Lancashire
Holdings Limited

BUILDING OUR FUTURE

Annual Report & Accounts 2020

Our purpose is to…

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

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

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

BUILDING OUR FUTURE

based on strong
foundations,
to unlock exciting
new opportunities
and create growth

BUILDING ON STRONG

FOUNDATIONS

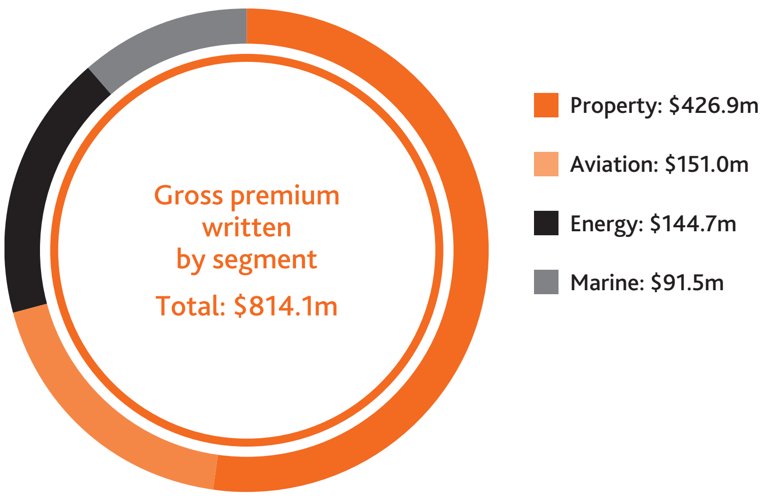
The talents of our people set us apart from our competitors

25 YEARS

average industry experience among senior underwriters

GROSS PREMIUM WRITTEN BY SEGMENT

Our focus is on short-tail, specialty (re)insurance risks within four general segments: Property, Aviation, Energy and Marine

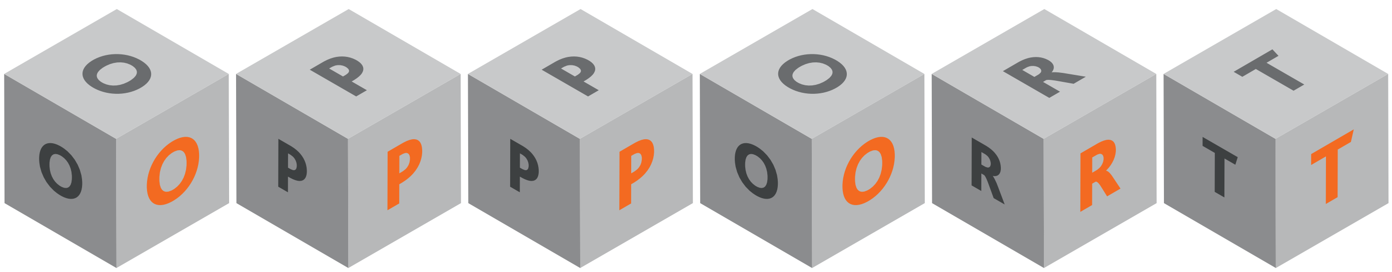


WE HAVE BEEN BUILDING OUR TEAMS TO STRENGTHEN OUR CAPABILITIES

"Having the right team allows us to offer tailor-made, bespoke risk solutions, while our significant experience helps generate returns. We believe that maintaining the right balance between discipline and creativity is key to our success, coupled with a strong focus on profitability and risk selection."

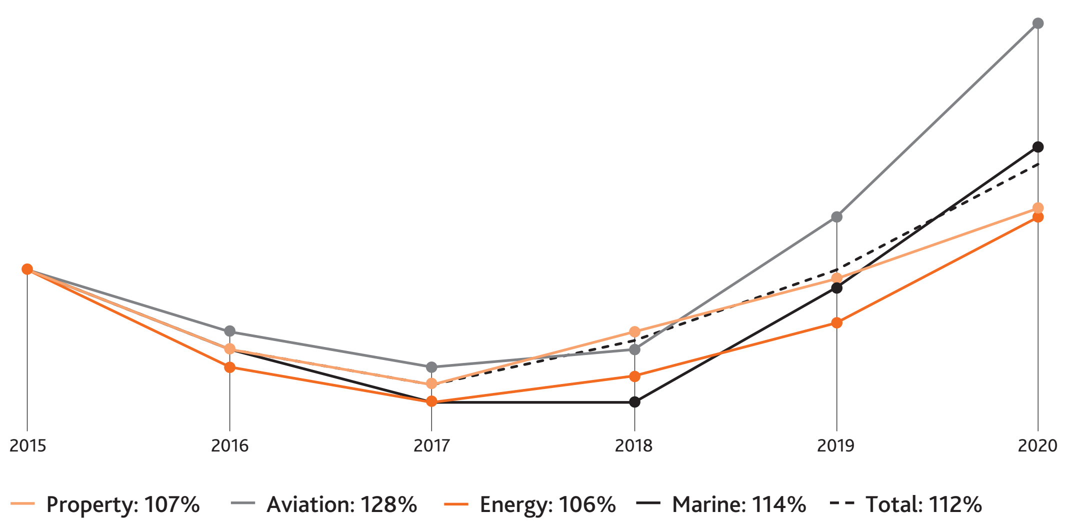
Paul Gregory – Group Chief Underwriting Officer

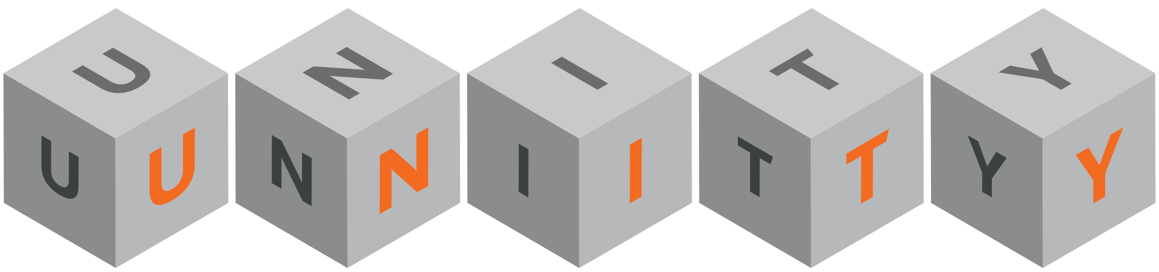
BUILDING ON



We are responding to the improving market opportunity

CUMULATIVE RPI CHANGES SINCE 2015





"We have witnessed double-digit percentage rate increases in many of our lines of business, and accelerated rating dislocation in the catastrophe-exposed reinsurance lines. Current market conditions present an attractive opportunity for growth, consistent with our strategy of deploying capital in line with the insurance market cycle."

Alex Maloney – Group Chief Executive Officer

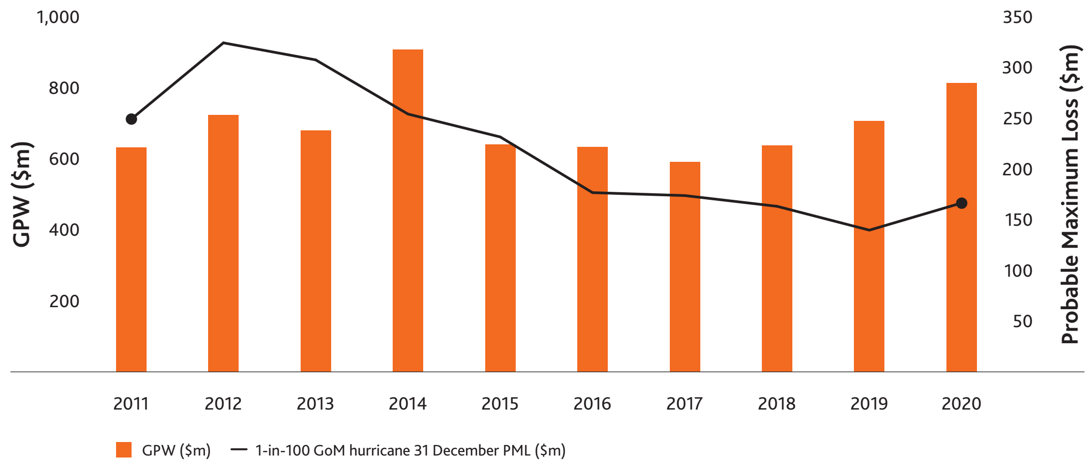
BUILDING FOR GROWTH

We’re positioning the business for organic growth, opening new lines of business and retaining more risk

$340.3m

equity capital raised in 2020

ACTIVELY MANAGING EXPOSURE DEPENDENT ON MARKET CONDITIONS



OUR PLAN FOR 2021

Consistent strategy

Our long-term strategy remains consistent: deploy more capital into a 'hardening' market, contract in a 'softening' market.

Attractive 2021 opportunity

Building blocks in place to take advantage of an attractive opportunity in 2021 to grow our revenues.

Being there for our clients

Our three market-leading platforms drive our long-term success: Lancashire Insurance companies, Lancashire Syndicates and Lancashire Capital Management.

Strong risk selection

Our daily underwriting call, strategic overview of risk and active management of exposures have proven they lead to long-term success.

Superior risk/return profile

Focus on delivering superior Change in FCBVS (previously termed RoE) above peer averages and a resultant strong total shareholder return.

Active capital management

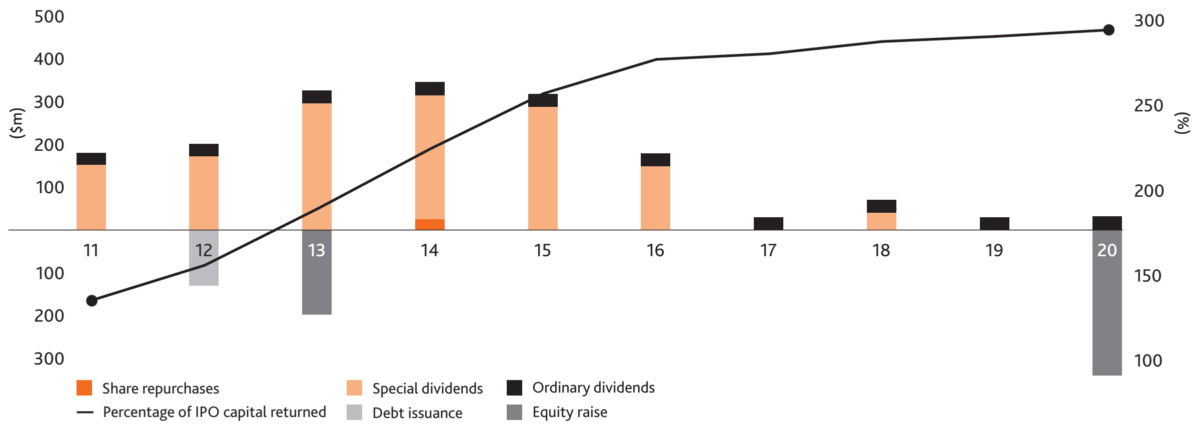
We aim to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools.

Focusing on managing risk and generating investor returns

To generate meaningful returns for our investors across the insurance cycle.

Producing a solid performance across the insurance cycle

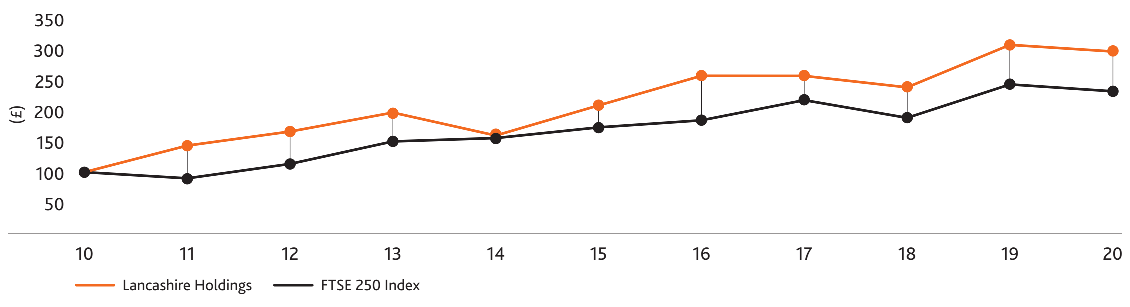
Active use of capital management further helps deliver shareholder returns



Delivering across the cycle

Since our inception, we have a history of delivering shareholder returns across the cycle.

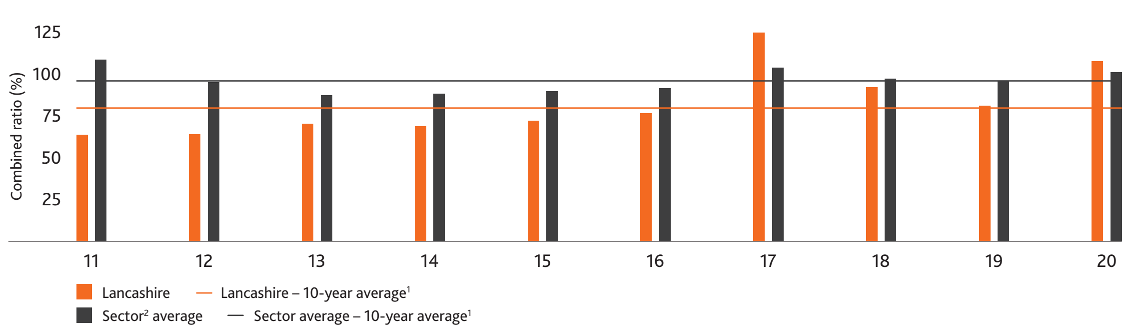
Total shareholder return



Experienced underwriters producing higher returns

Group management and our underwriters have decades of experience in rated companies, Lloyd's and collateralised markets.

Combined ratio



1. Ten-year average based on 2011-2020 reporting periods. Sector ratios are weighted by net premiums earned.
2. Sector includes Arch, Argo, Axis, Beazley, Everest, Greenlight, Hanover, Hiscox, Renaissance Re and Third Point Re. The 2020 results for Argo, Greenlight, Hiscox and Third Point Re are not available at the time of the report.

Source: Company reports

Delivering resilience for shareholders

KPI

Change in FCBVS (previously termed 'RoE')

10.2%

2019: 14.1%

KPI

Total investment return

3.9%

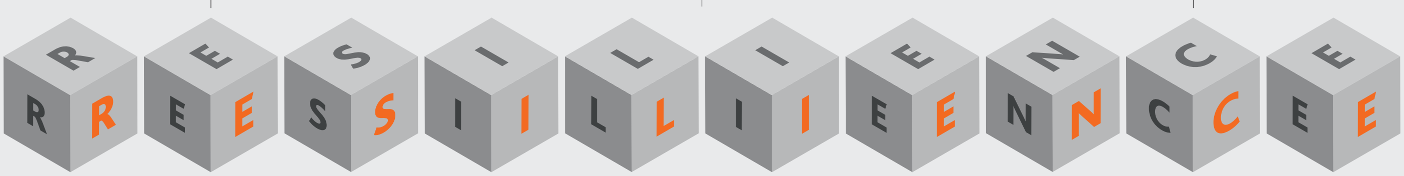
2019: 4.9%

KPI

Total shareholder return

-1.4%

2019: 34.3%



Combined ratio

107.8%

2019: 80.9%

KPI

Profit after tax

$4.2m

2019: $117.9m

Gross premiums written under management

$1.1b

2019: $934.8m

KPI

For APMs refer to page 184.

Planning for sustainable growth

"As we enter 2021, our capital resources and risk appetites are matched to the current exciting market opportunity."

Peter Clarke
Non-Executive Chairman

The best buildings sit on solid foundations. In recent years, through the softer part of the market cycle, our Board and management team have focused on the fundamental strategic buildings blocks of strong underwriting and technical skills, a core client base, rigorous risk and capital management, engaged shareholders, nimble governance, good regulatory relationships and a healthy corporate culture. We have made the necessary preparations to build our business in what we expect to be a better priced and more sustainable market.

How did the business perform in 2020?

This last year has posed exceptional challenges in the areas of health and stability to individuals, societies and to the global economy and commerce. Our thoughts go out to those whose lives and livelihoods have been impacted and to those key workers whose service has helped sustain us all. Much of the Board's focus has been on monitoring the operational and strategic impacts of the pandemic on our business. I would like to thank Alex and all our team for the resilience demonstrated by the Group's operation and performance. The Group has faced a number of challenges this year. These related not only to the COVID-19 pandemic but also included a run of natural catastrophe losses, that were broadly in line with our expectations for such events, and a series of medium-sized risk losses above our usual expectations for attritional losses. The combined ratio of 107.8% represents the Group's strong risk management in this exceptional year. Lancashire has generated a positive Change in FCBVS of 10.2% for 2020, which is a reflection of the Group's active and strategic capital management, operational performance and the contribution of the June 2020 equity raise, which places the business in a strong capital position to take full advantage of the improvements in the pricing environment.

What were the strategic priorities for the Board during the year?

The single most important area of focus for the Board has been discussion with the management team around the strategic commercial opportunities that started to develop compellingly as insurance market pricing strengthened during the year. This has shaped our capital management decisions, and in particular our engagement with our shareholders which resulted in our decision to launch our equity placing in June 2020.

The business has actively developed improved and new opportunities both in growing our existing lines of business and in adding new lines, as Alex and Paul discuss elsewhere in this Annual Report and Accounts. The decision to develop a greater level of casualty underwriting expertise marks a strategic development for Lancashire, which has traditionally had a focus on shorter-tail property and specialty lines. The Board is comfortable with the plans to develop casualty capability and expertise within the business.

Equity capital raised in 2020

$340.3m

What were the other principal areas of Board focus during the year?

Our Board has discussed issues of sustainability, in particular concerning the understanding and management of climate change risks. Our business has always had a strong and purposeful focus on its insurance liability exposures to weather-related events, such as windstorms, floods and wildfires, which are sensitive to climate change trends. The Board and management team have taken steps to broaden the formal oversight, strategic understanding, risk management and forward-looking scenario testing of climate change risk and opportunity. We have taken further steps on the journey to implement the recommendations of the TCFD, in particular in starting to utilise tools for the understanding of climate change risk on the Group's investment portfolio. We have also debated societal changes, including the emergence of the Black Lives Matter movement, and we reaffirm the Group's commitment to building a business which will continue to encourage and reap the benefits of an open, honest and diverse culture. For the second year running we will be reporting by reference to the United Nations Principles for Sustainable Development.

How have the capital requirements of the business changed?

The Board reviews the capital requirements of the business on a quarterly basis and considers the Group's capital headroom under several measures. Natalie Kershaw, who became our Group CFO in March 2020, has helped the Board deepen and develop its understanding of the capital requirements of the business and has also reformulated and refreshed the Group's business planning processes.

In early 2020, we were comfortable that our capital at that point was well matched to the Group's underwriting exposures. However, management's view of the rapidly improving underwriting environment prompted our decision in June to initiate a dialogue with our major shareholders and we subsequently raised fresh equity capital. This initiative was not driven by the need to 'fill a balance sheet hole', but instead to take advantage of the exciting underwriting opportunities which management and the Board believe will develop during 2021 and beyond. The Board paid close regard to the guidance issued by the Pre-Emption Group and the Lancashire shares issued in June 2020 were priced at a level which both maximised participation from our existing shareholders and raised the capital needed for the growth opportunities which we believe lie ahead. We would like to thank our investors for their support in this exercise and in providing the risk capital necessary to develop the exciting strategic market opportunity.

How has the Group changed the reporting measures used in the Annual Report and Accounts?

In previous years we have used the term RoE to describe the Group's growth in fully converted book value per share adjusted for dividends. This has been, and remains, one of the key measures of our overall financial performance, as well as being reflective of our capital management strategy. Further to constructive discussion with our auditors, KPMG LLP, on the use of Alternative Performance Measures (APMs) used in our financial reporting, and on recommendation from Natalie Kershaw, we have decided that the use of the term 'Change in FCBVS' to describe this key performance measure will aid clarity. Our finance team has also ensured that this report contains the necessary inputs and information for our stakeholders to understand this and our other APMs.

How did the Board and business address the challenges of the COVID-19 pandemic?

Following the 2019 year end meetings in February 2020, at which the Board discussed the potential impacts of COVID-19, the global pandemic developed rapidly causing a series of government directed restrictions on travel and national lockdowns. The Board closely monitored the operational and strategic impacts of the pandemic on our business and we were very impressed with the resilience shown by our operations in both London and Bermuda, which adeptly moved to a combination of home and office-based working during the year. A true reflection of our 'nimble' culture was the ability of the business to grow its top-line premium income in a strengthening market, even whilst adapting to a new way of working. The Group did not need to use furlough or other government relief schemes and there was measured net growth in headcount to equip the business to meet the growth opportunity.

The Board also focused on COVID-19 as a liability issue for the business and we monitored the rigorous reserving process which was conducted at an early stage of the pandemic and reviewed regularly throughout the year. As we report later, our COVID-19 reserve has been established on a prudent basis and has not deteriorated materially throughout the year. Whilst the pandemic is ongoing and its full effects remain uncertain, we are comfortable that the Group has strong processes in place to monitor potential exposures. This sense of assurance also relates to the series of natural catastrophe and risk losses which impacted the markets in the third and fourth quarters of 2020, where the Board has engaged constructively with our management and is satisfied that the Group's exposures to these losses have been well understood and reserved for.

In terms of the operation of our governance, we acted quickly to facilitate the virtual operation of our 2020 AGM and the Board itself has used a combination of virtual and in-person meetings during the course of the year.

How has the Board's dividend strategy changed?

Our dividend and capital management strategy has not changed. The Group paid its usual interim dividend during 2020 and proposes to make a final ordinary dividend distribution subject to a shareholder vote at the April 2021 AGM. Details are set out in the Notice of the AGM. In view of the expected improvement in (re)insurance pricing the Board has decided to retain most of the Group's current capital in order to develop this opportunity. Accordingly, the Board has decided not to declare a special dividend in respect of the 2020 financial year.

Assuming shareholder approval, the aggregate of all dividends for the 2020 year will amount to $0.15 per common share. Lancashire's nimble capital management and dividend strategy is well understood by our shareholders and the dividend policy is set out on page 105 of this Annual Report and Accounts.

Peter Clarke
Non-Executive Chairman

A model for success

We combine our deep underwriting and insurance expertise with efficient management of risk and capital resources across all our underwriting platforms to provide our clients and brokers with bespoke solutions for their insurance and reinsurance needs.

We focus closely on the risk-adjusted return.

OUR STRENGTHS

Customer focus

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

Expert people

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

Disciplined risk and capital management

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

A diverse offering

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

OUR STRATEGY

1 Underwriting comes first

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Find out more on page 16.

Our responsibility

We recognise that our responsibility as a company and as individuals reaches wider than our shareholders and our clients. We strive to be a good employer, a good corporate citizen and a responsible preserver of resources. Through the Lancashire Foundation, we make financial contributions and provide human support to a number of good causes in the places we operate around the world (for further details see pages 55 to 56).

THE VALUE WE CREATE FOR…

Our people

91%

of our employees considered they were treated with fairness and respect based on a recent staff survey

Our policyholders

$297.2m

gross losses paid in 2020

Our shareholders

10.2%

Change in FCBVS (previously termed 'RoE')

Society and the environment

£159,000

provided by the Lancashire Foundation to UK and Bermuda charities directly related to COVID-19 relief

Building on strong foundations

"We have laid robust foundations for an exciting period of growth as we enter a better priced 'harder market' in 2021."

Alex Maloney
Group Chief Executive Officer

In a challenging year we have both strengthened and broadened our underwriting teams and our client and investor relationships.

How did the business perform in 2020?

The fundamental requirement for any good building is a strong foundation. So, despite the challenges we have faced during the year, I am pleased and excited at the progress we have made to optimise the underwriting opportunity which now lies ahead. The Group's combined ratio of 107.8% and profit after tax of $4.2 million represent a resilient outcome in an exceptional year in which we faced the challenges of the COVID-19 pandemic as well as a series of natural catastrophe and specialty risk losses that have challenged our profitability. However, in this context, the positive Change in the Group's FCBVS of 10.2% for 2020 demonstrates how we have grown our capital base to build out our business in anticipation of a materially better pricing environment.

What were the impacts of the COVID-19 pandemic on the Group?

As the first lockdown began in March 2020, we were obliged to require all our colleagues to work from home. It is a credit to all our workforce that we were able to adapt so quickly to the changed working environment. Particular thanks must go to our IT team, who dealt rapidly and responsively with the changed requirements to ensure that we were all well-supported working from our homes. It is also testament to the strength of communication between our underwriters and our brokers that we were not only able to carry on servicing the needs of our clients as usual, but also to grow our revenues and underwriting footprint. Whilst the full impacts of the pandemic remain uncertain, there is now cause for hope of a return to a more usual level of 'normality' through the various vaccination and testing initiatives which are now gaining traction. The London and international property and specialty markets are 'people businesses', and whilst the last year has shown us that remote engagement has been a workable solution for Lancashire, I look forward to the time when we can re-establish the face-to-face contact which helps reinforce the relationships of trust and good faith on which our market depends.

As Peter noted earlier, we have carried out a rigorous appraisal of the Group's exposures to COVID-19 losses. The short-tail property and specialty policies which we typically underwrite tend to respond to first party physical damage. So, whilst we expect to have some peripheral exposures, we cautiously expect that we have not assumed material COVID-19 exposure through direct consumer, mortgage business and business interruption coverages. Whilst COVID-19 and its related losses are ongoing and a level of uncertainty remains, I have been pleased with the thoroughness of our reserving process and the relatively modest changes in our ultimate COVID-19 reserves as the year progressed.

How is the business positioned for the future?

Lancashire is entering a period of real opportunity. Since I became Group CEO, I have talked about my understanding of insurance as a cyclical business which is inherently subject to cycles of changing capital, supply and demand and pricing. During the recent years of the

Combined ratio

107.8%

'soft market cycle', we saw a steady accumulation and inflow of new capital within the insurance space which led to year-on-year price reductions. Lancashire prioritised the discipline of insisting on the right technical price for risks and serving our core clients, which resulted in a managed reduction of our top line and the corresponding risk capital needed by our business. But we are now reaping the rewards of that discipline as we enter an improved part of the insurance cycle.

The last year has been an important transitional year in which we have built up our underwriting expertise in our existing classes and in new business lines. We have added and developed expertise in accident and health, specialty reinsurance and casualty reinsurance. On our existing underwriting portfolio, whilst we have seen variations in pricing improvements, we have seen a strongly improving pricing trend illustrated by the Group's cross-class RPIs, which show a like-for-like improvement in insurance pricing of 112% for the full year, on a risk adjusted basis. I spend a lot of my time talking to our core investors about Lancashire's strategy and management of the cycle. So, I was excited to have the opportunity to speak to many of them at the time of our equity placement in June 2020. We were able to raise $340.3 million of new capital to fund future growth. That capital augments our already robust capital base and remains at our disposal to develop existing new underwriting opportunities as we enter 2021.

How has the Group's risk appetite changed?

As Lancashire is able to underwrite better priced insurance and reinsurance risk on our inwards book of business, we have also seen a corresponding increase in the cost of our outwards reinsurance policies, which has led us to adjust the structure of the Group's suite of reinsurance protections. In simple terms, we expect the anticipated increase in the Group's premium income in 2021 to result in increased exposures. This is consistent with our long-term strategy of retaining more, better-priced, risk in the 'harder' part of the insurance cycle by putting more of our own risk capital to work on more favourable terms.

How do you ensure the sustainability of Lancashire's business and strategy?

The issue of sustainability has always been a part of our business model and, as such, should not be over thought. Our core purpose and strategy are to provide risk solutions to our clients who face the challenges of an uncertain world. To do that sustainably over time we have operated a business and a culture with the skills and ability to manage our risk exposure, our pricing and our capital. We help our clients mutualise risk between themselves and with our investors and other capital providers, and that brings with it broader benefits and commercial resilience for the wider society.

Through the work of the Lancashire Foundation, we have a strong history of support for those in society who need our help, and a good record of personal staff commitment of both time and money across the Group. During 2020, the Foundation worked with several partner charities to alleviate the social disruption and harm caused by the COVID-19 pandemic, as well as funding various programmes which support those less able to manage the catastrophic impacts of climate change. The Foundation's activities included a 'London to Bermuda exercise challenge', which helped keep us all active and also raised money for good causes during the autumn. A more detailed report of the work of the Foundation can be found on page 55.

How does the business address the challenges of climate change?

Since Lancashire's formation in 2005, we have monitored and controlled our exposures to a range of natural catastrophe and weather-related risks. There is now a strong scientific consensus that climate change is a risk factor which drives many of those catastrophe events that can impact our business. We have the underwriting and actuarial modelling skills to understand and price these risks. Moreover, we can usually adapt our view of exposure to these risks and price for them on a very nimble basis. We have also started to evaluate the resilience of our investment portfolio to climate change sensitivities; see the Investment Committee report on page 76 for details. So, whilst we are taking steps to enhance our climate change risk understanding and management and in addressing the requirements of the TCFD, on which we report on pages 58 to 61, we have a head start in having a long tradition of appraising, pricing and exposure management for weather-related natural catastrophe risks.

For many years Lancashire has been a risk partner of businesses operating in the energy sector across the world, including oil, gas, nuclear and other renewables. The risk solutions which we provide to the energy sector help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We share with our clients the journey required by the necessary transition away from carbon-based forms of energy. But there are no simple solutions to both meet global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they address these challenges.

Why is Lancashire building an underwriting capability in the casualty reinsurance classes?

Our management team has debated for many years whether the Group should develop expertise in casualty. Although we have had over some years limited ancillary casualty exposures on several of our existing lines of business, such as energy and marine, the Group has traditionally underwritten a predominantly short-tail book of business. In 2020, we identified an opportunity to start underwriting casualty reinsurance as a new class within our Bermuda platform. Our initial plans are modest, and we expect the top-line contribution in the initial years to be small relative to our established books of business. Our new casualty reinsurance class, which is to be underwritten on a proportional and excess of loss basis, will strengthen and broaden our product offering and enable us to deepen relationships with some of our existing property and specialty reinsured clients, who may also be seeking casualty reinsurance protection. So, this should not be seen as a fundamental change of strategy or direction, but indicative of our intention to broaden our expertise and relationships and to develop a wider range of strategic opportunities whilst more favourable market conditions allow.

Alex Maloney
Group Chief Executive Officer

Our strategy

Our goal

Maximising risk-adjusted returns for shareholders

Our strategic priorities

Underwriting comes first

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

Delivering bespoke risk solutions in a sustainable framework

Effectively balance risk and return

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

Peak-zone PML limits of 25% of capital

Operate nimbly through the cycle

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

Maximise risk-adjusted returns

How we serve clients and brokers

Significant capacity across the cycle allowing us to provide consistent support

A lean structure allowing resources to be refocused quickly when needed

Strong processes and structures supply challenge and assurance

Our culture

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

1 Underwriting comes first

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Description

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

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

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

Achievements

We continue to add new expertise to the Group. In 2020, we added an Accident and Health team and hired a Casualty Reinsurance team that joined us early in 2021. We have increased the funds raised and capital deployed from LCM investors and grown LCM's client base for the second consecutive year. LUK has decided to re-enter the D&F class of business.

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

In line with our active capital management strategy, the Group decided to raise capital in 2020 to fund future organic growth. The Group also distributed regular dividends during 2020.

Performance

Underwriting profit

$77.0m

Our underwriting profit demonstrates strong risk selection in an active loss environment across both our specialty and catastrophe lines, with exposures to COVID-19 related losses, a number of catastrophe events and accumulation of single risk losses. Despite these events our focus on high quality underwriting allowed us to generate an underwriting profit for the year.

Change in FCBVS (previously termed 'RoE')

10.2%

The Change in FCBVS incorporates the capital actions taken by the Group during 2020, including the $340.3 million equity raise as well as the $24.3 million of comprehensive income the Group generated during the year. Our results were impacted by the active loss environment and COVID-19, offset by a solid investment return.

Percentage of comprehensive income returned to shareholders

132.9%

Lancashire continues to exercise the discipline of maintaining sufficient capital headroom to support underwriting operations and take advantage of new opportunities as they emerge or returning capital to shareholders it cannot profitably use.

Gross premiums written

$814.1m

With an improving rating environment in the majority of our classes, plus business generated by new teams, premiums have grown year on year. We maintain the discipline to decline or restructure our participation on under-priced or poorly performing business but are willing to accept more risk if the market opportunity allows.

Probable maximum loss

$166.5m*

We continued to match our exposure to key catastrophe perils to the market opportunity, demonstrating our discipline and nimbleness.

* 1 in 100-year Gulf of Mexico hurricane expected net loss at 31 December 2020.

Equity capital raised in 2020

$340.3m

We were able to raise $340.3 million of new capital to fund future growth. The capital augments our already robust capital base and remains at our disposal to fund new underwriting opportunities in 2021.

Associated strategic risk

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

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

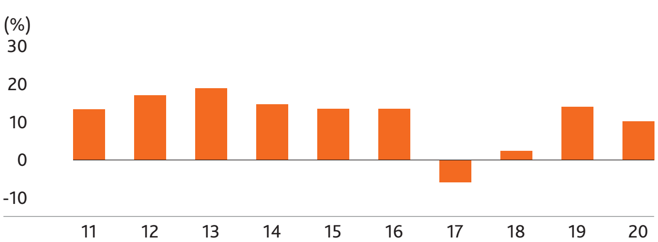
Lancashire has developed an expectation among its shareholders that it will produce a consistent return and pay ordinary dividends with supplementary special dividends only when it makes sense to do so. We believe our shareholders understand that in harder markets Lancashire will retain, and potentially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

Supporting growth

"Our successful capital raise during the year provides the platform on which we can continue to grow our business to take advantage of positive market opportunities in 2021."

Natalie Kershaw
Group Chief Financial Officer

Change in FCBVS (previously termed 'RoE')



What have been the highlights of your first year in the new role?

It has been a challenging first year, but one that I have relished! I have enjoyed being on the Group Executive Management Committee and impacting the strategic direction and management of the business. The new role has given me the opportunity to enhance my working relationships across the business and to work more closely with my exceptional finance team. A particular highlight for me was our ability to quickly raise capital in the middle of the COVID-19 crisis. This is a reflection of the hard work and commitment of colleagues across the Group as well as the tremendous support given to us by our shareholders.

How has the Group performed through the COVID-19 crisis?

The Group has performed exceptionally well to produce a positive comprehensive income of $24.3 million for the year in the context of the active claims environment in 2020, including the COVID-19 losses as well as a high frequency of both natural catastrophe claims and single risk losses. Lancashire has always prided itself on having a nimble and positive 'can do' culture. This really helped us to quickly adapt to remote working during the COVID-19 crisis, which was remarkably seamless. All our teams have contributed to maintain a high level of performance across the Group and we have maintained high service standards for our insureds. Notwithstanding the impact of the pandemic and the move to remote working we have successfully 'on boarded' a number of new staff in both the underwriting and the support functions as we look to grow the business in 2021.

How have you reserved for COVID-19 losses?

As we detail on page 26, the COVID-19 loss is unique for the market in that the event is ongoing and has impacts across multiple product lines. This makes it exceptionally difficult to reserve for and also means that any ultimate loss estimates are inherently uncertain. We have considerable experience in reserving for catastrophe events and used the same approach and philosophy to reserve for the Group's COVID-19 claims. A team from across the Group, including underwriters, claims and actuarial personnel, as well as senior management, reviewed all lines of business to assess the likelihood of claims arising. Our approach has therefore been 'bottom-up' by contract and class rather than estimating a market share of an industry loss. Our COVID-19 losses are largely focused in the property classes. We do not have exposure to losses in insurance lines that have been heavily impacted by COVID-19, including 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.

How do you feel about your capital position given the high frequency of natural catastrophe and single risk losses?

I am very comfortable with our capital position. We had retained more capital than usual coming in to 2020 to take advantage of any price improvements and to write more business during the year. This excess capital has enabled us to absorb all of 2020's insurance losses, whether from COVID-19, natural catastrophe or single risk losses, as well as supporting our premium growth in the last year. The $340.3 million of additional capital that was raised in June was not raised to cover losses and is fully available to support the increased business opportunities that we anticipate in 2021. As always, we will continue to match our capital to support the underwriting environment.

How do you anticipate returns will change with improved pricing? What level of growth can your current capital position support?

It appears that after many years we are finally entering a hardening market, and we are in a good position to take full advantage of that. With improved pricing we should see better returns than in recent years, absent the impact of any large loss events. Our current capital position can support growth both in the top line and also in the retention of risk, i.e. we may decide to buy less reinsurance cover for ourselves. It also allows us to grow across all three of our insurance platforms. The final permutation of how we grow net premiums across platform and between inwards and outwards business will depend on where we see the best opportunities in 2021.

How well positioned is your balance sheet to deal with the impact of climate change

A significant part of our business is the provision of insurance cover to clients to help them mitigate the risk of natural catastrophes. Climate change may increase the frequency and/or the severity of some types of natural catastrophe losses meaning that the insurance cover that we have the expertise to provide will become increasingly vital. Given our expertise in pricing and reserving for catastrophe events we are well placed to continue to provide insurance cover through the impacts of climate change. As a predominantly short-tail (re)insurer we have the ability to rapidly change the pricing for catastrophe risk given any change in likely frequency or severity. Our balance sheet is resilient, and our capital structure is designed to withstand significant catastrophe losses. We have strict tolerances in place to manage our overall exposures to natural catastrophe risk.

On the asset side approximately 90% of our investment portfolio is managed by UNPRI signatories. During 2020, we have benchmarked our investment portfolio against the MSCI's ESG ratings and also scored the portfolio's carbon intensity and MSCI's carbon transition risk. We were pleased with how our investment portfolio scored on these measures, with no 'red flags' being raised from an ESG perspective.

Natalie Kershaw
Group Chief Financial Officer

Financial highlights

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Gross premiums written	**814.1**	706.7	638.5	591.6	633.9
Net underwriting profit (loss)	**77.0**	186.5	121.7	(23.1)	213.5
Profit (loss) after tax[1]	**4.2**	117.9	37.5	(71.1)	153.8
Comprehensive income (loss)[1]	**24.3**	145.7	24.7	(66.2)	157.9
Dividends[2]	**32.3**	30.2	70.2	29.9	178.9
Diluted earnings (loss) per share	**$0.02**	$0.58	$0.19	($0.36)	$0.76
Fully converted book value per share	**$6.28**	$5.84	$5.26	$5.48	$5.96
Change in FCBVS (previously termed 'RoE')	**10.2%**	14.1%	2.4%	(5.9%)	13.5%
Combined ratio	**107.8%**	80.9%	92.2%	124.9%	76.5%
Accident year loss ratio	**71.4%**	51.3%	70.0%	94.2%	46.2%
Total investment return	**3.9%**	4.9%	0.8%	2.5%	2.1%

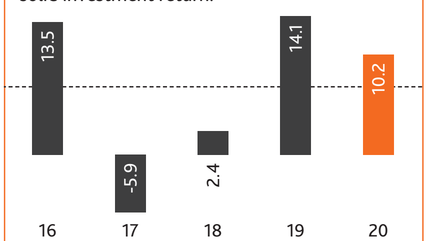
1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.

Change in FCBVS (previously termed 'RoE')

Performance

10.2%

The Change in FCBVS incorporates the capital actions taken by the Group during 2020, including the $340.3 million equity raise as well as the $24.3 million of comprehensive income the Group generated during the year. Our results were impacted by the active loss environment and COVID-19, offset by a solid investment return.



Measure

The Change in FCBVS is measured by management as the internal rate of return of the change in fully converted book value per share in the period, adjusted for dividends. For the year ended 31 December 2020, the Group has renamed return on equity 'RoE' to Change in FCBVS. It should be noted that the methodology in calculating this metric has remained unchanged and has been consistently calculated over the reporting periods outlined in the chart above.

Aim

The Group's aim is to maximise risk-adjusted returns for our shareholders across the cycle through a purposeful and sustainable business culture.

Risk management

The stated aim is a long-term goal, acknowledging that management expects both high and low results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. We seek to align our variable remuneration to shareholders' interests by having a strong link to Change in FCBVS.

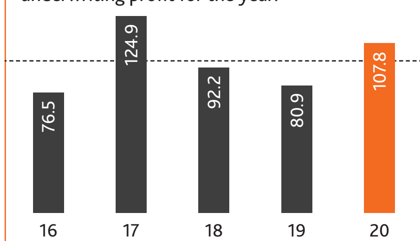
Please refer to the Directors' Remuneration Report on page 82 for further details.

Combined ratio

Performance

107.8%

The combined ratio reflects the impact of an active loss environment across both our specialty and catastrophe lines, with exposures to COVID-19 related losses, a number of recent catastrophe events and accumulation of risk losses. Despite these events our focus on high quality underwriting allowed us to generate an underwriting profit for the year.



Measure

The combined ratio is the ratio of costs to net premiums earned and is a measure of an insurance company's operating performance. It is calculated as the sum of the net loss ratio, the net acquisition cost ratio and the expense ratio. These ratios are defined in our glossary.

Aim

The Group aims to price its business to ensure that the combined ratio across the cycle is less than 100%.

Risk management

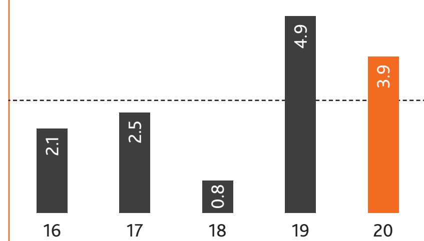
The Group's underwriters assess likely losses using models, their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses. Peer reviews of risks are conducted through the daily underwriting call or other peer review processes, depending on risk impact, enabling the Group to ensure careful risk selection, limits on concentration and appropriate portfolio diversification. The RRC then monitors performance at a portfolio level.

Total investment return

Performance

3.9%

While 2020 was extremely volatile for investments, our portfolio generated a strong return of 3.9%. Following the first quarter of 2020, the portfolio benefited from a decrease in interest rates and spreads. All asset classes performed very well, including risk assets held as a diversifier.



Measure

Total investment return in percentage terms is calculated by dividing the total investment return excluding foreign exchange by the investment portfolio net asset value, including managed cash on a daily basis. These daily returns are then annualised through the geometric linking of daily returns.

Aim

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

Risk management

The investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a reasonably stable income stream. These objectives are reflected in the Group's investment guidelines and its relatively conservative asset allocation. Management reviews the composition, duration and asset allocation of the investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. Performance against guidelines and investment tolerances are reported to the Investment Committee on a quarterly basis.

Key

KPI linked to Executive Directors' remuneration. For more information see pages 82 to 104.

APMs refer to page 184.

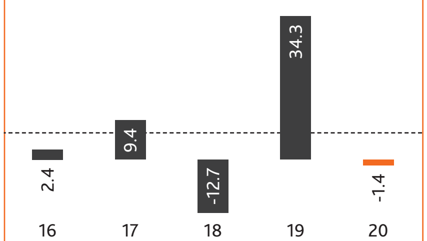
5 year average

Total shareholder return

Performance

-1.4%

Whilst our shares outperformed a lot of our peer group, they were not immune to the broader negative trends of UK listed assets.



Measure

Total shareholder return is measured in terms of the increase/decrease in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends.

Aim

The Group's aim is to maximise the Change in FCBVS over the longer term, and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the Change in FCBVS in the immediate term.

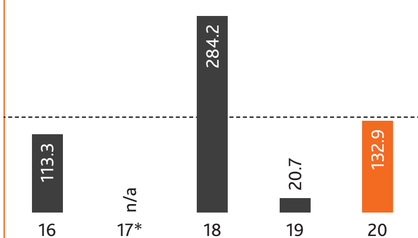
Risk management

The right behaviour is a key element in achieving this KPI. The Lancashire values help drive the desired behaviour, whilst the remuneration structure and RSS ensure that staff are highly motivated and closely aligned to the Group's goals, and therefore with shareholders. Permanent staff are all eligible to receive RSS awards. The participation of employees in the RSS ensures that there is a strong focus on sustainable long-term shareholder value.

Comprehensive income returned to shareholders

132.9%

In line with our active capital management strategy, the Group decided to raise capital in 2020 to fund future organic growth. The Group distributed regular dividends during 2020.



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

The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.

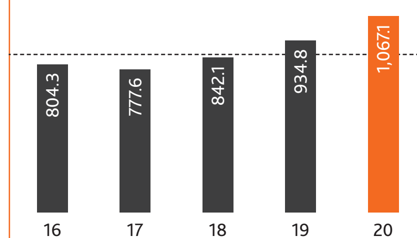
A range of Board approved risk tolerances (including capital and insurance-risk related tolerances) are set at a level that aims to prevent the Group incurring losses that would impair its ability to operate. The Group's key capital measure is its A.M. Best rating, and a minimum rating of A– is considered necessary to attract business. In 2020, Lancashire maintained its A rating.

* The Group made a comprehensive loss of $66.2 million during 2017. We paid annual ordinary dividends of $0.15 per share. Due to 2017 being n/a, the average is calculated over four years.

Gross premiums written under management

$1.1b

During the course of the year, and in light of a 'hardening' pricing cycle, the Group was able to grow gross premiums written under management to $1.1 billion.



Gross premiums written under management equals the total of Lancashire's consolidated gross premiums written plus the external Names portion of the gross premiums written in Syndicate 2010 and the gross premiums written in LCM on behalf of Kinesis Re.

The Group's aim is to operate nimbly through the cycle. We will grow in existing and new classes of business where favourable and improving market conditions exist, whilst monitoring and managing our risk exposures. We do not seek top-line growth for the sake of it in markets where we do not believe the right opportunities exist.

We use the principle of peer review throughout the Group, usually prior to underwriting business for LICL, LUK and LCM, the platforms that accept larger net exposures, and post-underwriting at LSL, with its smaller net exposures.

Additionally, our underwriters are remunerated on the same basis as other staff. They do not have premium targets in order to drive the desired risk-based decision-making behaviour.

Laying the foundations

"2021 should be an exciting year. We can never predict when loss events will occur, but we do know when we are getting paid to assume more risk, and we have the platforms, people and capital base to embrace the market opportunity and really develop our underwriting footprint."

Paul Gregory
Group Chief Underwriting Officer

Gross premiums written

$814.1m

RPI

112%

Our underwriting philosophy centres around our belief that the (re) insurance market is cyclical. During the depths of the soft cycle, many questioned if the cycle was dead after years of softening rates and no obvious sign that appetite and capital would shrink. However, we stuck to our belief that supply and demand always dictate our market and ultimately there will always be events and circumstances, often those that are completely unexpected, that tip the balance.

Given this belief, we ensured the foundations were laid during the softer part of the cycle to ensure the Group was primed to build when better market conditions returned. We believe that these market conditions are now here – looking forward to 2021 and beyond I am encouraged that the building blocks we put in place have put us in the ideal position as we look to grow our business in the future.

The green shoots of recovery started in 2018 following the numerous natural catastrophe events in 2017, the largest aggregate loss year on record for the (re)insurance industry. Then 2018 provided further catastrophe losses and challenges, including the first sight of reserving deficiencies in the long-tail casualty classes following the impacts of social inflation on loss costs. Momentum was building, and as we entered 2020 our outlook was positive. The biggest indication of this was our decision to retain our earnings from a profitable 2019 in order to grow the business – our capital actions are driven by our underwriting outlook.

Our disciplined underwriting actions in the soft cycle meant that we did not and still do not have legacy issues to resolve. We had reduced our risk appetite as the market softened, so when rates started to improve in 2018, we could start to grow market share as others retracted. We hadn't expanded into other lines of business and didn't have a long-tail casualty portfolio, so our balance sheet remained robust and unencumbered. We could simply look forward, legacy-free, to a better operating environment.

Market momentum further accelerated following events that few had foreseen. The COVID-19 pandemic has impacted the entire world and every industry. It will undoubtedly be costly for the (re)insurance industry albeit the exact quantum will not be known for many years, given the complex nature of the recent events. The impacts will generate some of the most challenging losses our industry has ever faced. The cost and uncertainty it has brought to the market, at a time when the industry was grappling with sustainable profitability anyway, has been the catalyst for pricing, as well as terms and conditions of coverage, to shift gear.

It was this change of pace that strengthened our belief that the underwriting landscape would be better than we originally hoped for in 2020, and more importantly was sustainable into 2021 and beyond. Our strong capital position coming into 2020 gave us the luxury of waiting for evidence that the market had accelerated post COVID-19, and the second quarter renewals gave us this evidence. This led us to raise capital in June 2020; another building block in place to profitably grow the business and retain more units of risk in 2021 and beyond as the market outlook improves.

Our four business segments have all experienced different dynamics this year. The outlook for each segment and sub-segment is also different but the trend almost across the board is positive. Importantly, we have experienced and capable team members who will, I believe, help us successfully navigate through the individual business class dynamics.

Property

	2020 $m	2019 $m
Gross premiums written	**426.9**	382.1
RPI	**108%**	106%

Our property segment includes our property reinsurance lines, such as property catastrophe and retrocession, as well as property insurance and terrorism and political risks. Our property (re)insurance lines all contain high degrees of catastrophe risk and as such have seen pricing dislocation during 2020 leading to the property segment RPI of 108%. Catastrophe-exposed products are the most capital intensive within our portfolio. It is in these lines where we will use our robust capital position to enable further growth in 2021, where we see strong pricing dynamics. We underwrite these classes across all of our underwriting platforms and remain both product and platform agnostic as to where we grow. The building blocks for growth in the product lines have been cemented in place. The capital is available to support growth in an improving market and we expanded our underwriting teams and platform options when these positive signs first appeared. As always, the growth will be driven by the underwriting opportunity and we have the flexibility to adapt to the market conditions in each product line.

In the catastrophe-exposed classes, we remain very aware of the changing climate and the elevated risks this brings. Our strong risk management is supplemented with the use of vendor models that collate the latest available data on the frequency and severity of the principal catastrophe events such as windstorm, flood and earthquake. This information forms part of our underwriting process which helps us assess and price natural catastrophe risk. With the heightened awareness of climate change, demand for the products we sell increases and as the understanding of climate change improves so does our assessment of such risk. Natural catastrophe events are damaging to businesses and economies. The products our industry sells help people, businesses and economies to rebuild.

The terrorism and political risk products we sell do not currently benefit from the same market dynamics as our other products. Market conditions are stable but not improving. These classes have not experienced many loss events and appetite for these classes remains strong across the market. Consequently, the demand and supply dynamics are not pushing the rating environment forward. The terrorism risks we underwrite range from hotels in city centres to offshore windfarms, and our political and sovereign risk product supports investments in various industries and infrastructure projects across the globe. Given the link between the economy and our political and sovereign risk offering, demand for the product is impacted by the COVID-19 pandemic, but as the economy recovers so should this demand. Our appetite for these products remains stable in line with market conditions and this segment of our business continues to generate healthy underwriting returns.

Aviation

	2020 $m	2019 $m
Gross premiums written	**151.0**	119.6
RPI	**121%**	116%

Our aviation segment has been building out steadily in the past few years, growing our product offering as market conditions improve. Much like the marine market, capacity has continued to tighten with numerous capacity providers retracting from multiple product lines. We had the platforms and people to seize this opportunity to grow just when market conditions improved. As can be seen from our aviation RPI of 121%, market conditions have been favourable for growth in 2020.

The aviation industry has had one of its most challenging years in history with COVID-19 unexpectedly impacting global demand for air travel. Our clients have been severely tested, and they will continue to be tested in years to come. We aim to adapt where possible and support clients, whilst finding a balance that allows for underwriting profitability. The products we sell are often mandatory purchase products, and therefore there is some insulation from demand headwinds. In addition, as other capacity providers retract, we have grown our market share in a profitable market, stepping in to provide needed capacity.

As we look to 2021, whilst we anticipate continued rate improvement, there will be demand headwinds in a sector so badly impacted by COVID-19. Whilst we anticipate some form of industry recovery, it is likely to be slow. Overall, despite these challenges, our aim will be to further grow our aviation segment where possible.

Energy

	2020 $m	2019 $m
Gross premiums written	**144.7**	128.1
RPI	**113%**	107%

Our energy portfolio continues to evolve, building upon foundations laid in recent years to diversify our product offering. Only a few years ago our portfolio was principally upstream assets and now we underwrite all parts of the energy industry including upstream energy, downstream energy, power and utilities and renewable energy.

Market conditions within the energy segment vary considerably. The 2020 energy RPI of 113% masks the different levels of pricing movement within each segment. Within upstream energy (which includes renewable energy) capacity for these products remains plentiful so, whilst rate momentum is positive, the rate of increase is less pronounced than within both downstream energy and power. In these two segments of the energy market supply of capacity has continued to retract following a high frequency of loss incidents, which has fuelled price momentum and allowed us to develop our underwriting footprint. Given the current economic environment, the energy sector is experiencing a difficult period with demand directly linked to the health of the global economy. In parts of the energy sector, such as upstream energy and to a lesser degree the downstream sector, these difficulties could create demand headwinds for insurance products in 2021. Power and utilities see far less impact and this demonstrates the value of having a more diversified product offering. Despite these challenges our clients still require insurance; in fact the value of insurance products is even more important at times of financial stress as they provide balance sheet protection and encourage active risk management.

Our portfolio will continue to evolve as our clients do. The energy industry itself is changing and will continue to do so in the future. As the world moves to a more sustainable future the assets our clients invest in will change to meet this goal and the products we sell will continue to adapt to support this changing client demand.

Marine

	2020 $m	2019 $m
Gross premiums written	**91.5**	76.9
RPI	**116%**	115%

Our marine segment encompasses all aspects of the marine industry from cargo to cruise liners; we underwrite the marine class from both our Lloyd's and Company platforms. The marine market has seen capacity withdrawals across all sub-segments for the past number of years. As a result, market pricing has been rising, demonstrated by our marine RPI of 116% in 2020. The year saw some high-profile marine incidents that generated losses to the sector, from which we were not immune. These losses further strengthen the marine market's resolve to improve the profitability of the product.

Whilst everyone would prefer for these incidents not to occur, they demonstrate the value of our insurance products. Our insurance helps companies protect their balance sheets in difficult times and helps fund valuable clean-up operations protecting the environment and local economies.

Like many industries, discrete parts of the marine industry have been directly impacted by COVID-19. Demand from certain clients, for example cruise liner operators, has reduced significantly. The insurance industry has reacted and adapted insurance products as best it can to assist clients in these difficult times. Despite these demand headwinds, we have been able to grow our marine footprint during 2020 ahead of rate increases, which is extremely pleasing. We anticipate market conditions to continue to strengthen into 2021 and will be looking to grow and strengthen our marine segment further.

Market overview

From every angle 2020 has been challenging. We have seen loss events across all of our underwriting segments including COVID-19, which will generate some of the most complex losses our industry has ever faced. Our underwriting result reflects this challenging year. COVID-19 has added further challenges as the entire Company worked from home for large portions of the year. I am incredibly proud of the underwriting team, and everyone that supports them, for continuing to execute our underwriting strategy so seamlessly and successfully. During the year we have also added new underwriters – some to help grow existing product lines and some to develop new product lines as we continue to add building blocks to the underwriting function for future success.

2021 should be an exciting year for the Lancashire underwriting team. We can never predict when loss events will occur, but we do know when we are getting paid to assume more risk, and we have the platforms, people and capital base to embrace the market opportunity and really develop our underwriting footprint.

Growing opportunities

James Flude
Chief Underwriting Officer, LUK

James Irvine
Chief Underwriting Officer, LICL

Jon Barnes
Active Underwriter, Syndicate 2010

John Spence
Active Underwriter, Syndicate 3010

Underwriting results

	2020					2019				
	Property $m	Aviation $m	Energy $m	Marine $m	Total $m	Property $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written	**426.9**	**151.0**	**144.7**	**91.5**	**814.1**	382.1	119.6	128.1	76.9	706.7
Net premiums earned	**251.6**	**70.4**	**91.3**	**62.5**	**475.8**	226.5	51.2	85.5	58.5	421.7
Net loss ratio	**57.6%**	**45.6%**	**73.2%**	**64.2%**	**59.6%**	32.6%	36.3%	22.2%	31.5%	30.8%
Net acquisition cost ratio	**20.7%**	**19.0%**	**29.4%**	**36.2%**	**24.2%**	22.5%	18.8%	29.9%	33.0%	25.0%
Expense ratio	**–**	**–**	**–**	**–**	**24.0%**	–	–	–	–	25.1%
Combined ratio	**78.3%**	**64.6%**	**102.6%**	**100.4%**	**107.8%**	55.1%	55.1%	52.1%	64.5%	80.9%

Premiums

Gross premiums written increased by 15.2% in 2020 compared to 2019. The Group's four principal segments, and the key market factors impacting them, are discussed below.

Property

Property gross premiums written increased by 11.7% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Within the property segment, our (re)insurance lines contain a high degree of catastrophe risk and as such have seen pricing dislocation during 2020 leading to a property segment RPI of 108% for the year. As well as these rating trends in renewal business, we have seen an increase in new business flows, in particular within the property catastrophe class and the property direct and facultative classes. These positive trends were marginally offset by the property political risk and property terrorism classes, a good portion of which are, by their nature, non-renewing.

Aviation

Aviation gross premiums written increased by 26.3% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Our aviation segment has been building steadily in the past few years, growing our product offering as market conditions improve. The increase in aviation gross premiums written in 2020 was primarily due to new business and rate increases in the aviation deductible and the aviation hull and liability classes of business with strong support from the aviation reinsurance class.

Energy

Energy gross premiums written increased by 13.0% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Our energy portfolio continued to evolve during 2020. The increase in energy gross premiums written was primarily focused in the power and downstream energy classes where both rate increases and new business led to the premiums almost doubling relative to 2019. Upstream energy remained broadly stable, as modest rate increases were offset by small reductions in exposures.

Marine

Marine gross premiums written increased by 19.0% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Marine pricing has been rising, due to capacity withdrawals over a number of years, demonstrated by our RPI of 116% during 2020. The increase in marine gross premiums written was primarily due to new business growth in the marine cargo and the marine hull classes of business supported by rate and exposure increases across all lines of business. The marine segment also benefited from the favourable timing impact of multi-year policies renewing in 2020 compared to 2019.

Ceded

Ceded reinsurance premiums increased by $12.7 million, or 4.5%, in 2020 compared to in 2019. The higher level of inwards gross premiums written has resulted in an increased level of outwards quota share reinsurance spend while the newer classes of business that the Group has started underwriting have also resulted in additional cover being purchased when compared to the prior year. These increases were somewhat offset by lower outwards reinstatement premiums compared to the prior year and a lower ceding percentage applied on some of the outwards quota share contracts purchased.

Losses

The Group's net loss ratio for 2020 was 59.6% compared to 30.8% in 2019. The accident year loss ratio for 2020, including the impact of foreign exchange revaluations, was 71.4% compared to 51.3% in 2019.

During 2020, Lancashire experienced an active loss environment across both its specialty and catastrophe lines, with exposure to COVID-19 related losses and to a number of natural catastrophe events, including hurricanes Laura and Sally, the Midwest derecho storm and the wildfires in California. In addition, as noted in our third quarter trading update, risk losses were higher than our expectations and this continued into the fourth quarter of 2020, impacting all our segments. These loss events reflect the nature of the insurance products offered by the Group's trading subsidiaries as part of their usual business and are within the Group's risk tolerances.

Our net losses, excluding the impact of inwards and outwards reinstatement premiums, from COVID-19 related losses, natural catastrophe and large risk loss events, amounted to $149.5 million for the year ended 31 December 2020. Our COVID-19 loss primarily relates to exposures within our property segment. Given the ongoing nature of the COVID-19 pandemic and the uncertain impact on the insurance industry, the Group's actual ultimate loss may vary, perhaps materially, from the current estimate. The final settlement of all of these claims is likely to take place over a considerable period of time. The Group's estimated ultimate net financial impact of COVID-19, including losses and reinstatement premiums, is consistent with that reported in July at approximately $42 million. In 2019, our net losses from catastrophe events, excluding the impact of inwards and outwards reinstatement premiums, were $52.1 million.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of current accident year COVID-19 related losses and catastrophe loss events on the Group's loss ratio for the year ended 31 December 2020:

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

As reported in the Group's results for the year ended 31 December 2019 and excluding the impact of foreign exchange revaluations, the impact of natural catastrophe loss events on the Group's 2019 loss ratio was as follows:

	Losses $m	Loss ratio %
Reported at 31 December 2019	129.8	30.8
Absent all catastrophe events	77.7	18.5

Prior year favourable development for 2020 was $52.0 million, compared to $88.0 million of favourable development in 2019. 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.

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

	2020 $m	2019 $m
Property	**46.6**	44.9
Aviation	**3.3**	6.8
Energy	**17.2**	23.9
Marine	**(15.1)**	12.4
Total	**52.0**	88.0

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2020 and 2019:

Ultimate loss development by accident year

	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	**52.0**	88.0

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 34.4% as at 31 December 2020 compared to 30.9% as at 31 December 2019.

Accident year loss ratios

	2020 %	2019 %
Current accident year loss ratio	**71.4**	50.3
Initial accident year loss ratio	**n/a**	51.3
Change in loss ratio post-accident year	**n/a**	1.0

Note: Adjusted for revaluation of foreign currencies at the exchange rates as at 31 December 2020.

Other operating expenses

Other operating expenses were $114.4 million in 2020 compared to $106.0 million in 2019. The increase was primarily driven by higher employment costs due to an increase in the number of employees from 218 in the prior year to 255 in the current year. Non-employment costs increased slightly due to a number of project initiatives during the year which drove an increase in legal and external consulting fees. These increases were partly offset by reduced expenditure on travel and entertainment and promotional events.

The equity-based compensation expense was $12.3 million in 2020 compared to $9.6 million in the same period last year. The equity-based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. Increased equity-based compensation charges were recorded in 2020 as higher performance targets were met.

Denise O'Donoghue
Group Chief
Investment Officer

Investments, liquidity and cash flow

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. As market volatility continues, we position our portfolio to limit down-side risk in the event of market shocks. 2020 has been an extremely volatile year, but our investment portfolio has rebounded from the stress of the first quarter. In this environment of very low rates and a flat yield curve, it does not pay to increase duration. While any expectation of higher rates is at least a few years out, our focus will be on maintaining a defensive portfolio with short duration and high credit quality. We will use our risk budget to add to our portfolio some additional yield, however we will endeavour to add low volatility products. We continue to maintain a short duration fixed maturity portfolio and have been using our risk budget to add products to our portfolio to help diversify from interest rate volatility.

Our portfolio mix illustrates our conservative philosophy, as shown in the chart overleaf. With the composition regulated by the Group's investment guidelines, we have three investment portfolio categories: 'core', 'core plus' and 'surplus'. The core and core plus portfolios contain at least enough funds required to meet near-term obligations and cash flow needs following an extreme event. Assets in excess of those required to be held in the core and core plus portfolios may be held in any of the three categories, which are discussed further on page 140.

The composition, duration and asset allocation of the investment portfolio are reviewed 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 risk in the portfolio. We try to be nimble in our investment strategy while putting our objective of capital preservation first and foremost.

We believe in the application of common sense, and do not place much reliance on 'black box' approaches to investment selection.

Investments are, however, inherently unpredictable and there are risks associated with any investment strategy decisions. Recent market history has been tumultuous, and we remain ever watchful. We will continue to monitor the economic environment closely.

Investment performance

Net investment income excluding realised and unrealised gains and losses was $29.0 million for the year ended 31 December 2020, a decrease of 23.1% compared to 2019. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $69.1 million for the year ended 31 December 2020 compared to $83.2 million for 2019.

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

Liquidity

The Group is a short-tail insurance and reinsurance group. As such, the investment portfolio must be liquid, short duration, and highly creditworthy. As noted earlier, the Group's investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims in conjunction with providing a reasonably stable income stream.

Liquid securities will be maintained at an adequate level to more than meet expenses, including unanticipated claims payments. Only once safety, liquidity and investment income requirements are satisfied may additional yield in the investment portfolio be pursued.

Cash flow

The Group's cash inflows are primarily derived from net premiums received, from losses recovered from reinsurers, from net investment income, including dividends and other returns from its associates, and any capital raising activities performed in a given year including the issuance of debt. Excess funds are invested in the investment portfolio, which primarily consists of high-quality, highly liquid fixed maturity securities of short duration. Other cash inflows result from the sale and redemption of investments.

The principal outflows for the Group are the settlement of claims, the payment of premiums for reinsurance cover, payment of general and administrative expenses, the servicing of debt, the purchase of investment products (including LCM) and the distribution of dividends.

Conservative portfolio structure – quality

- Corporate bonds: 35.0%
- U.S. government bonds and agency debt: 19.0%
- Cash and short-term securities: 13.0%
- Agency structured products: 7.0%
- Non agency structured products: 7.0%
- Other government bonds and debt: 5.0%
- Bank loans: 5.0%
- Private debt: 5.0%
- Hedge funds: 4.0%

- AAA: 20.0%
- AA: 35.0%
- A: 23.0%
- BBB: 16.0%
- BB or below: 6.0%

Darren Redhead
Chief Executive Officer, LCM

Third-party capital management

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

	2020 $m	2019 $m
LCM underwriting fees	**10.0**	7.9
LCM profit commission	**1.8**	1.0
LSL fees & profit commission	**3.5**	2.5
Total other income	**15.3**	11.4
Share of profit of associate	**10.7**	5.9
Total third-party capital management income	**26.0**	17.3

The higher Lancashire Capital Management underwriting fees in 2020 reflect the increased level of premiums under management compared to 2019. The amount of Lancashire Capital Management profit commission recognised is driven by the timing of loss experience, settlement of claims and collateral release and therefore varies year on year. The share of profit of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle.

Capital management

Lancashire has built a reputation for being one of the best known and most active proponents of capital management in the industry. Capital management is our most important area of focus after underwriting and it is our firm belief that proactive and flexible capital management is crucial in helping to generate a superior risk-adjusted return over time. With our focus on maximising risk-adjusted shareholder returns over the long term we will return capital where this offers the best returns for our shareholders. We have returned 105.4% of comprehensive income generated via dividends or share repurchases since inception.

The Group actively reviews the level and composition of capital on an ongoing basis. 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.

The key aim of the capital management process is to maintain a strong balance sheet, whilst:

- 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, regulatory and rating agency requirements.

The subsidiary operating entities also conduct capital requirement assessments under internal measures and in compliance with local regulatory and Lloyd's requirements.

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. All capital actions require approval by the Board of Directors. The retention of earnings generated also leads to an increase in capital.

The composition of capital is driven by management's appetite for leverage, amongst other factors, including the cost and availability of different types of capital. Maintaining a strong balance sheet will be the overriding factor in all capital management decisions.

Capital

On 10 June 2020 a total of 39,568,089 new common shares of $0.50 each in Lancashire were placed at a price of 700 pence per share, raising proceeds of $340.3 million for the Company. The shares issued represented approximately 19.5% of the issued common share capital of Lancashire prior to the placing.

As at 31 December 2020, total capital available to the Group was $1.866 billion, comprising shareholders' equity of $1.539 billion and $327.5 million of long-term debt. Tangible capital was $1.712 billion. Leverage was 17.6% on total capital and 19.1% on total tangible capital. Total capital and total tangible capital as at 31 December 2019 were $1.517 billion and $1.363 billion respectively.

Dividends

During 2020, the Lancashire Board declared a final dividend of $0.10 per common share in respect of the 2019 financial year and an interim dividend of $0.05 per common share in respect of 2020. The Board of Directors has declared a final dividend for 2020 of $0.10 per common share, subject to a shareholder vote of approval at the AGM to be held on 28 April 2021. On the basis that the final dividend of $0.10 per common share is approved by the shareholders at the 2021 AGM the total capital returns since inception amount to $2.9 billion or 291.8% of initial capital raised. The final dividend will be paid on 4 June 2021 to shareholders of record on 7 May 2021.

Non pre-emptive issue of shares

As part of the Group's flexible approach to capital management the Board has in recent years requested and received from shareholders authority to issue up to 15% of its shares on a non pre-emptive basis. Lancashire believes that this ability to raise capital quickly is important in securing first mover advantage in the catastrophe insurance and reinsurance business which it underwrites. The Board proposes to put a similar request for authority to shareholders in a resolution at the 2021 AGM to be held on 28 April 2021.

Letters of credit

Lancashire has a syndicated LOC facility which in total amounts to $250.0 million, with a $50.0 million loan sub-limit available for general corporate purposes. Syndicate 2010 has a catastrophe facility in place to assist in paying claims and the gross funding of catastrophes. 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 an LOC facility, available up to a maximum amount of $60.0 million. Furthermore, a $95.0 million uncollateralised facility is available for utilisation by LICL and guaranteed by LHL for FAL purposes. A separate uncommitted overdraft facility will be made available to Syndicate 2010 of $20.0 million.

There was no outstanding debt under the above facilities at any reporting date. There are no off-balance sheet forms of capital.

Resilient risk management

"2020 was the year that put our risk management framework to the test in many different ways."

Louise Wells
Group Chief Risk Officer

Operational resilience has been key for the year, from invoking a full working from home environment across the Group, moving back into a COVID-19 secure workplace and then back to working from home again, whilst also ensuring the business remained adaptable, that all critical business services continued to operate as usual (internally and those involving third-party providers) and that we were able to provide a seamless service to all of our stakeholders.

One of the positive aspects of 2020 was the robustness of our business, our people and our relationships with our stakeholders. This did not occur without risk, and related risk scores were adjusted to reflect the necessary changes in the working environment. For example, cyber risk scores were increased due to the remote working situation. This risk was mitigated to an extent through the provision of IT equipment to staff to ensure the required level of security was met.

In addition to the COVID-19 pandemic, 2020 also saw a large number of both catastrophe and risk loss events. Whilst that is the nature of the (re)insurance business we are in, the number was above our 10 year average aggregate catastrophe losses. Adherence to risk appetite tolerances during the underwriting process meant that none of these events resulted in losses that were outside of expectations, demonstrating the alignment of the RMF with the Group's business strategy. As we move into 2021 and seize the opportunities available to us, the RMF will be adapted and enhanced as necessary to ensure it remains aligned and appropriate for the growing business.

Culture

Remote working for such an extended period had the potential to negatively impact our culture, whilst also increasing our operational risk. However, the use of various conference technologies ensured key governance and risk management processes, such as the daily Underwriting and Marketing Conference Call, continued to operate as they would have done in the office. In terms of our culture, in 2019 the Group commissioned a comprehensive staff survey, the results of which were very positive. In 2020, this was followed up with a further survey focusing on diversity and inclusion. Risk culture has also been a focus, with the development of a risk culture framework to ensure the alignment between the Group's organisational and risk cultures. We expect to develop this further in 2021 through the implementation of related risk metrics, which can be used to provide assurance to the Board. Our first risk culture survey was conducted in January 2021. These results are being used to direct focused risk training, in addition to the broader ERM training provided to all new permanent and fixed-term contract staff.

Climate change

As a (re)insurance group Lancashire is primarily affected by physical risk through its exposure to acute and chronic climate change. However, consideration must also be, and is, given to transition and climate-related litigation risks. In our underwriting operations, we manage this risk effectively by supplementing our internal know-how with external vendor models. We have clear tolerances and

ERM & ORSA

Key activities

- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board

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

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

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

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

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

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

Key elements of ORSA

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

preferences in place to actively manage risk exposures (including exposures associated with loss events which may be influenced by climate change trends), and the Board regularly monitors our PMLs (see table on page 133). Litigation risks are managed by monitoring publicised legal cases and understanding the potential ramifications for the Group based on our existing portfolio. The risks to the asset side of our balance sheet from exposure to climate change is mitigated in part through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio. Management and the Investment Committee are working with our external portfolio managers to monitor the carbon and ESG profile of the Group's investment portfolio (see pages 76 and 77 for further details).

Climate change, its related risks and opportunities and their potential financial impact, are a key focus of the Board at its quarterly meetings, and the Board continues to oversee the development of the ESG framework and the Group's climate-related financial disclosures including the requirements of the TCFD. The stress and scenario tests performed as part of the business planning and ORSA processes included climate-related scenario(s), and these scenarios will continue to be refined and enhanced as more information becomes available. The Group has established a working party which will consider, inter alia, the appropriate methodology for future climate scenarios aligned to TCFD requirements. The work performed to date has not resulted in any material impact on business strategy or change to our understanding of the risks' impacts to our business. See also pages 58 to 61: TCFD Our journey. The Group monitors and offsets its own carbon emissions (see page 53 for further details).

Risk strategy

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

The Group's financial performance is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk, and strategic risk, which are all discussed further in the risk disclosures on pages 132 to 153, as well as Group risk and regulatory and legal risk. The primary risk to the Group is insurance risk, which can be subdivided into the core risk of underwriting and the non-core risk of reserving and includes the Group's risk exposures to natural catastrophes including wind storms, wildfires and other loss events linked to climate change trends.

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

Risk management framework

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

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

As at 31 December 2020, all Group entities were operating within their board-approved risk tolerances.

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

The 2021 annual ORSA report will be presented to the Board for review, challenge and approval at the Q1 2021 Board meeting. The equivalent reports for the operating subsidiaries will also be presented to their boards for review, challenge and approval during Q1 2021. As a Lloyd's managing agent, LSL falls within the Society of Lloyd's for Solvency II reporting, preparing ORSA reports for each syndicate. LSL has its own ERM framework to ensure adherence to Lloyd's minimum standards.

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

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

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

RRC

The RRC, under the chairmanship of the Group CEO, is the key management tool for monitoring and challenging the assessment of risk on a regular basis. It seeks to optimise risk-adjusted returns and facilitate the appropriate use of the Group's internal models, including considering their effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity boards of directors. The RRC includes the Group CEO, members from the finance, actuarial, modelling, operations, treasury and underwriting functions and both the Group CRO and LSL CRO. The Group CRO reports on the RRC's activities to the Group and individual entity boards of directors and via the LSL CRO to the RCCC of LSL. Through the Group CRO the RRC considers recommendations to the Board and its Committees with regard to the adoption of formal risk tolerances. Examples of specific items considered by the RRC during 2020 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests and the results of the quarterly affirmation process and related controls testing.

Capital models

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

Changes in risk

From an insurance risk perspective, our Board-approved tolerances have remained static during the year but for the second year running we have seen an increase in the gross written premium compared to the prior year. This increase reflects an increased appetite to write business as we have seen improving rates across most of our classes of business. Our insurance risk tolerances will remain the same for 2021 but our expectation is that we will write more business, retain more risk, and therefore have reduced headroom between tolerance and actual exposure as we deploy our capital according to the market conditions.

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

From an operational risk perspective, and primarily as a result of the pandemic, there have been a number of important risk and control changes during the year given the remote working environment. The strength of the control environment remains unchanged, as does the governance process around such changes.

Emerging risk

The identification and assessment of emerging risk occurs throughout the Group from individual departments to management and executive committees, to the boards of directors and sub-committees of the boards. The risk function maintains an emerging risk register, which is provided to the executive committees, Board and entity boards of directors each quarter, and is therefore subject to an iterative process of review and oversight. Emerging risks, by their nature, are difficult to quantify, however, during 2020, the Group strove to foresee potential areas of new risk, or developments in existing risks, and to assess how those risks could impact the Group. Whilst much of the focus in 2020 was on the ongoing pandemic, the risk function also monitored the development of previously reported emerging risks including ESG, Brexit, operational resilience, the Future at Lloyd's and global tax reform. Climate change risk remains at the top of many political agendas internationally and is an area of risk monitoring and management for us at both management and Board level. The threat which catastrophic weather events pose to individuals, communities and businesses illustrates the social and economic value which our risk management products generate. This is therefore a key area both of strategic opportunity for our business and one of the key drivers of our underwriting risk exposure management. In particular, management and the Board set tolerances for, and monitor, the Group's probable maximum losses for major catastrophe events and in particular weather-related exposures. Please see page 133 for a list of the Group's current PML risk exposures. Climate change risk also informs the way we manage our investment portfolio and associated risk. During 2020, the Group once again participated in the Carbon Disclosure Project, which is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures, which are promoted by the Financial Stability Board and the Bank of England. See also the section titled TCFD Our journey on pages 58 to 61 for more information.

Risk universe

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

The Board evaluated the risks disclosed, alongside other factors, in the assessment of the Group's viability and prospects as set out in the going concern and viability statement in the Directors' report at page 108.

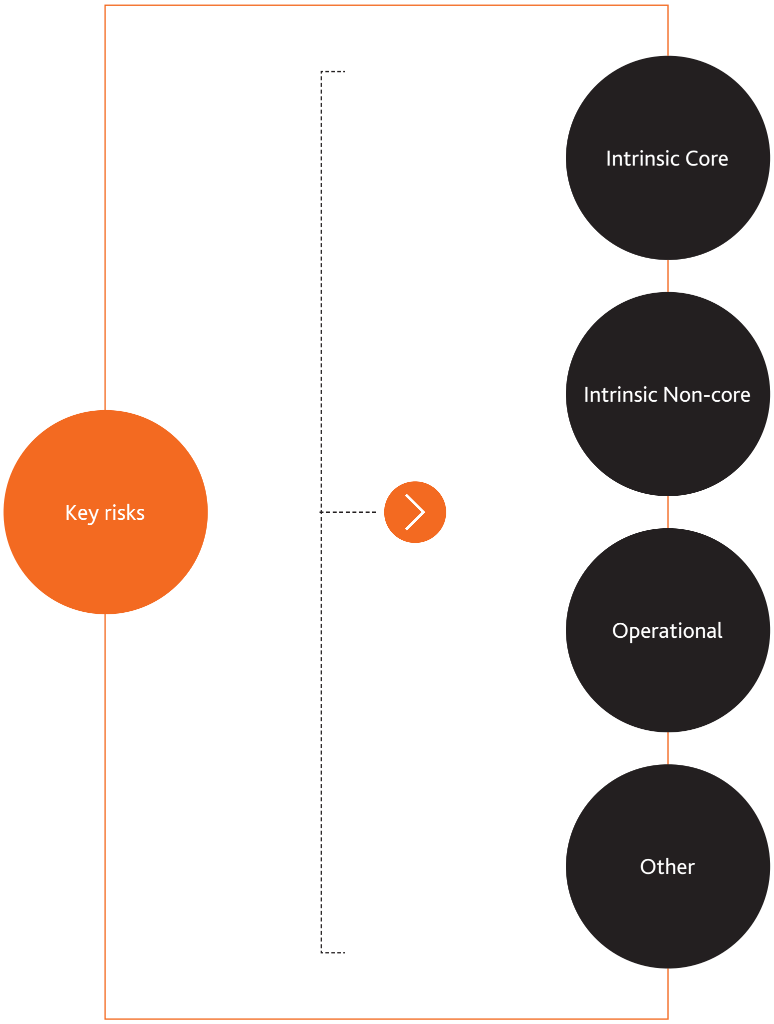
Risk universe

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

Our strong risk culture is the foundation on which we build our strategy

As described under our review of the risk universe on page 34, our classification of risks as Intrinsic Core and Intrinsic Non-core, Operational and Other helps us to focus on our management and mitigation of those risks.

Further details concerning these risks can be found on pages 36 to 41. Within the capital models, insurance risk accounts for over 80% of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place a large number of controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested. For example, we spend a lot of time looking at the implications of new capital entering the market and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change through the analysis of the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned to our business planning, ORSA processes and time horizons. The selected tests are aligned to our key risk areas and include capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.



Intrinsic risk: Core

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

Link to strategy

1 Underwriting comes first

Trend

Impact

Appetite

Opportunities

As market dynamics change so too do the opportunities available to the Group. We remain creative in being able to provide tailored insurance and reinsurance products and solutions to our core clients across the three platforms of our business. 2020 saw further opportunity for organic growth as we both increased business written in our existing classes of business and added additional classes of business to our portfolio. 2021 looks to be equally positive.

Mitigation

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

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

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

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

How the Board reviews this risk

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

Key

Risk trend key:
- Increased
- Stable
- Decreased

Risk impact key:
- High
- Moderate
- Low

Risk appetite key:
- Acceptable
- Reassess
- Unacceptable

Intrinsic risk: Core (continued)

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

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

Mitigation

Governance: Board and investment strategy: Our strategy is that investment income is not expected to be a significant driver of our returns. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored on a quarterly basis by the Investment Committee and Board. A detailed strategic asset allocation study is performed biannually.

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

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

How the Board reviews this risk

The Investment Committee receives and reviews investment strategies, guidelines and policies, risk appetite and associated risk tolerances, and makes recommendations to the Board in this regard. The Committee also monitors performance of the investment strategies within the risk framework and compliance with investment operating guidelines. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances. During 2020 the Investment Committee received the results of the strategic asset allocation study and a paper on ESG and carbon pricing sensitivity, including the results of an exercise whereby our investment managers reviewed our portfolio against the MSCI ESG Index. This work will be further developed in 2021 to define some climate-related investment metrics.

Intrinsic risk: Non-core

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

As mentioned in earlier sections of the report COVID-19 is a unique loss event given its ongoing nature and impact across multiple product lines. These factors make it exceptionally difficult to reserve for and also means that any ultimate losses are inherently uncertain. This has led us to change the trend for this risk to increased from stable.

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

Mitigation

Short-tail business: Lancashire's focus is on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty.

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

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

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

How the Board reviews this risk

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

The Board focused on COVID-19 as a liability issue for the business and monitored the rigorous reserving process conducted by management at an early stage of the pandemic and regularly throughout the year.

Intrinsic risk: Non-core (continued)

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

Link to strategy

1 Underwriting comes first

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Trend

Impact

Appetite

Opportunities

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

Mitigation

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

How the Board reviews this risk

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

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

Link to strategy

2 Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

Mitigation

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

How the Board reviews this risk

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

Operational

These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. The Group is also subject to regulatory supervision and oversight, as well as legislation and tax requirements across a number of jurisdictions (see page 152 for more information). Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposures. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system. Furthermore, unauthorised access to IT systems as a result of a breach or failure could result in data loss, including personal data, which may have regulatory and/or reputational risk implications. During 2020, the impacts of the COVID-19 pandemic and the resultant transition to home working have been monitored as a 'real world' operational risk challenge. As part of this, the IT security and cyber risk score was increased to reflect the change in working environment.

Link to strategy

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Trend

Impact

Appetite

Opportunities

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

Mitigation

Capacity: We mitigate IT availability risk by adding redundancy to the capacity we need and using backups of data, including off-site storage that we test regularly. Additionally, the Group has both Disaster Recovery and Business Continuity Plans in place that are tested annually and which are designed, in particular, to help minimise the risk posed by Bermuda hurricane events or disruptive political or terrorism events in London. The business follows strict tax and regulatory operating guidelines, which are periodically reviewed and approved by the Board. The executive management team has monitored the unfolding operational impacts of COVID-19, both formally and informally, often on a daily basis. The Board has received regular reports on COVID-19 operational impacts at its quarterly meetings (see page 41 for more detail).

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

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

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

How the Board reviews this risk

The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process and detailed control testing. The Audit Committee reviews this alongside the quarterly updates from the internal audit team regarding their programme of work and opinion on the effectiveness of controls. In addition, the quarterly ORSA report from the Group CRO to the Board includes details of any risk events and near misses and changes to the risk register, and the drivers for such change. The Board reviews the culture aspect of operational risk through the Audit Committee, which receives an update in each internal audit report as well as through internal audit's analysis of the root causes of the audit findings. COVID-19 was discussed at each meeting of the Board during 2020, with a particular focus on the operational resilience of the Group and ensuring the Group could continue to service its policyholders. In addition, a diversity and inclusion survey was performed late in 2020, and a risk culture survey in January 2021, the results of which were presented to the Board in February 2021. The Board is also provided with regular updates on the change management portfolio of work. This has been an area of focus in 2020 with the recruitment of a Head of Change.

Other – climate change and COVID-19

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

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

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

COVID-19 has had a significant impact through the imposition of a remote working environment and the fact it continues to be an ongoing insurance risk event. Operationally the Group has managed the pandemic well with minimal impact to our control environment. Our staff have shown their resilience whilst working remotely, returning to the office and then having to return to a remote working environment.

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

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

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

Mitigation

Qualitative approach: These risks require a qualitative approach, engaging staff in appropriate discussions about sources of risk, and then thinking about possible outcomes. The Group Executive Management Committee and the RRC consider these issues, and the quarterly ORSA reports made by the Group CRO to the Board include standing items on these risk areas.

ESG: An ESG working group has been established under the leadership of the CRO to drive the necessary work to be in compliance with the TCFD requirements prior to the end of 2021.

COVID-19: The increased cyber risk was mitigated through the provision of hardware to staff for use when working remotely to ensure appropriate security was in place. In addition, a cyber security incident response plan has been developed and a desktop exercise performed to test the plan.

How the Board reviews this risk

Both COVID-19 and climate change have been topics of discussion at each Board meeting this year. The quarterly ORSA report from the CRO to the Board includes an ESG section providing an update on related work during the period. In addition, the stress and scenario testing performed as part of the annual business planning process and regulatory reporting process includes both a pandemic risk scenario and a climate change-related scenario looking at both transitional and physical risks. The Board concluded that the results of these scenario tests did not represent a material risk to the Group. The Board has reviewed the TCFD report in the Annual Report and Accounts (see pages 58 to 61).

Building on clear communication and strong governance

"Clear and direct communication and information flows, a sense of accountability and an open and honest culture of engagement, debate and challenge are the pillars of an effective governance framework and a sustainable business model at Lancashire. They give the business a strong sense of purpose and a clear strategic focus."

Peter Clarke
Non-Executive Chairman

In my opening statement, I discussed the Board's oversight of performance, strategy, risk and capital management during 2020. The following sections focus first on the work carried out in the areas of the Company's environment & social responsibilities, including the Company's progress in advancing the UNEP FI Principles for Sustainable Insurance, stakeholder engagement, the Board's Section 172 responsibilities and progress in our engagement with climate change risk and the recommendations of the TCFD. The following Governance section describes the work carried out by the Board and each of its Committees in providing challenge and support to the management team and in engaging with the wider business to oversee the development and delivery of an effective strategy.

What priorities inform the governance arrangements for the Group and its broader social and environmental responsibilities?

Lancashire is a premium-listed company on the LSE, which measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis through the work of our Nomination Corporate Governance and Sustainability Committee (see page 72 for the Committee report).

Throughout this Annual Report and Accounts for the 2020 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the Bermuda Monetary Authority, which also regulates LICL, the Group's Bermuda incorporated (re)insurance entity. The Group's UK insurance entities are regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

The Board is alive to the increased focus under the Code on the sustainability of businesses, not only with regard to the operation of formal governance arrangements, but increasingly social and environmental impacts. The Code specifically stresses the importance of the Section 172 responsibilities of boards under the UK Companies Act 2006, and whilst the Company is incorporated in Bermuda and not formally subject to Section 172 as a matter of law, our Board has for many years operated a strong culture of proactive and constructive stakeholder engagement. During 2020, the Board enhanced its formal consideration of questions of sustainability by renaming the Nomination Corporate Governance and Sustainability Committee and revising that Committee's Terms of Reference, which are posted on the Company's website.

On pages 44 to 46 of this report we have included a summary of the principal areas of focus for the year under the 'Principles for Sustainable Insurance', promoted by the United Nations Environment Programme Finance Initiative. This is the second reporting year since the Board and business became signatories to the UN Principles. As both Alex and I mentioned in our introductory remarks, the Board and business have progressed the business's strategy and planning in the area of climate change and the attendant risks and opportunities. In our Investment Committee report, Rob Lusardi reports on some of the preliminary work carried out to measure the sensitivity of the Group's investment portfolio to a range of carbon pricing scenarios. Louise Wells, our Chief Risk Officer, addresses how we manage the risks and opportunities associated with climate change in her Enterprise Risk Management report (see pages 30 to 33) and this Annual Report and Accounts summarises the steps taken so far by the Board and the business in 'Our journey' to embed the principles of the TCFD through our governance, strategy, risk management and scenario testing (see pages 58 to 61).

Readers will also note our account of the way in which the Company engages with its stakeholders in the engagement and sustainability section of this report on pages 47 to 57. This includes the Board's statement in respect of matters covered by Section 172 which can be found on page 48.

I am pleased to report that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2020. The formal consideration of governance and regulatory requirements are used by the Board and the business as practical working tools to monitor and promote a purposeful, diverse and successful business culture.

In the face of the COVID-19 pandemic how did the Board engage with the workforce?

The Board has for many years had a strong culture of 'workforce' engagement. We have the great advantage of having an employee headcount of around 250 people, so all our employees are known personally by our Group CEO or the other members of the Group's executive management team. 2020 presented practical challenges for face-to-face engagement, as our staff in London and Bermuda were required to work from home for several months during the year. We addressed this challenge in several ways including the use of video conferencing. The management team and Board also used a staff pulse survey, which helped develop a picture of the challenges faced and requirements of staff following the lockdowns.

As has been his practice for several years, Alex Maloney has led on a quarterly basis 'town hall' meetings with all our staff, which during 2020 moved to a virtual environment and were very well attended by our staff in both our UK and Bermuda offices. At each of these meetings one of our Non-Executive Directors participated on a rotating basis to talk about their perspective on the work of the Board and the priorities for the business and to take questions from members of staff. Alex also produced regular newsletters for staff over the period of lockdown, which as well as giving an update on the business included other, more social information, to enhance staff morale.

We were able to organise meetings in Bermuda in February 2020 and in France during July 2020 at which our Non-Executive Directors had opportunities to meet members of staff both as part of the formal business of the Board and informally outside Board meetings. We also held an informal buffet lunch In Bermuda in February where our Directors had the opportunity to meet staff members.

There were several training and discussion sessions presented by members of staff to Directors, which helped facilitate engagement.

Our internal audit team has now embedded a focus upon business culture at a business unit level and reports its findings to the Audit Committee as another tool to help monitor the health of the Group's business culture.

The Board and business continue to support the work of the Lancashire Foundation, which continues its strong tradition of staff engagement and activism.

In summary, despite the exceptional challenges faced in 2020, the Board was able to engage with the workforce and monitor the Group's business culture through several channels. Whilst there will always be areas of friction and scope for improvement and innovation, the Board is pleased that we operate an open, respectful and successful business culture and that we have the practical tools to ensure strong and effective two-way communication and engagement between the workforce and our Board.

For further discussion of the work of the business, the Board and its Committees in the areas of culture and engagement please refer to the engagement and sustainability report (pages 47 to 57), the report from the Audit Committee (pages 67 to 71) and the report from the Nomination Corporate Governance and Sustainability Committee (pages 72 to 75).

How has Board membership and succession planning evolved during the year?

As we noted in last year's Annual Report and Accounts, following an announcement in December 2019, Natalie Kershaw was appointed to the role of Group CFO and as an Executive Director of LHL with effect from 1 March 2020 and Natalie has proved a welcome addition to our Board. Other than that, the Board composition has not changed, although we do expect to make further appointments to the Board during 2021 to help ensure managed succession planning.

Are the Board and its Committees operating effectively?

Following last year's 2019 Board performance evaluation, we tracked several actions and enhancements during the year. Towards the year end our Board once again carried out a review of its effectiveness, which was facilitated internally by Chris Head, our Group Company Secretary. A summary report was discussed by the full Board and the exercise has again helped us identify certain topics for training or specific focus during the coming year, as well as other enhancements to our Board and Committee reporting and operational processes. Throughout 2020, I have continued to meet regularly with the chairs of each of our principal subsidiary boards and our performance evaluation concluded that the relationship between the main Lancashire Board and the subsidiary boards continues to operate effectively. We concluded that the Board, its members and each of its Committees have a balance of experience and talents that serve the Group well and have the competencies and operational culture necessary to meet the strategic challenges of the business effectively (see page 65 for further details).

I would like to thank all our Directors, our management team and all our employees for their hard work during the year.

Peter Clarke
Non-Executive Chairman

Principles for Sustainable Insurance

The UNEP FI Principles for Sustainable Insurance ('the Principles') serve as a global framework for the insurance industry to address ESG risks and opportunities. The Principles are directed at achieving a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for effective risk protection and reporting.

The Board has reported against the Principles since 2019 and seeks to monitor and embed the Principles in the delivery of its strategy. This table summarises how the business applied the Principles during 2020 and directs readers to where the relevant activities of the Board and business in embedding the Principles are discussed in more detail within this Annual Report and Accounts.

Principle 1

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.	**For more information please see:**
Company strategy We embed ESG issues within our Board and management's strategic and business planning processes to foster a strong, purposeful and profitable culture of sustainable governance. The business is led by a strong management team accountable to an independent, diverse and effective Board and Committee structure.	Purpose statement (inside cover) Engagement and sustainability – Section 172 (page 48) Governance report (pages 64 to 66)
Our principal strategic purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events, including those influenced by the effects of climate change. During 2020, the Group has taken further steps to implement the recommendations of the TCFD in developing greater formality around the understanding of the impacts of climate change risk and implementing an appropriate governance framework for climate change management. We formally monitor our climate exposures and build this into our risk management and strategic planning, both as a risk and opportunity for the business. We are also starting to develop a picture of the likely impacts of a range of climate change scenarios on the Group's insurance operations and its investment portfolio. We are committed to monitoring and offsetting the Group's own carbon emissions.	Purpose statement (inside cover) Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24) Climate change and TCFD strategic planning, risk management and resilience testing (Enterprise risk management section pages 30 to 33) and our TCFD journey (pages 58 to 61) Environmental impacts and offsetting (pages 53 to 54) Investment Committee report – carbon pricing, portfolio sensitivity analysis (page 77)
Management and the Board actively support the work of the Lancashire Foundation, which promotes engagement of our staff with a range of charitable and social projects, including a record of assistance to disadvantaged communities blighted by catastrophic events including the COVID-19 pandemic.	Communities, including the Lancashire Foundation (pages 54 to 56)
We value our people and the strategic benefits of a healthy business culture. Our management team and Board promote an active programme of engagement and we operate a robust, yet flexible, programme of staff training and opportunities for career development. We offer attractive remuneration and employee benefits packages and have a planned approach to succession, staff retention and employee satisfaction.	Succession planning (page 51) Engagement and people (page 52) Workforce engagement and culture (page 50) Employees/Health and safety (page 107)
There is regular engagement with our shareholders and other stakeholders by management, the Board and the business, touching upon a range of strategic and business issues, including the Group's approach to a range of ESG matters.	Purpose statement (inside cover) Strategic report (pages 16 to 17) Chairman's introduction – ESG implementation (pages 42 to 43) Governance report (pages 64 to 66) Investment Committee report – work on portfolio ESG management (page 77)

Principle 1 continued

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.	**For more information please see:**
Risk management and underwriting There is a strong culture of underwriting discipline and risk management within the Group, which values professionalism and embeds risk monitoring and control processes in our underwriting activities. Environmental risk exposures, including assumptions related to climate change, are embedded into our risk management, underwriting processes and capital management.	Chief Executive's review (pages 14 to 15) Enterprise risk management and principal risks (pages 30 to 41) Risk disclosures (pages 131 to 152)
Management and the Board agree and monitor performance against formal risk tolerances, in particular with regard to the Group's exposures to natural catastrophe loss events, including weather events impacted by climate change.	Risk disclosures – peak zone elemental loss exposures (page 133)
Product and service development Our (re)insurance products and services help our clients manage the threats they face from climate catastrophe risks and other unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes.	Purpose statement (inside cover) Underwriting review (pages 22 to 24)
The Board and management foster a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world. Included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.	Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24)
Claims management Our experienced team of claims specialists is well-equipped with specific knowledge of our diverse product lines. We have high levels of expertise that allow us to effectively manage and thoroughly investigate any loss our clients may sustain. Our goal is to ensure timely and equitable claims resolution for our clients.	Business review – losses (page 26) Engagement and sustainability – our policyholders (page 52)
Sales and marketing We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as with independent brokers, who distribute our products. We seek to engage with our clients and their brokers to provide relevant and targeted risk solutions based on a sustainable strategy and business model.	Purpose statement (inside cover) Engagement and sustainability – brokers (page 52)
Investment management We actively manage our climate change transitional risk, with sensitivity to, and promotion of, ESG responsible investment. Our principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment'. We have also started to formally monitor the sensitivity of the Group's investment portfolio to the impacts of different carbon pricing regimes and to develop a better understanding of the resilience of the investment portfolio to carbon transition risk.	Principal risks – investment risk management (page 37) Investment Committee report (pages 76 to 77) Our TCFD journey (pages 58 to 61)

Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.	**For more information please see:**
Clients and suppliers We engage constructively with our clients, brokers and other suppliers to address environmental, social and governance issues relevant to the operation of our business and to address our clients' needs for risk management solutions across a range of specialty and property lines.	Purpose statement (inside cover) Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24) Chairman's introduction (pages 42 to 43) Investment Committee report (pages 76 to 77)
Insurers, reinsurers and intermediaries We engage with industry bodies to develop and promote awareness of market issues (including environmental factors).	Chief Executive's review/comments on climate change impacts and actions (page 15) Engagement and sustainability – (page 52) Chairman's introduction (page 42)

Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.	**For more information please see:**
Governments, regulators and other policymakers Our Board and business operate constructively within a highly regulated insurance and financial services environment in the UK, Bermuda and internationally. Our Bermuda and UK entities have engaged during the year with their respective national regulators in relation to the management of climate change risk and the progress made in implementing the TCFD recommendations and in the monitoring of the impacts of the COVID-19 pandemic both operationally and strategically. As a listed company, LHL systematically monitors, records and reports its compliance with the Code.	Chief Executive's review (pages 14 to 15) Chairman's introduction – sustainability, governance and regulation (pages 42 to 43)
The Board and business monitor and comply with relevant law and regulation. Examples include the Board's clearly articulated position regarding slavery and human trafficking, pursuant to the provisions and requirements of the UK Modern Slavery Act 2015. Our Board has also regularly discussed the recommendations of both the Hampton-Alexander and the Parker Reviews regarding gender and ethnic diversity.	Nomination Corporate Governance and Sustainability Committee report (pages 72 to 75)
The Board oversees the Company's annual submission to the Carbon Disclosure Project (CDP). The Group and its regulated subsidiaries are working to implement the recommendations of the TCFD.	Our TCFD journey (pages 58 to 61) See also: LHL's responses on the CDP website

Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.	**For more information please see:**
We offer clear and transparent ESG reporting through multiple channels, including our Annual Report and Accounts, our website and our work with the CDP.	www.lancashiregroup.com See also: LHL's responses on the CDP website
We are committed to being transparent and accountable, by publicly disclosing the business's implementation of the Principles.	Chairman's introduction (pages 42 to 43) Chief Executive's review (pages 14 to 15)

Building with purpose

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

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

Our stakeholders

Our people

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

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

See page 50 for further details.

Our policyholders

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

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

See page 52 for further details.

Our shareholders

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

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

See page 53 for further details.

Society and the environment

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

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

See page 53 for further details.

The Board and Section 172 responsibilities

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

In this 2020 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of our stakeholders in their discussions and decision making. To that end, this engagement and sustainability segment should be considered together with the rest of this report as the Company's comprehensive account of its Directors' compliance with their Section 172 duties. The table below directs readers to some illustrative examples of where the Board and business have addressed these duties:

Board decision making in action

2020 equity placing

In June 2020, the Company issued an additional 19.5% of its then-existing issued share capital pursuant to an equity placing. In reaching its decision to launch the placing, the LHL Board and the executive management team had regard to a number of stakeholder factors, including: policyholder demand and requirements; the growth and underwriting opportunities expected to develop from the improving pricing environment; the Group's rating agency and regulatory capital headroom requirements and the need to maintain a strong capital position to allow the business to take advantage of such opportunities; and the constructive consultation exercise conducted with the Company's major shareholders, which included discussion of the rationale for the placing, immediately prior to its launch.

In allocating the new shares, the LHL Board and the executive management team paid close attention to the Pre-Emption Group's Statement of Principles. A balance was struck in achieving strong pricing for the share placement and in respecting the percentage holdings of the Company's major shareholders, so as to allocate, where reasonably possible, shares in accordance with their existing holdings.

Overall, the LHL Board considered it in the best interests of the Company, all its shareholders, as well as the wider stakeholders of the Lancashire Group, to approve and proceed with the placing.

Section 172(1):	Duty to promote the success of the company, with regard to:	For further details, see:
a)	The likely consequences of any decision in the long term;	• The Group's statement of purpose – inside cover • The Group's business model for success – pages 12 to 13 • The Group's strategic goal and three priorities: that underwriting comes first; to effectively balance risk and return; and to operate nimbly through the cycle – pages 16 to 17 • The Board's assessment of the Group's viability and prospects as set out in the going concern and viability statement – page 108
b)	The interests of the company's employees;	• The importance of our people, and the business's focus on Lancashire's values, culture, diversity & inclusion, training & development and workforce engagement (for example, our 'Engagement in action') – pages 49 to 52 and 73 to 75
c)	The need to foster the company's business relationships with suppliers, customers and others;	• Our business depends upon the strong business relationships that we build and maintain with our core and broader stakeholders. All Board members attend the quarterly UURC and, during 2020, gave close consideration to business development opportunities as summarised in the Committee's report – pages 57 and 78 to 79
d)	The impact of the company's operations on the community and the environment;	• Society and the environment form part of our 'core' set of stakeholders. The Board is engaged with the impact of the Company's operations through its oversight of the Lancashire Foundation, the Group's submission to the Carbon Disclosure Project, the annual offsetting of our GHG emissions, and more recently the commitments to report against the UNEP FI Principles for Sustainable Insurance and address the requirements of the TCFD – pages 44 to 46 and 58 to 61
e)	The desirability of the company maintaining a reputation for high standards of business conduct; and	• Through its compliance with the FRC's UK Corporate Governance Code, the Company strives to operate in line with high standards of governance expectation and business conduct. A healthy and sustainable corporate culture is embedded throughout the business, which is assessed by the Board through various channels – pages 42 to 43, 47 to 57 and 72 to 75 • The Audit Committee oversees the Group's implementation of whistleblowing arrangements, and other systems and controls for the prevention of fraud, bribery and money laundering – page 70
f)	The need to act fairly as between members of the company.	• The Board is committed to treating the Company's shareholders fairly, and engaging with them through a broad programme of investor relation activities, meetings (including the AGM), and targeted consultations; be that with our substantial shareholders, the Company's own employees, private individuals, or via shareholder advisory groups – see in this regard 'Board decision making in action', as well as pages 47 to 57 and 85 • Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of dividends – pages 10 to 11, 29 and 105

Our approach to stakeholder engagement

The Group has always positively engaged with a broad range of stakeholders. Our 'core' stakeholders are shown at the heart of the diagram on page 47, namely our shareholders and our people (who support our business), as well as our policyholders who rely on the (re) insurance products we sell. Through our purpose as a business we aim to contribute to society and benefit the environment. The value of these relationships and the responsibilities they entail are recognised throughout the Group, ranging from Board-level decision making through to the day-to-day business activities of our workforce.

The Group's relationship with its broader stakeholders can, of course, at any one time also be of key importance. The Board and the business prioritise underwriting excellence and nimble capital management to serve the best interests of core stakeholders, and ultimately benefit a broader group of stakeholders. It is the fluidity of these relationships which enables the business to deliver on its purpose and strategy.

Engagement in action

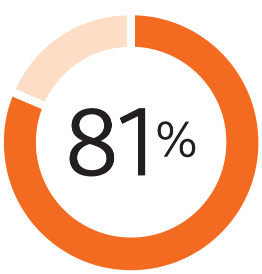
2020 diversity and inclusion survey

Lancashire is committed to promoting an open, honest and inclusive working environment. In December 2020, the Group conducted an employee survey with a focus on diversity and inclusion. The survey was undertaken with the purpose of helping the business obtain a better understanding of its employees' views on diversity and inclusion at Lancashire, a more complete picture of the business's culture and to gain valuable feedback on areas for potential improvement across the Group. The survey also sought information from employees on a non-attributable basis in relation to such matters as gender, ethnicity, sexual orientation and religion. Whilst responses were not mandatory, participation was encouraged across the Group.

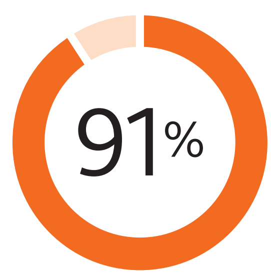
The survey was coordinated by an independent company to guarantee the anonymity and confidentiality of individuals' responses. The summary of responses to the survey were presented by the Group Head of HR to the LHL Board, subsidiary boards and executive teams to help inform strategy across the business and to identify new initiatives to help build on areas of the Group's culture. In particular, the business will continue to consider and engage with its employees on matters of diversity and inclusion.

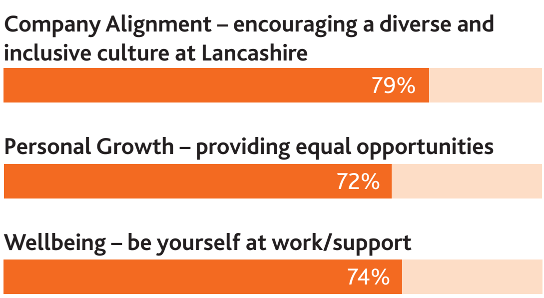
Key findings and feedback:

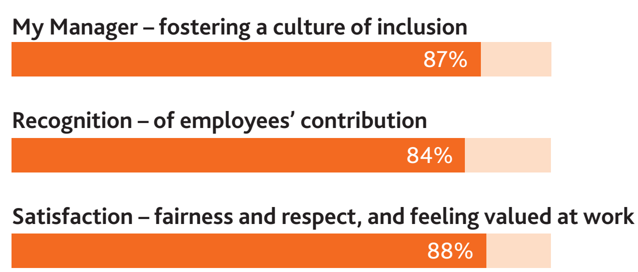
Employee participation



Employees responding that they are treated with fairness and respect







Our people

Culture

Our employees are the lifeblood of the organisation and the Group therefore strives to attract and retain excellent individuals who share our drive and appetite to outperform. Matching the skills, aspirations and values of new recruits to those of the business remains a key priority. We believe the talents of our people and our distinctive culture continue to set us apart from our competitors.

2020 has demonstrated, more than ever, the nimble 'can do' attitude of our people. The resilience, commitment and professionalism displayed throughout the Group, in what have proven to be challenging and unprecedented times, has enabled the business to continue to operate both smoothly and efficiently and to serve the interests of its stakeholders.

Lancashire offers a rewarding environment within which to work, both in terms of the support and opportunities given to employees to enable them to excel in their role and the competitive and attractive compensation and reward structures. To further enhance the link between our people and the performance of the business, all of our permanent employees are eligible to receive RSS awards, therefore giving them the opportunity to share in the growth and success of the Group and ultimately to become shareholders.

The Lancashire values

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

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

Nimble in our decisions, actions and business processes, we are…

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

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

	2020*	2019*
Number of employees (UK and Bermuda)	**255**	218
Percentage of female employees	**38.8%**	38.5%
Percentage of women on the LHL Board	**37.5%**	37.5%
Percentage of women on the Group executive committee	**50.0%**	50.0%
Percentage of women in senior management positions	**50.0%**	38.1%
Number of different nationalities represented by our employees	**12**	12
Percentage of the workforce composed of third-party contractors	**6.9%**	8.0%
Group employee turnover (annual)	**6.8%**	13.8%
Percentage of employees who undertook training during the year	**56.9%**	69.3%
Percentage of permanent employees eligible for RSS awards	**100%**	100.0%
Accredited London Living Wage employer	**Yes**	Yes

* Unless otherwise stated above all figures are as at 31 December.

> "The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness."

Number of employees
255

Percentage of women on the Group executive committee
50.0%

Diversity and inclusion

The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness (see in this regard 'Engagement in action' on page 49 and the Nomination Corporate Governance and Sustainability Committee report on pages 72 to 75). As an equal opportunities employer, we do not tolerate discrimination of any kind in any aspect of employment. For example, all decisions relating to recruitment, assessment and promotion are based on the ability of the individual to do the job, without consideration to race, age, gender, sexual orientation, disability, beliefs, background (except as may be pertinent to the requirements of a role, such as educational qualifications or prior employment experience) or nationality. Our workforce is represented by employees of at least 12 different nationalities and the gender split of males to females (see page 75) is 61.2%/38.8% respectively. The Group is also committed to providing a working environment that is free from any form of bullying or harassment.

We expect our staff to conduct themselves in a professional manner which is reflective of the Group's core values (see page 50 for further details). All new employees are required to attend our Communications Etiquette/Equality, Diversity & Inclusion training sessions as part of their induction. The training sessions aim to highlight employees' responsibilities in ensuring that there is no discrimination in the workplace and in fostering a positive and productive working environment.

Lancashire respects, supports and complies with all relevant local Bermudian and UK legal requirements to which it is subject, in particular with respect to rights of freedom of association, collective bargaining and working time regulations.

Training and development

The Group encourages continuous personal and professional development for all of its employees, through internal and external training, professional qualifications, internships and secondments, performance coaching, and 'lunch and learn' sessions. During 2020, approximately 56.9% of our employees undertook some form of training supported by the Group that encompassed training delivered by an external provider and/or ongoing professional qualifications/ continuing professional development. As ever, we encourage all our employees to take advantage of the training opportunities offered. Individual training and personal development needs are discussed on a regular and ongoing basis by managers and their team members, and are assessed as part of the formal appraisal process, where principally each employee's success is measured through the attainment of personal performance metrics as well as performance within the Group's values framework. During the year 9% of our employees were promoted within the Group, supported by the training and development opportunities afforded to them.

The Group also delivers compulsory training to all new permanent staff and fixed-term contract staff which covers a range of important topics, including: Tax/Regulatory Operating Guidelines, Disclosure (including the requirements of the Market Abuse Regulation 2016), Inspections, Financial Crime, ERM, Communications Etiquette/ Equality, Diversity & Inclusion, GDPR and Conduct Rules. Other training may be held on an ad hoc, one-off or refresher basis according to an individual's requirements. The training is designed to ensure that all personnel who are employed by the Group are provided with the skills, knowledge and expertise appropriate to their role and responsibilities within the business. There is an expectation that all new staff members will have completed their compulsory training during the first three months of joining the business. Quarterly updates regarding attendance at these compulsory training sessions are provided to the Board for information purposes.

Engagement

The Group benefits from having a relatively small headcount, 255 employees globally, which allows its staff members to interact easily between departments and to access members of the senior management team, including the CEOs at both Group and subsidiary level. Lancashire also encourages a high level of engagement between its workforce and the Board. There are regular opportunities for each of the Directors and staff members to interact (both in person and virtually) at all levels across the organisation in a particular year, and such engagement is encouraged both at the level of the Group's subsidiary boards and the main Board of the Company. This typically occurs at board dinners (to which UK and Bermuda staff members are routinely invited), interaction with senior employees as part of quarterly activities, semi-formal lunches, 'town hall' quarterly update meetings (attended by a designated Non-Executive Director), periodic attendance at the daily underwriting call and annual attendance at the AGM. Furthermore, both Simon Fraser and Samantha Hoe-Richardson are Non-Executive Directors on the subsidiary boards of LSL and LUK, respectively, and in that capacity each has the opportunity to meet and engage with a range of staff members within those businesses. Stakeholder engagement mechanisms are kept under review by the Board to ensure they remain appropriate and effective. In the face of the challenges presented by the COVID-19 pandemic, the senior management team and the Board adapted, where possible, during 2020 the Group's workforce engagement activities and communications to staff accordingly. Please see page 43 of the Chairman's introduction for a fuller account of the Board's engagement with the workforce in 2020 and its plans for 2021.

Our programme of employee surveys (as conducted in 2019 and 2020) gives our staff members the opportunity to provide their feedback to peers, senior management, departmental heads and the Board on their experience working for the Lancashire Group. In April 2020, the Group conducted an employee survey: 'Responding to the Coronavirus outbreak', to help senior management understand how well the business had responded to managing the challenges of the COVID-19 pandemic, with a request for feedback on: personal wellbeing, the adaptation of working practices and communications to staff on business developments. The survey received high participation amongst staff and the survey results were discussed at the April 2020 Board meeting. For an account of the Group's 2020 diversity and inclusion survey, including the key findings and feedback arising, see our 'Engagement in action' section on page 49.

Our employees also continue to contribute towards the development of our marketplace through their involvement with market committees, boards and working groups. During 2020, our employees actively participated, albeit mostly digitally, in industry conferences, investor days and symposia, and market education programmes. We also donate to many of the causes supported by our industry partners through the Lancashire Foundation.

Our policyholders

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly-priced and useful products that continue to meet our policyholders' insurance and reinsurance needs across the cycle. In the event of a loss occurring, we remain responsive in order to provide our policyholders with ongoing support and seek to pay their claims as expeditiously as possible, knowing the importance of providing an excellent service. We place the highest value on the relationships we have built over the years with our existing policyholders and work hard at creating a lasting impression with new ones. To this end, and to the extent we are permitted to do so in current circumstances, we are happy to welcome both our policyholders and their brokers to our offices, but we also travel to see them and their businesses around the world.

A more detailed account of the work we do in meeting the needs of our policyholders can be found in the underwriting review and business review sections of this Annual Report and Accounts on pages 22 to 24 and pages 25 to 29, respectively.

Brokers

We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as independent brokers. The Group depends on brokers to distribute its products and actively assesses these relationships to ensure that it continues to be viewed as a trusted partner and provider of solutions for their clients' (re)insurance needs.

Notwithstanding the shift to a home-working model across both our London and Bermuda offices for the large part of 2020 and the consequential need to adapt traditional face-to-face working practices due to COVID-19, our underwriters and other members of staff have continued to maintain effective and productive trading relationships, albeit largely digitally, with the Group's brokers and clients.

Our shareholders

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

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them and certain of the leading shareholder advisory services. This is led by our Group Head of Investor Relations, in collaboration with members of the Board and the executive team, and is achieved through a structured programme of meetings, presentations and periodic consultation initiatives (with both shareholders and industry analysts). These can cover a range of topics including the Group's financial performance and business strategy; capital initiatives (see in this regard 'Board decision making in action' on page 48); ESG matters; and the executive Remuneration Policy.

The Board meets regularly with the Group's corporate brokers to seek their feedback on investor priorities as well as Lancashire's performance and perception amongst investors within the broader insurance sector. To learn more about the Board's engagement and relationship with its shareholders, please see page 66 of this Annual Report and Accounts.

Society and the environment

Environmental impact and offsetting

The Group is committed to managing the environmental impact of its business. We continue to measure our carbon footprint with a view to minimising its negative impact through mitigation strategies and by offsetting 100% of our GHG emissions, as reported in the table below, to remain carbon neutral. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning process (please refer to the Chairman's statement on page 10 and the section on principal risks from pages 34 to 41 for further details). The Group CRO and the Board oversee the Company's annual submission to the Carbon Disclosure Project. The information which is requested as part of the reporting process is aligned with the recommendations of the TCFD and during the year the business, led by Group CRO, has progressed in its journey in broadening its understanding and addressing the requirements of the TCFD. Please see pages 58-61 for more information on our TCFD journey.

Emissions are collated over a 12-month period from 1 January 2020 to 31 December 2020 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO_2e) using the UK's Department for Business, Energy and Industrial Strategy (BEIS) 2019 factors. For the first time, Lancashire has also calculated its Scope 2 market-based emissions, which we disclose adjacent to our previous location-based figure, in line with the Greenhouse Gas Protocol's guidance on dual reporting[1].

Types of emissions	Activity	2020 tCO_2e	2019 tCO_2e
Direct (Scope 1)	Gas *(measured in kWh)*	**67.0**	126.9
	Refrigerant *(measured in kg)*	**0.0**	0.0
Indirect Energy (Scope 2) (location-based)	Electricity *(measured in kWh)*	**253.5**	294.1
Indirect Energy (Scope 2) (market-based)	Electricity *(measured in kWh)*	**228.8**	n/a[2]
Indirect Other (Scope 3)	Business Travel *(measured in miles and spend)*	**118.2**	1,925.9
	Additional Upstream Activities *(measured in kWh, litres, miles and spend)*	**87.4**	297.1
	Water *(measured in m^3)*	**19.4**	14.2
	Waste *(measured in kg)*	**4.6**	6.1
	Paper *(measured in reams)*	**2.4**	4.4
	Hotels *(measured in hotel nights)*	**6.1**	26.8
Gross emissions (tCO_2e) (location-based)		**558.6**	2,695.5
Gross emissions per FTE (tCO_2e/FTE)		**2.2**	12.4
Gross emissions (tCO_2e) (market-based)		**533.9**	n/a[2]
Carbon credits		**534**	2,696
Total net emissions after offset (tCO_2e)		**0.0**	0.0

Please note: all numbers quoted have been rounded to one decimal place.

Additional Upstream Activities include Well-to-Tank and Transmission & Distribution emissions. These are emissions associated with the upstream processes of extracting, refining and transporting raw fuel and the emissions associated with the electrical energy lost during transmission to our business.

1. https://ghgprotocol.org/sites/default/files/standards/Scope%202%20Guidance_Final_Sept26.pdf
2. 2020 is the first year that Lancashire has reported Scope 2 market-based emissions.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has typically incurred the bulk of its carbon footprint as a result of airline travel. However, due to the impacts of the COVID-19 pandemic in 2020, our business travel emissions have decreased by 93.9%.

We have procured 100% renewable electricity for our London operations and have applied an appropriate residual grid factor for our operations in Bermuda. Lancashire did not implement any energy efficiency measures in the business during 2020 due to limited control of its sites. However, our London office is already well optimised with 20 Fenchurch Street achieving a BREEAM ‘excellent’ environment performance rating.

Using an operational control approach, Lancashire has assessed its boundaries to identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 footprint, along with areas of our Scope 3 footprint with high levels of operational control, as detailed below. Calculations performed follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Group’s emissions. Lancashire uses the number of FTEs as its intensity metric. Where data was not available for 2020, values have been extrapolated by using available data or calculated using industry benchmarks. Lancashire does not own company-owned vehicles; thus business travel emissions fall entirely in Scope 3 and vehicle energy is not included in numbers below.

Total emissions for 2020 have decreased by 79.3% compared to 2019. As FTEs have increased year on year, emissions per FTE have also decreased by 82.3%. The table on page 53 sets out the Group’s carbon footprint for the current and prior reporting period, broken down by emission source.

Results show that location-based GHG emissions in the year were 558.6 tCO_2e, comprised of direct emissions (Scope 1) amounting to 67.0 tCO_2e, and indirect location-based emissions (Scope 2) amounting to 253.5 tCO_2e. The source of other indirect emissions (Scope 3) comprised 238.1 tCO_2e. Scope 1 emissions have decreased by 47.2% mostly due to our London site’s closure during the UK COVID-19 lockdowns. Scope 2 emissions have decreased by 13.8% compared with 2019, again, primarily due to impacts of COVID-19 lockdowns. Scope 3 emissions have also decreased compared with 2019 due, primarily, to travel restrictions in 2020 resulting in significant reductions in business travel and hotel stays.

Under the market-based methodology, Lancashire Group’s Scope 2 emissions are 228.8 tCO_2e. This results in total market-based emissions of 533.9 tCO_2e. Our market-based emissions are lower than our location-based as the Group sources 44.7% of electricity via a renewable tariff, backed up by associated Renewable Energy Guarantees of Origin (REGOs).

The Group has fully offset its 2020 GHG market-based emissions through an organised programme with EcoAct by purchasing credits in the Gandhi India Wind Project, which generates renewable electricity in various states across India that have traditionally been reliant on fossil fuel generated energy. These offsetting proposals were discussed and agreed with the Group CEO.

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

Communities, including the Lancashire Foundation

Lancashire is strongly committed to giving back to the communities within which it operates, both locally in the UK and Bermuda and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events, to name a few. We utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable environment. In turn, this stimulates a positive culture amongst staff and promotes Lancashire as an ethical and compassionate employer. These goals are primarily achieved through the work of the Lancashire Foundation. Read further on to learn more about the work of the Lancashire Foundation during 2020, including its dedicated COVID-19 emergency appeal funding initiative, and the charities it has and continues to support.

The Group and the Foundation have jointly sponsored an internship programme for Bermuda resident college graduates since 2014. These graduates are afforded the opportunity to work and learn about insurance in the Group’s London office. Due to the restrictions in place resulting from the COVID-19 pandemic, there was no new graduate intake for the 2020 year.

The Board keeps itself informed of the activities of the Lancashire Foundation through regular reporting and meetings with the Foundation’s trustees. The Board also sets the policy for donations to the Lancashire Foundation.

Streamlined Energy & Carbon Reporting disclosure – January 2020 to December 2020

	Current reporting year		Previous reporting year	
	(UK & offshore)	UK only	(UK & offshore)	UK only
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use/tCO_2e	**67.0**	**67.0**	126.9	126.9
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location-based)/tCO_2e	**253.5**	**113.4**	294.1	140.3
Gross emissions (location-based) (Scope 1, 2)/tCO_2e	**320.5**	**180.4**	421.0	267.2
Energy consumption used to calculate above emissions/kWh	**1,450,033.6**	**849,398.9**	1,840,889.8	1,239,278.8
Total gross emissions (Scope 1, 2 location-based, 3)/tCO_2e	**558.6**		2,695.5	
tCO_2e per FTE	**2.2**		12.4	

The Lancashire Foundation

The Lancashire Foundation, our charitable grant-making body, is the cornerstone of our community activity and support, and a key component of our corporate persona.

The Foundation is funded by regular donations from the Company and also retains a shareholding in the Company, therefore benefiting from any dividends paid. This creates a direct link between the success of the Company and the resources available to the Foundation. Greater resources enable the Foundation to support more of the causes that are suggested by employees, serving as an additional motivation for our people. This alignment between the Foundation and the Lancashire Group is important in enabling the Foundation to support causes and communities to deliver maximum positive impact in line with its mandate and the concerns of the staff body.

The year 2020 will be synonymous with the worldwide COVID-19 pandemic. Charities have been significantly impacted at precisely the time when their services are needed the most, threatening delivery and the vulnerable communities that they support. In reaction, the Lancashire Foundation implemented an emergency funding initiative directed towards a number of charities in both the UK and Bermuda. Amongst the notes of thanks received from these charities, outlining the impact that these donations had, was one from Thames Reach, a charity dealing with the vulnerable living on the streets in London.

A further consequence of the COVID-19 pandemic during 2020 is that our staff have not been able to support charities 'in kind', typically done through charity volunteer days, nor have they had the opportunity to participate in various fundraising events for which the Foundation would ordinarily provide matching donations. The Lancashire Foundation therefore introduced staff challenge initiatives across both the UK and Bermuda offices. These encouraged staff to get involved remotely in activities to provide much needed funding to nominated charities. One of these initiatives challenged staff to collectively attempt to 'virtually' cover the distance from the UK to Bermuda, and back again, over the course of a week using non-vehicular means only. This proved a great success, as a result of widespread collaborative efforts across the Group.

"I am writing to thank you and the Lancashire Foundation for your kind donation to Thames Reach. You will be aware that, in common with others, this has been a very busy and challenging time for us. We are really pleased that, despite the very trying circumstances of recent weeks, we have been successful in maintaining our services to a very vulnerable group of people, while opening up additional buildings and services to make sure that people who were on the streets can safely isolate.

Your donation will be particularly helpful as we begin to consider the next steps for people living in this accommodation. We're keen that they don't return to the streets, and this will help us help them by removing the barriers to future accommodation, for example by helping with housing deposits. I and all of us at Thames Reach are very grateful, and you can be assured that your donation is needed and will be put to good use."

Bill Tidnam
CEO of Thames Reach

In addition to the dedicated COVID-19 emergency funding initiatives, the Foundation also engaged with its existing charities to ensure that donations continued to have a positive impact, and also to understand the charities' operational and financial challenges in the face of the pandemic. In this way the Foundation has been able to work flexibly with the charities to help them meet their most pressing demands and identify areas where additional support has been needed; this remains an ongoing process. One such example is the Victor Scott school in Bermuda. The Foundation makes a donation to the school to help fund the provision of fruit to pupils who would otherwise go without. As a result of COVID-19, the Foundation explored the possibility of redirecting some of these funds towards providing resources to enable remote learning for pupils who have no internet access or other necessary materials.

Another charity supported by the Foundation is Medical Detection Dogs, a charity that trains dogs to help detect and monitor conditions such as diabetes and certain cancers. These dogs are placed with families and act as an effective early warning system to adverse developments, particularly with the vulnerable and with children who are perhaps less well equipped to identify or communicate symptoms. During the pandemic the charity developed a programme in conjunction with the UK government to explore whether these dogs could also be used to detect coronavirus as part of a wider testing strategy.

Major donations, such as those made to Médecins Sans Frontières (MSF), which operates in crisis relief around the world, and International Care Ministries (ICM), which works with the ultra-poor in the Philippines, complement Lancashire's own insurance and reinsurance business. Lancashire provides coverage for weather and conflict-related events and these organisations seek to directly support communities impacted by such events or in extreme poverty in areas where there is often no insurance to protect people and their property, including vulnerability to climate change risks.

Other charities supported by the Lancashire Foundation during 2020 include:

- Action on Addiction
- Cancer Research UK
- Care for Children
- Family Centre
- Kiva Microfunds
- Knowledge Quest
- London Air Ambulance
- Mission Aviation Fellowship
- Tomorrow's Voices
- Warwick Academy
- Windreach Bermuda
- Vauxhall City Farm

"I would like to offer my deepest thanks on behalf of International Care Ministries to the Lancashire Foundation for your longstanding partnership. Lancashire has donated over £1.0 million to the ultra-poor in the Philippines since our partnership began in 2010! The Lancashire Foundation has been an incredible partner; committing both funding and volunteers consistently for a decade. We are incredibly grateful. Thanks to your partnership, we estimate that close to 100,000 people have been impacted through the Transform programme, and experience 167% income increase, 18% reduction in illness, and 88% of malnutrition cured!"

David Sutherland
Chair of ICM Board, CEO of International Care Ministries

Our broader stakeholders

Government and regulators

In an industry that is subject to strict regulatory supervision and oversight, we recognise the need to work closely and openly with all relevant regulatory bodies. We place great importance on the relationships we have with our regulators and engage actively with them, whether that is through meetings, reporting or routine regulatory reviews. The Board is also kept apprised of communications with regulators and supervisors and, together with management, monitors changes in regulatory and supervisory requirements closely.

During the year, our principal insurance subsidiaries engaged regularly and as required with their respective regulatory and supervisory bodies to provide updates (aligned with general market reporting requirements) in relation to the Group's estimated (re)insurance exposures to COVID-19, as well as details of the business's contingency arrangements and its management of the operational challenges presented by the pandemic.

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

Rating agencies

Lancashire maintains a positive relationship with three major rating agencies: A.M. Best, S&P and Moody's. These rating agencies assess and rate the creditworthiness and claims-paying ability of the Group's insurance subsidiaries, LICL and LUK, based upon established criteria. The syndicates benefit from Lloyd's current ratings. We are proud of the ratings which we have been assigned by each of these rating agencies and we engage with them on the following bases: annually, for our rating review; quarterly, to discuss our results for the period; and on an ad hoc basis as events dictate including after significant industry loss events or a series of loss events. These ratings allow the Group to write business successfully in all major global insurance markets and to comply with reinsurance contracts under which the Group is reinsured, as well as its credit facilities which support underwriting obligations.

Service providers, including suppliers and contractors

The Group contracts with a number of third parties for the provision of important services to help run its business. Having developed excellent relationships with its service providers, Lancashire is able to work collaboratively with them. This helps us to respond to technological advances and to develop internal systems and infrastructure to operate efficiently.

For all employers within the ancillary services and limited supply chains used by the Group, Lancashire seeks to receive assurance that its service providers pay a living wage. In particular, the Group's UK operation is an accredited Living Wage employer by the Living Wage Foundation.

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

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

Lenders

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

Further details of our long-term debt and financing arrangements are set out in note 18 to the consolidated financial statements from page 170 to 172.

Our TCFD journey

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The TCFD comprises four pillars, under which sit 11 recommendations for disclosure. Lancashire supports the aims of the TCFD, and we have detailed below our progress against both the pillars and the recommendations.

Governance

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

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

As part of the approval process for our underwriting strategy, the Board approves and monitors performance against probable maximum losses ('PMLs') and Realistic Disaster Scenarios ('RDS'). Both of these include modelling of the Group's underwriting exposures to climate-related catastrophic loss events and quantify our risk appetite with respect to how much capital the Group is willing to risk for a specific event – be it a natural catastrophe (in particular climate-related events such as hurricanes, windstorms, typhoons and floods) or a non-elemental event. More information on this can be found on page 134.

The current PML and RDS levels are reported to the Board on a quarterly basis as part of the Group CRO's quarterly ORSA report to the Board. Please see page 32 for more information on this assessment process. The Group CUO and CRO regularly review current and emerging risks. Directors are apprised of any development of business strategy, including the monitoring and effective control of PMLs for climate-related catastrophic weather events.

The actual business underwritten within the Group is monitored against the strategic plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events) are reported to the Board quarterly. Please see page 32 for more information.

The Investment Committee oversees the management and performance of the Group's investment portfolio including investment risk parameters. During 2020, the Investment Committee reviewed an analysis of the Group's investment portfolio's exposure to a range of carbon pricing scenarios and will continue to develop analytical tools for the understanding of the impacts of climate change risk, including transitional risk, on the Group's investment portfolio. Please see pages 76 to 77 for more information.

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

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

The Group's modelled underwriting PML and RDS risk exposures are presented against the Group's tolerance levels to the management Risk and Return Committee ('RRC') on a monthly basis as well as to the Board each quarter as part of the CRO's ORSA report. Lancashire underwrites predominantly short-tail business, with loss exposures usually crystallising within a policy period of 12 months. As a result, with PML levels updated monthly and shared internally, we ensure we closely track the market conditions. Please see page 36 for more information.

The management investment risk and return committee ('IRRC') is increasingly alive to the potential impacts of climate change related transitional risk on assets within the Group's investment portfolio. The CRO has convened a climate change working group, which will work on areas for enhancement in the assessment and management of climate change risk and related opportunity over the coming year to inform the work of the IRRC and the Investment Committee.

Key

Recommended disclosure

Strategy

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

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

Lancashire underwrites predominantly short-tail business, and so the principal impact is on short-term strategy. We recognise that climate change does also impact the longer-term strategy in terms of emerging risk and as such management works with some of the leading external catastrophe model providers to understand the science supporting developments in the short and long-term assumptions in their stochastic models. These developments are included in the Group's management and Board approved annual three-year strategy document. More information can be found on page 41 of this report.

The Board also regularly discusses cycles and trends within the insurance sector as well as within the natural, commercial and political environment to which the Group's business is subject. We also recognised the potential impacts of transitional climate change risk on the Group's investment portfolio and investment strategy. Whilst detailed strategic planning is based on short to medium-term horizons (over a period of three to four years) the Board's strategic discussions are informed by consideration of potential future trends in the longer term such as the make-up of global energy demand (which may be influenced by climate-related factors) or the potential for political instability (for example over a period of up to 10 to 15 years). During 2021 work will continue in this area with a broader focus on transitional risks and articulating what transitioning to net zero means for the Group.

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

Lancashire's purpose is to sell bespoke risk solutions which help our clients manage the threats they face, including those presented by climate change. We monitor our assumed risk, manage our capital and we track and mitigate our own environmental impacts, fostering an engaged, sustainable and open business culture. Please see page 32 for more information.

As a (re)insurer Lancashire is affected by the severity and frequency of weather-related losses which may be influenced by climate change. Data is collected using the stochastic models from third-party vendors which are adapted based upon our views and our clients' exposure data, to create aggregate loss scenarios. This data is closely monitored by executive management and the Board on a quarterly basis as part of strategic risk and capital management, with the testing of these leading to changes in risk levels, reinsurance purchasing and structuring strategy as required.

As a business with an office in Bermuda we recognise that this is an area of the world that is vulnerable to catastrophic windstorm events and may be affected by any future climate change trends. Both Lancashire offices have disaster recovery and business continuity plans (BCP) in place. Specifically, the Bermuda management team and Board consider hurricane and tsunami risk within the Bermuda office's BCP. Please see page 40 for more information.

As Alex notes in his CEO's review on page 15, Lancashire has been a risk partner of businesses operating in the energy sector across the world, including oil, gas, nuclear and other renewables, for many years. The risk solutions which we provide to the energy sector help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We share with our clients the journey required by the necessary transition away from carbon-based forms of energy to a net zero state. But there are no simple solutions to both meet global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they address these challenges.

We also recognise the potential impacts of climate-related risks and opportunities upon the Group's investment portfolio, in particular the potential impacts of the transition away from a carbon intensive economy. Although our current analysis suggests that there is a good level of resilience within the investment portfolio to these risks, we will be developing tools for the identification, measurement and management of these risks and opportunities through the work of the climate change working party, the RRC and the Investment Committee.

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

Stress and scenario tests and reverse stress tests are performed as part of the business planning process and the annual ORSA reporting process. More information on these processes can be found on page 32 of this report. The capital impacts from a range of scenarios, including climate-related risks and opportunities, are presented to the RRC and Board for review and discussion.

One of Lancashire's key operating principles, which supports the Group's strategy to produce an attractive risk-adjusted total return to shareholders over the long term, is to 'Operate nimbly through the cycle'. Climate change may influence the severity and frequency of losses that impact our policyholders and Lancashire's quick response to such post-loss situations can therefore be seen as a competitive advantage. A similarly 'nimble' approach to the management of climate change transition risk helps inform asset allocation and investment portfolio management.

The Group CRO has established a climate change working group, which will, inter alia, discuss and agree a methodology for analysing a range of future climate scenarios. The Group expects to report in more detail on likely scenario impacts in future years. Nonetheless, given the Group's ability to model the geographical and economic impacts of climate risk on the insurance products it sells and to price insurance premiums on the basis of a flexible and fluid risk analysis, the Board and management consider that there is an intrinsic resilience in both the Group's underwriting and investment strategy and its business model to the challenges of increased frequency and severity of physical damage and the effects of transition risk, as a result of climate change risk.

Risk management

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

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

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

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

Nonetheless, climate-related risks (and opportunities) are a constituent part of the Group's underwriting risk. Such risks are managed in the same way as other risks: they are identified, monitored, mitigated and reported upon against tolerance as appropriate. Opportunities are monitored and taken advantage of where it makes sense to do so. More information can be found on page 41 of this report.

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

The RRC considers all aspects of risk for the Group at a management level and reports through the CRO to the Board. The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors.

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

The management IRRC is alive to the potential impacts of climate change related transitional risk on the Group's assets within the Group's investment portfolio and its work is reported to the Board level Investment Committee. During 2021, we expect to build on our early climate sensitivity analysis work to further develop tools for the understanding of the impacts of climate change and transition risk on the investment portfolio as well as potential opportunities.

Coronavirus and the subsequent and ongoing pandemic spread of COVID-19 (whilst not directly attributable to climate change) does demonstrate both the nimbleness and the resilience of the Group during a market moving event. Its response to this ongoing pandemic is as a result of effective and efficient business continuity planning, which was quickly deployed and has resulted in very little impact upon the business operations. This event has also influenced the Group's disaster recovery planning and has helped illustrate the use and resilience of a home working model in the management of disaster recovery scenarios. More information on our response to the pandemic spread of COVID-19 can be found on page 41.

Metrics and targets

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

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

We define our risk appetite for underwriting risks as a percentage of capital we are willing to lose in a specific event, and we set a capital loss tolerance for and track the Company's modelled PMLs to weather-related hurricane perils. We note on page 133 of this Annual Report and Accounts that at 31 December 2020 the actual largest 1 in 100 year modelled exposure to a Gulf of Mexico hurricane stood at $166.5 million, or about 9.7% of capital.

Similarly, with respect to our investments, we have taken steps in 2020 to advance the previous approach for assessing our portfolio's exposure to climate-related risks. Our portfolio at 31 December 2020 consisted of the following:

Fixed maturity securities	82.8%
Managed cash	8.5%
Private investment funds	4.7%
Hedge funds	4.0%
Total:	100.0%

As shown in the table above, we have 91.3% allocated to managed cash and fixed maturities. The majority of the fixed maturities consist of government-related securities: U.S. government treasuries, non-U.S. government sovereign debt, U.S. agency debt and U.S. agency mortgage-backed securities. In addition, we have 33.5% allocated to corporate debt, of which we have a small amount of exposure to climate-related risks. The Group itself does not hold any equities (although we have exposure to a small number of equities in the hedge fund portfolio).

As noted in the principal risks section on page 37, during 2020, we performed a review of our investment portfolio against the MSCI ESG Index. The Investment Committee has carried out a carbon pricing sensitivity analysis of the Group's investment portfolio on the basis of three scenarios. This ESG and climate change work will be further developed in 2021 to define some climate change related investment metrics.

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

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint to minimise its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, in order to remain carbon neutral. Please see page 53 of this Annual Report and Accounts where we report our Scope 1, 2 and 3 GHG emissions. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning processes, as discussed above. The Group CRO and the Board oversee the Company's annual submission to the Carbon Disclosure Project and note that the information which is requested as part of that reporting process is aligned with the recommendations of the TCFD.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has (prior to the COVID-19 pandemic) incurred the bulk of its carbon footprint as a result of airline travel. We utilise a number of technologies to reduce inter-office travel, including full video and telephone conferencing facilities in all of our offices and our meeting and boardrooms. The use of such technological solutions has greatly increased in 2020 to address the communication challenges posed by COVID-19. However, we acknowledge the benefits of physical meetings and will expect to return to a more normal pattern of travel when possible during 2021, should it be safe for our employees to do so.

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

In terms of an emissions target, we have established a travel policy to reduce our impact on the environment whilst balancing the needs of our staff and Directors. Our target is to not ordinarily book a business class airline ticket, if the duration of the flight is less than five hours long. This is intended to assist the Group in managing one of its climate-related risks, with a measurable target. The Group also commits to continue to offset 100% of its Scope 1, 2 and 3 emissions, in order to remain carbon neutral as well as to source and utilise 100% renewable electrical energy for its London offices. Please see page 54 for more information.

A balanced Board

Peter Clarke
Non-Executive Chairman

Date of appointment to the Board:
9 June 2014

Board meeting attendance: 5/5

Skills, experience and qualifications:
Peter Clarke was Group Chief Executive of Man Group plc between April 2007 and February 2013. In 1993, Mr Clarke joined Man Group plc, a leading global provider of alternative investment products and solutions as well as one of the world's largest futures brokers. He was appointed to the board in 1997 and served in a variety of roles, including Head of Corporate Finance and Corporate Affairs and Group Company Secretary, before becoming the Group Finance Director in 2000. During this period, he was responsible for investing in and developing one of the leading providers of third-party capital insurance and reinsurance products. In November 2005, he was given the additional title of Group Deputy CEO. Mr Clarke has previously served as the Chairman of the National Teaching Awards Trust. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

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

Alex Maloney
Group Chief Executive Officer

Date of appointment to the Board:
5 November 2010

Board meeting attendance: 5/5

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

Natalie Kershaw
Group Chief Financial Officer

Date of appointment to the Board:
1 March 2020

Board meeting attendance: 4/4

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

Michael Dawson
Non-Executive Director

Date of appointment to the Board:
3 November 2016

Board meeting attendance: 5/5

Skills, experience and qualifications:
Michael Dawson has more than 35 years' experience in the insurance industry, having started his career at Lloyd's in 1979. He joined Cox Insurance in 1986 where he was the Chief Executive from 1995 to 2002. In 1991, Mr Dawson formed and became the underwriter of Cox's and subsequently Chaucer's specialist nuclear syndicate 1176. Between 2005 and 2008, Mr Dawson was appointed Chief Executive of Goshawk Insurance Holdings PLC and its subsidiary Rosemont Re, a Bermuda reinsurer. Mr Dawson served on the Council of Lloyd's from 1998 to 2001 and on the Lloyd's Market Board from 1998 to 2002.

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

Key

Chair | Board of Directors | Audit Committee | Investment Committee | Nomination Corporate Governance and Sustainability Committee | Remuneration Committee | Underwriting and Underwriting Risk Committee

Simon Fraser
Senior Independent Non-Executive Director

Date of appointment to the Board: 5 November 2013

Board meeting attendance: 5/5

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

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

Samantha Hoe-Richardson
Non-Executive Director

Date of appointment to the Board: 20 February 2013

Board meeting attendance: 5/5

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

External appointments/Other roles: Ms Hoe-Richardson is a Non-Executive Director for 3i Infrastructure plc and a Non-Executive Director of Assured Guaranty (Europe) plc and a Non-Executive Director of LUK.

Robert Lusardi
Non-Executive Director

Date of appointment to the Board: 8 July 2016

Board meeting attendance: 5/5

Skills, experience and qualifications: Robert Lusardi spent the first phase of his career as a senior investment banker specialising in the insurance and asset management industries. From 1998 until 2005 he was a member of the Executive Management Board of XL Group plc, first as Group CFO then as a segment CEO; from 2005 until 2010 he was an EVP of White Mountains (an insurance merchant bank) and CEO of certain subsidiaries; and from 2010 to 2015 he was CEO of PremieRe Holdings LLC (a private insurance entity). He has been a director of ten insurance-related entities. He received his BA and MA degrees in Engineering and Economics from Oxford University and his MBA from Harvard University.

External appointments/Other roles: Mr Lusardi is currently a private investor and has spent his career as a senior executive in the financial services industry. He is also on the boards of Symetra Financial Holdings, Inc., a life insurer, and Oxford University's 501(c)3 charitable organisation.

Sally Williams
Non-Executive Director

Date of appointment to the Board: 14 January 2019

Board meeting attendance: 5/5

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

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

Christopher Head
Company Secretary

Board meeting attendance: N/A

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

Board Committees

Board and Committee administration

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

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

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

The Board also meets to discuss strategic planning matters in addition to the customary schedule of quarterly meetings. The Board dedicated additional time to strategic opportunity and capital planning discussions in the period prior to its decision to raise additional risk capital by way of an equity placing, which took place in June 2020.

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

The Directors

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

During 2020, Samantha Hoe-Richardson accepted an appointment to the board of Assured Guaranty (Europe) PLC, being a UK-based entity. In accordance with her LHL letter of appointment, the proposed appointment was discussed with the Chairman, including an indication of the time involved and any possible conflicts arising, prior to her acceptance.

At the Board meeting held on 9 February 2021, further to a recommendation by the Nomination Corporate Governance and Sustainability Committee, the Board affirmed its judgement that five of the eight members of the Board are independent Non-Executive Directors. Therefore, in the Board's judgement, the Board's composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

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

Information and training

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

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

Board performance evaluation

A formal performance evaluation of the Board, its Committees and individual Directors is undertaken on an annual basis and the process is initiated by the Nomination Corporate Governance and Sustainability Committee. The aim of this work is to assess the effectiveness of the Board and its Committees in terms of performance and risk oversight, strategic development, composition, skills set, supporting processes and management of the Group. The evaluation is forward-looking in terms of identifying the strategic priorities and actions as well as considering performance, training and development needs for the Directors within the context of the work of each Committee and that of the Board. The 2018 evaluation was conducted externally by Lintstock Limited, a London-based corporate advisory firm with no other connection to the Group. The 2019 and the 2020 evaluations were conducted internally, facilitated by the Company Secretary and the Chairman.

The 2020 evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other Committee members and members of senior management completing a questionnaire designed by the Chairman and the Company Secretary, with input from the Chairs of each of the relevant Committees. Responses to the completed questionnaires were collated and emerging themes explored. A suite of anonymised summary reports was prepared, and these were discussed in draft with the Board Chairman and Committee Chairs before being distributed to each of the Directors.

In February 2021, the performance evaluation reports were discussed at meetings of the Nomination Corporate Governance and Sustainability Committee and the Board, and each of the other Committees discussed the report pertinent to its own operation and performance. The Board discussions were led by the Chairman and focused on such matters as: the improving commercial insurance pricing environment; strategic planning and oversight and related succession planning; risk management; operational risk in the face of the current COVID-19 pandemic and related issues of liability; risk exposure management; capital planning and composition; climate change risk and sustainability matters; and Board composition, training and priorities for 2021.

In summary, in its consideration of the 2020 performance evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The Group CEO and the Group CFO, the Company's Executive Directors, were also found to be operating effectively.

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

It was noted in the evaluation process that Board and Committee oversight of strategy, risk tolerances and controls had operated effectively and within expectations. Engagement between the Board and the workforce was considered to be generally strong and beneficial to the operation of the business. However, the COVID-19 pandemic had diminished the opportunities for face-to-face meetings and necessitated the use of virtual meeting forums during the year to facilitate such dialogue. Notwithstanding these challenges, workforce engagement, in accordance with the expectations of the Code, had been constructive and effective during the year. For further information on workforce engagement, please see Peter Clarke's introduction to the environment & social reporting and governance sections of this report on pages 42 to 43 and the report from the Nomination Corporate Governance and Sustainability Committee on pages 72 to 75.

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

The Board also plans to address Board succession planning requirements during 2021.

The reports also highlighted a number of themes which will inform the business to be addressed by the Board during 2021, including:

- Monitoring the Group's investment portfolio and positioning in light of changes to the underwriting and exposure profile of the Group and changes in the global investment markets;
- Monitoring the ongoing project to refresh and enhance the Group's IT functionality;
- To keep under review the impacts of the COVID-19 pandemic on the business and its operation; and
- To oversee implementation of the TCFD recommendations across the business in the management of climate change risk and opportunity.

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

- Preparedness for implementation of the IFRS 17 accounting requirements; and
- Proposals for audit reform.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2021.

The Chairman's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2020. The discussion and feedback were positive regarding the Chairman's performance. Particular reference was made to the Chairman's work in facilitating clear communication across the business and with the Group's shareholders and in shaping constructive strategic discussion, in particular during May and June 2020 when the Board was considering the developing strategic opportunities for the Group and the related capital requirements, which resulted in the Board's decision to proceed with the June 2020 equity placing of Lancashire shares.

Following the year end, the Chair met with the Group CEO, and the Group CEO met with the Group CFO, to conduct a performance appraisal in respect of 2020 and to set targets for 2021. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 82.

Relations with shareholders

During 2020, the Group's Head of Investor Relations, usually accompanied by one or more of the Group CEO, the Group CUO, the Group CFO, the Chair or a senior member of the underwriting team, made presentations to major shareholders, analysts and the investor community. Formal reports of these meetings were provided to the Board on at least a quarterly basis.

In early 2020, Simon Fraser, the Chair of the Remuneration Committee, conducted a consultation with the Company's significant shareholders concerning planned changes to the shareholder-approved Directors' Remuneration Policy, which was approved at the 2020 AGM with 88% support. Mr Fraser subsequently engaged with certain of the Group's shareholders who had not supported the Policy vote in order to receive their further feedback. See the Directors' Remuneration Report on page 82 for further details.

During the course of the June 2020 equity placing of Lancashire shares and at the direction of a specially-appointed Board sub-committee, facilitated by the Group's banking advisers, Morgan Stanley and Citibank, there was a period of intensive discussion with the Group's principal shareholders with regard to the developing strategic opportunity and the plans to raise new equity capital. As part of this process, the Board paid close attention to the Pre-Emption Group guidance and both the allocation of shares and pricing of the placing were agreed at a level which balanced the need to raise the required strategic risk capital for the business and to recognise the rights of the Group's existing principal shareholders.

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

Shareholders are invited to request meetings with the Chair, the Senior Independent Director and/or the other Non-Executive Directors by contacting the Group Head of Investor Relations. All of the Directors are expected to be available to meet virtually with shareholders at the Company's 2021 AGM.

The Company commissions regular independent shareholder analysis reports, together with research on feedback from shareholders and analysts, following the announcement of the Company's quarterly results.

Enterprise risk management

The Board is responsible for setting the Group's risk appetites, defining its risk tolerances, and setting and monitoring the Company's risk management and internal control systems, including compliance with risk tolerances. During 2020, the Board carried out a robust assessment of the emerging and principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the emerging and principal risks affecting the Group, as well as the procedures in place to identify and manage them, can be found in the ERM section of this report on pages 30 to 33 and in the risk disclosures section on pages 131 to 152.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from pages 67 to 81 for further detail). The Group CRO reports directly to the Group and subsidiary boards and facilitates the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, any lessons learned from risk events and assurance provided over key risks. Areas of particular focus during 2020 have been the risks associated with the COVID-19 pandemic, risk exposure and capital considerations associated with the improving (re)insurance market opportunity, climate change risk management and the implementation of the TCFD recommendations. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review. In this regard please see the Audit Committee report on pages 67 to 71.

Committees

The Board has established Audit, Investment, Nomination Corporate Governance and Sustainability, Remuneration, and Underwriting and Underwriting Risk Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website. The Committees' Terms of Reference were reviewed and revised by the Board during 2020 and considered again as part of the year-end performance evaluation process. The Committees' Terms of Reference are considered to be in line with current best practice. The Committees are generally scheduled to meet quarterly, although additional meetings and information updates are arranged as business requirements dictate. Director attendance at the 2020 Board meetings is set out on pages 62 to 63. A report from each of the Committees, which covers Committee attendance, is set out from page 67 to page 81.

Audit Committee

"The maintenance of effective and robust risk management processes and operational controls, and the appropriate oversight thereof, are critical to the functioning of a viable and successful business."

Samantha Hoe-Richardson
Chair of the Audit Committee

During 2020, the Committee focused on COVID-19 and its potential impact on significant estimates and judgements applied in preparing the consolidated financial statements; the adequacy of loss reserves; the effectiveness of the business's control environment; the continued integrity of external financial reporting; and the progress of the Group's implementation plans for the IFRS 9 ('Financial Instruments') and IFRS 17 ('Insurance Contracts') accounting standards.

Committee membership

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

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

* Robert Lusardi is resident in the U.S. and was unable to travel outside of the U.S. post March 2020 for the remaining 2020 Board and Committee meetings due to restrictions necessitated by the COVID-19 pandemic. He was able to attend proceedings of the Audit Committee via video conference. However, pursuant to the Group's strict tax and regulatory operating guidelines, he did not participate in certain of the meetings for quorum and voting purposes.

Principal responsibilities of the Committee

- Financial and narrative reporting;
- External audit oversight;
- Internal audit oversight; and
- Internal controls and risk management systems.

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

How the Committee discharged its responsibilities

Financial and narrative reporting

Committee responsibility	Committee activities
Monitors the integrity of the Group's consolidated financial statements, including its annual and half-yearly reports, annual reporting arising under applicable supervisory rules, interim management statements, preliminary announcements and any other formal statements relating to the Group's financial performance. Reviews and reports to the Board on significant financial reporting issues and judgements contained in the consolidated financial statements.	At each quarterly meeting the Committee reviews the Group's quarterly consolidated financial statements for the purposes of recommending their approval by the Board. The Group's annual regulatory reports, prepared in accordance with the BMA's reporting requirements, were reviewed in April 2020 at the Audit Committee meeting prior to the recommendation of their approval by the Board. The Committee also monitors the activities of the Group's Disclosure Committee and reviews the Group's financial press releases (prepared in respect of the second and fourth quarters) and trading statements (prepared in respect of the first and third quarters), which it recommends to the Board for approval. The Committee receives regular and ad hoc reports from management on: • loss reserving (see page 166 for further details); • developments in accounting and financial reporting requirements; • the quarterly activities of the Group finance team, with a particular focus during the year on the operational impacts presented by the COVID-19 pandemic, and its effect on the finance team and the successful management thereof; • any new and/or significant accounting treatments/transactions (including related party transactions) in the quarter; • the assessment of the Group's ability to continue as a going concern (see page 108 for further details) which, for 2020, included detailed consideration of the operational liabilities and strategic assumptions of the Group in the face of COVID-19; • the progress of the Group's IFRS 9 and IFRS 17 implementation project and the related ongoing enhancements to the Group's finance IT framework; • the quarterly activities of LHL's subsidiary companies, including consideration of any risk issues; and • the Committee also receives quarterly reports on the consolidated financial statements from the external auditors, including an interim review report and a year-end audit results report. These reports are discussed with the external auditors at the Committee meetings. The Committee discussed enhanced disclosure and reconciliation around the Group's APMs and the renaming of the Group's RoE KPI (see APM disclosures on page 184 and pages 20 and 21 for further detail of the Group's retitled KPI – Change in FCBVS (previously termed 'RoE')). The Committee also attended training sessions delivered by the management team to the Board on the topics of IFRS 17 (refresher training), the A.M. Best BCAR model and the Group's reserving process. In addition, the Audit Committee focused on constructive engagement with the new Group CFO to ensure maintenance of high standards of financial controls and reporting. **Judgements and estimation in the consolidated financial statements** The Committee gives detailed consideration to the significant judgements and estimations applied in preparing the consolidated financial statements. See the summary on the areas of judgement and estimation and the related processes applied by management on page 71.
Reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.	The Chair of the Committee reviewed the early drafts of the 2020 Annual Report and Accounts in order to keep apprised of its key themes and messages. During this review, the Committee carefully considered the clarity of disclosures made in respect of the impact of COVID-19. The Committee reviewed the final draft of the 2020 Annual Report and Accounts at the February 2021 Audit Committee meeting, together with the external auditor's report. The Committee advised the Board that, in its view, the 2020 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

External audit

Committee responsibility	Committee activities
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	The Committee approves the annual external audit plan and receives reports from the external auditors at each quarterly Committee meeting, including an ongoing assessment of the effective performance of the audit compared to the plan. Following the year-end audit, the Committee performs an assessment of the effectiveness of the external audit process. This assessment was last conducted, and enhanced in line with good practice guidance, at the April 2020 Audit Committee meeting and it was concluded that the external audit process was operating effectively, both with respect to the service provided by KPMG LLP and management's support of the audit process. The Committee also formally reviews the independence of the external auditors, in particular at the half-year and year-end meetings, taking into account any non-audit services provided. The Committee considers that KPMG LLP remain independent. The Committee Chair conducts informal meetings with the external auditors and the Group CFO prior to, during, and after the review of the quarterly results. The Committee meets quarterly in executive session with the external auditors to discuss any issues arising from the audit, and with management to obtain feedback on the audit process.
The development and implementation of a formal policy on the provision of non-audit services by the external auditors, taking into consideration any threats to the independence and objectivity of the external auditors.	The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis. The policy was last reviewed and revised in April 2020 in light of the Revised Ethical Standard published by the FRC in December 2019, and subsequently approved by the Committee at its first quarter meeting. The policy, which stipulates the approvals required for various types of non-audit services that may be provided by the external auditors, as well as those from which the external auditors are excluded, is on the Group's website. During 2020, KPMG LLP provided $0.3 million of non-audit services to the Group relating to the half-year reporting review, as well as Solvency II and Lloyd's regulatory returns. The Committee gave careful consideration to the nature of the non-audit services provided and the level of fees charged and has determined that they do not affect the independence and objectivity of KPMG LLP as auditors.
Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Group's external auditors.	Following a competitive external audit tender process undertaken during 2016, the appointment of KPMG LLP as external auditors was first approved by shareholders at the 2017 AGM and has been approved at subsequent AGMs thereafter. The 2020 financial year was the fourth financial year in which KPMG LLP acted as the Group's external auditors. The lead audit partner is Rees Aronson. The external audit fee arrangements across the Group were originally agreed in 2016 as part of the audit tender process, with amounts fixed for the 2017-2019 year-end audits. During the year, the Audit Committee discussed and agreed with KPMG LLP, with input from management, the fee structure for the 2020 and 2021 year-end audits. The Committee and the Board are recommending the re-appointment of KPMG as external auditors at the 2021 AGM. Rees Aronson will have completed his fifth year as the Group's lead audit partner following the 2021 year-end audit and, in line with the guidance of the UK Ethical Standard, the Committee will oversee the requirements for the provision of external audit services, which may include arrangements for the orderly rotation of the lead audit partner. The Committee continues to monitor the developments, recommendations and legislative proposals arising from the Independent Review of the FRC, led by Sir John Kingman, the final report published by the UK Competition and Markets Authority on the statutory audit services market, and Sir Donald Brydon's report setting out his views on the quality and effectiveness of audit.

Internal audit

Committee responsibility	Committee activities
Monitors and assesses the role and effectiveness of the Group's internal audit function in the overall context of the Group's risk management system, ensuring it has unrestricted scope, and the necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards.	The Group's internal audit function reports directly to the Committee. The Committee meets regularly in executive session with the Group Head of Internal Audit usually on a quarterly basis. Each year, the Group Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are considered for audit annually, whilst less critical risks are audited periodically as part of a flexible multi-year programme. The findings of each internal audit are reported to the Committee at the quarterly meetings and the Committee reviews the actions taken by management to implement the recommendations of internal audit. Consideration is also given to the assessment of the Group's culture for each audit undertaken and an overall summary of observations identified in respect of the Group's culture is presented to the Committee on a quarterly basis. Latterly, this assessment has factored in consideration of the potential impacts of the transition to a remote working environment for the large part of 2020, necessitated by the COVID-19 pandemic. In the face of these challenges, the internal audit function was satisfied that there remained an effective, responsive and resilient business culture within the Group. During 2020, the Committee reviewed and approved the Internal Audit Charter. This can be viewed on the Group's website. The Committee assessed the level of internal audit resource and the appropriateness of the skills and resources of the internal audit function. The Group CRO undertook an annual review of the implementation of the internal audit programme during 2020 to ensure its continued efficiency and appropriate standing within the Group and the effectiveness of the internal audit function in the overall context of the Group's risk management system. The Committee discussed the report and its findings with the Group CRO and the Group Head of Internal Audit and concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system.

Internal controls and risk management systems

Committee responsibility	Committee activities
Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management, including the assessment of principal risks and emerging risks and the viability statement.	The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee received from the Group CRO periodic reports detailing results of the quarterly risk and control affirmation review and testing work. The Committee also received additional reports from the Group CRO and Group Head of Internal Audit on the ongoing effective operation of key controls during the change in the operating environment from office to home working, and again over health and safety controls covering the return to office working later in the year. For further detail of the emerging and principal risks affecting the Group, including those matters that have informed the Board's assessment of the Group's ability to continue as a going concern, as well as the risk mitigation procedures in place to identify and manage them, see pages 34 to 41 of this Annual Report and Accounts. The Committee received from the Group Head of Internal Audit an annual assessment of the Group's governance, risk and control framework, together with an analysis of themes and trends from the internal audit work performed and their impact on the Group's risk profile. In 2020, the Committee and Board were satisfied that the governance, risk and control framework continue to remain both effective and appropriate for the Group.
Reviews for adequacy and security the Group's compliance, 'speaking-up' and fraud controls.	During 2020, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls and recommended the adoption by the Board of updated policies and procedures in respect of anti-money laundering, bribery and financial crime (including fraud), conflicts of interest and whistleblowing. There were no suspicious transactions or whistleblowing reports made during the year (whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or impropriety). The Committee also keeps under review the adequacy and effectiveness of the Group's legal and compliance function and receives regular updates on compliance training delivered to staff across the Group (see page 51 for further details).

Significant areas of judgement and estimation

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

Going concern basis of accounting

During the year, and in relation to the COVID-19 pandemic, the Committee focused more specifically on the Group's going concern, covering discussions on:

- reviewing and challenging the going concern assessment prepared by management, with particular consideration of the business plan, rating agency and regulatory capital, ultimate loss estimates, liquidity, credit quality and valuation of the investment portfolio;
- consulting with the external auditors on the requirements of the revised auditing standard for Going Concern (ISA UK 570); and
- enhancing disclosure in the consolidated financial statements.

Having reviewed and challenged these areas, the Committee concurred with management's going concern assessment and the relevant disclosures around going concern in the Group's consolidated financial statements (see page 124).

The valuation of loss reserves and expenses

The most significant area of judgement and estimation considered by the Committee during 2020 was the valuation of loss reserves.

As detailed on pages 125 to 126 of the consolidated financial statements, the valuation of loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Chief Actuary. KPMG LLP conducts a detailed re-projection of the Group's loss reserves as part of the half-year review and full-year audit. The Committee also receives independent estimates of the Group's loss reserves from an external actuary and compares these third-party estimates to those of the Group at its second and fourth quarter Audit Committee meetings. The Committee also meets in executive session with the Group's Chief Actuary twice a year (at half year and year end) to discuss the operation and effectiveness of the actuarial function and the reserving process. During 2020, the Committee focused its discussions around the Group's loss reserves on:

- the range of reasonable actuarial estimates, in particular regarding the process conducted for deriving ultimate loss estimates for COVID-19 pandemic-related liabilities and the adequacy of those estimates, acknowledging that its effects on the insurance and reinsurance markets remain both ongoing and uncertain;
- the reserving for natural catastrophe loss events and larger risk loss events which occurred during the year;
- the difference between the Group's estimates and the independent review from external actuaries (these differences being viewed by management, the external third parties and the Committee to be within a reasonable range);
- prior year loss development, including 'back-testing' of the Group's prior year reserves; and
- reserving for each insurance operating subsidiary.

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

The fair value of financial instruments

Less significant estimates are made in determining the estimated fair value of certain financial instruments and management judgement is applied in determining impairment charges. The investment portfolio is of a high credit quality and highly liquid and the Audit Committee obtains comfort from the impairment policy being applied consistently over time. The estimation of the fair value, specifically 'Level (iii)' investments, is discussed on pages 126 and 128 and in note 11.

The valuation of intangible assets

The Group's indefinite life intangible assets comprise syndicate participation rights and goodwill, which are tested annually for impairment. Some of the key inputs into the impairment review are based on management judgement and estimation. The Audit Committee considered management's qualitative considerations and also the underlying assumptions and methodology applied when performing the quantitative impairment analysis. The Committee focused its discussions on the cash flow assumptions, the inputs used to calculate the discount rate and the sensitivity, stress and scenario testing performed by management. The valuation of intangible assets is discussed further in note 17 on page 169.

As part of the annual review of significant areas of judgement and estimation, management considers the views of the external auditors on the consolidated financial statements. KPMG LLP's 2020 year-end audit report identifies revenue recognition through the estimation of premium revenues as a key audit matter. The Audit Committee considered this and concluded that, whilst some premiums are subject to estimation, revenues are unlikely to be materially different from initial estimates, particularly on a consolidated Group basis. The Audit Committee will review this position as part of its ongoing monitoring in 2021.

Implementation plans for IFRS 9 and IFRS 17

During 2020, the Committee monitored on a quarterly basis the preparation by the Group for the implementation of IFRS 9 and IFRS 17. This project encompasses changes to the Group's finance IT framework and general ledger, as well as the presentation of the Group's consolidated financial statements on an IFRS 9 and IFRS 17 basis. The deferral of the implementation date for these new accounting standards to 1 January 2023 has not had a significant impact on the Group's implementation project timetable.

Priorities for 2021

The Committee's key priorities for 2021 are:

- To ensure the continued effectiveness of the Group's control environment, the operation of the business's financial reporting systems and the integrity of external financial reporting;
- To continue to monitor the preparation by the Group for the implementation of IFRS 9 and IFRS 17;
- To continue to monitor and embed aspects of positive business culture in quarterly reporting, in particular regarding the Group's financial and risk control environment;
- To consider the requirements for the provision of external audit services to the Group in light of formal independence and audit partner rotation requirements; and
- To continue to monitor developments and recommendations with regard to audit practice, including areas of potential change and reform.

Nomination Corporate Governance and Sustainability Committee

"The Committee oversees a systematic review of the Group's compliance with the requirements of the UK Corporate Governance Code. It also has a practical focus on assessing the skills required for the Board and considers the effective operation and oversight of the business."

Peter Clarke
Chair of the Nomination Corporate Governance and Sustainability Committee

In 2020, the Committee focused on the governance and operational impacts of the COVID-19 pandemic. We also broadened the Terms of Reference for the Committee to reflect the work of the Committee in monitoring issues of sustainability, including developments in climate change risk management and reporting.

Committee membership

The majority of the Nomination Corporate Governance and Sustainability Committee members are independent Non-Executive Directors. The Committee Chairman is Peter Clarke, who is the Chairman of the Board.

	Meetings attended
Peter Clarke (Chair)	3/3
Michael Dawson	3/3
Samantha Hoe-Richardson	3/3
Sally Williams	3/3

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

Corporate governance

Board composition and effectiveness	In accordance with the provisions of the Code, all of the Directors are subject to annual (re)election by shareholders. With the exception of Elaine Whelan, who stood down as a Director on 28 February 2020, all of the Directors were elected or re-elected by shareholders at the 2020 AGM. The Committee also reviewed the composition of the Board at its November 2020 meeting and it considered that the balance of skills, knowledge, independence, experience and diversity continues to be appropriate for the Group's business to meet its strategic objectives. The Committee also regularly discussed in its meetings whether any additional skills and experience were needed to complement those already on the Board. The Committee oversaw the process for the year-end review of the effectiveness of the Board, the Committees and each of the Directors, which was internally facilitated by the Company Secretary. The Committee and the Board were satisfied that the Board and each of its Committees were operating effectively. Further details of the performance evaluation process can be found on page 65.
UK Code compliance	The Committee keeps under review the Company's corporate governance arrangements, particularly the Company's compliance with the FRC's UK Corporate Governance Code (the 'Code'). The Committee reviewed the Company Secretariat's checklist record of the Company's compliance with the Code on a quarterly basis.
Governance documentation	The Committee reviewed and recommended to the Board revised Terms of Reference for the Audit Committee, Remuneration Committee and Nomination Corporate Governance and Sustainability Committee. The Committee also reviewed and recommended to the Board revisions to the Board's Schedule of Reserved Matters, to accurately reflect the Board's oversight responsibilities for ESG matters. In July 2020, the Committee carried out a review and revision of the document describing the division of responsibilities between the Group CEO and the Chairman.
Appointments and succession planning	The Committee reviewed and recommended the approval and adoption by the Board of the Company's succession plan and talent management and development programme for the 2020/2021 year. The business has the objective of fostering a diverse workforce to meet the needs of the business. The Committee reviewed training and development proposals for a number of key employees across the Group as part of the succession planning process.
Workforce engagement	During 2020, the Company continued the practice of the Group CEO holding 'town hall' meetings with employees following the announcement of the Company's quarterly results. In order to further enhance arrangements for engagement between the Non-Executive Directors and members of the workforce, the Committee arranged for these 'town hall' meetings to be periodically attended by the Chairman of the Board or another Non-Executive Director. Peter Clarke attended the 'town hall' meeting in Bermuda in February 2020, Michael Dawson attended a virtual 'town hall' meeting in August 2020 and Simon Fraser attended a virtual 'town hall' meeting in November 2020. The Board and Committee also received the results of a staff engagement survey in April 2020, which focused on the operational resilience of the business and the home working and wellbeing requirements of the workforce due to the COVID-19 pandemic. The Committee considered these and other tools for workforce engagement at its November 2020 meeting and discussed arrangements for workforce engagement during 2021. The Committee considers that workforce engagement and feedback have an appropriately high profile and this, in turn, informs debate within the relevant Committees and the Board. The Committee and Board intend for these effective arrangements to continue in 2021.
Audit reform	The Committee has monitored developments in the area of audit market reform, regulation and practice during 2020, including proposals for UK legislative change as a result of the Kingman Review, the Brydon Report and the recommendations of the UK Competition and Markets Authority.
Brexit	The Committee and Board have considered the impact of Brexit on both the Company and its business. The Board is satisfied that measures adopted within the business will help mitigate certain of the potential adverse impacts of Brexit.
Subsidiary boards	The Committee and Board monitored the composition and recommended appointments and changes to the Group's subsidiary boards during 2020.

Sustainability

Sustainability and ESG reporting	At its July 2020 meeting, the Committee reviewed and revised its Terms of Reference in order to articulate more formally those areas in which it monitors the environmental, social and governance responsibilities of the Company. Upon the recommendation of the Committee, the Board agreed to rename the Committee the 'Nomination Corporate Governance and Sustainability Committee.' The Committee and Board have also approved the use in this Annual Report and Accounts of the UN sponsored Principles for Sustainable Insurance as a framework for our ESG reporting. Please see pages 44 to 46 for further details.

Environment

	The Committee also periodically reviews developments in the areas of environmental sustainability and climate change, and the management of related risks and opportunities. At its July 2020 meeting, the Committee discussed the management and reporting of climate change risk and recommended that developments in the use of TCFD scenario testing, as well as the operation and monitoring of a climate change risk, strategic and governance framework, be covered within the ORSA report from the Group CRO to the Board. For more information on these matters, please see the Group CRO's report on page 30 and the principal risks report on pages 34 to 41.

Social responsibility

Diversity	The Committee considered statistics relevant to the gender composition of the Board, Group senior management (excluding LHL Non-Executive Directors), direct reports to Group senior management and overall Group employees. These statistics are shown opposite and illustrate the progress made in relation to the obtainment of the Company's stated goals with regard to diversity. The Committee also reviewed 2020 comparative pay data by gender within the Lancashire Group. The Committee discussed recent social developments and, in particular, the increased prominence of the Black Lives Matter movement. The Committee recommended approval by the Board of an updated diversity policy, which is posted on the Company's website. The Committee and Board agreed with the management team to gather workforce data on diversity, inclusion and company culture by means of a staff survey, which was collated during December 2020.
The Lancashire Foundation	The Committee is responsible for monitoring and making recommendations to the Board in relation to the Company's charitable giving policy and the operation of, and reporting requirements for, the Lancashire Foundation. During 2020, the Committee received a report on the Foundation, including its objectives, governance, approach to funding for 2021 and beyond, investment strategy, donations policy and charitable activities, and considered the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that the Company make a donation to the Foundation of 0.75% of full-year Group profits (subject to a cap of $750,000 and a $250,000 collar), conditional on the determination of financial performance for the full year.
UK Modern Slavery Act 2015	During 2020, the Committee recommended the approval by the Board of an updated anti-slavery and human trafficking statement, a copy of which is posted on the Company's website. The Committee also discussed options for the use of online resources to help enhance staff training in the area of modern slavery risk and its management.

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Gender diversity

- Male: 5 (62.5%)
- Female: 3 (37.5%)

- Male: 156 (61.2%)
- Female: 99 (38.8%)

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

- Male: 34 (69.4%)
- Female: 15 (30.6%)

All gender composition data is shown as at 31 December 2020.

Investment Committee

"The Committee was pleased with the resilience of the Group's investment portfolio in the face of the challenges posed by the COVID-19 pandemic. The Board's investment philosophy continues to be conservative in nature, and in a year of dislocation in global markets this approach has demonstrably provided the stability in our capital base necessary to support the Group's underwriting strategy and to provide appropriate liquidity to match the Group's risk exposures."

Robert Lusardi
Chair of the Investment Committee

Committee membership

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

The Investment Committee comprises one independent Non-Executive Director, the Chairman of the Board, one Executive Director (the Group CFO) and the Group CIO (who is not a Director). Natalie Kershaw, Lancashire's new Group CFO and Executive Director, joined the Board and the Committee with effect from 1 March 2020, replacing Elaine Whelan, who stepped down from the Committee and the Board as of 28 February 2020.

	Meetings attended
Robert Lusardi (Chair)	4/4
Peter Clarke	4/4
Natalie Kershaw	3/3
Denise O'Donoghue	4/4
Elaine Whelan	1/1

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

The Committee focused on the consequences of the global COVID-19 pandemic, continuing U.S.-China trade friction and U.S. economic and political changes during the year and their impact on the Federal Reserve's interest rate policy. The Committee continued to review Brexit developments between the UK and EU, with a particular focus on resultant exchange rate volatility. The Committee regularly reviewed these and other macro-economic, capital markets and global political developments during the year, often in discussion with our professional investment managers.

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

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

The Committee focused earlier in the year on the impacts of the COVID-19 pandemic volatility in capital markets and its effects on the Company's investment portfolio. The Committee discussed throughout the year the movement in the annual 1-in-100 value at risk metric used by the Group ('VaR') (including internal FX hedges) and recommended to the Board a strategy to monitor and respond flexibly to changes in volatility in the management of the investment portfolio.

The Committee establishes and monitors a number of investment risk metrics, including certain 'Black Swan' scenarios, which might impair the Group's investment portfolio. In conjunction with this, the Committee has also recently begun to review the potential impacts of climate change transitional risk to the Group's portfolio. For the first time, the Committee received an assessment of the Group's investment portfolio's exposure to three 'carbon pricing scenarios' ranging from little change in the current pricing regime through to a rapid increase in carbon pricing. The Committee was reassured that the Group's current investment portfolio demonstrated a resilient return profile in all three carbon pricing transitional scenarios. Although it is early days in the development of the industry standards relating to the understanding and measuring of climate change risks as it relates to investments, particularly pooled investments, the Committee intends to build on this work over the coming years to assist with the Group's resilience and scenario testing which are required under the TCFD reporting regime. In 2020, the Committee and Investment team performed its biennial asset allocation review.

The Committee considers the Group's responsibility to act as a responsible investor. To that end, the Group's principal investment managers representing approximately 90% of the portfolio (with the exception of some of the Group's smaller investments with hedge fund managers) are signatories to the Principles for Responsible Investment, with a commitment to incorporate the governing six principles into the investment analysis and decision-making processes for the Group's portfolio. The Committee has started to evaluate the ESG profile of the Group's portfolio and expects to develop a more robust analytical and reporting framework for ESG factors in the future as relevant analytics develop and evolve in the markets.

Robert Lusardi reflects on the Group's investment performance and strategy

How did the investment portfolio contribute to the Group's performance in 2020 in the face of the COVID-19 pandemic?

Lancashire experienced another solid investment performance in 2020 with the investment portfolio returning 3.9% and making a significant positive contribution to the Group's operating income. Our duration remained at or below two years and the Committee focused on the monitoring and control of volatility within the portfolio. More details of the Group's investment performance can be found on page 27.

How does the business think about the strategic balance between investment and underwriting risks and opportunities?

In 2020, the Group completed the biennial strategic asset allocation study which modelled a range of assumptions regarding the risk/return expectations of our various asset classes, current underwriting strategy and anticipated insurance market conditions including related capital requirements, and potential liquidity and claims needs. Our principal objective was to determine potential adjustments to the current asset allocation that could achieve a better return for the same levels of risk. Although we currently expect improvement in underwriting conditions, we have essentially maintained our overall investment risk appetites and remain relatively short in duration. The bulk of our investment portfolio remains invested in U.S. dollar fixed income instruments, although we do invest a smaller proportion of the portfolio in risk assets, including some hedge fund allocations. Although still in the early stages, we have started this year to work with our investment managers to establish an understanding of the ESG and climate change profile of our investment portfolio. Our principal investment managers are signatories to the UN Principles for Responsible Investment.

Priorities for 2021

The Committee's key priorities for 2021 are:

- To maintain a continued focus on a diversified and sustainable portfolio, continuation of its contribution to the Group's operating income and FCBVS, the preservation of capital, the maintenance of liquidity and the management of interest rate and other investment risks;
- To focus on the implication of macro-economic trends, in particular the hardening of the insurance markets, the U.S. domestic and international political environment, the ongoing COVID-19 pandemic and trade developments between the UK and the EU; and
- To develop the analysis of the climate change risk sensitivity and ESG profile of the Group's investment portfolio to further enhance the levels of assurance and reporting on issues of sustainability.

Underwriting and Underwriting Risk Committee

"The Committee is responsible for the oversight of the Group's underwriting strategy. As insurance market pricing improved over the last year, the Committee's focus on the development and implementation of underwriting strategy has increasingly involved practical strategic planning."

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

The Group has both strengthened underwriting skills in its existing lines and added new lines of business and has worked with the Board and the Group's investors to raise new risk capital for the opportunities which lie ahead.

Committee membership

During 2020, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and one Non-Executive Director, together with the Group CUO, the CUO of LICL, the CUO of LUK, the Active Underwriters for Syndicates 2010 and 3010, the LICL CEO and the Group Chief Actuary (who are not Directors). James Flude assumed the role of LUK CUO and was appointed to the Committee on 28 April 2020, succeeding Hayley Johnston who assumed the role of LICL CEO during the year and remains a member of the Committee.

	Meetings attended
Alex Maloney (Chair)	4/4
Jon Barnes	4/4
Michael Dawson	4/4
James Flude	3/3
Paul Gregory	4/4
James Irvine	3/4
Hayley Johnston	4/4
Ben Readdy	4/4
John Spence	4/4

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

The two principal themes for the Committee during 2020 were those of risk (in particular relating to the COVID-19 pandemic) and opportunity.

The Committee closely tracked the COVID-19 pandemic and its impacts, both operationally and as a (re)insurance loss event/events. The Committee monitored the business as it moved to a remote home working environment during the spring and summer periods and a mixed operating model thereafter. In this context, the 15.2% growth in premium income due to a mix of pricing improvements and new opportunities was a very practical illustration of the operational resilience of the Group's risk trading platforms. The Committee received a claims update on a quarterly basis and monitored the claims and reserving processes for the COVID-19 pandemic and the other material natural catastrophe and risk losses as they developed during the year. Whilst it is acknowledged that the COVID-19 pandemic is ongoing and that material uncertainties exist with regard to issues of coverage, liability and exposure, the Committee took comfort from the rigour of the Group's major loss reserving exercise for the COVID-19 losses and the relative stability of the reserves as the year progressed.

The Committee monitored an improving pricing trend as the year developed, which is illustrated by the increase in pricing on like-for-like contracts measured by the Group's RPI. This represented a positive trend of 112% for the full year. Against this background of rapid price improvement, the Committee discussed growth opportunities and plans, both within existing lines of business and in new lines. The Committee approved plans for new underwriting lines in accident and health, and casualty reinsurance as well as a plan to further build out the Group's specialty reinsurance lines. The improving market and related strategic growth plans reviewed and approved by the Committee helped to inform the debate between the management team and Board with regard to the future strategic opportunity, exposure developments and capital requirements. In light of these developments the Board engaged the Group's principal investors to discuss the capital requirements for the developing opportunity, and in June 2020 Lancashire issued new common shares by way of an equity placing, which raised $340.3 million of new capital for the development of the Group's strategic underwriting plans. See page 15 for Alex Maloney's discussion of the June 2020 equity placing and the related market opportunity.

The Committee has been actively engaged during 2020 in the development and implementation of the Group's underwriting strategy. It considers the articulation of, and adherence to, formal underwriting risk tolerances, which are approved and monitored by the Committee and the Board. Underwriting risk is the key risk faced by the business. Specifically, the Committee receives quarterly risk data, tracking movements in the Group's exposures to modelled PMLs and RDSs.

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

The Group's outwards programme of reinsurance protections is a core underwriting risk and exposure management tool. The Committee reviewed the structure, pricing and operation of the outwards reinsurance programmes and regularly discussed management reports covering outwards reinsurance developments.

Within the context of climate change risk, the Committee continued to monitor exposures to a range of natural catastrophe risks, including regional windstorm and hurricane exposures, and the articulation of an appropriate underwriting and risk management strategy and management preference for these and other risk exposures. The Committee considered loss information and developing trends in the frequency and severity of weather-related and other loss events and was satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk relating to these factors. For more detail, please see the ERM report on page 30 and the Group's PML exposures on page 133.

Regarding business development opportunities, the Committee:

- Considered proposals for, and recommended to the Board, the adoption of risk tolerances for a new line of accident and health reinsurance underwritten within the Group's Lloyd's platform;
- Reviewed and approved the strategic plans for the recruitment of a new specialty reinsurance underwriter in Bermuda;
- Considered and approved a business plan and risk tolerances for the recruitment and establishment of a casualty reinsurance specialism in Bermuda; and
- Received management reports on the progress and approval by Lloyd's of the business plans for Syndicates 2010 and 3010.

The Committee reviewed developments in the third-party reinsurance capital markets and the progress of LCM, which (on behalf of KRL) underwrote reinsured limits in excess of $500 million during 2020.

During 2020, the Committee meetings were open to attendance by all Board members. The Committee and Board seek to match the Company's capital to the underwriting requirements of the business in all parts of the underwriting cycle.

A more detailed analysis of the Group's underwriting performance appears in the business review section of this Annual Report and Accounts on pages 25 to 29.

Priorities for 2021

The Committee's key priorities for 2021 are:

- To continue to monitor the development and implementation of a forward-looking and disciplined underwriting strategy appropriate for the Group's underwriting platforms, within a framework of appropriate risk tolerances;
- To work actively with management in the identification, analysis and consideration of new underwriting opportunities, including potential new lines of business and opportunities for the managed 'organic' growth in the Group's specialty and catastrophe lines;
- To monitor developments in what is expected to be an improving and better priced underwriting environment and the corresponding opportunities within, and constraints under, the Group's outwards reinsurance programmes and resultant net exposures; and
- To continue to foster a nimble, sustainable and responsive underwriting culture, capable of responding to the needs of clients, investors, employees and other stakeholders.

Remuneration Committee

"The strategic objective of building the business in line with the developing market opportunity is facilitated by remuneration structures which incentivise, reward and retain talented underwriters and other staff across the business, within an appropriate framework of risk management."

Simon Fraser
Chair of the Remuneration Committee

The Committee's work helps ensure that we have clear and consistent remuneration structures under which outcomes are aligned to the performance of the business and our employees. We also aim to embed the Group's healthy and sustainable corporate culture, consistent with the Group's purpose, values and strategy, which will help deliver sustainable performance across the insurance cycle.

Committee membership

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

	Meetings attended
Simon Fraser (Chair)	4/4
Peter Clarke	4/4
Michael Dawson	4/4
Robert Lusardi	4/4

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

Faced with COVID-19, the Committee kept under review the impacts of the pandemic on the Group's performance and remuneration structures and outcomes planning. The Committee is satisfied that the 2020 remuneration outcomes for Executive Directors and the wider workforce are an appropriate reflection of the Group's resilient performance and strategic planning. In particular, when considering the level of the 2021 RSS long-term performance awards, the Committee is satisfied that the Company's share price movement over the year has been within a reasonable range and has not been materially adversely impacted so as to result in the potential for future 'windfall' benefits. For further discussion of the linkage between performance and remuneration outcomes, please see Simon Fraser's introduction to the Directors' Remuneration Report on page 82.

More generally during 2020, the Committee reviewed the Group's incentive packages to ensure that remuneration is structured appropriately in order to promote the long-term success of the Company. The Committee also reviewed the RSS structures for Executive Directors to ensure that the performance metrics continue to align the interests of the Company with its investors and executive management. The Committee considered the salary and bonus awards for the Executive Directors, as well as other designated senior executives, and in this context had regard to remuneration levels and practices across the workforce. The Committee also approved the grant of long-term incentivisation awards under the Company's RSS.

The Directors' Remuneration Policy has a three-year term following its approval by shareholders at the 2020 AGM, with a majority of 88% of votes cast. The Committee discussed with the Chair feedback from certain of the Group's shareholders which had not supported the Policy (see the Directors' Remuneration Report on page 82 for further discussion) and has concluded that the Policy remains fit for purpose. No Policy changes are being proposed for the coming year.

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

During 2020, the Committee reviewed Executive Directors' shareholdings in the context of the Company's share ownership guidelines for senior/key executives. Share ownership targets have either been met, or progress made in accordance with guideline requirements.

The Committee continued to monitor progress made during the year on the alignment of remuneration practices across the Group and reviewed the operation of the Group's remuneration policy. The Committee also considered a number of proposals relating to the treatment of RSS awards held by departing employees.

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 82 to 104. The Committee considers the remuneration practices across the Group and the internal and external measures used to be appropriate and aligned with Group strategy and risk management. In particular, the Committee considers that the Group's remuneration practices, as set out in the Directors' Remuneration Report, are clear and transparent, and appropriately simple in their structure and operation.

Priorities for 2021

The Committee's key priorities for 2021 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, risk profile, objectives, risk management practices and long-term interests;
- To ensure that remuneration across the wider Group meets the skills and staffing needs and staff retention requirements of the business; and
- To work with the Group's independent remuneration advisers to keep abreast of compensation levels amongst the Group's London, Bermudian and other international peers, and the latest remuneration-related regulations, guidance and market practices.

Annual statement

Dear Shareholder,

I am pleased to present the 2020 Directors' Remuneration Report to shareholders.

Shareholder engagement and Remuneration Policy review

During the latter part of 2019 and early 2020 I led a shareholder consultation process which we reported on in the 2019 Annual Report, the feedback from which was discussed in the Remuneration Committee. I am pleased to note that the revised Lancashire Group Directors' Remuneration Policy was approved by 88% of shareholders voting at the April 2020 AGM. The Committee discussed shareholder feedback and following the vote I initiated further dialogue with certain of our shareholders who had not supported the Policy vote to understand their perspective. It is clear from these discussions that there are divergent views as to the detail and implementation of remuneration policies, but having discussed feedback within the Committee we have noted the Policy support from a strong majority of shareholders and on balance we consider that the Remuneration Policy approved by shareholders in 2020 remains appropriate to the Group's strategy and business model and as such fit for purpose. Accordingly no further Policy changes are recommended for the coming year. Full details of the votes for and against the Remuneration Policy at the 2020 AGM can be found at the end of the Directors' Remuneration Report on page 104. The Directors' Remuneration Policy is set out on pages 84 to 91.

Remuneration and strategy

The Committee has once again reviewed and discussed the remuneration structures to be used in 2021 in some detail and we have decided to follow the same structure for the remuneration of our Executive Directors as was used in 2020.

The Group's goal continues to be to reward its employees fairly and responsibly by providing an appropriate balance between fixed remuneration and variable remuneration linked to the achievement of suitably challenging Group and individual performance measures.

There is a strong link between the Remuneration Policy and the business strategy. As highlighted elsewhere in this Annual Report and Accounts, our strategy focuses on the effective operation of the business necessary to deliver superior total shareholder returns on a risk-adjusted basis over the course of the insurance cycle. Our Remuneration Policy and the way it is implemented are closely aligned to this strategy.

The Board and management continue to believe that the insurance industry is cyclical in its fundamental characteristics. The Board's strategic objective is to achieve attractive returns appropriate to overall risk levels across the (re)insurance market cycle.

Transition in the Group CFO role

It is to be noted that during the year, Elaine Whelan stepped down from her role as an Executive Director for LHL with effect from 28 February 2020 and Natalie Kershaw was appointed as her successor, assuming the role with effect from 1 March 2020. Elaine remained within the Group until the end of August 2020 in order to assist with the managed transition in the Group's finance function. We would like to thank Elaine for her work over many years and in helping to deliver a managed succession plan. Details of Elaine's remuneration during the year are also included in this report. Natalie Kershaw has made a very strong start in her new role as Group CFO and the Board has been pleased with the further enhancements to integration across the Group finance function and in the strengthening of the Group's capital position through the successful capital raise which have been achieved during the year under Natalie's leadership of the finance function.

Performance outcomes for 2020 – managing risk and building opportunity

As we set out at the front of this report, 2020 has been a year of exceptional challenges – the most severe of which has been the COVID-19 pandemic. On top of this we have witnessed somewhat above average natural catastrophes and a greater frequency of risk losses. The business has successfully faced these challenges, displaying operational resilience and strategic foresight. Despite the dampening effect of (re)insurance losses on profitability for the year, the decision to seek equity capital from our shareholders in June 2020 has resulted in growth in fully converted book value per share. This has placed the Group in a strong position to maximise attractive underwriting opportunities in an improving pricing environment which we expect to materialise throughout the course of 2021. Against this background our total Group CEO remuneration has increased by 35.5% (see the comparison table for single figure remuneration on page 95). The Group CFO remuneration change rate was not calculated for 2020 given the transition of the role between individuals and that the current Group CFO was not an Executive Director in the prior financial year.

The Board and Committee considered that, in light of the exceptional challenges posed during 2020, this performance represents a resilient outcome for the Group for the year, in that it positions the business strongly to develop underwriting opportunities in the stronger pricing environment which is expected over the next few years.

Our business expects to see stronger opportunities for organic growth, whilst continuing to ensure a rigorous focus on the balanced management of risk and reward.

The Executive Directors' annual bonus performance targets set at the beginning of 2020 for financial and personal performance were stretching. The financial element which made up 75% of the annual bonus opportunity resulted in a bonus payout at 111% of target for that element given the Company's Change in FCBVS per share in 2020 is above the threshold in what was a challenging loss environment. The Board also considered that the Executive Directors had performed strongly in managing risk within the business. Of further note was the delivery of strong operational resilience in the face of the COVID-19 pandemic without the use of government-backed furlough schemes or other forms of business support. The management team also delivered on the strategic objectives of recruiting underwriting expertise in both existing and new lines of business, in particular in accident and health and casualty, and in strengthening other supporting business functions in preparation for an expected period of growth in premium income. As Peter Clarke notes in his discussion of the developing capital requirements of the business, the Board also noted the dynamic action of management in identifying the need to raise additional equity capital from existing shareholders in order to provide the capital necessary to develop the future strategic opportunities which are expected to unroll over the coming year in a markedly improved pricing environment. So, in the face of what was a challenging year the Board considered that our Executive Directors had provided both strong leadership and a nimble and proactive approach to risk and capital management with a strong sense of the evolving insurance market cycle and the associated opportunity. In light of these achievements a bonus at 150% of target for the Group CEO and 200% of target for the Group CFO were awarded for the personal component in respect of 2020 performance. The Committee believes the financial and personal element outcomes are reflective of the Company's performance and therefore no discretion was applied to the final calculation of the 2020 annual bonus. In summary, annual bonuses for our Executive Directors were achieved above target level at 60% of maximum bonus for the Group CEO and 66% of maximum bonus for the Group CFO (see pages 96 and 97 for further details).

In relation to long-term incentives for Executive Directors and other senior management, the 2018 Performance Restricted Share Scheme (RSS) awards were 85% based on annual Change in FCBVS targets and 15% on compound annual growth TSR targets over the three-year period to 31 December 2020. The Company's TSR (calculated in U.S. dollars) for the performance period resulted in a compound annual growth rate of 2.9%, resulting in 0% vesting for the TSR component.

The Change in FCBVS performance over the three-year performance period was assessed based on the change for each of the separate financial years as disclosed on page 98, resulting in 56.7% of this component of the 2018 Performance RSS awards vesting. Therefore overall, the 2018 Performance RSS awards vested at 48.2%. This compared with the 0% vesting of the 2017 Performance RSS awards, which we reported last year. The Committee and Board moved to the annual measurement of each year of the three-year performance awards at the beginning of 2018, principally to avoid the vesting levels of awards being dragged down on account of one or more years of exceptional loss activity. We therefore consider the RSS vesting levels for 2018 RSS awards demonstrate the advantages of this approach in delivering a more balanced outcome in the vesting of longer-term equity awards which are less prone to volatility. We consider that this approach is demonstrably better at achieving alignment between the interests of our executive team and our shareholders.

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

Overall, in light of the annual and three-year performance delivered, the Committee notes the 48.2% vesting of the 2018 RSS and is satisfied that there has been sufficient linkage between performance and reward for Executive Directors; as a result no discretion was applied to the formulaic outcome. The Committee will continue to work towards ensuring that there is appropriate alignment between executive remuneration and Company performance in line with the Group's cross-cycle return expectations.

Application of Remuneration Policy for 2021

The Annual Report on Remuneration provides detailed disclosure on how the Policy will be implemented for 2021 and how Directors have been paid in relation to 2020.

The Board has decided to apply the targets for the annual bonus to be used in 2021 and to implement the three-year RSS awards for Executive Directors on the same basis as agreed for 2020.

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

Simon Fraser.

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

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

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

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

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

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

- Clarity – the Committee regularly engages with shareholders to take into account shareholder feedback, as it did in developing the current Policy, to ensure there is transparency on the Remuneration Policy and its implementation. The Remuneration Policy has a clear objective: to enable the Group to attract, retain and motivate Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters.
- Simplicity – the Remuneration Policy is designed such that the arrangements are considered easy to communicate to all stakeholders. This includes variable pay which operates as an annual bonus plan and a single LTIP. The objective and rationale for each element of the Remuneration Policy is clearly explained in the Policy table.
- Risk – the Committee considers that the structure of remuneration does not encourage inappropriate risk-taking. The performance metrics used ensure remuneration aligns to the Board's strategic objective which is to achieve attractive returns appropriate to overall risk levels across the (re)insurance market cycle. There is a mixture of short-term and long-term performance metrics with an appropriate mix of performance conditions. Clawback provisions are in place across all incentive plans and the Committee has the ability to use its discretion to override formulaic outcomes. The Committee receives a report from the Group CRO with regard to risk management developments which may be relevant to remuneration outcomes, and also makes inquiry with the Group's external auditors.
- Predictability – the range of possible reward outcomes is shown in the 'Illustrations of annual application of Remuneration Policy' (see page 90 for full details), which demonstrates the potential threshold, on-target and maximum scenarios of performance and the resulting pay outcomes which could be expected.
- Proportionality – a significant proportion of pay is delivered through variable remuneration. No variable remuneration will be delivered for below threshold performance with incentives only paying out if strong performance has been delivered by the Executive Directors. The Committee has the discretion to override outcomes if they are deemed inappropriate to ensure a robust link between reward and performance.
- Alignment to culture – the Policy has been designed to support the delivery of the Group's long-term strategy, and the interests of its shareholders and employees. Annual bonus performance metrics include an assessment of whether each Executive Director's contribution aligns to the Group values. The Policy seeks to appropriately motivate Executive Directors to deliver long-term, sustainable performance which benefits all stakeholders.

Governance and approach

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

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

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- in the case of Alex Maloney, the Group CEO, there is a high level of share ownership, and in the case of Natalie Kershaw, who assumed the role of Group CFO and Executive Director during 2020, there is an appropriate opportunity to acquire a longer-term equity holding on a measured basis, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, corporate failure and material damage to the Group's business or reputation or the Executive Director ceasing to be a Director and/or employee due to gross misconduct (see page 87 for the full Policy details).

How the views of shareholders are taken into account

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

How the views of employees are taken into account

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

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

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

Remuneration Policy table

Fixed pay

Base salary

Purpose and link to strategy

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

Reflects individual experience and role.

Operation

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

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

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

Opportunity

No maximum.

Benefits

Purpose and link to strategy

Market competitive structure to support recruitment and retention.

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

Operation

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

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

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

Opportunity

No maximum.

Pension

Purpose and link to strategy

Contribution towards funding post-retirement lifestyle.

Operation

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

There is a salary sacrifice structure in the UK.

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

Opportunity

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

Annual bonus[1,2]

Purpose and link to strategy

Rewards the achievement of financial and personal targets.

Operation

The annual bonus is based on financial and personal performance.

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

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

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

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

The bonus is subject to clawback if:
(i) the financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions of the bonus;
(ii) the Company has suffered an instance of corporate failure which has resulted in the appointment of a liquidator or administrator or resulted in the Company reaching a compromise arrangement with its creditors;
(iii) the Company or the relevant business unit for which the participant works suffers damage to its business or reputation which, in the determination of the Committee, is at least partly due to a breach of corporate risk policies/tolerances and to a failure in the management of the Company or relevant business unit and to which the participant made a material contribution; and/or
(iv) the Executive ceased to be a Director or employee due to gross misconduct.

Opportunity

The maximum bonus for Executive Directors for achieving the target level of performance as a percentage of salary is 200% of salary. Maximum opportunity is two times target.

Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.

Performance metrics

The weightings that apply to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will be at least 75% of the overall opportunity, and no more than 25% will be based on personal or strategic objectives.

Financial performance

The financial component is based on the Company's key financial measures of performance. For any year, these may include the Change in FCBVS, growth in BVS, profit, comprehensive income, combined ratio, investment return or any other financial KPI[3].

Typically, a sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. Up to 25% of the total bonus opportunity is payable for achieving threshold/median, rising to maximum bonus for stretch/upper quartile performance.

The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year.

Personal performance

Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the payout for this part of the bonus.

Remuneration Policy table continued

Long Term Incentives (LTI)

Purpose and link to strategy

Rewards Executive Directors for achieving superior returns for shareholders over a longer time frame.

Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.

Operation[2,3]

RSS awards are normally made annually in the form of nil-cost options (or conditional awards) with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years.

The number of awards will normally be determined by reference to the share price around the time of grant unless the Committee, at its discretion, determines otherwise.

The Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set.

Awards are subject to clawback if there is a material misstatement in the Company's financial statements, an error in the calculation of any performance conditions, the Company has suffered an incident of corporate failure, material damage to the Group's business or reputation or if the Executive Director ceases to be a Director or employee due to gross misconduct.

A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise.

The Committee has the discretion, in exceptional circumstances, to settle an award made to Executive Directors in cash.

The Committee has the discretion, in exceptional circumstances, to scale back RSS vesting outcomes or to impose additional vesting conditions. The use of such discretion should be limited to exceptional circumstances, such as a downturn in the performance of the individual or the Company or Group.

A two-year post-vesting holding period applies to awards made to Executive Directors since 2016 (see page 94).

Opportunity

Award levels are determined primarily by seniority. A maximum individual grant limit of 350% of salary applies.

Note: The Committee may set the normal level of award at less than the percentage set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.

Performance metrics

Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant.

These may include measures such as TSR, the Change in FCBVS, growth in BVS, Company profitability or any other relevant financial measures.

If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remain appropriate.

A sliding scale of targets applies for financial metrics with no more than 25% vesting for threshold performance.

For TSR, none of this part of the award will vest below median ranking or achievement of an index. No more than 25% of this part of the award will vest for achieving median or index.

Share ownership guidelines and requirements[4]

Under the guidelines, Executive Directors are expected to maintain an interest equivalent in value to no less than two times salary over time. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50% of the net of tax value of awards that vest under the RSS.

In respect of performance RSS and deferred bonus RSS awards made after 1 January 2020 there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

A nominee account may be established into which shares acquired under RSS awards (i.e. on exercise of (nil cost) options) will ordinarily be directed for the purposes of enforcing the guidelines and requirements. The Remuneration Committee shall retain a discretion to waive the requirements, in whole or in part, in exceptional circumstances such as death, critical illness or personal financial hardship.

In the event of a change of control (takeover) of LHL the guidelines and requirements shall cease to apply on the date of such change of control.

Chairman and Non-Executive Directors' fees

Purpose and link to strategy

Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.

Operation

The Chairman is paid a single fee for his responsibilities as Chairman. The level of these fees is reviewed periodically by the Committee and the Group CEO by reference to broadly comparable businesses in terms of size and operations.

In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken, including a Non-Executive Director role on a subsidiary board.

Any reasonable business-related expenses (including any personal tax payable) can be reimbursed.

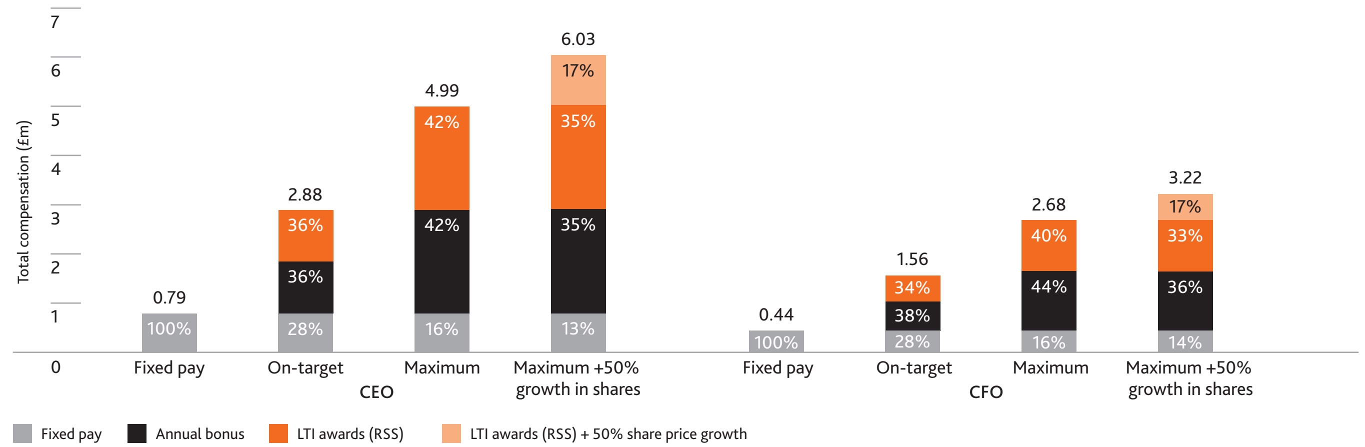
Opportunity

No maximum.

1. The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this Policy.
2. All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the Policy.
3. Performance measures: these may include the KPIs shown on pages 20 and 21 or others described within the Annual Report and Accounts Glossary commencing on page 179 or any other measure that supports the achievement of the Company's short to long-term objectives.
4. Share ownership interest equivalent is defined as wholly-owned shares or the net of tax value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2021 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2021 Salary + Actual Value of 2020 Benefits + 2021 Pension Contribution.
On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2021 RSS grant (assuming 50% vesting with the face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2021 RSS grant (assuming 100% vesting with the face values of grant).

Maximum + 50% growth over performance period = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2021 RSS grant + 50% share price appreciation (assuming 100% vesting with the face values of grant).

Approach to recruitment remuneration

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and would take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. The Committee retains the flexibility to set base salary for a newly appointed Executive Director below the mid-market level and allow them to progress quickly to or around mid-market level once expertise and performance have been proven. This decision would take into account all relevant factors noted above.

The annual bonus and LTI potential would be in line with the Policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different bonus performance measures for the performance year during which he or she became an Executive Director. The Committee may grant an LTI award to an Executive Director shortly after joining, up to the plan limits set out in the Remuneration Policy table (assuming the Company is not in a closed period).

In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an Executive Director leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods (which may be less than three years), expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may agree that the Company will meet certain relocation expenses as appropriate and is able to provide expatriate benefits including housing, a relocation allowance, assignment-related costs or tax equalisation.

Service contracts and loss of office payment policy for Executive Directors

Executive Directors have service contracts with six-month notice periods. In the event of termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary plus the value of benefits to which the Executive Directors are contractually entitled for the unexpired portion of the notice period. The Company may pay statutory claims. No Executive Director has a contractual right in their employment terms to a bonus for any period of notice not worked.

The service contract for a new appointment will be on similar terms as existing Executive Directors, with the facility to include a notice period of no more than 12 months from either party.

The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service contract of any Executive Director. There are no special provisions in the service contracts for payments to Executive Directors on a change of control of the Company.

In the event of an exit of an Executive Director, the overriding principle will be to honour contractual remuneration entitlements and determine, on an equitable basis, the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Depending on the leaver classification, an Executive Director may be eligible for certain payments or benefits continuation after cessation of employment.

If an Executive Director resigns or is summarily dismissed, salary, pension and benefits will cease on the last day of employment and there will be no further payments.

Leaver on arranged terms or good leaver

If an Executive Director leaves on agreed terms, including compassionate circumstances, there may be payments after cessation of employment. Salary, pension and benefits will be paid up to the length of the agreed notice period or agreed period of garden leave.

Subject to performance, a bonus may be payable at the discretion of the Committee pro-rata for the portion of the financial year worked.

Vested but unexercised deferred bonus RSS awards will remain exercisable. Unvested deferred bonus RSS awards will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date or 12 months after the required post-vesting holding period required (see page 94).

Vested but unexercised RSS awards may remain exercisable for 12 months. Unvested awards may vest on the normal vesting date unless the Committee determines that such awards shall instead vest at the time of cessation. Unvested awards will only vest to the extent that the performance conditions have been satisfied (over the full or curtailed period as relevant). A pro-rata reduction in the size of awards may apply, based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year or other relevant vesting period.

The Committee has discretion to permit unvested RSS awards to vest early rather than continue on the normal vesting timetable and also retains discretion as to whether or not to apply (or to apply to a lesser extent) the pro-rata reduction to the RSS awards where it feels the reduction would be inappropriate.

In respect of RSS awards made to Executive Directors after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director, see page 94.

Depending upon circumstances, the Committee may consider other payments in respect of any claims in connection with a termination of employment where deemed appropriate, including an unfair dismissal award, outplacement support and assistance with legal fees.

Terms of appointment for Non-Executive Directors

The Non-Executive Directors serve subject to the Company's Bye-laws and under letters of appointment. They are appointed subject to re-election at the AGM and are also terminable by either party on six months' notice except in the event of earlier termination in accordance with the Bye-laws. The Non-Executive Directors are typically expected to serve for up to six years, although the Board may invite a Non-Executive Director to serve for an additional period. Their letters of appointment are available for inspection at the Company's registered office and at each AGM.

In accordance with best practice under the Code, the Board ordinarily submits the Directors individually for re-election by the shareholders at each AGM.

Legacy arrangements

In approving the Policy, authority is given to the Company for the duration of the Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company, which was approved by shareholders and was in effect at the time they were made); or (ii) to an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the revised Policy.

For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy approved at the 2014 AGM and the current Policy which was approved by shareholders at the 2020 AGM, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this Annual Report and Accounts (including for current Executive Directors as detailed on pages 99 and 100 of the Annual Report on Remuneration) remain eligible for vesting or exercise based on their original award terms.

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chairman's statement, as detailed on pages 82 and 83, will be subject to an advisory vote at the 2021 AGM. The following sections in respect of Directors' emoluments have been audited by KPMG LLP:

- Single figure of remuneration.
- Non-Executive Director fees.
- 2021 annual bonus payments in respect of 2020 performance.
- Long-term share awards with performance periods ending in the year – 2018 RSS awards.
- Scheme interests awarded during the year.
- Loss of office payments.
- Performance and deferred bonus awards under the RSS.
- Directors' shareholdings and share interests.

Implementation of Remuneration Policy for 2021

Base salary and fees

Executive Directors

The Remuneration Committee decided at its meeting held on 3 November 2020 to convert the currency of remuneration of the Executive Directors from U.S. Dollars to GBP due to the fact that since the appointment of Natalie Kershaw as the Group CFO both Executive Directors have been located in the UK. For the purpose of currency conversions a rate of 1.2800 was used, being the average rate for the 2020 year.

There have been no salary increases for the Executive Directors for the 2021 year.

Salaries effective from 1 January 2021 are set out below:

- CEO – £699,644, a USD equivalent of $895,544, a 0% increase.
- CFO – £390,625, a USD equivalent of $500,000, a 0% increase.
- The standard salary increase for Group employees for 2021 is 1.5%.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2021:

- The fee for the Chairman (Peter Clarke) will remain at $350,000 per annum.
- The Non-Executive Director fee will remain at $175,000 per annum.

Other fees

- Samantha Hoe-Richardson is a Non-Executive Director of LUK in which capacity she will continue to receive a fee of £50,000 per annum.
- Simon Fraser is a Non-Executive Director of LSL in which capacity he will continue to receive a fee of $80,000 per annum.

Annual bonus

For 2021, the Group CEO and the Group CFO will have a target bonus of 150% of salary and, therefore, a maximum opportunity of 300% of salary. This is within the approved policy limit and is in line with last year's opportunity and represents a maximum bonus opportunity which is 100% of salary less than the set policy limit.

The financial and personal portions of the annual bonus will remain unchanged with 75% on financial performance and 25% on personal performance.

Financial performance (75%)

The Company's most important financial KPI is the Change in FCBVS, which is the core indicator of the delivery of its strategic priorities of ensuring underwriting comes first, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on pages 16 and 17 of this Annual Report and Accounts). For 2021, the financial component for the annual bonus is again to be based on the performance of the Group's Change in FCBVS.

A sliding scale range of the Change in FCBVS targets has been set by reference to the Risk Free Rate of Return as follows:

- 25% of target bonus shall be payable at a threshold level of the Change in FCBVS equal to RFRoR + 6% (0% will be payable below this threshold).
- 50% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 7%.
- 100% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 8%.
- 200% of target bonus shall be payable at a level of the Change in FCBVS equal to RFRoR + 14%.

There shall be linear interpolation between these points. The Board considers that these target ranges are appropriately challenging, given the current insurance market conditions, and will help to ensure a strong link between remuneration for the Executive Directors and the Company's financial performance, the strategy and risk profile of the business and the investment return environment, without encouraging excessive risk-taking.

Personal performance (25%)

This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2021 personal objectives for each Executive Director.

Executive Director	Personal performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values characterised by engagement and a healthy sustainable culture.
Natalie Kershaw	Effective management of the finance function and participation in Group management and the Board. Overall responsibility for the IT, Change and Data functions. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Contribution aligned to the Lancashire Group values characterised by engagement and a healthy sustainable culture.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2021 annual performance reviews, each Executive Director will receive a performance rating which will determine the level of personal performance bonus payout for which each Executive Director will be eligible.

Restricted Share Scheme

Performance conditions

For Executive Directors, 2021 RSS awards are subject to a range of performance conditions based on (i) annual Change in FCBVS; and (ii) absolute compound annual growth in TSR, both measured by reference to a period ending on 31 December 2023. These metrics aim to provide an appropriate focus on the Company's underlying financial performance and cycle management, and in the case of absolute TSR to provide an objective reward for delivering value to shareholders.

Weighting

For 2021, the weighting is 85% on annual Change in FCBVS and 15% on absolute compound annual growth in TSR.

Target ranges

The annual Change in FCBVS target range for 2021 awards is:

- threshold – 6%; and
- maximum – 13%.

Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. In each year, performance will be measured against the target range to determine the ultimate level of vesting in respect of one-third of the RSS award. Vesting will only occur after completion of the full three-year performance period, and continued employment of the Executive Director at the time of vesting.

The relevant element of the RSS award will not vest if annual Change in FCBVS is below threshold, 25% of the relevant element of the RSS award will vest at threshold, and 100% of the relevant element of the RSS award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

The TSR target range for 2021 awards is:

- threshold – 8% compound annual growth; and
- maximum – 12% compound annual growth.

Absolute TSR will be measured over the full three-year performance period rather than looking at each year separately.

None of the relevant element of the award will vest if compound annual growth in TSR is below threshold, 25% of the award will vest at threshold, and 100% of the award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

Overriding downwards discretion

If any year produces a return that the Committee believes is significantly worse than competitors and reflects poor management decisions, the Remuneration Committee will use its discretion to determine the extent to which any relevant element of the RSS award shall vest fully (or to a lesser extent) based on the performance over the full three-year period.

Award levels

2021 RSS award levels are as follows:

- Group CEO – RSS awards in respect of shares to the value of £2,098,932 (being 300% of salary)
- Group CFO – RSS awards in respect of shares to the value of £1,074,219 (being 275% of salary)

The number of RSS awards in respect of shares which are awarded shall be determined based on the closing average share price for a period of five trading days immediately prior to the date of the award.

Post-vesting holding period

It is a term of RSS awards granted to Executive Directors that they are expected to hold vested RSS awards (or the resultant net of tax shares), which had a performance period of at least three years, for a further period of not less than two years following vesting.

Post-employment holding requirements

In respect of RSS awards made after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

Single figure of remuneration

The following table presents the Executive Directors' emoluments in U.S. dollars in respect of the years ended 31 December 2020 and 31 December 2019 for time served as an Executive Director. Commencing with the 2021 Annual Report and Accounts, these figures will be reported in GBP in line with the remuneration of Executive Directors being set in GBP.

Executive Directors[5]		Salary $	Pension $	Taxable benefits[4] $	Total Fixed pay $	Annual bonus[1] $	Long-term incentives (RSS)[2,3] $	Total Variable pay $	Total $
Alex Maloney, CEO	**2020**	**895,556**	**89,097**	**19,507**	**1,004,160**	**1,624,472**	**1,508,275**	**3,132,747**	**4,136,907**
	2019	867,361	86,736	21,921	976,018	2,077,754	–	2,077,754	3,053,772
Natalie Kershaw[6], CFO	**2020**	**418,133**	**47,561**	**8,587**	**474,281**	**1,000,725**	**–**	**1,000,725**	**1,475,006**
	2019	–	–	–	–	–	–	–	–

Former Executive Director		Salary $	Pension $	Taxable benefits[4] $	Total Fixed pay $	Annual bonus $	Long-term incentives (RSS)[2,3] $	Total Variable pay $	Total[5] $
Elaine Whelan[7], Former CFO	**2020**	**99,505**	**9,951**	**24,018**	**133,474**	**123,941**	**949,377**	**1,073,318**	**1,206,792**
	2019	597,030	59,703	152,112	808,845	1,426,726	–	1,426,726	2,235,571

The following charts set out the above disclosed 2020 total remuneration received by serving Executive Directors as a percentage of their total 2020 remuneration.

Alex Maloney

- Fixed pay: 24%
- Annual bonus: 39%
- LTI awards (RSS): 37%

Natalie Kershaw

- Fixed pay: 32%
- Annual bonus: 68%
- LTI awards (RSS): 0%

1. Bonus targets were set at the beginning of 2020 and are based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component paid out at 111% of target as the change in FCBVS for 2020 was 10.2% against a target level of RFRoR +8%. The final bonus payout to Executive Directors will be 60% of the maximum for the CEO, 66% of the maximum for the CFO and 60% of the maximum for the Former CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 96 and 97. 25% of the serving Executive Directors' annual bonus is deferred into RSS awards without performance conditions, vesting at 33.3% per year over a three-year period.
2. For 2020, the long-term incentive values are based on the 2018 Performance RSS awards which vested at 48.2% and are based on a three-year performance period that ended on 31 December 2020. The values above are based on the average share price for the final quarter of 2020, being $9.26, and includes the value of dividends accrued on vested shares. The increase in share price between the date of grant, being $8.02, and the final 2020 quarterly average share price of $9.26 was an increase of 15.5%. Natalie Kershaw was not granted 2018 Performance RSS awards, as she was not a serving Executive Director at the time.
3. For 2019, the long-term incentive values are based on the 2017 RSS awards which vested at 0%, based on the three-year performance period that ended on 31 December 2019.
4. Benefits comprise Bermuda payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the Former CFO), but exclude UK National Insurance contributions.
5. Some amounts were paid in GBP and converted at the average exchange rate of 1.2777 for the year for 2020 and 1.2738 for 2019 as they are set in U.S. dollars.
6. Natalie Kershaw was appointed as an Executive Director effective 1 March 2020 and therefore 2019 figures for when she did not provide qualifying services have not been reported. The reported pension figure includes additional salary sacrifice paid into pension during the year. Figures reported for 2020 are for the 10 months Ms Kershaw supplied qualifying services as an Executive Director for the Company, with the exception of the annual bonus which is reported for the full year per Ms Kershaw's Service Agreement.
7. Elaine Whelan stood down from the Board on 28 February 2020 and retired from the Group on 31 August 2020. Mrs Whelan was afforded good leaver status and all RSS award interests were agreed to vest upon their scheduled vest date and the performance RSS awards will be time pro-rated appropriately. Any deferred bonus RSS awards will vest upon their scheduled vest date. The amounts in the table above reflect only the awards vesting during her tenure as a Director, any awards that will vest at a future date are not reflected here. Figures reported for 2020 are for the two months Mrs Whelan supplied qualifying services as an Executive Director of the Company. Further particulars of Mrs Whelan's leaving arrangements can be found on page 98.

Non-Executive Directors' fees

		Fee $	Other $	Total $
Current Non-Executive Directors				
Peter Clarke	**2020**	**350,000**	**–**	**350,000**
	2019	350,000	–	350,000
Michael Dawson	**2020**	**175,000**	**–**	**175,000**
	2019	175,000	–	175,000
Simon Fraser[1]	**2020**	**175,000**	**80,000**	**255,000**
	2019	175,000	80,000	255,000
Samantha Hoe-Richardson[2]	**2020**	**175,000**	**64,531**	**239,531**
	2019	175,000	63,644	238,644
Robert Lusardi	**2020**	**175,000**	**–**	**175,000**
	2019	175,000	–	175,000
Sally Williams[3]	**2020**	**175,000**	**–**	**175,000**
	2019	168,884	–	168,884

1. Simon Fraser's LSL fees are paid in USD.
2. Samantha Hoe-Richardson's LUK fees are paid in GBP and converted at the average exchange rate at the time of payment.
3. Sally Williams was appointed on 10 July 2018 as a Non-Executive Director and her appointment took effect on 14 January 2019. Her 2019 fees were proportionally pro-rated for the year.

2021 annual bonus payments in respect of 2020 performance

As detailed in the Remuneration Policy, each Executive Director participates in the annual bonus plan, under which performance is measured over a single financial year.

Bonus targets were set at the beginning of 2020 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The target value of bonus was 150% of salary for the Group CEO and Group CFO respectively, and the maximum payable was two times the target value.

Financial performance

75% of the 2020 bonus was based on Company performance conditions and the extent to which these were achieved is as follows:

Performance measure	Financial performance weighting (of total bonus) %	Threshold %	Target %	Max %	Actual performance %	% payout
Change in FCBVS	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	10.2	111% of target payable in respect of Company performance

In 2020, financial returns were slightly above the target levels. The Company financial performance component paid out at 111% of target (being 55.5% of the maximum) as the Change in FCBVS was 10.2% against a target level of RFRoR +8% and a threshold of RFRoR +6%.

Personal performance

25% of the 2020 bonus was based on performance against clearly defined personal objectives set at the start of the year.

The table below sets out a summary of the 2020 personal objectives for each Executive Director.

Executive Director	Personal performance	Factors relevant to the Board's determination for the 2020 performance year
Alex Maloney	Effective leadership and management of the senior executive team and the Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values.	Delivering a team of employees with strong professional skills at all levels throughout the Group and providing strong executive leadership to ensure operational resilience across all areas of the business in the face of the COVID-19 global pandemic (see pages 8 to 15 for further details). Achieving planned premium growth across multiple business lines during the year and adding new business lines (see pages 22 to 25 for further details). Leading the strategic project to raise equity capital for the business in June 2020 (see pages 11 and 48). Taking a strong lead in the area of employee engagement through the staff town hall meetings and a programme of regular personal communication with all staff, thereby ensuring a healthy corporate culture within the business (see page 43 and pages 49 to 52 for further details).
Natalie Kershaw	Effective transition planning and implementation. Effective management of the finance function and participation in Group management and the Board. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Contribution aligned to the Lancashire Group values.	Rapidly assuming management for all areas of Group finance and delivering innovative change to both executive management and Board financial and strategic reporting. Leading the development of the Group IT function within the Group executive committee. Delivering a team of employees with enhanced professional skills across the Group finance function. Supporting the strategic project to raise equity capital for the business in June 2020 (see pages 11 and 48). Material progress made on the IFRS 17 implementation project (see page 71 for further details).
Elaine Whelan	Effective transition of responsibilities to incoming CFO and incoming CEO for the LICL office. Contribution aligned to the Lancashire Group values.	Leading the Finance function in the delivery of the 2020 year-end results and assisting in the transition to the new Group CFO and the new LICL CEO and providing ongoing support and advice (see page 82).

The personal targets were tailored to each of the Executive Directors, according to their respective roles and areas of personal development.

During the 2020 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus payout for which each Executive Director was eligible for the personal performance element of bonus. The performance rating of Elaine Whelan as the outgoing Group CFO was also reviewed and approved by the Remuneration Committee and Board further to input from the Group CEO and Chair.

For the 2020 performance against personal objectives, the ratings were determined following a process for the evaluation of performance of the Executive Directors against the agreed personal targets and discussion and agreement of the outcomes with the Chair and members of the Board with particular focus on those factors identified as pertinent to 2020 performance. As a result of the 2020 personal performance evaluation process for the Executive Directors, a bonus at 150% of target (being 75% of the maximum personal element) for the Group CEO and 200% of target (being 100% of the maximum personal element) for the Group CFO were awarded for the personal component. The overall 2020 bonus outcomes are expressed as a percentage of the maximum award as illustrated in the table below. The Board considers the business to be well positioned for the business opportunities and challenges which lie ahead.

A table of performance measures and total 2020 bonus achievement is set out below:

Executive Director	Financial performance (max % of total bonus) %	Personal performance (max % of total bonus) %	Bonus % of maximum awarded %	Total bonus value $	Value of bonus paid in cash (75% of total bonus) $	Value of bonus deferred into RSS awards (25% of total bonus)[1] $
Alex Maloney[1]	75	25	60	1,624,472	1,218,354	406,118
Natalie Kershaw[1]	75	25	66	1,000,725	750,544	250,181
Elaine Whelan[2]	75	25	60	743,348	743,348	0

1. For the serving Executive Directors, 25% of total bonus award will be deferred into RSS awards with one-third vesting annually, each year, over a three-year period with the first third becoming exercisable in February 2022, subject to the Company not being in a closed period. These awards vest on the relevant dates subject to continued employment.
2. For the Former CFO, a bonus outcome of $123,941 as disclosed on page 95 is pro-rated to reflect the time served on the Board, and in accordance with her good leaver status, Mrs Whelan received the additional $619,407 for the period 1 March 2020 to her retirement from the Company on 31 August 2020, which was calculated on the same basis per the policy above for the total 2020 performance bonus of $743,348 disclosed above.

Long-term share awards with performance periods ending in the year – 2018 RSS awards

The 2018 RSS awards were based on a three-year performance period ending on 31 December 2020 and vest following the determination of financial results by the Board. The tables below set out the achievement against the performance conditions attached to the award, resulting in aggregate vesting of 48.2%.

	Absolute compound annual growth in TSR (relevant to 15% of the 2018 RSS awards)		Annual Change in FCBVS (within the three-year performance period) (relevant to 85% of the 2018 RSS awards)	
Performance level	Performance required (%)	% vesting	Performance required (%)	% vesting
Below threshold	Below 8	0	Below 6	0
Threshold	8	25	6	25
Stretch or above	12 or above	100	13 or above	100
Actual achieved	2.9	0	8.9	56.7

Details of the vesting for each serving Executive Director, based on the above, are shown in the table below:

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[1] $	Value of shares including dividend accrual $
Alex Maloney[2]	315,762	163,565	152,197	98,928	1,508,275
Natalie Kershaw[3]	–	–	–	–	–

1. Dividends accrue on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards net of tax required.
2. The value of Alex Maloney's vested shares is based on the 2018 RSS awards which vest at 48.2% and are based on a three-year performance period that ended on 31 December 2020. The average share price and FX rate for the final quarter of 2020 is used for this calculation. There is a two-year post-vesting holding requirement for the 2018 RSS awards for Executive Directors.
3. Natalie Kershaw was not granted 2018 Performance RSS awards as she was not a serving Executive Director at the time of the award.

Scheme interests awarded during the year

The table below sets out the performance RSS awards that were granted to the serving Executive Directors as nil-cost options on 21 February 2020.

Executive Director	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] $	% vesting at threshold performance
Alex Maloney	21-Feb-20	260,292	2,686,557	25
Natalie Kershaw	21-Feb-20	133,216	1,374,965	25

1. The awards were based on the five-day average closing share price prior to the award date, being £7.956 (a share price of $10.32 based on the exchange rate of 1.2973) and the awards were granted as nil-cost options.
2. These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2022 and becoming exercisable in the first open period following the release of the Company's 2022 year-end results after the meeting of the Board in February 2023.
3. The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Loss of office payments

RETIREMENT ARRANGEMENTS FOR ELAINE WHELAN

Elaine Whelan was an Executive Director in 2020 until she stood down as a Director on 28 February 2020; she then retired from the Group on 31 August 2020, having assisted with transitional arrangements. Mrs Whelan continued to receive salary and benefits up until 31 August 2020, however was not granted a 2020 RSS performance award. As a result of her retirement, the Board and Remuneration Committee determined that it was appropriate to afford her 'good leaver' status for all vested and unvested RSS awards given that she had met all requirements for delivering an effective transition of the Group CFO role. All unvested performance RSS awards will vest on the usual vesting date with pro-rata calculations applied. Performance RSS awards remain subject to performance conditions. Any deferred bonus RSS awards will vest upon their scheduled vest date. Mrs Whelan was eligible for an annual bonus in respect of 2020, reflecting the portion of the year worked prior to her retirement. Mrs Whelan's relevant 2020 compensation for the time she was serving as an Executive Director is disclosed within the single figure of remuneration table on page 95 in respect of her time on the Board. Further disclosures related to Mrs Whelan's 2020 performance bonus from 1 March 2020 to her retirement date, as per her retirement agreement, can be found on page 97.

Details of all outstanding share awards

In addition to awards made during the 2020 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

Performance and deferred bonus awards under the RSS

		Grant date[1]	Exercise price	Awards held at 1-Jan-20	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-20	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	14-Mar-17	–	286,666	–	–	**286,666**	–	–	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	17,738	–	**17,738**	–	**17,738**	–	
	Performance RSS[3,5]	23-Feb-18	–	315,762	–	–	–	–	**315,762**	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	8,727	–	**4,364**	–	**4,364**	**4,363**	
	Performance RSS[3,5]	22-Feb-19	–	306,915	–	–	–	–	**306,915**	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	13,968	–	**4,656**	–	**4,656**	**9,312**	
	Performance RSS[3,5]	21-Feb-20	–	–	**260,292**	–	–	–	**260,292**	31-Dec-22
	Deferred Bonus RSS[4]	21-Feb-20	–	–	**50,326**	–	–	–	**50,326**	
Total				949,776	**310,618**	**26,758**	**286,666**	**26,758**	**946,970**	
Natalie Kershaw, Group CFO[6]	Performance RSS[3]	28-Feb-13	–	11,772	–	–	–	–	**11,772**	31-Dec-15
	Performance RSS[3]	19-Mar-13	–	3,750	–	–	–	–	**3,750**	31-Dec-15
	Performance RSS[3]	19-Feb-14	–	10,888	–	–	–	–	**10,888**	31-Dec-16
	Deferred Bonus RSS[4]	19-Feb-14	–	1,351	–	–	–	–	**1,351**	
	Performance RSS[3]	12-Feb-15	–	4,267	–	–	–	–	**4,267**	31-Dec-17
	Deferred Bonus RSS[4]	12-Feb-15	–	2,468	–	–	–	–	**2,468**	
	Non-Performance RSS[7]	18-Feb-16	–	11,036	–	–	–	–	**11,036**	31-Dec-18
	Non-Performance RSS[7]	26-Feb-17	–	9,590	–	–	–	–	**9,590**	31-Dec-19
	Non-Performance RSS[7]	16-Feb-18	–	12,075	–	–	–	–	**12,075**	31-Dec-20
	Non-Performance RSS[7]	15-Feb-19	–	12,075	–	–	–	–	**12,075**	31-Dec-21
	Performance RSS[3,5]	21-Feb-20	–	–	**133,216**	–	–	–	**133,216**	31-Dec-22
	Deferred Bonus RSS[4]	21-Feb-20	–	–	–	–	–	–	–	
Total				79,272	**133,216**	–	–	–	**212,488**	

Performance and deferred bonus awards under the RSS continued

		Grant date[1]	Exercise price	Awards held at 1-Jan-20	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-20	End of performance period
Elaine Whelan, Former Group CFO & LICL CEO[8]	Performance RSS[2,3]	14-Mar-17	–	180,441	–	–	180,441	–	–	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	12,180	–	12,180	–	12,180	–	
	Performance RSS[3,5]	23-Feb-18	–	198,755	–	–	30,243	–	168,512	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	6,442	–	3,222	–	3,222	3,220	
	Performance RSS[3,5]	22-Feb-19	–	193,186	–	–	94,734	–	98,452	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	9,592	–	3,197	–	3,197	6,395	
	Performance RSS[3,5]	21-Feb-20	–	–	–	–	–	–	–	31-Dec-22
	Deferred Bonus RSS[4]	21-Feb-20	–	–	34,557	–	–	–	34,557	
Total				600,596	34,557	18,599	305,418	18,599	311,136	

1. The market values of the common shares on the dates of grant were:
   - 28 February 2013 £8.99
   - 19 March 2013 £8.21
   - 19 February 2014 £7.34
   - 12 February 2015 £6.36
   - 18 February 2016 £6.17
   - 26 February 2017 £6.81
   - 14 March 2017 £7.02
   - 16 February 2018 £5.70
   - 23 February 2018 £5.69
   - 15 February 2019 £6.37
   - 22 February 2019 £6.54
   - 21 February 2020 £7.61
2. The vesting of the RSS performance awards above is subject to two performance conditions which were disclosed in the 2019 Annual Report and Accounts.
3. The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:
   - 2018 – first open period following the release of the Company's 2020 year-end results;
   - 2019 – first open period following the release of the Company's 2021 year-end results; and
   - 2020 – first open period following the release of the Company's 2022 year-end results.
4. The vesting dates of the RSS deferred bonus awards are subject to being out of a closed period and, for the 2018 to 2020 deferred bonus awards, are as follows:
   - 2018 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2018, 2019 and 2020;
   - 2019 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2019, 2020, and 2021; and
   - 2020 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2020, 2021, and 2022.
5. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 15% of each award is subject to a performance condition measuring the absolute compound annual growth in TSR performance of the Company over a three-year performance period. 25% of this part of the award vests for threshold performance (8% compound annual growth) by the Company, rising to 100% vesting of this part of the award for maximum performance (12% compound annual growth) by the Company or better. Performance between threshold and maximum is determined on a straight-line basis.
   - The other 85% of each award is subject to a performance condition based on the Change in FCBVS over a three-year performance period. 25% of this part of the award will vest if Change in FCBVS over the performance period exceeds the criteria set out in the table on page 101, whilst all of this part of the award will vest if the Company's Change in FCBVS is equal to the more stringent criteria set out in the table on page 101. Between these two points vesting will take place on a straight-line basis. Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. Details of this calculation method were disclosed on page 79 of the 2018 Annual Report and Accounts.
6. Natalie Kershaw became an Executive Director effective 1 March 2020 after Elaine Whelan stepped-down from her role of Group CFO. All RSS awards have an expiry date of 10 years from the date on which they vested.
7. These RSS awards were granted to staff with no performance conditions attached. The awards were granted to Natalie Kershaw prior to becoming an Executive Director.
8. Elaine Whelan stood down from the Board on 28 February and retired from the Group on 31 August 2020. As a result of her retirement, the Board and Remuneration Committee determined it was appropriate to afford her 'good leaver' status for all vested and unvested RSS awards. All unvested performance RSS awards will vest on the usual vesting date with pro-rata lapse calculations applied. Performance RSS awards remain subject to the above performance conditions. Any deferred bonus RSS awards will vest upon their scheduled vest date.

Absolute compound annual growth in TSR targets for RSS (15% weighting)*

	2018	2019	2020	2021
100%	12%	12%	12%	12%
25%	8%	8%	8%	8%
Nil	< 8%	< 8%	<8%	<8%

Annual internal rate of return of the Change in FCBVS targets for RSS (85% weighting)*

	2018	2019	2020	2021
100%	13%	13%	13%	13%
25%	6%	6%	6%	6%
Nil	< 6%	< 6%	<6%	<6%

* See page 94 for the vesting methodology to be applied for the RSS awards.

Directors' shareholdings and share interests

Formal shareholding guidelines were first introduced in 2012 and have subsequently been modified. The guidelines require the Group CEO and Group CFO to build and maintain a shareholding in the Company worth two times annual salary as set out in the Policy Report.

Details of the Directors' interests in shares are shown in the table below.

	Number of common shares							
	Total as at 1 January 2020	As at 31 December 2020						
Directors		Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Unvested and not subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	Shareholding guideline achieved?
Alex Maloney	1,629,084	**693,445**	**64,001**	**882,969**	**0**	**N/A**	**1,640,415**	**Yes**
Natalie Kershaw	0	**0**	**0**	**133,216**	**24,150**	**55,122**	**212,488**	**No**
Elaine Whelan	1,254,702	**671,977**	**44,172**	**391,941**	**0**	**N/A**	**1,108,090**	**Yes**
Peter Clarke	60,000		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Michael Dawson	15,000		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Simon Fraser	1,000		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Samantha Hoe-Richardson	5,356		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Robert Lusardi	8,000		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Sally Williams	1,422		**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

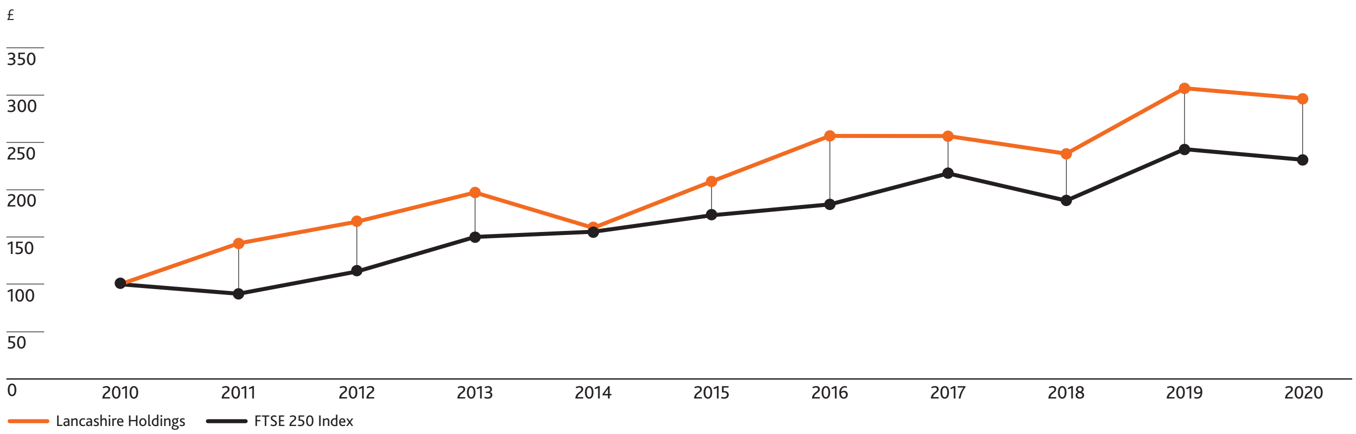
Note: Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus and/or non-performance RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Elaine Whelan stood down from the Board on 28 February and retired from the Group on 31 August 2020. As a result of being an Executive Director prior to her retirement, Elaine is still bound by certain shareholding obligations. The above shareholdings disclosed for Elaine reflect her total shareholdings, both at the time of stepping down from the Board on 28 February 2020 and at 31 December 2020.

The Committee has noted the shareholdings maintained by Natalie Kershaw during her first year as an Executive Director and considers that progress in establishing a shareholding has been made in accordance with guideline requirements.

Performance graph and total remuneration history for Group CEO

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index.
The Company's common shares commenced trading on the main market of the LSE on 16 March 2009 and the Company joined the FTSE 250 Index on 22 June 2009 and is currently a constituent of this.



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2020, of £100 invested in LHL on 31 December 2010 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

The table below sets out the total single figure of remuneration for the CEOs over the last 10 years with the annual bonus paid as a percentage of the maximum and the percentage of long-term share awards vesting in each year.

	2011	2012	2013	2014[1]	2014[2]	2015	2016	2017	2018	**2019**	**2020**
Total remuneration ($000s)	9,623	10,460	10,175	10,072	2,405	3,853	3,800	1,943	1,431	3,054	**4,137**
Annual bonus (% of maximum)	73	73	80	80	73	72	76	17	19	80	**60**
LTI vesting (%)	100	99	100	61[1]	50	75	67	22.5	0	0	**48.2**

1. Richard Brindle was the Group CEO from 2005 until he retired from the Group and as a Director on 30 April 2014. Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values (as then defined) at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.
2. Alex Maloney was appointed Group CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.

The table above shows the total remuneration figure for the former Group CEO during each of the relevant financial years; figures for the current Group CEO are shown since his appointment to the position on 1 May 2014. The total remuneration figure includes the annual bonus and LTI awards which vested based on performance in those years. The annual bonus and LTI percentages show the payout for each year as a percentage of the maximum.

Percentage change in Directors' remuneration

The following table sets out the percentage change in the aggregate value of salary, benefits and bonus for the Directors from the preceding year and the average percentage change in respect of the employees of the Group taken as a whole.

	Base salary/ Fees	Benefits[1]	Bonus[2]
Executive Directors			
Alex Maloney[3]	3.1	0	-27.9
Natalie Kershaw[4]	N/A	N/A	N/A
Elaine Whelan[5]	N/A	N/A	N/A
Non-Executive Directors			
Peter Clarke	0	0	N/A
Michael Dawson	0	0	N/A
Simon Fraser	0	0	N/A
Samantha Hoe-Richardson	0	0	N/A
Robert Lusardi	0	0	N/A
Sally Williams	0	0	N/A
Employees of the parent company[6]	N/A	N/A	N/A
Employees of the Group[7]	8.7	17.5	4.3

1. Benefits include pension and all taxable benefits as reported on page 95 in the single figure of remuneration table.
2. The year-on-year bonus decrease reflects the more active loss environment and the lower performance year observed in 2020 compared to the prior 2019 year.
3. The underlying salary increase from 2019 to 2020 for the Group CEO was 3%. However amounts were paid in Sterling and converted at the average exchange rate of 1.2777 for the year, which has resulted in the overall 3.1% base salary year-on-year change above.
4. Natalie Kershaw was appointed as an Executive Director effective 1 March 2020 and therefore 2019 figures for when she did not provide qualifying services have not been reported.
5. Elaine Whelan stepped down as a Director on 28 February 2020 therefore her compensation for 2020 is pro-rated and not comparable to the full-year 2019 data.
6. As the parent company does not have any employees, it is not possible to provide a percentage change in their pay and therefore the comparison is to the Group as a whole.
7. The underlying salary increase from 2019 to 2020 for Group employees was a standard 3%. The 8.7% increase reflects headcount increases across all locations, staff promotions and other adjustments made during the year.

Relative importance of the spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in the year ended 31 December 2020 compared with the year ended 31 December 2019.

	2020 $m	2019 $m	Percentage change %
Employee remuneration costs	**86.6**	78.5	10.3
Dividends	**32.3**	30.2	7.0

The principal factor influencing the year-on-year increase in employee remuneration costs reflects headcount increases across all locations, staff promotions and other adjustments made during the year. 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.

CEO pay ratio

The Group has fewer than 250 UK employees and is not subject to the UK regulations governing CEO pay ratio reporting.

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2020, please refer to page 80 of this Annual Report and Accounts. The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website. These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

The Remuneration Committee is advised by the Executive Compensation practice at Alvarez & Marsal Taxand UK LLP ('A&M'). A&M was appointed by the Remuneration Committee during 2020 following the departure of the lead adviser from Aon plc ('Aon'). A&M has discussions with the Remuneration Committee Chairman regularly on Committee processes and topics which are of particular relevance to the Company.

The primary role of A&M (and previously Aon) is to provide independent and objective advice and support to the Committee's Chairman and members. The Committee is satisfied that the advice that it receives is objective and independent. A&M (and previously Aon) is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to Aon in respect of its services to the Committee for the year ended 31 December 2020 were $19,148 and to A&M in respect of its services to the Committee for the year ended 31 December 2020 were $6,798, for a combined total of $25,946 in fees in respect of 2020 (2019 – $81,643 to Aon alone). Fees are predominantly charged on a 'time spent' basis. The Committee intends to run a tender process for remuneration advisory services during 2021.

Engagement with shareholders

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below along with the votes to approve the 2020 Remuneration Policy; any matters discussed with shareholders during the year are provided in the Annual Statement for 2020 starting on page 82.

	Vote to approve 2019 Annual Report on Remuneration (at the 2020 AGM)		Vote to approve 2020-2022 Remuneration Policy (at the 2020 AGM)	
	Total number of votes	**% of votes cast**	Total number of votes	% of votes cast
For	**141,112,616**	**91.5**	139,296,316	88.0
Against	**13,096,400**	**8.5**	18,944,612	12.0
Total	**154,209,016**	**100.0**	158,240,928	100.0
Abstentions	**4,427,849**		395,937	

Approved by the Board of Directors and signed on behalf of the Board.

Simon Fraser
Chairman of the Remuneration Committee

9 February 2021

Overview of the Group

LHL is a Bermuda incorporated company (Registered Company No. 37415) with operating subsidiaries in Bermuda and London, and two syndicates at Lloyd's.

The Company's common shares were admitted to trading on AIM in December 2005 and were subsequently moved up to the Official List and to trading on the main market of the LSE on 16 March 2009. The shares have been included in the FTSE 250 Index since 22 June 2009 and have a premium listing on the LSE.

Principal activities

The Company's principal activity, through its wholly-owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, the holding company of LSL, and in June 2013 established LCM, a third-party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the business review on pages 25 to 29.

Dividends

During the year ended 31 December 2020, the following dividends were declared:

- a final dividend of $0.10 per common share was declared on 12 February 2020 subject to shareholder approval, which was received at the 2020 AGM. The final dividend was paid on 5 June 2020 in pounds sterling at the pound/U.S. dollar exchange rate of 1.23195 or £0.08117 per common share; and
- an interim dividend of $0.05 per common share was declared on 28 July 2020 and paid on 11 September 2020 in pounds sterling at the pound/U.S. dollar exchange rate of 1.31045 or £0.03815 per common share.

Dividend policy

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) ordinary dividend, supplemented by special dividends from time-to-time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual ordinary dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

Current Directors

- Peter Clarke (Non-Executive Chairman)
- Alex Maloney (Chief Executive Officer)
- Natalie Kershaw (Chief Financial Officer)
- Michael Dawson (Non-Executive Director)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Robert Lusardi (Non-Executive Director)
- Sally Williams (Non-Executive Director)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2020 and 2019, including interests held by family members, were as follows:

Directors	**Common shares held as at 31 December 2020**	Common shares held as at 31 December 2019
Peter Clarke	**60,000**	60,000
Michael Dawson	**15,000**	15,000
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**5,356**	5,356
Natalie Kershaw[1]	**–**	N/A
Robert Lusardi	**8,000**	8,000
Alex Maloney[2]	**693,445**	679,308
Elaine Whelan[3]	**671,997**	654,106
Sally Williams	**1,422**	1,422

There have been no changes in Directors' shareholdings between the end of the financial year and the date of this Annual Report and Accounts.

1. Natalie Kershaw was appointed to the Board with effect from 1 March 2020.
2. Includes 155,722 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2020:
   - 26 February 2020 – exercise of 17,738 deferred bonus RSS awards and related sale of 12,621 shares to cover tax liabilities, at a price of £7.64 realising £96,487.54.
3. Elaine Whelan ceased being a Director on 28 February 2020. Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2020:
   - 19 February 2020 – exercise of 18,599 deferred bonus RSS awards and related sale of 728 shares to cover tax liabilities, at a price of £7.98 realising £5,813.08.

Transactions in own shares

The Company did not repurchase any of its own common shares during 2020 or 2019.

The Company's current repurchase programme has 20,294,192 common shares remaining to be purchased as at 31 December 2020 (approximately $200.1 million at the 31 December 2020 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 172. The repurchase programme is subject to renewal at the 2021 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 82 to 104.

Substantial shareholders

As at 9 February 2021, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Name	Number of shares as at 9 February 2021	% of shares in issue
Setanta Asset Management Limited	22,687,173	9.30
Baillie Gifford	17,337,051	7.11
BlackRock, Inc.	16,020,519	6.57
Troy Asset Management Limited	13,688,024	5.61
Wellington Management	11,879,139	4.87
Vanguard Group	11,444,676	4.69
Polar Capital	11,247,392	4.61
GLG Partners	9,467,643	3.88
Frank W Cawood & Associates	9,302,300	3.81
Invesco	7,932,821	3.25

Corporate governance – compliance statement

The Company's compliance with the Code is detailed in the environment & social reporting and governance sections of this Annual Report and Accounts on pages 42 to 66 and more particularly in Peter Clarke's introduction to those sections on page 42.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain' that the Company has applied the principles and complied with the provisions and guidance set out in the UK Corporate Governance Code throughout the year ended 31 December 2020.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions

The Group's greenhouse gas emissions are detailed in the engagement and sustainability section of this Annual Report and Accounts on page 53.

Employees

The Group is an equal opportunities employer and does not tolerate discrimination of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other employment policies are available to all employees in the staff handbook which is located on the Group's intranet.

Creditor payment policy

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 30 to 33 and in the risk disclosures section on pages 131 to 152 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 128 to 129.

Accounting standards

The Group's consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

Annual General Meeting

The Notice of the 2021 AGM, to be held on 28 April 2021 at the Company's head office, Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The Notice of the AGM is also available on the Company's website.

Electronic and website communications

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

Going concern and viability statement

The business review section on pages 25 to 29 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 34 to 41. Starting on page 131, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, climate change, pandemic, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The three-year strategic plan was last approved by the Board on 28 July 2020. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2020, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of severe but plausible scenarios and the impact on capital evaluated. As we note in the Audit Committee report on page 67 and throughout this Annual Report and Accounts, the Board had a particular focus on the impacts of COVID-19, as a liability event impacting the policies underwritten by the Group, as a shock to the global investment markets, as an operational risk to the business and in terms of the strategic risks and opportunities posed. The Audit Committee also considered a formal and thorough 'going concern' analysis from management at both its July 2020 and February 2021 meetings (for further details see page 71 in the Audit Committee report). The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2023, being the period considered under the Group's current three-year strategic plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2021 AGM to re-appoint KPMG LLP as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board.

Christopher Head
Company Secretary

9 February 2021

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. Where IFRS, as adopted by the EU, is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. Further detail on the basis of preparation is described in the consolidated financial statements.

In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS as adopted by the EU are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, and also have general responsibility for safeguarding the assets of the Group, and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- the strategy and the business review sections of this Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

9 February 2021

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
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.	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

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 judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these consolidated financial statements.

USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying financial statement disclosures. In the course of preparing the consolidated financial statements no key judgements have been made in the process of applying the Group's accounting policies that do not include a related element of estimation uncertainty.

The key assumptions and other sources of estimation uncertainty 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 page 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.

As at 31 December 2020		100 year return period estimated net loss $m	100 year return period estimated net loss % of tangible capital	250 year return period estimated net loss $m	250 year return period estimated net loss % 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.

As at 31 December 2019		100 year return period estimated net loss $m	100 year return period estimated net loss % of tangible capital	250 year return period estimated net loss $m	250 year return period estimated net loss % 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 $m	2020 %	2019 $m	2019 %
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:

As at 31 December 2020	Core		Core plus		Surplus		Total	
	$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**

As at 31 December 2019	Core		Core plus		Surplus		Total	
	$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:

	2020		2019	
As at 31 December	$m	%	$m	%
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:

	2020		2019	
As at 31 December	$m	%	$m	%
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:

	2020		2019	
As at 31 December	$m	% of shareholders' equity	$m	% 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:

As at 31 December	2020 Notional long $m	2020 Notional short $m	2020 Net notional long (short) $m	2019 Notional long $m	2019 Notional short $m	2019 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:

As at 31 December	2020 Notional long $m	2020 Notional short $m	2020 Net notional long (short) $m	2019 Notional long $m	2019 Notional short $m	2019 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:

As at 31 December 2020	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	**952.8**	**496.1**	**326.3**	**85.1**	**45.3**	**952.8**
Insurance contracts – other payables	**22.5**	**20.5**	**2.0**	**–**	**–**	**22.5**
Amounts payable to reinsurers	**151.7**	**151.7**	**–**	**–**	**–**	**151.7**
Other payables	**46.1**	**46.1**	**–**	**–**	**–**	**46.1**
Lease liabilities	**20.9**	**3.8**	**7.5**	**5.1**	**8.7**	**25.1**
Long-term debt[1]	**327.5**	**17.0**	**152.7**	**15.9**	**296.1**	**481.7**
Total	**1,521.5**	**735.2**	**488.5**	**106.1**	**350.1**	**1,679.9**

1. The maturity profile of long-term debt includes interest.

As at 31 December 2019	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	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 1 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 1 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 include 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.

Annual General Meeting

The Company's AGM is scheduled for 28 April 2021 and is to be held at the Company's registered and head office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Due to the risks associated with the current COVID-19 pandemic arrangements have been made for shareholders to attend via a dedicated telephone conference as detailed in the AGM Notice. Notice of this year's AGM and forms of proxy and direction shall be delivered to shareholders by electronic means. If you have any queries regarding the notice or AGM voting requirements please contact Chris Head, Company Secretary, using Tel: +44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Further information about the Group including this Annual Report and Accounts, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements containing the words 'believes', 'anticipates', 'aims', 'plans', 'projects', 'forecasts', 'guidance', 'intends', 'expects', 'estimates', 'predicts', 'may', 'can', 'likely', 'will', 'seeks', 'should' or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: the actual development of losses and expenses impacting estimates for claims which arise as a result of the COVID-19 pandemic which is an ongoing event as at the date of this report, hurricanes Laura and Sally, the mid-west derecho storm and the wildfires in California which occurred in 2020, typhoon Hagibis in the fourth quarter of 2019, hurricane Dorian and typhoon Faxai in the third quarter of 2019, the Californian wildfires and hurricane Michael which occurred in the fourth quarter of 2018, hurricane Florence, the typhoons and marine losses that occurred in the third quarter of 2018, hurricanes Harvey, Irma and Maria and the earthquakes in Mexico, that occurred in the third quarter of 2017 and the wildfires which impacted parts of California during 2017; the impact of complex and unique causation and coverage issues associated with attribution of losses to wind or flood damage or other perils such as fire or business interruption relating to such events; potential uncertainties relating to reinsurance recoveries, reinstatement premiums and other factors inherent in loss estimations; the Group's ability to integrate its business and personnel; the successful retention and motivation of the Group's key management; the increased regulatory burden facing the Group; the number and type of insurance and reinsurance contracts that the Group writes or the Group may write; the Group's ability to successfully implement its business strategy during 'soft' as well as 'hard' markets; the premium rates which may be available at the time of such renewals within its targeted business lines; potentially unusual loss frequency; the impact that the Group's future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than the Group's underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; increased competition from existing alternative capital providers and insurance-linked funds and collateralised special purpose insurers, and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in the Group's operating subsidiaries' ratings with A.M. Best, S&P Global Ratings, Moody's or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed maturity investments; the impact of swings in market interest rates, currency exchange rates and securities prices; changes by central banks regarding the level of interest rates; the impact of inflation or deflation in relevant economies in which the Group operates; the effect, timing and other uncertainties surrounding future business combinations within the insurance and reinsurance industries; the impact of terrorist activity in the countries in which the Group writes risks; a rating downgrade of, or a market decline in, securities in its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its Bermudian subsidiaries becoming subject to income taxes in the United States or in the United Kingdom; the impact of the change in tax residence on stakeholders of the Group; and the impact of the expiration of the transition period on 31 December 2020 following the United Kingdom's withdrawal from the European Union on the Group's business, regulatory relationships, underwriting platforms or the industry generally.

Any estimates relating to loss events involve the exercise of considerable judgement and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgements in relation to loss arising from natural catastrophe and man-made events are influenced by complex factors. The Group cautions as to the preliminary nature of the information used to prepare such estimates as subsequently available information may contribute to an increase in these types of losses.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the LSE) to disseminate any updates or revisions to any forward-looking statement to reflect any changes in the Group's expectations or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

Accident year loss ratio
The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned

Active Underwriter
The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate

Additional case reserves (ACR)
Additional reserves deemed necessary by management

AFS
Available for sale

Aggregate
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

AGM
Annual General Meeting

AIM
A sub-market of the LSE

AIR
AIR Worldwide

A.M. Best Company (A.M. Best)
A.M. Best is a full-service credit rating organisation dedicated to serving the financial services industry, focusing on the insurance sector

APMs
Alternative performance measures

BMA
Bermuda Monetary Authority

Board of Directors; Board
Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)
Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BREEAM
Building Research Establishment Environmental Assessment Method

BSCR
Bermuda Solvency Capital Requirement

BSX
Bermuda Stock Exchange

CCHL
Cathedral Capital Holdings Limited

CCL
Cathedral Capital Limited

CCL 1998
Cathedral Capital (1998) Limited

CCL 1999
Cathedral Capital (1999) Limited

Ceded
To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEND
Confiscation, Expropriation, Nationalisation and Deprivation

CEO
Chief Executive Officer

CFO
Chief Financial Officer

CGU
Cash generating unit

Change in FCBVS
The IRR of the change in FCBVS in the period plus accrued dividends

CIO
Chief Investment Officer

The Code
UK Corporate Governance Code published by the UK FRC

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

Consolidated financial statements
Includes the independent auditor's report, consolidated primary statements, accounting policies, risk disclosures and related notes

Consolidated primary statements

Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

CRO

Chief Risk Officer

CSX

Cayman Islands Stock Exchange

CUO

Chief Underwriting Officer

D&F

Direct and facultative (re)insurance

Deferred acquisition costs

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

Delegated authorities

Arrangements under which a managing agent or (re)insurer delegates its authority to another to enter into contracts of insurance on its behalf

Diluted earnings per share

Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity-based compensation awards into common shares under the treasury stock method

Directors' fees and expenses

Unless otherwise stated includes fees and expenses of all Directors across the Group

Dividend yield

Calculated by dividing the annual dividends per share by the share price on the last day of the given year

Duration

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

Earnings per share (EPS)

Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT

Lancashire Holdings Employee Benefit Trust

ECA

Economic Capital Assessment

EEA

European Economic Area

ERM

Enterprise Risk Management

ESG

Environmental, Social and Governance matters

EU

European Union

EURIBOR

The Euro Interbank Offered Rate

Excess of loss

Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

Facultative reinsurance

A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FAL

Funds at Lloyd's

FCA

Financial Conduct Authority

FRC

Financial Reporting Council

FSMA

The Financial Services and Markets Act 2000 (as amended from time to time)

FTE

Full-Time Employee

Fully converted book value per share (FCBVS)

Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised

FVTPL

Fair value through profit or loss

G10

Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States

GDPR

General Data Protection Regulation

GHG

Greenhouse gas emissions covers carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF_3) and sulphur hexafluoride (SF_6)

Gross premiums written (GPW)

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

The Group or the Lancashire Group

LHL and its subsidiaries

ICM

International Care Ministries

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standard(s)

IFRS 9

International Financial Reporting Standard on Financial Instruments

IFRS 17

International Financial Reporting Standard on Insurance Contracts

ILS

Insurance Linked Securities

Incurred but not reported (IBNR)

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

Industry loss warranty (ILW)

A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

Internal Audit Charter

A formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors and regulatory bodies of the internal audit function with the Company and its subsidiaries

International Accounting Standard(s) (IAS)

Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)

An international panel of accounting experts responsible for developing IAS and IFRS

IRR

Internal rate of return

IRRC

Investment Risk and Return Committee

ISA

International Standards on Auditing (UK)

ISE

Irish Stock Exchange

KHL

Kinesis Holdings I Limited

Kinesis

The Group's third-party capital management division encompassing LCM, LCMMSL and the management of KHL and KRL

KPMG LLP

KPMG LLP, a UK limited liability partnership

KPI

Key performance indicator

KRL (Kinesis Re)

Kinesis Reinsurance I Limited

Lancashire Insurance Companies

LICL and LUK

Lancashire Foundation or Foundation

The Lancashire Foundation is a charity registered in England and Wales

LCM

Lancashire Capital Management Limited. Formerly Kinesis Capital Management Limited

LCMMSL

LCM Marketing Services Limited. Formerly KCM Marketing Services Limited

LHFT

Lancashire Holdings Financing Trust I Limited

LHL (The Company)

Lancashire Holdings Limited

LIBOR

London Interbank Offered Rate

LICL

Lancashire Insurance Company Limited

LIHL

Lancashire Insurance Holdings (UK) Limited

LIMSL

Lancashire Insurance Marketing Services Limited

LISL

Lancashire Insurance Services Limited

Listing Rules

The listing rules made by the FCA under part VI of FSMA (as amended from time to time)

Lloyd's

The Society of Lloyd's

Lloyd's Brussels

Lloyd's Insurance Company SA, the insurer that Lloyd's has established in Brussels

LMSCL

Lancashire Management Services (Canada) Limited

LOC

Letter of credit

Losses

Demand by an insured for indemnity under an insurance contract

LSE

London Stock Exchange

LSL or Lancashire Syndicate

Lancashire Syndicates Limited. Formerly Cathedral Underwriting Limited. The managing agent of the syndicates.

LUK

Lancashire Insurance Company (UK) Limited

Managed cash

Managed cash includes both cash managed by external investment managers and non-operating cash managed internally

MBRT

Multi-beneficiary reinsurance trust

Moody's investors services (Moody's)

Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

MSF

Médecins Sans Frontières

Nameco

Nameco (No. 801) Ltd

NAV

Net asset value

Net acquisition cost ratio

Ratio, in per cent, of net insurance acquisition expenses to net premiums earned

Net expense ratio

Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned

Net loss ratio

Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums earned

Net premiums earned is equal to net premiums written less the change in unearned premiums and change in unearned premiums on premiums ceded

Net premiums written

Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

Official List

The official list of the UK Listing Authority

ORSA

Own Risk and Solvency Assessment

OTC

Over the counter

PML

Probable maximum loss. The Group's exposure to certain peak zone elemental losses

PRA

Prudential Regulation Authority

Pro-rata/proportional

Reinsurance or insurance where the reinsurer or insurer shares a proportional part of the original premiums and losses of the reinsured or insured

RCCC

Risk Capital and Compliance Committee

RCF

Revolving credit facility

RDS

Realistic Disaster Scenarios

Retrocession

The insurance of a reinsurance account

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

Risk Free Rate of Return (RFRoR)

Being the 13 week U.S. Treasury bill rate, unless otherwise stated

RMF

Risk Management Framework

RMS

Risk Management Solutions

Renewal Price Index (RPI)

The RPI is an internal methodology that management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI written in the respective segments is calculated on a per-contract basis and reflects management's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The RPI does not include new business, to offer a consistent basis for analysis. The calculation involves a degree of judgement in relation to comparability of contracts and assessment noted above. To enhance the RPI methodology, management may revise the methodology assumptions underlying the RPI, so that the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in the portfolio of contracts. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates. RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in the corresponding year.

RRC

Risk and Return Committee

RSC

Reinsurance Security Committee

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as a benchmark for assessing the financial strength of insurance related organisations

SCR

Solvency Capital Requirement

Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL. The Group provides capital to support 59.7% of the stamp for the 2020 underwriting year

Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL. The Group provides capital to support 100.0% of the stamp

TCFD

Task Force on Climate-related Financial Disclosures

The syndicates

Syndicate 2010 and 3010

TOBA

Terms of business agreement

Total Investment Return

Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group's managed investment portfolio

Total Shareholder Return (TSR)

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

Treaty reinsurance

A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

UK

United Kingdom

Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

UNEP FI

The United Nations Environment Programme Finance Initiative

UNL

Ultimate net loss

UNPRI

UN-supported Principles for Responsible Investments

uSCR

Ultimate solvency capital requirement

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

UURC

The Underwriting and Underwriting Risk Committee, a committee of the Board

Value at Risk (VaR)

A measure of the risk of loss of a specific portfolio of financial assets

Alternative Performance Measures ('APMs')

As is customary in the insurance industry, the Group utilises certain non-GAAP measures in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. Management believes that the APMs included in the Annual Report and Accounts are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly labelled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

In compliance with the Guidelines on APMs of the European Securities and Markets Authority, as applied by the FCA, information on APMs which the Group uses is described below. This information has not been audited.

All amounts, excluding share data, percentage or where otherwise stated, are in millions of U.S. dollars.

Net loss ratio: Ratio, in per cent, of net insurance losses to net premiums earned. This ratio gives an indication of the amount of claims expected to be paid out per $1.00 of net premium earned in the financial year.

	31 December 2020	31 December 2019
Net insurance losses	**283.8**	129.8
Divided by net premiums earned	**475.8**	421.7
Net loss ratio	**59.6%**	30.8%

Net acquisition cost ratio: Ratio, in per cent, of net insurance acquisition expenses to net premiums earned. This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per $1.00 of net premium earned in the financial year.

	31 December 2020	31 December 2019
Net acquisition expenses	**115.0**	105.4
Divided by net premiums earned	**475.8**	421.7
Net acquisition cost ratio	**24.2%**	25.0%

Net expense ratio: Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned. This ratio gives an indication of the amount of operating expenses expected to be paid out per $1.00 of net premium earned in the financial year.

	31 December 2020	31 December 2019
Other operating expenses	**114.4**	106.0
Divided by net premiums earned	**475.8**	421.7
Net expense ratio	**24.0%**	25.1%

Combined ratio (KPI): Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned. The Group aims to price its business to ensure that the combined ratio across the cycle is less than 100%.

	31 December 2020	31 December 2019
Net loss ratio	**59.6%**	30.8%
Net acquisition cost ratio	**24.2%**	25.0%
Net expense ratio	**24.0%**	25.1%
Combined ratio	**107.8%**	80.9%

Accident year loss ratio: The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned. This ratio shows the amount of claims expected to be paid out per $1.00 of net premium earned in an accident year.

	31 December 2020	31 December 2019
Current accident year ultimate liability	**339.1**	217.8
Divided by net premiums earned*	**474.9**	424.8
Accident year loss ratio	**71.4%**	51.3%

* For the accident year loss ratio, net premiums earned excludes inwards and outwards reinstatement premium from prior accident years.

Fully converted book value per share ('FCBVS') attributable to the Group: Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised. Shows the Group net asset value on a diluted per share basis for comparison to the market value per share.

	31 December 2020	31 December 2019
Shareholders' equity attributable to the Group	**1,538,466,664**	1,193,631,460
Common voting shares outstanding*	**241,811,908**	201,453,615
Shares relating to dilutive restricted stock	**3,333,356**	2,837,041
Fully converted book value denominator	**245,145,264**	204,290,656
Fully converted book value per share	**$6.28**	$5.84

* Common voting shares outstanding comprise issued share capital less amounts held in trust (see note 19).

Change in FCBVS (previously referred to as ROE) (KPI): The internal rate of return of the Change in FCBVS in the period plus accrued dividends. Sometimes referred to as ROE. The Group's aim is to maximise risk-adjusted returns for shareholders across the cycle through a purposeful and sustainable business culture.

	31 December 2020	31 December 2019
Opening FCBVS	($5.84)	($5.26)
Q1 dividend per share	–	$0.10
Q2 dividend per share	$0.10	–
Q3 dividend per share	$0.05	$0.05
Q4 dividend per share + closing FCBVS	$6.28	$5.84
Change in FCBVS*	**10.2%**	14.1%

* Calculated using the internal rate of return.

For the year ended 31 December 2020, the Group has renamed return on equity ('ROE') to Change in FCBVS. It should be noted that the methodology in calculating this metric has remained unchanged and has been consistently calculated over the reporting periods.

Total investment return (KPI): Total investment return, in percentage terms, is calculated by dividing the total investment return excluding foreign exchange by the investment portfolio net asset value, including managed cash on a daily basis. These daily returns are then annualised through geometric linking of daily returns. The return can be approximated by dividing the total investment return excluding foreign exchange by the average portfolio net asset value, including managed cash. The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

	31 December 2020	31 December 2019
Total investment return	69.1	83.2
Average invested assets*	1,873.9	1,732.2
Approximate total investment return	3.7%	4.8%
Reported total investment return	**3.9%**	4.9%

* Calculated as the average between the opening and closing investments as per note 11 and externally managed cash as per note 10.

Total shareholder return (KPI): The increase/(decrease) in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends. The Group's aim is to maximise the Change in FCBVS over the longer term and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the Change in FCBVS in the immediate term. The total return measurement basis used will generally approximate the simple method of calculating the increase/(decrease) in share price adjusted for dividends as recalculated below.

	31 December 2020	31 December 2019
Opening share price	($10.17)	($7.70)
Q1 dividend per share	–	$0.10
Q2 dividend per share	$0.10	–
Q3 dividend per share	$0.05	$0.05
Q4 dividend per share + closing share price	$9.88	$10.17
Total shareholder return	**-1.4%**	34.3%

Comprehensive income returned to shareholders (KPI): The percentage of comprehensive income returned to shareholders equals the total capital returned to shareholders through dividends and share repurchases in a given year, divided by the Group's comprehensive income. The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.

	31 December 2020	31 December 2019
Dividends paid	32.3	30.2
Comprehensive income attributable to the Group	24.3	145.7
Comprehensive income returned to shareholders	**132.9%**	20.7%

Gross premiums written under management (KPI): The gross premiums written under management equals the total of the Group's consolidated gross premiums written plus the external Name's portion of the gross premiums written in Syndicate 2010 plus the gross premiums written in LCM on behalf of KRL. The Group aims to operate nimbly through the cycle. We will grow in existing and new classes where favourable and improving market conditions exist, whilst monitoring and managing our risk exposures and not seek top-line growth for the sake of it in markets where we do not believe the right opportunities exist.

	31 December 2020	31 December 2019
Gross premiums written by the Group	814.1	706.7
LSL Syndicate 2010 – external Names portion of gross premiums written (unconsolidated)	126.6	123.7
LCM gross premiums written (unconsolidated)	126.4	104.4
Total gross premiums written under management	**1,067.1**	934.8

Change in KPIs

For the year ended 31 December 2020, the Group no longer includes dividend yield as an KPI. Dividend yield was measured by dividing the annual dividends per share by the share price on the last day of the given year. The Group aims to pay annual ordinary dividends, and when we decide not to retain our profits as additional underwriting capital we return them to shareholders by way of special dividends. Management consider dividend yield to be similar to both 'total shareholder return' and 'comprehensive income returned to shareholders'. Management can influence the level of dividend distributions but do not have control over the share price on the last day of the given year and the resulting dividend yield can appear better when the share price is lower. Dividend yield is therefore no longer considered an APM.

Gross premiums written under management has been added as an KPI. This is not intended to be a direct replacement of the dividend yield KPI.

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