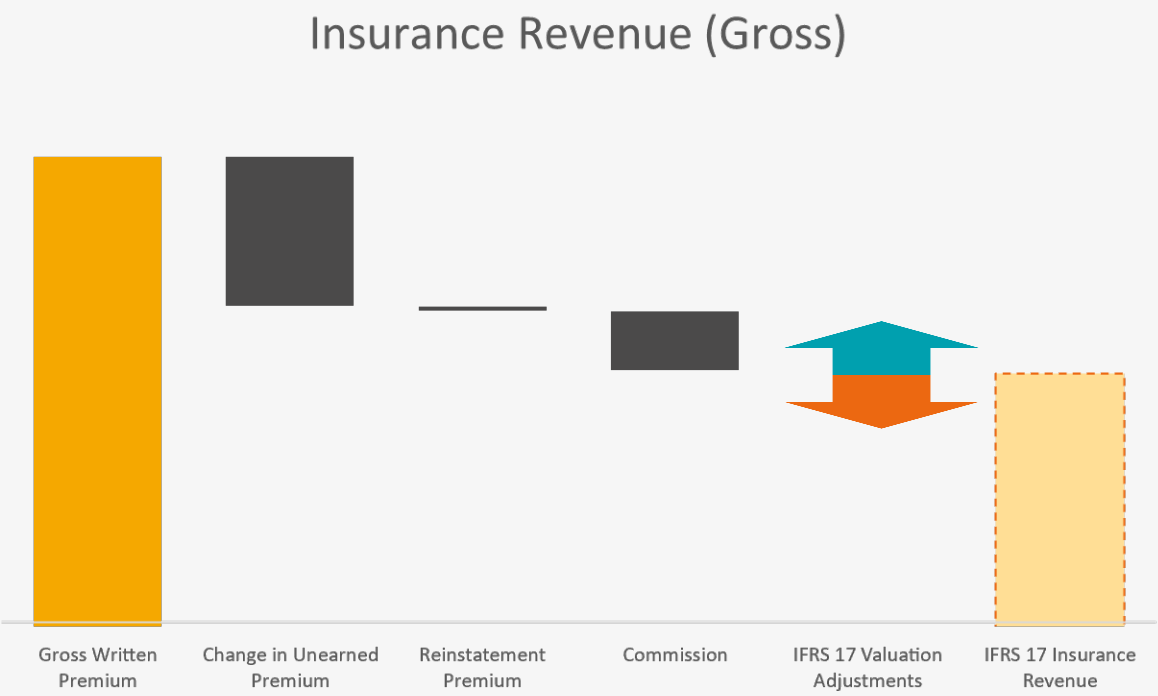
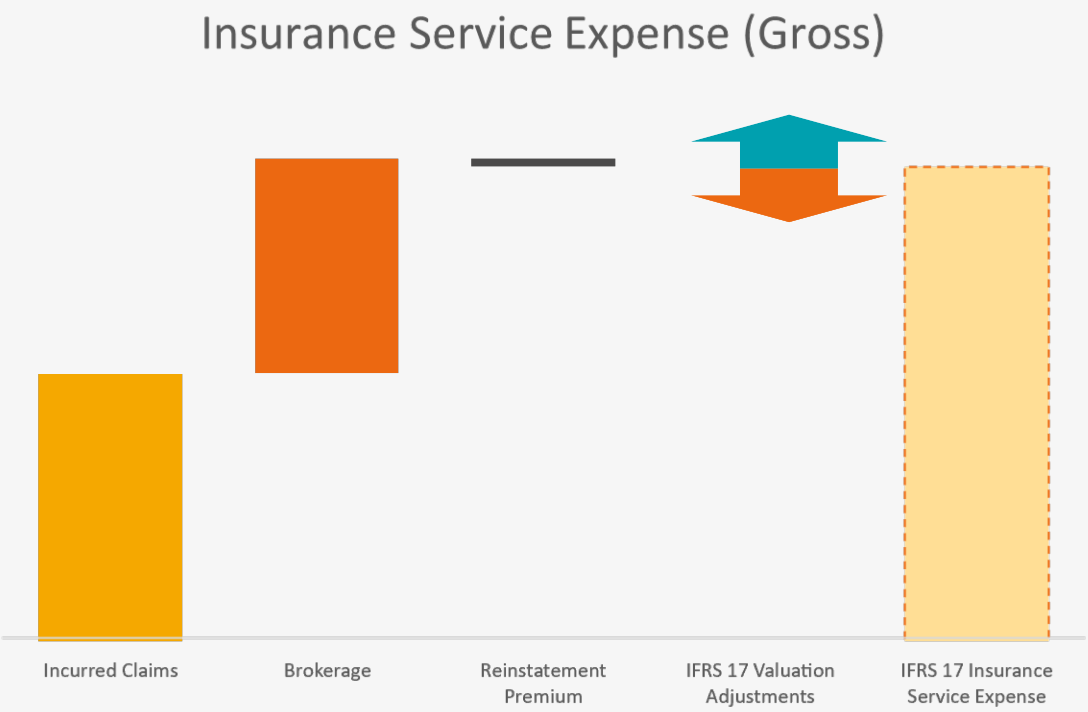
Reconciliation from IFRS 4 to 17





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Presentational Differences will impact KPIs, notably Combined Operating Ratio

Existing Key Performance Indicators

Legend
- □ no change to calculation or result
- □ result impacted through basis change
- □ calculation and result change

Change in FCBVS

The internal rate of return of the change in FCBVS in the period plus accrued dividends.

Day 1 impact on opening BVPS and calculated on an IFRS 17 basis going forward

Combined ratio

Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned.

Calculation of combined ratio will change due to presentation and valuation impacts

Total investment return

Total investment return excluding foreign exchange divided by the investment portfolio net asset value, including managed cash on a daily basis.

Unchanged

Total shareholder return

The increase/(decrease) in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends.

Unchanged

Comprehensive income returned to shareholders

The total capital returned to shareholders through dividends and share repurchases in a given year, divided by the Group's comprehensive income.

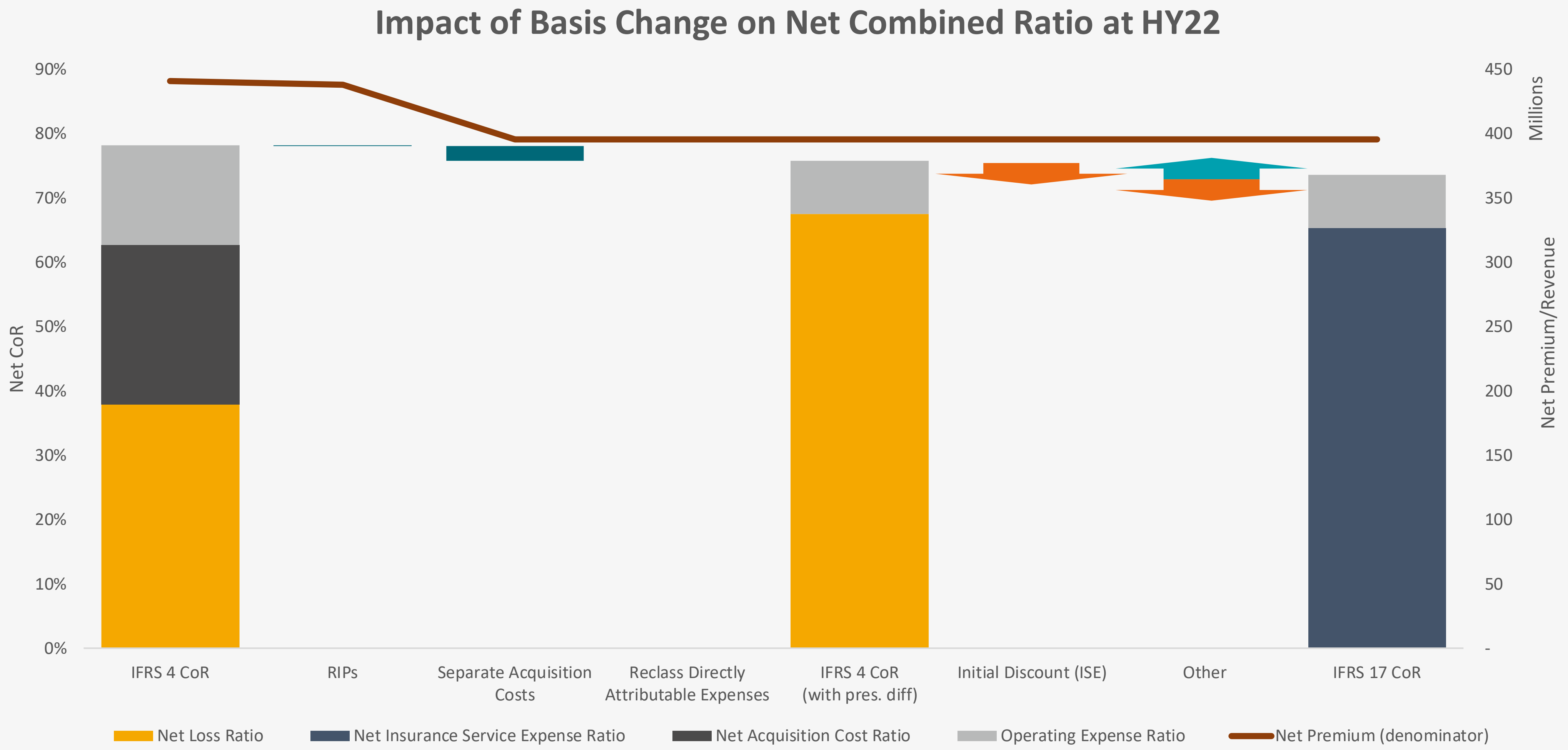
Unchanged

Gross premiums written under management

The total of the Group's consolidated gross premiums written plus the external Names' portion of syndicate 2010 plus the gross premiums written in LCM on behalf of KRL

Unchanged although not available on IFRS 17 P&L. This will require note disclosure or reconciliation to insurance revenue.

Will likely retain a Net CoR but basis will be different (example)



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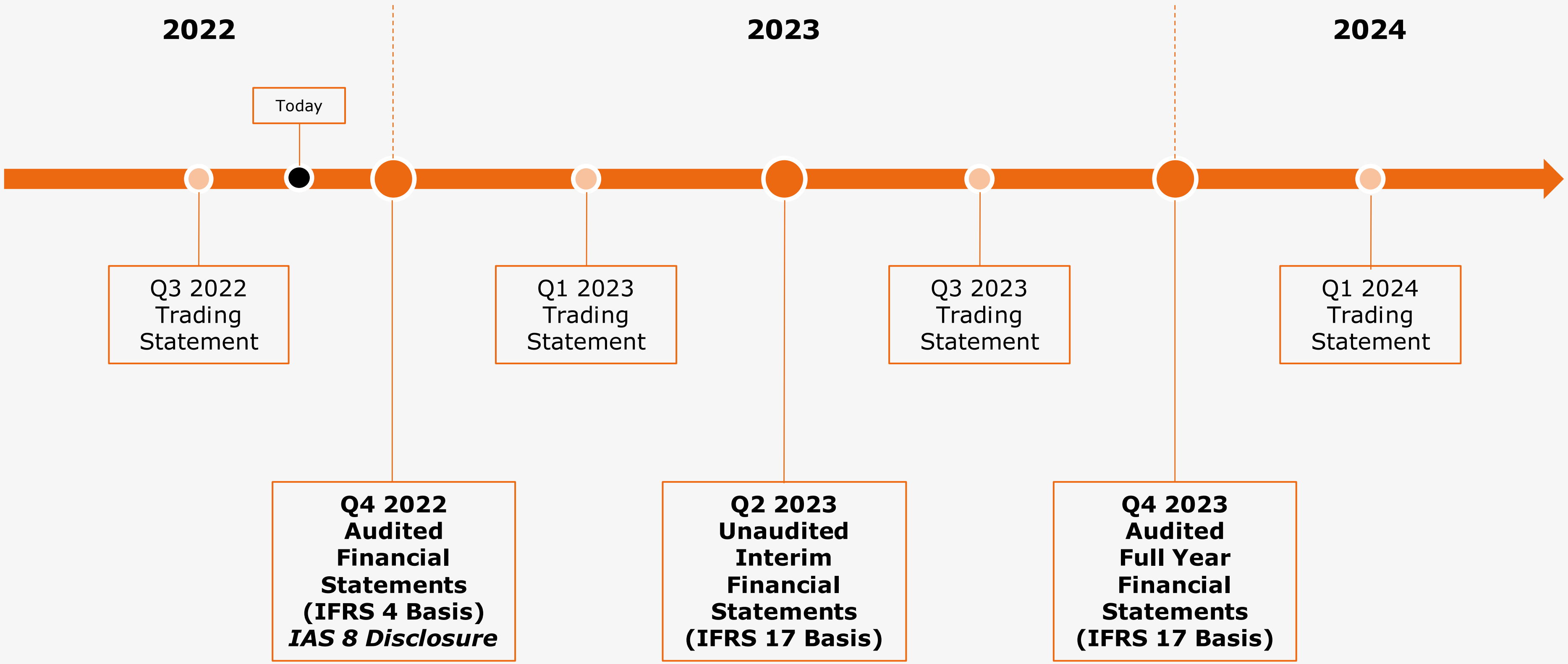
Next Steps


2022
2023
2024
Today
Q3 2022 Trading Statement
Q4 2022 Audited Financial Statements (IFRS 4 Basis) *IAS 8 Disclosure*
Q1 2023 Trading Statement
Q2 2023 Unaudited Interim Financial Statements (IFRS 17 Basis)
Q3 2023 Trading Statement
Q4 2023 Audited Full Year Financial Statements (IFRS 17 Basis)
Q1 2024 Trading Statement

Key Takeaways

Lancashire Holdings Limited

- ✓ **No change to strategy, fundamentals or risk appetite**
- ✓ **Premium Allocation Approach (PAA) to be used as widely as possible**
- ✓ **Key new consideration on valuation is impact of discounting incurred claims liability**
  … and the movement in this over time
- ✓ **Other presentational differences will impact on reporting and KPIs**
  … notably Combined Operating Ratio
- ✓ **First IFRS 17 reporting at HY 2023**