

CATHEDRAL CAPITAL LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2022



Registered in England and Wales Number 5958018

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Directors and Officers

DIRECTORS

F I Woolley	(Resigned 24 June 2022)
C J Whittle	
B Cass	
M N Hussain	
J D Spence	(Appointed 24 June 2022)

COMPANY SECRETARY

E M Lynn-Williams

AUDITOR

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

REGISTERED OFFICE

Level 29
20 Fenchurch Street
London EC3M 3BY

Registered Number	5958018 (England and Wales)
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Strategic Report

Principal Activity and Review of the Business

Cathedral Capital Limited (the "Company") operates as the ultimate holding company for the Cathedral Capital Holdings Limited ("CCHL") Group.

CCHL was originally set up in 1997 as a Names' Conversion vehicle which enabled names at Lloyd's with unlimited liability to convert to limited liability. One of its two main trading subsidiary companies, Cathedral Capital (1998) Limited, underwrites at Lloyd's as a corporate member. This company underwrote £464.9m of capacity for the 2022 year of account all of which supported Lancashire Syndicates 2010 and 3010. For the 2023 year of account, the Group will underwrite £652.0m of capacity across Lancashire Syndicates 2010 and 3010.

CCHL's other main trading subsidiary is Lancashire Syndicates Limited ("LSL"), a Lloyd's managing agency which is authorised and regulated by the Prudential Regulatory Authority (PRA), the Financial Conduct Authority (FCA) and Lloyd's. This Company has the rights to manage Lancashire Syndicate 2010 and Lancashire Syndicate 3010.

Syndicate 2010 currently specialises in non-marine and aviation reinsurance, direct and facultative property insurance, and specialty with premium capacity of £345.0m for the 2022 year of account. The capacity of the Syndicate has increased to £400.0m for the 2023 year of account. Lancashire Syndicate 2010 has just closed its 2020 year of account, with a loss of \$9.0m.

Syndicate 3010 was set up during 2007 with an initial capacity of £20.0m and commenced underwriting on 1 July 2007. The Syndicate currently specialises in Marine Cargo, Energy, Aviation all risks including Deductible and Hull War, Terrorism, Power Utility, Marine Hull, Accident and Health, Casualty and Property Construction. The capacity of the Syndicate increased to £250.0m for the 2022 year of account and £375m for the 2023 year of account. The Syndicate's sole capital provider is the Group's corporate member. Lancashire Syndicate 3010 has just closed its 2020 year of account, with a profit of \$27.6m.

The Syndicates reported an aggregate 2022 calendar year loss of \$6.2m (2021: \$22.8m profit).

Future Developments

It is intended that the Company continues to operate as a holding company of Cathedral Capital Holdings Limited Group for the foreseeable future. Cathedral Capital (1998) Limited is expected to continue its participation of the two syndicates managed by LSL.

Results and Dividends

The results attributable to the shareholder for the year are shown on page 9.

No dividend was paid by the Company to its parent company (2021: \$nil).

The total equity of the Company at the year-end is detailed below:

	2022 \$'000	2021 \$'000
Total shareholder's equity	183,710	183,694

Financial Instruments

The Company's principal financial instrument is its investment in subsidiary undertakings, which is set out in Note 7 of the financial statements.

Climate Change

The Company is exposed to both climate-related risk and opportunities, primarily through the operations of the wider CCL Group (CCHL and its subsidiaries). 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). The CCL Group is more significantly affected by physical risk through its exposure to acute and chronic climate change. However, consideration must 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 preferences in place to actively manage exposures, and the board regularly monitors our Probable Maximum Loss ("PML"). The risks to the asset side of our balance sheet from exposure to climate change are mitigated through monitoring of specific carbon intensity targets which are provided to our third party investment managers as part of their investment guidelines and through quarterly reviews of performance against those targets together with reviews of our asset allocation, and the underlying securities within our portfolio.

Climate change, its related risks and opportunities and their financial impact are a key focus of the board at its quarterly meetings. The stress and scenario tests performed as part of the business planning process include climate-related scenarios; these scenarios will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on our business strategy or change to our understanding of the risks' impacts to our business.

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (the "Act")

The Board of Directors of Cathedral Capital Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2022.

In accordance with the Lancashire Holdings Limited group's ("the LHL Group") approved strategy, the Company's subsidiaries seek to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented and, seeking to expand our portfolio where the risk/return metric improves, the Company's subsidiaries seek to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

The CCL Group's employees are the lifeblood of the CCL Group and we strive to attract and retain excellent staff. The CCL Group actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The CCL Group promotes the LHL Group values set out below. The CCL Group recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the CCL Group's and LHL Group's success through the granting of nil restricted share scheme cost awards and participation in the LHL Group's bonus arrangements. To ensure alignment with the LHL Group's values and to effectively monitor individual performance, certain senior managers' remuneration is overseen by the LHL Group's Remuneration Committee.

It is crucial to the CCL Group's long term success that it positively engages with its key stakeholders such as clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the CCL Group's underwriters, claims team and the senior management will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The CCL Group also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the CCL Group has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be proactive in its provision of accurate information to such agencies and regulators.

Through the Lancashire Foundation, the LHL Group makes financial contributions and provides human support to a number of good causes in the places we operate around the world. The LHL Group also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

The Company is a wholly owned subsidiary of a Group that reports against the United Nations Environment Programme Finance Initiative (I) Principles for Sustainable Insurance, and is committed to managing the environmental impacts of all its businesses, including the Company's.

(1)

Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are Aspirational, aspiring to deliver a superior service for our clients, ourselves and our business partners, we are Nimble in our decisions, actions and business processes, and considerate of our environment and wider society, we are Collaborative, valuing teamwork and a diversity of skills and experience and sharing in our success, and we are Straightforward in conducting our business in an accountable, open, honest and sustainable way.

By order of the Board



C.J. Whittle

Director

31 March 2023

Directors' Report

The Directors present the annual report and the audited financial statements of the Company for the year ended 31 December 2022.

Directors

The Directors who held office during the year are set out on page 1.

Information on Directors' transactions is set out in Note 10 on page 17.

Lancashire Holdings Limited, a Bermudian registered company and the Company's ultimate parent company, has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and all of its subsidiary companies including this Company.

Going Concern

The Directors have prepared the financial statements of the Company on a going concern basis.

The Company's principal risk is in relation to its investment in subsidiary undertakings. The Company assesses whether there are any indications of impairment annually. Based on the impairment review performed, the Directors believe that there are no indications of impairment.

The underwriting result has been impacted by the Russia/Ukraine Conflict. This Conflict has caused significant disruption to world wide economies in 2022, both directly through the invasion and indirectly through economic sanctions being imposed on Russia by the UK, the EU and the US. Given the nature of the Russia/Ukraine Conflict, the ultimate losses relating to the event are subject to a high degree of uncertainty.

In assessing the Company's going concern position as at 31 December 2022, the Directors have considered the impact of providing financial support to its subsidiary companies CCHL and CC98. The Directors are comfortable that the impact of the modelled scenarios (which includes a scenario of two extreme catastrophe events can be absorbed with the current levels of capital held by the Company's subsidiaries. However, additional financial support is available should the circumstances arise which have not been considered in the scenario analysis. Financial support can be made available to the Company in these circumstances through its parent company LHL, which has provided a letter of support for the 12 months from the signing of these financial statements.

Further detail on the assessment of going concern is provided within the going concern section in Note 2.

Based on the going concern assessment performed as at 31 December 2022, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Company has adequate resources through funding from its ultimate parent company LHL to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these financial statements.

Financial Instruments

The Company's principal financial instruments are investment in subsidiary undertakings. The details of these are set out in Note 7 on page 16.

Political Contributions

The Company made no political donations or incurred any political expenditure during the year (2021: \$nil).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' Report

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK adopted international accounting standards;
- assess the Company'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 Company 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



C.J Whittle

Director

31 March 2023

Company Registered Number: 5958018

Independent Auditor's Report to the Members of Cathedral Capital Limited

Opinion

We have audited the financial statements of Cathedral Capital Limited ("the Company") for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Shareholder's Equity, Statement of Cash Flows and related notes, including the accounting policies in Note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company'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 financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the 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 Company's ability to continue as a going concern for the going concern period.

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 Company will continue in operation.

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, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company'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 targets.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company is a holding company for the purposes of ownership of subsidiaries and does not generate revenue.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted containing key words such as 'error', 'restatement', 'correction'; those posted by individuals who typically do not make journal entries or are not authorized to post journal entries; those posted without explanation, description, or numerical description only; those posted to seldom used accounts for which the other side is cash; Journals created and posted by the same user; and post-closing journals above our materiality threshold.

Independent Auditor's Report to the Members of Cathedral Capital Limited

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 financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), from inspection of the Company's legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation 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 Company 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 financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: tax or legislative requirements and governmental legislation. 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.

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 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 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.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Cathedral Capital Limited

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 Company 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 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 financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Umar Jamil (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP

15 Canada Square

Canary Wharf

London E14 5GL

31 March 2023

Statement of Comprehensive Income

For the year ended 31 December 2022

		2022	2021
	Notes	\$'000	\$'000
Net foreign exchange gain		45	12
Operating expenses		(26)	—
Operating profit	4	19	12
Profit before tax		19	12
Income tax expense	6	(3)	(2)
Profit for the year		16	10

All activities were in respect of continuing operations.

There are no other comprehensive gains or losses in the year.

The notes on pages 13 to 17 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2022

	Notes	2022 \$'000	2021 * \$'000
Assets			
Investments in subsidiary undertakings	7	184,355	184,355
Other assets		—	50
Total assets		184,355	184,405
Liabilities			
Other payables		645	711
Total liabilities		645	711
Shareholder's Equity			
Share capital	8	13	13
Share premium account		2,433	2,433
Capital redemption reserve	9	63,997	63,997
Retained earnings		117,267	117,251
Total shareholder's equity		183,710	183,694
Total liabilities and shareholder's equity		184,355	184,405

The notes on pages 13 to 17 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 31 March 2023 and signed on its behalf by:



C.J Whittle
Chief Financial Officer

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2022

	Share capital \$'000	Share premium \$'000	Capital redemption reserve \$'000	Retained earnings \$'000	Total Equity \$'000
Balance as at 31 December 2020	13	2,433	63,997	117,241	183,684
Total profit for the year	—	—	—	10	10
Balance as at 31 December 2021	13	2,433	63,997	117,251	183,694
Total profit for the year	—	—	—	16	16
Balance as at 31 December 2022	13	2,433	63,997	117,267	183,710

The notes on pages 13 to 17 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2022

	2022 \$'000	2021 \$'000
Cash flows from operating activities		
Profit for the year	16	10
Adjustment for:		
Foreign exchange gain	(45)	(12)
Changes in operational assets and liabilities		
- Other assets and liabilities	29	2
Net cash flows from operating activities	—	—
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at 1 January	—	—
Cash and cash equivalents at 31 December	—	—

The notes on pages 13 to 17 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2022

1. General Information

Cathedral Capital Limited ("the Company") is a limited company registered and domiciled in England and Wales. The address of its registered office and principal place of business is disclosed on page 1. The principal activities of the Company are described in the Strategic Report on page 2.

2. Basis of Preparation of the Financial Statements

(a) Basis of Preparation

The financial statements have been prepared on a going concern basis in accordance with UK adopted International Accounting Standards. The financial statements have been prepared under the historical cost accounting rules. The accounts have been prepared on a going concern basis.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

All amounts, excluding share data or where otherwise stated, are in thousands of US Dollars ("USD").

(b) Consolidation

The Company has not produced consolidated accounts as it is exempt under Section 401 of the Companies Act 2006. The parent company, Lancashire Holdings Limited, prepares consolidated financial statements including the Company.

Copies of the consolidated financial statements for Lancashire Holdings Limited can be obtained from 29th floor, 20 Fenchurch Street, London, EC3M 3BY.

(c) New Accounting Standard

While a number of other amended IFRS and IFRIC standards have become effective this year, none of these standards have had a material impact on the Company.

Going Concern

The Directors have performed an assessment of the Company's ability as a going concern.

The Company operates as a holding company of CCHL. In the normal course of business, the Company does not transact with other entities. The Company's principal risk is in relation to its investment in subsidiary undertakings. The Company assesses whether there are any indications of impairment annually.

Management has carried out an impairment test by comparing the carrying value of the investment in subsidiary undertakings with the estimated recoverable amount. The following has been considered when assessing whether the Company's investment in subsidiary undertakings has been impaired:

- a significant change in the business or asset profile of the cash generating unit ("CGU"), where CCHL has been determined to be the CGU;
- significant changes in the economic, market, technological or legal environments in which the CGU operates;
- material changes in interest rates; and
- a significant decline in the cash flows or profits generated by the CGU and any restructuring plans that could negatively affect the CGU.

Based on the impairment review performed above, the Directors believe that there are no indications of impairment. The value in use of the CCHL CGU is \$356.3m, which exceeds the carrying value of investment in subsidiary undertakings by \$172.6m.

Recently, there have been several loss events which, due to their ongoing nature and impact across multiple product lines, are exceptionally difficult to reserve for with inherently uncertain ultimate losses. In 2020 the pandemic led us to change the trend for this risk to increased, from stable. In 2021, we retained the elevated status due to the social inflation risk within claims. This year, with the ongoing Russia/Ukraine Conflict and inflation across the U.S. and Europe reaching its highest level for many years, we have performed a detailed analysis on the impact of inflation rates to ultimate losses and reserve levels. However, there remains considerable uncertainty and we have therefore again shown the risk as trending upwards.

The Russia/Ukraine Conflict has caused significant disruption to worldwide economies in 2022, both directly through the invasion and indirectly through sanctions being imposed on Russia by the UK, EU and US. A management margin of \$50.9m net of reinsurance and reinstatement premiums has been made. Given the nature of the Russia/Ukraine Conflict, the ultimate losses relating to the event are subject to a high degree of uncertainty. In response, the Company has booked prudent reserves reflecting our exposure. This is based on a decision tree approach with probabilities applied to external scenarios. The actuarial best estimate is then a weighted probability of the losses for each scenario.

The Company's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these financial statements. To assess the Company's going concern, the financial stability of the Company 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 large and catastrophe loss events alongside optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Company, additional scenario testing was performed.

Based on the going concern assessment performed as at 31 December 2022, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors

Notes to the Financial Statements

For the year ended 31 December 2022

have formed a judgement that there is a reasonable expectation that the Company has adequate resources through funding from its ultimate parent company LHL to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

3. Significant Accounting Policies

a) Revenue

Revenue consists of dividends received from companies within the Group.

b) Expenses

Expenses are accounted for on an accruals basis.

c) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

d) Foreign Currency

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for the Company is USD. Items included in the financial statements of the Company are measured using the functional currency. The financial statements are presented in USD which is the Company's functional and presentational currency.

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 translated into the functional currency at the spot exchange rate at the reporting date. The resulting foreign currency exchange differences on translation are recognised in profit or loss. Non-monetary assets and liabilities carried at historical cost and denominated in a foreign currency are translated 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, with resulting exchange differences on translation recognised in the statement of comprehensive income.

The sterling exchange rates used in conversion, as required by the Registrar of companies, is 1.20 as at 31 December 2022 and 1.35 as at 31 December 2021. As mentioned above, profit and loss items are translated at the exchange rate on the date of the transaction.

All amounts, excluding share data or where otherwise stated, are in thousands of USD.

e) Investments in Subsidiary Undertakings

Investment in subsidiary undertakings are carried at cost less impairment.

The Company assesses whether there are any indications of impairment annually. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the investment in subsidiary undertakings with the estimate of the recoverable amount of the subsidiary. Any impairments are recognised as an income or an expense through the statement of comprehensive income in the period in which they occur.

f) Financial Instruments

The key financial instruments used by the Company are investments in subsidiary undertakings, discussed in Note 3 (e).

g) Use of Estimates

The preparation of the Company's financial statements requires management to make judgements and estimates that affect the reported amounts and the accompanying financial statement disclosures. In the course of preparing the financial statements no key judgements have been made in the process of applying the accounting policies that do not include a related element of estimation uncertainty.

Estimates are made in respect of impairment of investment in subsidiary undertakings discussed in e) above. The assumptions made by management in performing annual impairment tests are subject to estimation uncertainty.

Notes to the Financial Statements

For the year ended 31 December 2022

4. Operating Profit

	2022 \$'000	2021 \$'000
Operating profit	19	12

The audit fees for the Company are borne by its fellow group subsidiary, Cathedral Capital Holdings Limited. The audit fees in relation to the Company are \$15.0k (2021: \$13.8k).

Employees

The Company has no employees. All employees are employed by Lancashire Insurance Services Limited, a fellow group company.

5. Directors' Remuneration

	2022 \$'000	2021 \$'000
Directors' remuneration	1,378	1,958
Company contributions to money purchase pension plans	153	107
Compensation for loss of office	—	—
Total	1,531	2,065

Highest paid Director

The above amounts for the remuneration include the following in respect of the highest paid Director:

	2022 \$'000	2021 \$'000
Directors' remuneration	417	955
Company contributions to money purchase pension plans	25	40
Total	442	995

6. Taxation

	2022 \$'000	2021 \$'000
Current tax expense:		
UK corporation tax on profits for the current year	(3)	(2)
Total tax expense	(3)	(2)
Reconciliation of effective tax rate:		
Profit before tax	19	12
Tax using the UK corporation tax rate of 19.00% (2021: 19.00%)	(3)	(2)
Total tax expense	(3)	(2)

The UK corporation tax rate as at 31 December 2022 was maintained at 19% (effective 1 April 2017).

Notes to the Financial Statements

For the year ended 31 December 2022

7. Investment in Subsidiary Undertakings

	2022 \$'000	2021 \$'000
As at 31 December		
Investment in Cathedral Capital Holdings Limited	183,653	183,653
Investment in Lancashire Holding Australia Pty Limited	702	702
Total	184,355	184,355

Details of the Company's subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company	Proportion of ordinary shares held by the subsidiary
Cathedral Capital Holdings Limited	Investment company	100%	
Cathedral Capital (1998) Limited	Lloyd's corporate member		100%
Cathedral Capital (1999) Limited	Non-trading		100%
Lancashire Syndicates Limited	Lloyd's managing agent		100%
Cathedral Underwriting Limited	Non-trading		100%
Lancashire Holdings Australia Pty Limited	Holding company	100%	
Lancashire Underwriting Australia Pty Limited	Lloyd's cover holder		100%
Lancashire Australia Pty Limited	Non trading		100%

All companies with the exception of the Australian entities are registered and operate in England and Wales.

The business of the Company is managing its investments in subsidiaries.

8. Share Capital

	2022 Authorised Allotted issued and fully paid	2021 Authorised Allotted issued and fully paid
Number:		
Ordinary shares of 1p each	479,157	479,157
	2022 \$'000	2021 \$'000
Nominal value:		
Ordinary shares of 1p each	13	13

On 28 October 2015, the Company reorganised its share capital as follows:

- 702,290 of A Ordinary shares of 0.1p were consolidated and divided into 70,229 of A Ordinary shares of 1p.
- All of the A Ordinary shares of 1p, the B Ordinary shares of 1p and the B1 Ordinary shares of 1p were then converted into Ordinary shares of 1p.

Following this reorganisation, no A Ordinary, B Ordinary or B1 Ordinary shares remained outstanding and 479,157 Ordinary Shares of 1p each were issued and fully paid.

There are no rights or restriction regarding dividends and repayment of capital.

9. Capital Redemption Reserve

The capital redemption reserve is in respect of preference shares and deferred shares which are redeemed out of distributable profits and is not distributable.

Notes to the Financial Statements

For the year ended 31 December 2022

10. Related Party Transactions

(i) Transactions with parent and other group companies

The intercompany balances with related parties at the end of the year were:

	2022 \$'000	2021 \$'000
Amounts due to Ultimate Parent	—	(8)
Amounts due to Cathedral Capital Holdings Limited	(641)	(689)
Amounts due (to) / from other Lancashire entities	(2)	50
Total	(643)	(647)

No dividend was paid by the Company to Lancashire Holdings Limited during the year (2021: \$nil).

The Company has not received any dividend from Cathedral Capital Holdings Limited (2021: \$nil).

(ii) Directors' interests in transactions

The Directors had no interest in transactions with Cathedral Capital Limited during the year other than in the normal course of business.

11. Capital

The capital structure consists of equity attributable to equity holders, comprising of share capital, share premium, capital redemption reserve and retained earnings, details of which are set out in the Statement in Shareholder's Equity in equity on page 11. The Company's policy and process for managing capital is to ensure the Company remains solvent.

12. Ultimate Parent Undertaking

The immediate parent and the ultimate parent company is Lancashire Holdings Limited.

Lancashire Holdings Limited, incorporated in Bermuda, is the largest group which includes the Company and for which the consolidated financial statements are prepared.

Copies of the consolidated financial statements for Lancashire Holdings Limited can be obtained from 29th Floor, 20 Fenchurch Street, London, EC3M 3BY.

13. Post Balance Sheet Events

There were no post balance sheet events for 2022.



Lancashire Holdings Limited
Annual Report & Accounts 2022

Strong
forward
momentum

COMPANIES HOUSE

Strategic report

Overview

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Lancashire and its people are guided by our values

Our values underpin everything we do and we challenge ourselves to keep them at the core of our culture. These values give us the framework to conduct our business in the right way for our people, our customers, wider society, and our stakeholders, as we continue to grow and move forward.

Leadership

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

Aspirational

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

Nimble

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

Collaborative

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

Straightforward

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

A better balance for growth

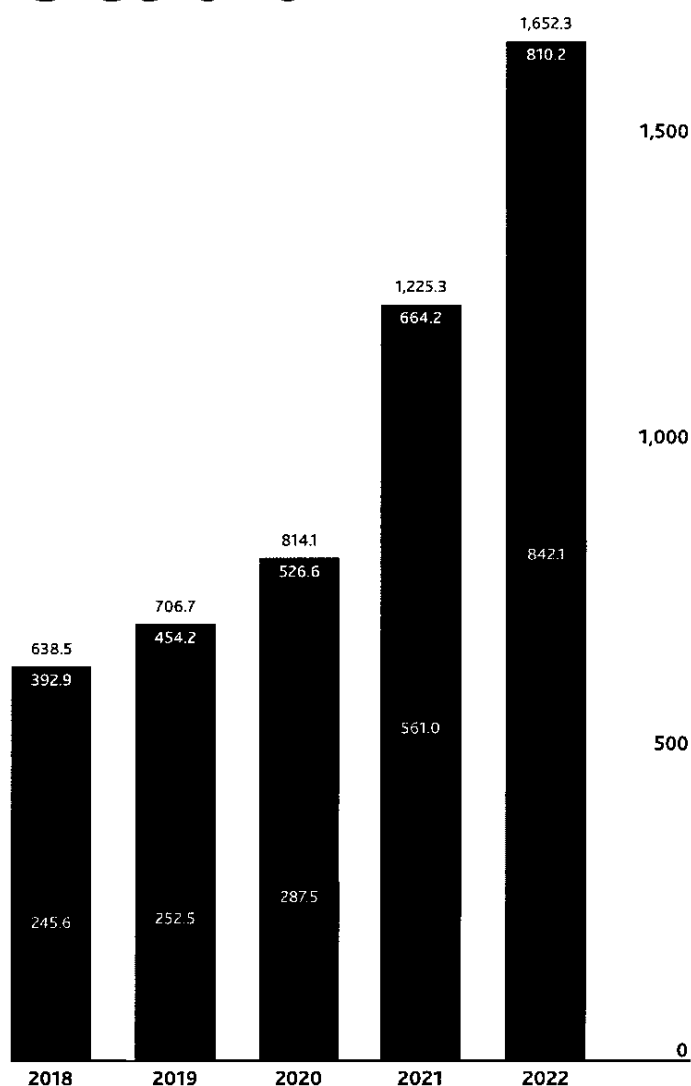
Lancashire made significant progress in 2022 in realising the benefits of our work to **diversify**, **fortify** and **grow** our strong product portfolio.

We will always be driven by the underwriting opportunity and our disciplined approach to managing risk as we push **forward**.

We have the **momentum** to take advantage of an exciting market opportunity.

Gross premiums written

Key



Demonstrating resilience

A business focused on growth

We are a provider of global specialty insurance and reinsurance products offering risk transfer solutions to brokers and clients.

We always strive for long-term and mutually beneficial relationships with our customers and stakeholders.

We want to be the best and we are building on our strengths

Empowering people

Our sector

plays a role in giving people and businesses confidence to operate, recover and thrive through our products

Our people

are united by our ambition and we work hard to build strong teams

A supportive employer

100+

senior managers attended Group strategy sessions during 2022

\$149,000

donated to charities nominated by staff in 2022 from a total Foundation donation of \$0.6m.

11.2%
Staff turnover

A helpful employer

One-off cost-of-living payment to lower paid employees

A growing and responsible franchise

2

segments with 8 core product classes

47%

women in senior management roles

\$1.7bn

Robust capital base

100%

calculated GHG emissions from own operations offset

Our footprint

3

offices in London, Bermuda and Australia

338

experienced and talented colleagues

Strongly rated

A

(Excellent)
A.M. Best Company

A-

S&P
Global Ratings

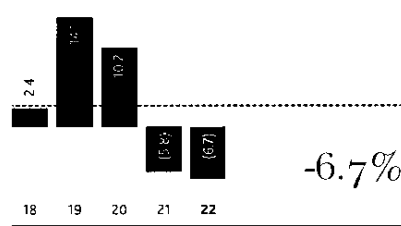
A3

Moody's Investors
Service

Key performance indicators



Change in FCBVS

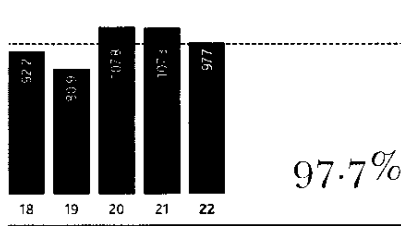


The negative change in FCBVS is primarily due to the upwards trend in U.S. interest rates which resulted in **\$93.2 million of unrealised losses** on our fixed maturity investment portfolio.

For the 2023 accounting year we will rename 'Change in FCBVS' to 'Change in Diluted Book Value Per Share'. This has no impact on the underlying calculation, given the Group has no warrants in issuance.



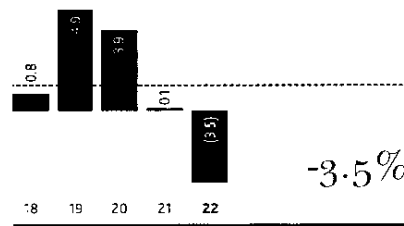
Combined ratio



Net premiums earned have grown to \$988.4 million compared to \$696.5 million in the prior year. The profitable growth of our non-catastrophe lines of business has enabled Lancashire to mitigate the impact of the 2022 natural catastrophe loss events, such as hurricane Ian and the Australian floods. The **combined ratio of 97.7%** demonstrates how our recent disciplined growth helps deliver more balanced returns over the longer term and improves our ability to return an underwriting profit even in a year of significant losses.



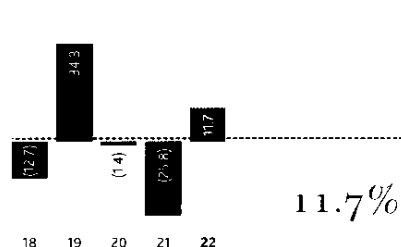
Total investment return



Lancashire reported a total net investment return of **negative 3.5%** for the year ended 31 December 2022. This was primarily driven by unrealised losses on our fixed maturity portfolio as a result of significant interest rate hikes by the U.S. Federal Reserve. Given the short duration of our investment portfolio we should benefit from the higher interest rate environment going forward.



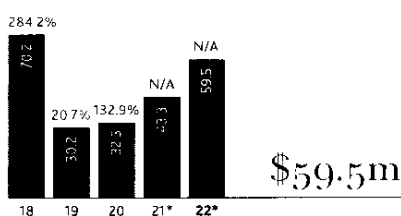
Total Shareholder return



In 2022 there has been an overall stock market decline driven by the ongoing conflict in Ukraine, supply chain and inflationary pressures, a rapidly changing interest rate environment, exchange rate volatility and general economic uncertainty. This weighed on our total shareholder return for much of the year with a recovery in Q4 2022. We see further opportunities for profitable underwriting growth into 2023 and will continue to deliver on our strategy and manage the cycle.



Comprehensive income returned to shareholders

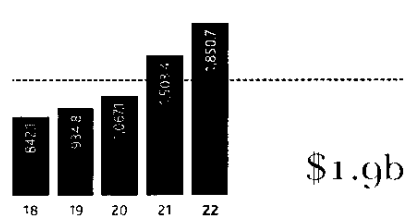


■ Ordinary / special dividends and shares repurchased (\$) % Comprehensive income returned to shareholders
* Due to 2022 and 2021 being N/A the five year % average is not calculated.

The Group has made a **comprehensive loss of \$92.6 million** in 2022 primarily driven by unrealised investment losses of \$93.2 million on our fixed maturity available for sale investment portfolio. We remain strongly capitalised to deliver on our long-term strategy and continued to deploy excess capital into the business to fund growth opportunities. We paid ordinary dividends of \$36.2 million and repurchased shares of \$23.3 million.



Gross premiums written under management



The Group continues to expand and diversify its underwriting portfolio taking advantage of a period of sustained rate increases across a number of lines of business. The Group's corporate member has also acquired additional syndicate participation rights in Syndicate 2010, which takes the Group's share of the 2023 year of account to 69.3%.

Key



KPI linked to Executive Directors' remuneration. For more information see pages 96 to 117.



Alternative Performance Measures (APMs) refer to page 197.

..... Five-year average

A model to move us forward

Our strengths

Customer focus

- Our relationships with clients and brokers are long-standing and we aim to enable our clients to return to their pre-loss condition as soon as practicable

Expert people and specialised products

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

Disciplined risk and capital management

- Rigorous systems for risk monitoring and management
- Strong track record of capital management
- Proven ability to manage volatility by optimising capital and the underwriting portfolio through market cycles

A diverse offering

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

Our strategy

Underwriting comes first

Profitable growth

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

Balance risk and return through the cycle

Maximise risk-adjusted returns

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.

Insurance market employer of choice

Positive culture enables sustainability

Maintaining our positive culture and the ability to retain and attract the best talent is key for success, coupled with a strong focus on profitability and risk selection.

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.

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

Priorities

Growth in existing and new classes where favourable and improving market conditions exist.

Focus on maintaining a diversified portfolio structure and our core clients.

Use the principle of peer review throughout the Group.

Achievements

We continue to add new expertise to the Group and diversify our underwriting portfolio. Cross premiums written increased to \$1.7 billion in 2022. This growth came from both newer and more established classes.

Priorities

Explore opportunities for top-line growth in markets where we believe the right long-term opportunities exist and rigorously monitor and manage our risk exposures.

Use our speed and agility to manage volatility and underwrite our core portfolio profitably through the challenges of the cycle.

Deploy capital quickly when it is needed and having the discipline to return it when it is not.

Achievements

We have increased our underwriting footprint and optimised our portfolio in areas where rating has improved, whilst adding new complementary classes of business.

Priorities

Foster entrepreneurial, collaborative culture through the Lancashire values.

Improve operational efficiency and data capabilities through business transformation activities.

Develop the Group's ESG principles to ensure we operate responsibly as a business.

Achievements

Employee headcount increased to 338 in 2022 with new talent attracted by Lancashire's positive corporate culture.

More than \$149,000 donated to charitable organisations nominated by employees in 2022.

The value we create

Our people

85%

overall participation rate for 2022 employee 'Pulse' survey

Our policyholders

\$412.7m

gross losses paid in 2022

Our shareholders

16.5%

compound annual change in FCBVS since inception

Society

\$0.6m

donated through the Lancashire Foundation in 2022

The environment

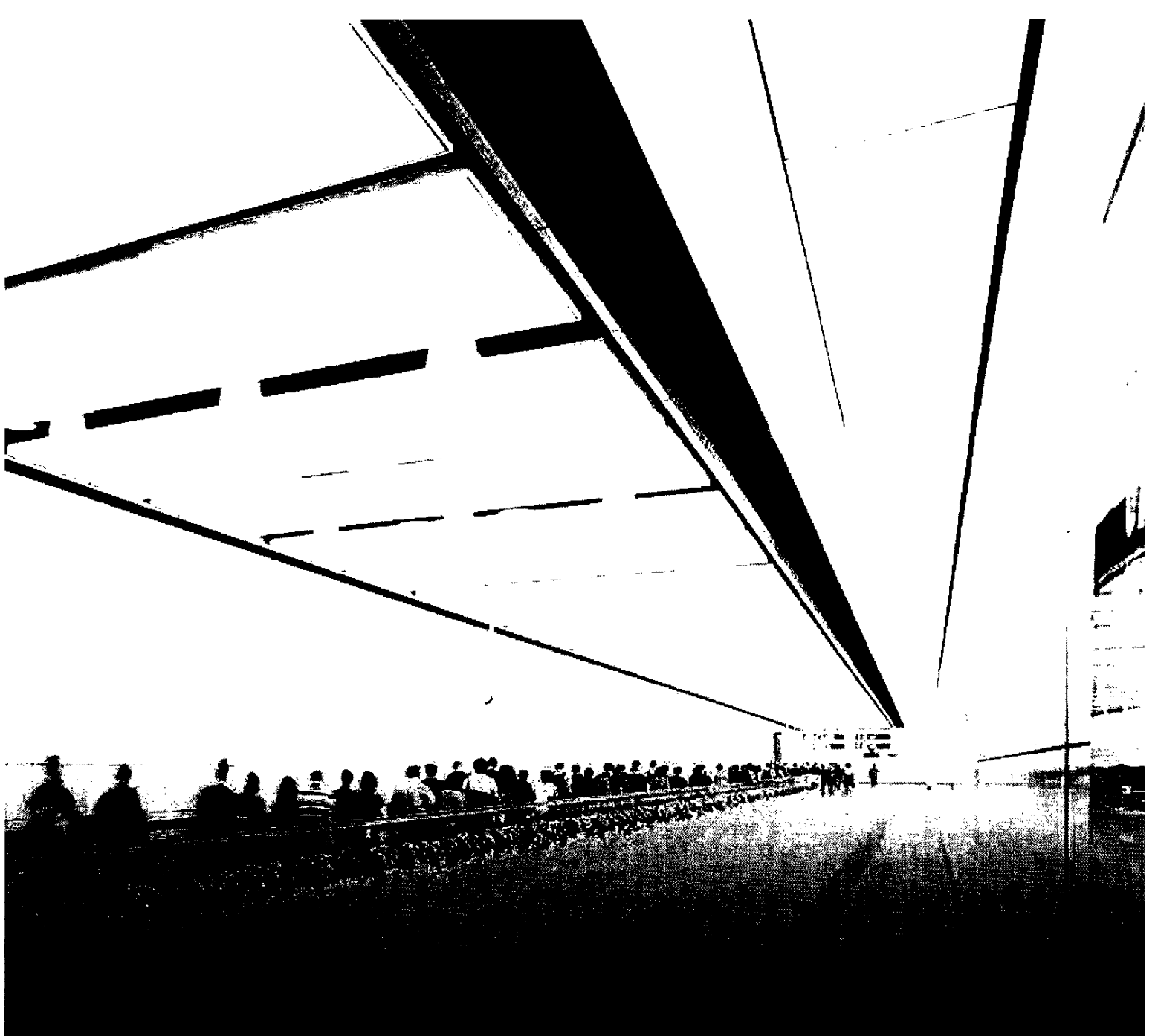
15%

per FTE carbon footprint reduction target from own operations by 2030



Our Vision

At Lancashire, our vision is to be
the leading underwriter of specialty
insurance and reinsurance products.



I am pleased with our performance in 2022 and that the decisions we have made in the past few years to better balance the portfolio mean we have produced an underwriting profit in a challenging year.

Alex Maloney
Group Chief Executive Officer



A stronger *and more resilient business*

Peter Clarke
Non-Executive Chair

For Lancashire, 2022 was the year where we continued to implement our long-term strategy of building a more diverse and robust business. We deployed our capital according to the opportunity in an improving pricing environment.

The year started with a challenging macroeconomic environment, which was further amplified by the conflict in Ukraine. In addition, *the insurance industry had to deal with the large natural catastrophe loss of hurricane Ian and other loss events.*

However, I am very pleased that we maintained our strong forward momentum – with an increase in gross premiums written of 34.9% – despite the various challenges.

This is the second year of strong premium growth since we raised new equity capital in 2020, and we now have a more diversified and balanced underwriting portfolio.

The Board is pleased with this continued growth in both existing and new classes including longer tail casualty lines, and the Group's position going into a strong market for many of our product lines in 2023.

Overall, the Board is satisfied that the business has demonstrated discipline and resilience in a challenging year.

The Group's negative change in FCBVS of 6.7%, based on the comprehensive loss of \$92.6 million, was mainly driven by rising U.S. interest rates and general volatility in investment markets. These have impacted our investment returns at negative 3.5% and resulted in unrealised losses on our investment portfolio during the year, which we expect to unwind for the most part as our predominantly shorter duration assets reach maturity.

Elevated natural catastrophe insured losses also contributed, with estimated industry-wide losses in 2022 of around \$120bn, exceeding the 10-year average by 40%.

Natural catastrophe risk business, particularly property catastrophe risks, is an important part of Lancashire's product offering to its clients, offering confidence to vulnerable communities that they can return to normal post a loss event.

As a result, we can expect our underwriting results to be impacted by catastrophe losses such as hurricane Ian. Nevertheless, Lancashire delivered a combined ratio of 97.7%, which demonstrates the benefits of the current growth and greater risk diversification in enabling us to produce an underwriting profit even in a year of heightened losses.

“This is the second year of strong premium growth since we raised new equity capital in 2020, and we now have a more diversified and balanced underwriting portfolio.”

This is testament to the delivery of our strategy to grow our footprint when the market opportunity allows, and to rigorously monitor and manage our risk exposures through the cycle.

The Group's philosophy on reserving has been conservative and is well established. Management engaged proactively with the Board during 2022 in explaining the reserving exercises which were conducted, in particular with regard to the conflict in Ukraine and hurricane Ian. This gives us the confidence in our overall capital position and Natalie talks more about this in her review.

Importantly, maintaining our positive culture as we grow is at the heart of Lancashire's strategy, as outlined by Alex in his review. The Board is fully supportive of management's efforts to ensure we continue to retain and attract a talented and diverse group of colleagues.

During 2022, we also continued to have an active dialogue on issues of climate change, sustainability and governance. We were pleased to join the ClimateWise organisation during the year and we have again reported against the recommendations of TCFD and outlined our activities in measuring and actively monitoring climate change effects on the Group.

Through the Lancashire Foundation we have always sought to support charities that have a positive impact on the communities they serve. The cost-of-living crisis has made that need even more acute. I am pleased that during 2022, the Foundation's focus on social causes has been increasingly valuable and effective. The Foundation's support for homeless charities is particularly apt and the organisations we have funded include in their ethos a long-term goal of helping people back on their feet.

During the course of 2022, we have acknowledged and discussed the impact that the increased cost-of-living can have on some employees. We have ensured that our focus with regards to remuneration and assistance has been targeted to benefit those who are likely to require additional support the most. To that end, the Board approved a one-off cost-of-living payment for employees whose salary was below a specific level. You can read more about our work on Environmental, Social and Governance matters in our sustainability section starting on page 40.

As in previous years, we have not changed our dividend strategy. Subject to a shareholder vote at the 2023 AGM, we propose to pay a final ordinary dividend of \$0.10 per common share, unchanged on prior years. Further information can be found on page 119. Our dividend policy is set out on page 118.

Q: How have employees assisted in navigating a challenging year?

A: Lancashire employs some of the best people in our industry. Our underwriters have market-leading expertise and all our support functions effectively aid our overall goal to deliver on our strategy.

In a challenging year, acting as one team with one driver for success is incredibly important. I am reminded constantly in my conversations with people from around the business of the strength of pride that they feel in working at Lancashire.

On behalf of the Board, I would like to thank Alex, the wider management team and all our colleagues for their hard work and commitment.

We believe the outlook for 2023 and beyond is extremely exciting and that we have the right teams across the Group to deliver our strategy and grow when there are opportunities.



Driving forward *a more diverse and robust business*

Alex Maloney
Group Chief Executive Officer

This year our focus remained firmly on delivering our long-term strategy and actively managing the cycle.

I'm very pleased to report that Lancashire continued its strong growth trajectory, increasing gross premiums written year-on-year by 34.9% to \$1.7 billion and delivering a combined ratio of 97.7%.

Our robust underwriting performance came against a backdrop of high industry losses and a volatile macroeconomic environment.

In line with our 'underwriting comes first' principle, we have continued to expand our footprint and take full advantage of the organic growth opportunities and rate increases being seen across the majority of our product lines.

This growth has come from those lines where we have longer-term strength and expertise and from those we have added over the past few years as part of our actions to diversify and fortify our portfolio.

Although there have been years in the past when we have had to be patient, we are now starting to see the benefits of the expansion we started in 2018 coming through.

Traditionally, Lancashire has been seen as an established writer of natural catastrophe risk business meaning that when such events occur it is expected to impact our performance. However, during 2022 we have demonstrated that the growth and diversification of recent years now allows us to absorb significant catastrophe losses, such as hurricane Ian. While this event is estimated to be the second most costly hurricane on record, we have still produced a net underwriting profit.

This is a notable positive step-change for the business and testament to the clear long-term strategy we have set out.

Catastrophe and weather related losses for the year, excluding the impacts of reinstatement premiums, were \$218.4 million. This includes the impact of hurricane Ian, which was within our expectations for these types of events and at the lower end of the \$160 million to \$190 million range provided at Q3.

“Everything we do is driven by the underwriting opportunity. It is why we are here and why we do what we do.”

We previously set aside \$22 million for direct claims emanating from the conflict in Ukraine. In Q4, we subsequently revised this to include an additional management margin for any potential indirect claims related to the conflict across a number of classes. Our potential claims related to the conflict now total \$65.8 million. Given the nature of the conflict, the ultimate claims relating to the event are subject to a high level of uncertainty.

On investments, the volatility in the global financial markets and higher interest rates have understandably affected our 2022 investment result, which was negative 3.5% including mark-to-market losses. These losses are largely unrealised and were the most significant driver of the negative change in FCBVS of 6.7% for the year. Going forward, we expect to see higher investment income as a result of the higher interest rate environment.

From a capital perspective, we held a very strong position throughout the year and we have the necessary headroom to continue to write profitable business, and deliver returns, during what we expect to be a harder market in 2023.

Overall, I am pleased with our performance in 2022, and that the decisions we have made in the past few years to better balance the portfolio mean we have returned an underwriting profit in a challenging year.

During 2022, we have continued to strengthen our underwriting teams and our organisational infrastructure through key internal promotions and external hires.

Lancashire aims to retain and attract the best people in our industry. Our underwriters have market-leading expertise and our support functions are vitally important in the overall delivery of our growth strategy.

We made a number of senior appointments from within our existing underwriting teams during the year. This is testament to the strength of talent, knowledge and experience that we have at Lancashire, in underwriting and across the wider business.

Our long-term investment in developing our people means that we are able to reward and promote colleagues across the Group when suitable opportunities arise.

We are also enhancing and expanding our capabilities in a range of areas, including business development, human resources, procurement, change and vendor management, and sustainability.

We have always recruited on merit which has given us the benefits of a diverse employee community and we continue to look at how we can bring more people into the industry from a range of backgrounds.

Q: How have the business's strategic objectives and vision changed in 2022?

A: Each year the Board reviews the Group strategy, and in 2022 we made some changes to reflect the size of the business and our future aspirations. This includes a new focus on our people, operations and sustainability.

It is important to stress that our number one priority remains the same and will not change – underwriting comes first.

It is this emphasis on disciplined underwriting that underpins everything we do. It is also in many cases why people want to join Lancashire.

They know that we have a strong team, in both underwriting and support functions, and that we value and reward expertise and talent.

As I said last year, everything we do is driven by the underwriting opportunity. It is why we are here, why we do what we do and why we play an important role in supporting and protecting communities and economies across the world.

I am pleased that in delivering on our strategy we have the full support of our people. We hosted sessions in London and Bermuda during 2022 for our people managers, where we had an opportunity to discuss how to bring the strategy and vision to life – and how we can further improve the work experience for employees.

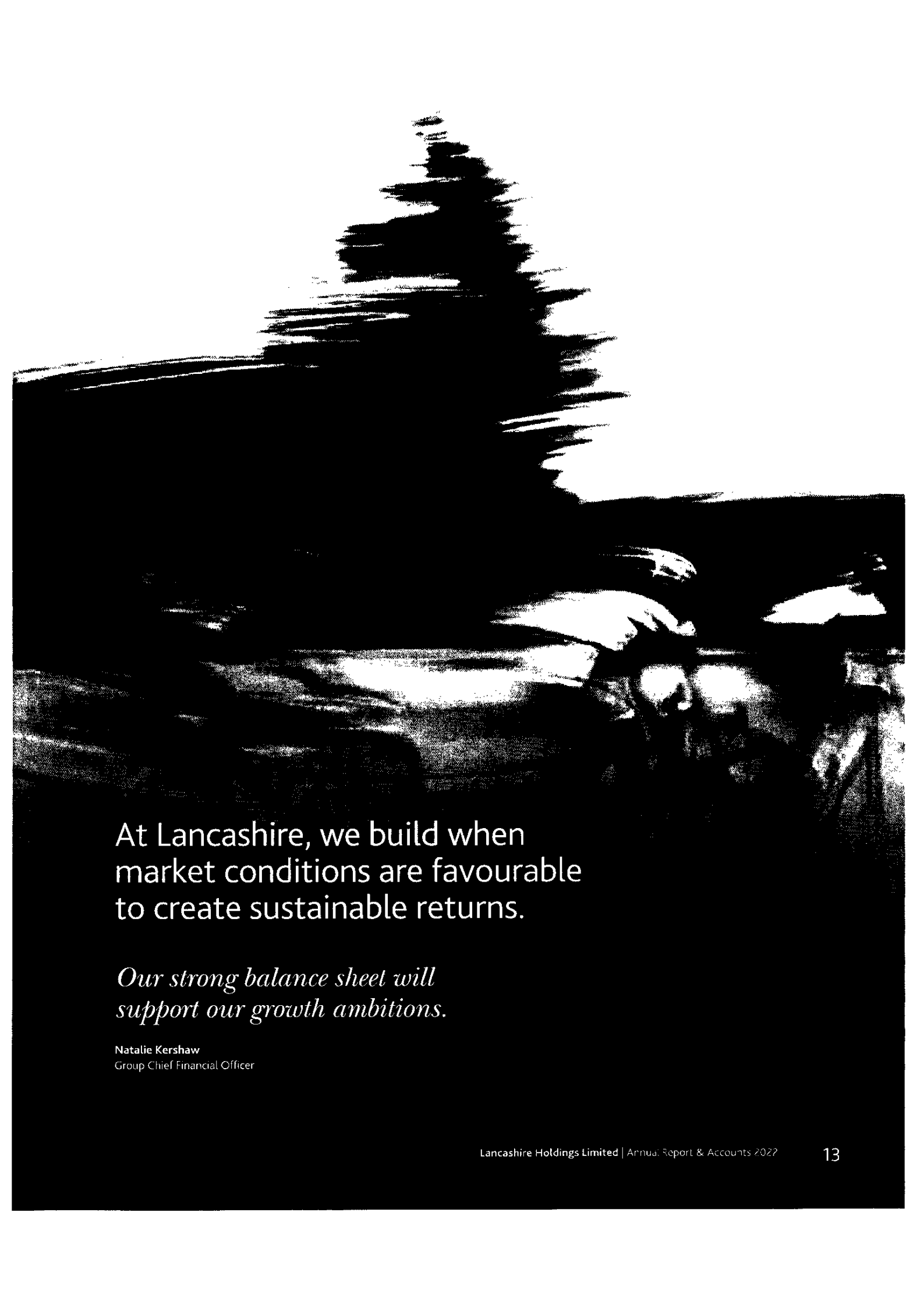
This spirit of collaboration is incredibly important for us at Lancashire.

Fundamentally we are a people business and we have a high level of engagement from all our colleagues. Keeping our positive culture and making Lancashire a place that develops, retains and attracts quality people is central to our success going forward.

I very much look forward to the opportunities for further profitable growth that the next 12 months may bring, and I'd like to thank all of our colleagues for their hard work, and our investors, clients, and brokers for their support during the past year.

Our market *environment*





At Lancashire, we build when
market conditions are favourable
to create sustainable returns.

*Our strong balance sheet will
support our growth ambitions.*

Natalie Kershaw
Group Chief Financial Officer



A balanced approach

Natalie Kershaw
Group Chief Financial Officer

We held a very strong capital position throughout the year and we have the necessary headroom to write profitable business during what promises to be an improving insurance market in 2023. We will always use our capital effectively to support the underwriting environment and manage our exposures to market conditions.

Financial highlights

	2022 \$m	2021 \$m	2020 \$m	2019 \$m	2018 \$m
Gross premiums written	1,652.3	1,225.2	814.1	706.7	638.5
Net underwriting profit	150.8	69.0	77.0	186.5	121.7
(Loss) profit after tax ¹	(3.3)	(62.2)	4.2	117.9	37.5
Comprehensive (loss) income ¹	(92.6)	(92.9)	24.3	145.7	24.7
Dividends ²	36.2	36.4	32.3	30.2	70.2
Diluted (loss) earnings per share	(\$0.01)	(\$0.26)	\$0.02	\$0.58	\$0.19
Fully converted book value per share	\$5.24	\$5.77	\$6.28	\$5.84	\$5.26
Change in FCBVS	(6.7%)	(5.8%)	10.2%	14.1%	2.4%
Combined ratio	97.7%	107.3%	107.8%	80.9%	92.2%
Accident year loss ratio	69.9%	81.0%	71.4%	51.3%	70.0%
Total investment return	(3.5%)	0.1%	3.9%	4.9%	0.8%

1. Amounts are attributable to Lancashire and exclude non-controlling interests.

2. Dividends are included in the financial statement year in which they were recorded.

During 2022, we have continued to deliver on our strategy to diversify our portfolio.

We have reported a combined ratio of 97.7% for 2022, a strong performance when set against a backdrop of significant loss events, including hurricane Ian, and the conflict in Ukraine.

For hurricane Ian we incurred catastrophe losses of \$163.3 million, excluding the impact of reinstatement premiums, in line with our expectations for this type of event.

The work we have done over the past four years has been targeted at strategic growth, and we reported gross premiums written for the year at \$1,652.3 million - an increase of 34.9% on 2021.

This growth has come both from those lines where we are traditionally strong, and from the newer classes of business that we have begun to write with new talented underwriting teams joining us.

Lancashire has always had a well-established approach to reserving, and we have a consistent approach to these newer lines. Our philosophy is to be conservative and comfortable with how these classes are performing during the first years of writing this business.

When catastrophe loss events occur, such as hurricane Ian, the size of our business and our strong collaborative culture mean that we have a clear line of sight in assessing the likelihood of claims arising. We use a combination of sophisticated modelling techniques, historical loss experience analysis, and our team's expert judgement to estimate ultimate losses. These loss estimates are developed on a contract-by-contract basis rather than a percentage of a wider expected industry loss.

We previously set aside \$22 million for direct claims emanating from the conflict in Ukraine. In Q4, we subsequently revised this to include an additional management margin for any potential indirect claims related to the conflict across a number of classes. Our potential claims related to the conflict now total \$65.8 million. Given the nature of the conflict, the ultimate claims relating to the event are subject to a high level of uncertainty.

The volatility in the global financial markets and steeper interest rates have inevitably affected our investment performance. Our investment result for 2022 was a negative return of 3.5% including mark-to-market losses. These losses are largely unrealised and are the main contributing factor to the comprehensive loss of \$92.6 million.

The short duration of our portfolio means that we will see the benefit of the higher interest rate environment going forward in 2023. These additional returns will complement the growth in our underwriting portfolio.

In the medium term, we do not expect to make material changes to our investment strategy, with a focus on a short duration portfolio.

Clearly, global commerce across sectors will also be impacted by higher inflation. For Lancashire we have experience managing inflationary pressures – in both directions – through a number of our product lines.

Looking forward, our strategy has always been to manage the underwriting cycle and we are pleased that the decisions we have made in the past few years have put us in a strong position to take advantage of the market opportunities we will see in 2023.

From a capital perspective, we held a very strong capital position throughout the year, and we have the necessary headroom to write profitable business during what promises to be an improving insurance market in 2023. This includes our catastrophe products, where we are happy with our position in the market and share of risk.

We will always use our capital effectively to support the underwriting environment and manage our exposures to market conditions.

Maximising returns for the capital deployed is what we are here to do, providing the best opportunity for returns for our shareholders. As we move forward into 2023, and beyond, our strategy for growth will continue to focus on less capital-intensive lines of business while matching the underwriting of more volatile classes with the market opportunity.

Our strong capital position brings optionality, which is always beneficial in a fast-moving market. During 2022, we undertook a share repurchase programme to buy 4,589,592 common shares totalling \$23.3 million to fund future exercises of awards under our RSS.

2022 was my second full year of serving as Group CFO. I am constantly impressed by the commitment of our teams across the business and their sharp focus on delivering on our strategic priorities.

I am extremely confident that Lancashire is in a strong position to further grow in a disciplined way as the pricing environment continues to move in a positive direction. The events of 2022 will only accelerate that change and we are well placed to optimise those opportunities.

Q: What preparations for the IFRS 17 changes has the business made in 2022?

A: During 2022, we have spent a considerable amount of time fine-tuning our preparations for the transition to IFRS 17. As the biggest insurance accounting change for more than a generation, it has been many years in the making.

As we move into implementation in 2023, we are confident that our preparations have been robust.

IFRS 17 allows businesses to make a number of judgments on how they will report. We have continued to work through these and to make the appropriate decisions to reflect the nature of our operations and our established focus on transparency.

At our Investor Day in November we outlined our approach to IFRS 17 to aid early understanding of the impact. With such a substantial change it is important to stress test our assumptions and processes, and we have carried out a number of 'parallel runs' internally, ready for final implementation in 2023.

In ensuring our systems, data, processes and people are ready we have seen a strong collaborative effort across a number of teams. While the overall preparations have been time-consuming, we have taken the opportunity to refine our wider processes and make positive enhancements. This includes improving our collation and use of data across the business, which will have the long-term benefit of making Lancashire more efficient and reducing operating costs in some areas.



Gaining *momentum*

Paul Gregory
Group Chief Underwriting Officer

For the past five years we have spoken about our desire to grow and diversify our underwriting footprint whilst market conditions are favourable. The intention of this strategy has been to build out a more robust portfolio of business that allows us to better absorb the inherent volatility of the business we underwrite. 2022 is the year where we demonstrated the benefit of this strategy.

We delivered a healthy combined ratio of 97.7% in a year characterised by a challenging loss environment. Additionally, we saw the impacts of political unrest, inflation, sanctions, and economic instability that were offset by improved market conditions.

Against this backdrop, we have continued to strengthen our underwriting bench, mainly through internal promotions and developing our talented teams.

During 2022, we once again witnessed a number of loss events that both tested our clients and demonstrated the value of the (re)insurance products we sell.

The conflict in Ukraine, and its tragic humanitarian consequences, dominated the year. Events such as these have far-reaching economic consequences and can create losses to (re)insurance policies that provide the relevant coverage. The total cost to the (re)insurance market for the conflict is not yet known, and there are a number of ongoing material uncertainties, but it is likely to be across both insurance and reinsurance classes including marine, energy, aviation, political violence, and political risk. These are classes in which we specialise and therefore have exposure to; albeit for a loss event of this magnitude, we see our estimated loss as very manageable.

“Gross Premiums Written is now at \$1.7 billion. This is the highest at any point in our history and over \$1 billion more than at the soft market low in 2017.”

We have also seen significant industry losses from natural catastrophes with an estimated \$120 billion of insured losses. A variety of events have contributed to this total including flooding in areas such as Pakistan, South Africa and Australia, hailstorms, drought and extreme heat in Europe, plus convective storms, winter storms and hurricanes across North America. Of all the natural catastrophe loss events of 2022 by far the largest from an insured perspective was hurricane Ian. Hurricane Ian impacted the west coast of Florida in late September and is estimated to be the second most costly hurricane on record. These events have once again tested our underwriting of natural catastrophe risk and, given the size of hurricane Ian, our portfolio has proved to be more robust than ever.

Despite these challenges, it has been another year of forward momentum in the build out of the underwriting portfolio and team. The underwriting environment has continued to be supportive, as demonstrated by a portfolio RPI of 108%. Almost every single sub-class of business delivered positive year-on-year rate increases, including classes that have now delivered cumulative rate rises each year for the past five years.

It is these market conditions, plus the addition of new teams and products, that have contributed to premium growth of approximately 35%, with gross premiums written now at \$1.7 billion. This is the highest at any point in our history and over \$1 billion more than at the soft market low in 2017. We anticipate even more favourable market conditions in 2023 and it is likely that this record premium level will be surpassed during the course of the next 12 months.

We have consciously been building out our underwriting expertise over the past number of years as the business evolves, and the underwriting bench has continued to expand through 2022.

We are pleased to have made a number of internal promotions over the past 12 months, demonstrating the strong development and progression of our underwriting talent as our footprint broadens. As the business grows, we will continue to offer attractive opportunities for those at Lancashire to progress their careers.

Alongside these internal promotions, we continue to hire new talent into the business. In 2022, we added new lines of business such as construction and engineering, added leadership capabilities in sub-classes such as energy liabilities to expand our market presence, and successfully launched our new office in Sydney, Australia, to underwrite regional property insurance. All of these have contributed to our 2022 premium growth and will keep developing over the coming years as they mature.

The dynamics across all our business segments have varied and we cover these more specifically in the analysis that follows. The Group's operating segments for the purpose of reporting were revised during the year to reflect an internal management restructuring that occurred in the second half.

Segment	Premium \$m			RPI	
	2022	2021	Variance	2022	2021
Reinsurance	842.1	561.0	281.1	108%	110%
Insurance	810.2	664.2	146.0	108%	108%
Total	1,652.3	1,225.2	427.1	108%	109%

Reinsurance

Our reinsurance segment contains casualty reinsurance, property reinsurance and specialty reinsurance. There has been significant premium growth in this segment during 2022 of approximately 50%, with an RPI of 108%. This was expected given the build-out of casualty reinsurance and the strong rating environment for property and specialty reinsurance.

Casualty reinsurance comprises casualty, professional and financial lines and accident and health reinsurance. The rating environment for all these sub-classes has been broadly stable with an RPI of 101%, with growth being a result of the continued maturity of the casualty sub-class and professional and financial lines sub-classes. An inflationary and future recessionary environment can bring challenges to some of these longer tail classes. Having entered these classes very recently, we have no legacy portfolio, where reserve deterioration can become a negative drag on results, and rating levels are at historical highs. Our underwriting and reserving approach to these lines will remain prudent as we build out this portfolio.

Property reinsurance comprises our catastrophe exposed reinsurance classes as well as our excess of loss risk and other property treaty portfolios. As anticipated, rating for the natural catastrophe exposed sub-classes was positive as the market continued to harden; this is seen in the RPI of 111% for property reinsurance. During 2022, property catastrophe product line pricing strengthened during each quarter with supply reducing and demand increasing, while inflation saw our clients purchase more cover. We stuck to our stated strategy of maintaining relatively stable risk levels and taking the increased margin we got through rate improvements given we had already grown our footprint significantly during 2021. As we look to 2023, we expect to see a true hard market, due to the loss environment, the demand and supply imbalance and macroeconomic conditions.

Specialty reinsurance comprises our reinsurance offering for classes such as aviation, marine and energy, as well as our property retrocession portfolio. The rating environment across all of the sub-classes remained positive during 2022, with an RPI of 110%. We continue to build out our specialty treaty account in areas such as energy, marine and political violence, adding to the already well-established sub-classes of aviation reinsurance and property retrocession. Much like our property reinsurance class, our risk appetite for the property retrocession sub-class was broadly stable as we look to maintain the Group's natural catastrophe footprint. Loss events such as the conflict in Ukraine and hurricane Ian impacted these classes during 2022 and provided further impetus for continued improvement in both rating and terms and conditions as we move into 2023.

Insurance

Our insurance segment includes aviation insurance, casualty insurance, energy and marine insurance, property insurance and specialty insurance. We have seen another year of growth opportunities across this segment with rates across all sub-classes positive. The insurance segment RPI for 2022 was 108% with premium growth of approximately 22%. A combination of the positive rating environment, inflationary pressure increasing values at risk and the continued build out of new teams have all contributed to the growth we have seen in 2022.

It has been an interesting year for **aviation insurance** as the aviation industry continues to rebound strongly post the COVID-19 pandemic. Demand for aviation insurance has been relatively resilient despite the extreme downturn experienced by the sector during the pandemic years. In addition, the rating environment has continued to improve with a RPI of 118%, which is the highest across our portfolio. Within this there are sub-classes that are broadly stable from a rating perspective, given rates have increased steadily over the past five years, whilst the war / terrorism exposed products have seen a sharp increase in rating following the conflict in Ukraine. This is a class, however, that has seen a negative premium impact due to international sanctions on Russia which have been a headwind for growth in 2022. We continue to see opportunities to further grow our aviation portfolio during 2023, and the expectation is that rating will remain favourable to support this development.

Casualty insurance is a small segment of the business and comprises our accident and health insurance sub-class and a small amount of professional lines insurance which is adjunct to our casualty reinsurance class. Market conditions remain positive with an RPI of 105%. Accident and health was a new class of business to the Group in 2020 and has grown steadily. We continue to explore opportunities in the broader casualty insurance arena, albeit our focus thus far has centred around the reinsurance lines.

35%

increase in gross premiums written

Energy and marine insurance provides products across the spectrum of the marine and energy sectors. The rating environment has remained positive with an RPI of 104% for 2022. There has been a variance in rating levels across all of the sub-classes with some, such as downstream energy, broadly stable and others, such as marine liability, seeing double digit rate increases. We have been able to grow premiums ahead of rate given the positive environment, inflationary pressures boosting demand, and underlying values at risk. Additionally, our investments in newer sub-classes such as energy and marine liability have provided new business opportunities. This has offset the negative impact of Russian sanctions on premiums in some of the energy sub-classes.

We have continued to invest in our underwriting expertise to support the transition within the energy sector. In 2022, we brought in additional engineering resource to aid this ongoing development. This allows us to offer products and services that cater to the changing risks our clients face as their businesses transition. Insurance will continue to be a key risk management tool for the industry, supporting global net-zero goals and the wider transition. Please see the ESG section starting on page 40 for more information.

Whilst the conflict in Ukraine did create losses in the energy and marine sectors, our exposure was modest. Outside of this event there were no significant insured losses in the energy and marine sectors, although there were a number of mid-sized losses in the downstream energy and power generation sectors; some of which we incurred. These loss events should help maintain modest rating momentum into 2023.

Property insurance comprises property direct and facultative insurance and construction insurance. Trading conditions have been favourable with a 2022 RPI of 108%. Significant premium growth in property insurance this year has been driven by the favourable rating environment, inflationary pressures increasing demand, and underlying values at risk. In addition we have seen the benefits of various investments we have made. We opened our office in Australia to underwrite property direct and facultative insurance in the region, and the team have made a promising start. We also welcomed the construction team and market conditions have been better than originally anticipated, meaning that our start in this class has been strong. Across the broader property direct and facultative class we have continued to build out our portfolio on both our Lloyd's and Lancashire UK platforms, benefitting from a number of new business opportunities. As a product that provides natural catastrophe protection, property direct and facultative was impacted by the various events during 2022, and in particular hurricane Ian. Our anticipation is that these positive market conditions continue in 2023, providing more opportunity to develop our portfolio.

“The team have continued their drive forward as our bench strength grows, delivering on Lancashire’s long-term strategy.”

Specialty insurance comprises our terrorism, political violence and political and sovereign risks sub-classes. Prior to the conflict in Ukraine, rates in terrorism and political violence were starting to soften. As the insurance market reappraised its view of risk, this softening reversed and we started to see rate rises come through these product lines. The overall segment RPI for 2022 was 101%. The broader ramifications, in the form of political and economic turmoil that the conflict has produced, have undoubtedly influenced these sub-classes. The political and sovereign risk portfolio is predominantly non-renewable business and therefore is not subject to RPIs but the rating levels remain strong against this backdrop. We have delivered strong premium growth in the broader segment primarily as a result of new business opportunities. The outlook for 2023 is more promising as we anticipate the dislocation from the conflict to add more traction to the rating environment.

Overall, we are extremely proud of what the underwriting team have achieved in 2022.

The team have continued their drive forward as our bench strength grows, delivering on Lancashire’s long-term strategy. 2023 will bring plenty of opportunity for this momentum to carry on as premiums continue to grow and the underwriting portfolio goes from strength to strength.

Underwriting results



James Irvine
Group Chief Underwriting Officer
– Reinsurance



James Flude
Group Chief Underwriting Officer
– Insurance

	2022			2021		
	Reinsurance \$m	Insurance \$m	Total \$m	Reinsurance \$m	Insurance \$m	Total \$m
Gross premiums written	842.1	810.2	1,652.3	561.0	664.2	1,225.2
Net premiums earned	495.5	492.9	988.4	302.1	394.4	696.5
Net loss ratio	71.0%	45.5%	58.3%	90.6%	49.9%	67.6%
Net acquisition cost ratio	26.4%	26.4%	26.4%	18.6%	25.5%	22.5%
Expense ratio	–	–	13.0%	–	–	17.2%
Combined ratio	97.4%	71.9%	97.7%	109.2%	75.4%	107.3%

The Group's operating segments for the purpose of segmental reporting have been revised in 2022. This reflects an internal management restructuring that occurred in the second half of the year.

Reinsurance gross premiums written

The significant increase in premiums in the reinsurance segment is primarily due to new business in the casualty reinsurance class as we continue our successful build out of the new product lines within this class. This class also benefited from significant written premium being recognised from new policies bound in 2021.

Strong growth was also seen in property reinsurance. Rates continued to harden with RPIs of 111%. Aside from rate rises there was limited exposure growth in this class as the Group maintained relatively stable risk levels, taking the increased margin through rate improvements, given we had already grown our footprint significantly during 2021.

In specialty reinsurance, all lines of business saw small increases in gross premiums written driven by new business growth. We continued to build out our specialty treaty account in areas such as energy, marine and political violence, adding to the already well-established sub-classes of aviation reinsurance and property retrocession.

Overall, for the reinsurance segment, reinstatement premiums were \$45.1 million in 2022 compared to \$42.8 million in the prior year.

Insurance gross premiums written

There was increased premium in the majority of insurance classes during the year. A combination of the positive rating environment, inflationary pressure increasing values at risk and the continued build out of new teams all contributed to the growth in 2022.

The most significant increases in this segment were in the property insurance class where the Group has continued to expand its property direct and facultative offering across all its underwriting platforms, including the newly established Australian platform. The Group also added a new property construction line of business.

The energy and marine insurance classes grew through the addition of new underwriting teams and product expansion, particularly in the *marine liability and cargo and specie lines of business*.

Outwards reinsurance premiums

Although in dollar terms the spend increased by \$55.2 million or 13.5% compared to 2021, the proportion of outwards reinsurance premiums to gross premiums written has decreased year-on-year. The increase in reinsurance spend is primarily driven by the growth of the inwards portfolio and, to a lesser degree, by an increase in outwards reinstatement premium.

Net acquisition costs

Net acquisition costs were \$261.2 million in 2022 compared to \$157.0 million in 2021, and the Group's net acquisition costs ratio for the year ended 31 December 2022 was 26.4% compared to 22.5% in 2021. The increase is primarily driven by the reinsurance segment where a change in business mix has seen more premium growth in proportional lines of business, which incur higher commission costs.

Net insurance losses

The Group's net loss ratio for 2022 was 58.3% compared to 67.6% in 2021. The accident year loss ratio for 2022, including the impact of foreign exchange revaluations, was 69.9% compared to 81.0% in 2021.

During 2022, we experienced net losses from catastrophe, weather and large loss events of \$308.8 million, excluding the impacts of reinstatement premiums. Within this, catastrophe and weather related losses for the year ended 31 December 2022, excluding the impacts of reinstatement premiums, were \$218.4 million. This includes \$163.3 million from hurricane Ian.

Our provision for large risk events for the year amounted to \$90.4 million and include \$65.8 million related to the ongoing conflict in Ukraine and \$24.6 million from an accumulation of four large losses in the energy upstream and power generation lines of business.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of the current year loss events on the Group's net loss ratio for the year ended 31 December 2022:

	Losses \$m	Loss ratio %
Reported at 31 December 2022	576.4	58.3
Absent catastrophe and weather events	358.0	35.7
Absent large losses	486.0	48.8
Absent catastrophe, weather and large loss events	267.6	26.3

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

During 2021, our total net catastrophe, weather and large losses, excluding the impact of reinstatement premiums, were \$306.4 million.

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

	Losses \$m	Loss ratio %
Reported at 31 December 2021	470.5	67.6
Absent catastrophe and weather events	232.9	33.2
Absent large losses	401.7	57.7
Absent catastrophe, weather and large loss events	164.1	23.4

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

Prior year loss development

Prior year favourable development for 2022 was \$100.5 million, compared to \$86.5 million of favourable development in 2021. The favourable development in 2022 was primarily due to general IBNR releases on the 2021 and 2020 accident years and across most lines of business, due to a lack of reported claims. There was also favourable development on natural catastrophe loss events from the 2019 and 2018 accident years as well as beneficial claims settlements on risk losses in the 2017 accident year.

The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. 2021 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events, as well as some beneficial claims settlements from earlier accident years.

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

	2022 \$m	2021 \$m
Reinsurance	45.3	22.2
Insurance	55.2	64.3
Total	100.5	86.5

Note: Positive numbers denote favourable development.

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

Ultimate loss development by accident year

	2022 \$m	2021 \$m
2017 accident year and prior	19.9	36.1
2018 accident year	13.6	7.1
2019 accident year	13.7	8.8
2020 accident year	27.5	34.5
2021 accident year	25.8	—
Total	100.5	86.5

Note: Positive numbers denote favourable development.

Investment results



Denise O'Donoghue
Group Chief Investment Officer

Investments and liquidity

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity, and we position our portfolio to limit down-side risk in the event of market shocks. Those objectives remain unchanged and are more important than ever in today's volatile markets. 2022 was the story of one of the most significant U.S. Federal Reserve rate increases in history as a tool to fight inflation. While it resulted in negative returns for 2022, 2023 has a more positive outlook, starting the year with much higher yields in the investment portfolio. With the significant rate hikes, continued inflation and an inverted yield curve, there is a risk of recession. However, given the level of current market yields, our portfolio can weather this, particularly with a high credit quality portfolio. With an inverted yield, we do not see any reason to increase duration significantly. We will continue to maintain a short, high credit quality portfolio with some portfolio diversification to balance the overall risk adjusted return.

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

Investment performance

Net investment income, excluding realised and unrealised gains and losses, was \$43.7 million for 2022, an increase of 90.0% compared to 2021. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a loss of \$76.7 million in 2022 compared to a gain of \$1.3 million for 2021.

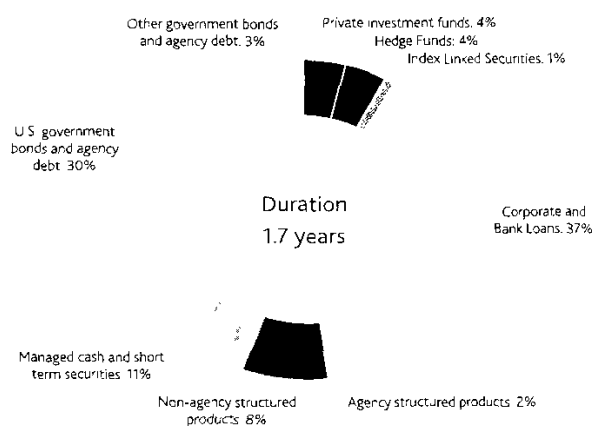
In a year of significant volatility, the investment portfolio generated a negative return of 3.5%. The returns were driven primarily from interest rate *increases and the widening of credit spreads, resulting in losses in all asset classes*. The majority of the losses were unrealised. It is expected that the majority of the unrealised losses will reverse over the next couple of years, given the short duration of the portfolio.

In 2021, the investment portfolio generated a small positive return of 0.1%. While the portfolio had been hit in 2021 by rising rates, the losses were somewhat mitigated by the strong returns in the majority of the risk assets, notably the bank loans, hedge funds and the private investment funds.

Conservative portfolio structure – quality

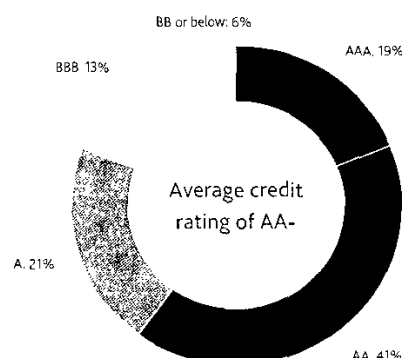
Asset allocation

Total investment portfolio and managed cash



Credit quality

Fixed maturities and managed cash



Other financial information



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



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



John Spence
Chief Executive Officer,
Lancashire Syndicates Limited

Third-party capital management

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

	2022 \$m	2021 \$m
LCM underwriting fees	3.1	10.6
LCM profit commission	0.9	5.2
LSL fees & profit commission	2.5	2.4
Total other income	6.5	18.2
Share of loss of associate	(6.5)	(3.9)
Total third-party capital management income	—	14.3

The amount of Lancashire Capital Management profit commission recognised is driven by the timing of loss experience, settlement of claims, and collateral release, and therefore varies year on year. The share of loss of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle.

Other operating expenses

Other operating expenses were \$128.7 million in 2022 compared to \$119.6 million in 2021. A growth in headcount has resulted in higher underlying employee remuneration costs compared to the prior year alongside an increase in audit fees, travel costs and fees and subscriptions. The weakening Sterling/U.S. Dollar exchange rate relative to the prior year partly offset these increases in the underlying cost base.

Capital

As at 31 December 2022, total capital available to Lancashire was approximately \$1.7 billion, comprising shareholders' equity of \$1.3 billion and \$0.4 billion of long-term debt. Tangible capital was \$1.5 billion. Leverage was 26.0% on total capital and 28.9% on total tangible capital. Total capital and total tangible capital as at 31 December 2021 were \$1.9 billion and \$1.7 billion respectively.

Share repurchases

During the year ended 31 December 2022, Lancashire repurchased 4,589,592 of its common shares (out of an overall, maximum Board-approved limit of 9,000,000 common shares, conducted via three separate share repurchase programs). These repurchases totalled \$23.3 million and were made pursuant to and in accordance with the general authority granted by shareholders at Lancashire's Annual General Meeting held on 27 April 2022, and will be used to satisfy a number of future exercises of awards under the Company's Restricted Share Scheme.

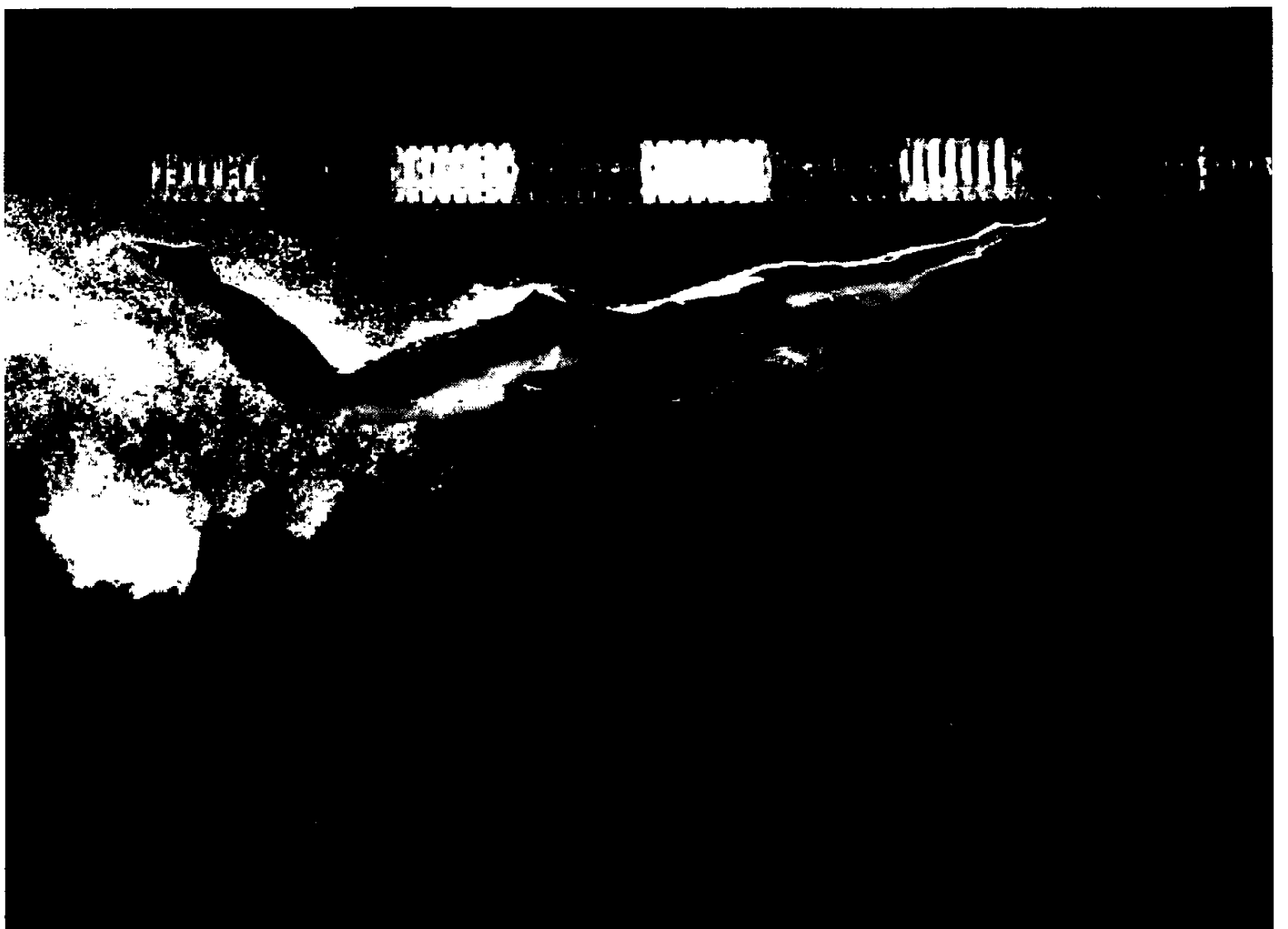
Dividends

Lancashire announces that its Board of Directors has declared a final dividend of \$0.10 (approximately £0.08) per common share, subject to a shareholder vote of approval at the AGM to be held on 26 April 2023, which will result in an aggregate payment of approximately \$23.8 million. On the basis that the final dividend is approved by shareholders at the AGM, the dividend will be paid in Pounds Sterling on 2 June 2023 (the "Dividend Payment Date") to shareholders of record on 5 May 2023 (the "Record Date") using the £ / \$ spot market exchange rate at 12 noon London time on the Record Date.

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



Our approach to



At Lancashire, our corporate infrastructure has been developed to manage risk and support disciplined, sustainable growth.

We pride ourselves on a strong and collaborative risk culture that promotes risk awareness and discipline across all the Group's activities.

Louise Wells
Group Finance Director



A culture *of risk* *challenge*

Louise Wells
Group Chief Risk Officer

At Lancashire, our corporate infrastructure has been developed to manage risk and support disciplined, sustainable growth. Our ERM framework sits at the heart of this, underpinned by a strong risk culture and governance framework. As the Group continues its strong forward momentum and maximises the opportunities available, the risk function is focussed on providing appropriate second line oversight and challenge to mitigate the risks involved.

Inflation and geopolitical risk are two areas that have had a lot of focus this year. The impact of inflation on the principal risk of reserving is discussed in more detail on page 34.

The events of the last couple of years have demonstrated just how quickly a risk can change and the importance of monitoring a wide range of risks, including those that are harder to quantify. As a result, the focus of the risk function has been on balancing the rear-view, what happened and why did it happen, and the cockpit view of uncertainty, what will happen and how can we make it happen to both preserve and create value for the Group. The risk function cannot operate successfully in isolation and we pride ourselves on a strong and collaborative risk culture that promotes risk awareness and discipline across all the Group's activities.

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

During 2022, we have expanded the risk function, recruiting additional staff with complementary skill sets to better enable us to provide effective challenge of the changing risk landscape and stress test the assumptions made by the business in relation to these risks. As the Group continues with its growth plans, resource levels will be revisited to help ensure the function continues to be able to manage the challenges associated with our growth as well as address emerging and climate risks and legal and regulatory changes.

With respect to climate change, Lancashire became a member of ClimateWise during the first half of 2022. ClimateWise is part of the Centre for Sustainable Finance at Cambridge University and represents a growing global network of leading insurance industry organisations. ClimateWise helps to align its members' expertise to directly support society as it responds to the risks and opportunities of climate change. ClimateWise members are required to annually disclose their firm's response to climate change through the ClimateWise Principles Framework; as a new member Lancashire was not obliged to participate but opted to do so. The seven ClimateWise Principles are aligned with the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD); our TCFD reporting can be found in the sustainability section starting on page 61.

ERM & ORSA

Key activities

Strategy review & challenge

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

Risk identification & assessment

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

Risk appetite & tolerances

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

Business planning

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

Risk & business management

- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment
- ESG framework and strategy
- Review and approval of business plan by the Board

Risk solvency & assessment

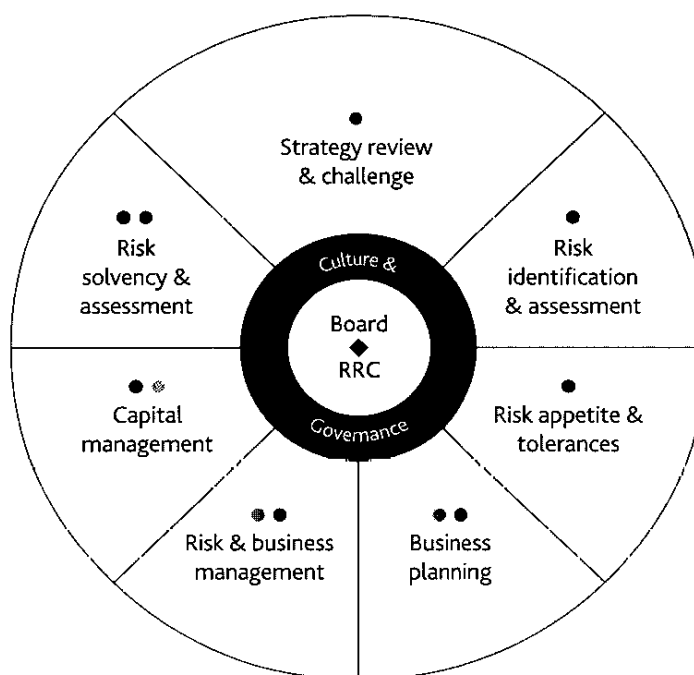
- Group CRO reports to Board and Group Executive Committee
- Production of quarterly ORSA report for review and approval by the Board

Capital management

- 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

Key elements of ORSA

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



Risk management strategy

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

The Group's financial performance is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, which are all discussed further in the risk disclosures on page 144, 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, and risks related to other natural phenomena. This risk is discussed in more detail in the Principal Risks section starting on page 30.

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

The focus on ERM and governance is consistent across the cycle with full engagement from the Board down. Roles and responsibilities with respect to the identification, assessment, mitigation and monitoring of risks are clearly defined. The risk management framework drives risk culture from the bottom up, through risk and control ownership by management and staff across the Group.

Risk management framework

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

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

As at 31 December 2022, 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 2023 annual ORSA report will be presented to the Board for review, challenge and approval at the Q1 2023 Board meeting. The equivalent reports for the operating subsidiaries will also be presented to their boards for review, challenge and approval during Q1 2023. 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, all of which are underpinned by our risk culture and governance. Our collaborative risk culture is driven from the 'top down'

“We aim to promote informed risk taking that considers the risk and reward equation in all major decisions in order to optimize growth.”

via the Board and executive management to the business, with the RRC central to these processes. Risk culture is also driven from the ‘bottom up’ through the risk and control affirmation process. The primary role of the Group CRO is to facilitate the effective operation of ERM and the ORSA processes throughout the Group at all levels.

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

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

During 2022, the risk management framework was enhanced with regards to evidencing risk management challenge, with a focus on the areas of strategic decision making and change management. The quarterly ORSA report was used to report this oversight and challenge to the Board.

The internal audit function considers both existing risks to the business and emerging risks which may impact the Group in designing its programme of work. The Group’s risk and control registers and emerging risk radar are key sources of information for internal audit who provide the Audit Committee with mapping between the proposed audit plan and key risks of the Group as well as coverage of emerging risks within the internal audit plan. The Group CRO has input to all internal audit terms of reference and receives copies of all internal audit reports enabling the risk function to assess all recommendations and include in the risk register as appropriate.

RRC

The RRC, chaired by 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 2022 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests, the results of thematic reviews (for example a review on the impact of inflation on our portfolio and associated model assumptions) and the results of the quarterly affirmation process and related controls testing.

Emerging risk

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

Emerging risks, by their nature, are difficult to quantify, however our emerging risk radar was designed to clearly illustrate the risks and expected time horizon, magnitude and likelihood. Examples of key emerging risks monitored include operational strain (driven by growth), geopolitical disruption, economic risks including inflation and recession, and regulatory risk, for example in relation to new climate related standards or legislation.

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

The threat which catastrophic weather events pose to individuals, communities and businesses illustrates the social and economic value which our risk management products generate. This is therefore a key area of strategic opportunity for our business and one of the key drivers of our underwriting risk exposure management. In particular, management and the Board set tolerances for, and monitor, the Group’s probable maximum losses for major catastrophe events and in particular weather-related exposures. Please see page 146 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 2022, the Group once again participated in the CDP, which is aligned with the recommendations of the TCFD, which are promoted by the Financial Stability Board and the Bank of England. See also our 2022 TCFD Report starting on page 61 for more information.

Understanding the key risks to the Group

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

Within the capital models, insurance risk accounts for the majority 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. We continue to believe in the market cycle and the dynamics of supply and demand and therefore spend time looking at the implications of new capital entering the market and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change through the analysis of the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy, we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned to our business planning, ORSA processes and strategic and business plan time horizons. The selected tests are aligned to our key risk areas of capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.

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

Risk universe

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

The Board evaluated the risks disclosed, alongside other factors, in the assessment of the Group's viability and prospects as set out in the going concern and viability statement in the Directors' report at page 118.

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

These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events.

They have the potential either to magnify the adverse impacts of intrinsic risks, for example increased reinsurer default losses arising through the use of non-approved counterparties; or to crystallise separately in their own right, for example losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.

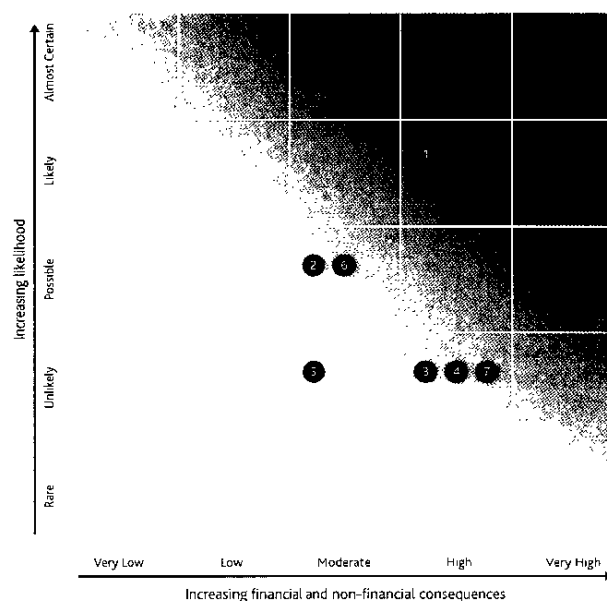
Other

Strategic, Group, Emerging, Climate

These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

Given the broad reach of climate change and the risks associated with it, we concluded these risks are most appropriately managed by including their impact through existing principle risks, rather than a separate climate change principal risk. The impact of climate change is therefore covered in the following principal risks: underwriting, investment, operational and strategic.

Current assessment of principal risks



Key

Principal risk

- 1 Underwriting
- 2 Investment
- 3 Reserving
- 4 (Re)insurance counterparty

- 5 Liquidity
- 6 Operational
- 7 Strategic

Intrinsic risk: Core – **Underwriting**

As a (re)insurance group our business is in assuming risk. The problem arises where there is a mismatch between the risk we are being paid for and the risk we are assuming. If we are mispricing our business, we are at increased risk of having insufficient premium to cover any losses arising. If we are taking on more exposure than we realise, then we are at an increased risk of having much larger losses than we expect in a particular scenario. Losses in our classes are hard to predict, in particular as to the specifics of timing and quantum of catastrophe loss events. Additionally, we underwrite lines of business that are subject to accumulations, including accumulations of individual risk losses arising from a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and AV52 portfolios. Losses can also exceed expectations in terms of both frequency and severity. We recognise that through climate change trends, and other influencing factors, weather-related incidences or other actual catastrophe loss events may increase losses in frequency, severity and clustering, so, although we model losses, using third party stochastic models, we know that these projections can and will be wrong in many instances.

Opportunities

As market dynamics change so too do the opportunities available to the Group. We remain creative and responsive in the provision of tailored insurance and reinsurance products and solutions to our core clients across the different platforms of our business. The management team regularly considers new business opportunities and provides updates on these to the Board. We continue to focus on the opportunities to support our clients as they transition from the current carbon intense environment to a lower-carbon one.

Mitigation

Modelling: We apply loads to, and stress test, stochastic models and develop alternative views of losses using exposure damage ratios. We review our assumptions periodically to ensure they remain appropriate. We also backtest our portfolio against historic events to assess potential losses. PMLs for natural catastrophe perils are updated monthly, and RDSs for non-elemental perils are updated quarterly. Both are provided to the RRC for review.

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

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

Underwriting guidelines: Underwriting risk appetite is incorporated into underwriters' individual underwriting authorities; compliance with these authority levels is part of the daily underwriting procedures. Climate related insurance underwriting guidelines have been introduced to guide underwriters during this period of transition in energy markets.

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 through the cycle. The Board is actively engaged in the development and implementation of the Group's underwriting strategy, including consideration of potential risks to the strategy such as climate-related physical, transition and litigation risks. The Board is also involved in the articulation of, and adherence to, formal underwriting risk tolerances. Quarterly risk data on this, including all movements in the Group's principal modelled PMLs and RDSs, is both received and reviewed by the Board's UURC to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. The Board customarily reviews the capital requirements and adequacy of the business within the context of underwriting risk exposures on a quarterly basis. The UURC and Board also review and approve the structure of the Group's outwards reinsurance programme.

Key

Strategy	Risk trend	Impact trend	Appetite trend
① Underwriting comes first	⬆ Increased	⬆ High	✓ Acceptable
② Effectively balance risk and return	➡ Stable	➡ Moderate	➡ Reassess
③ Insurance market employer of choice	⬇ Decreased	⬇ Low	✗ Unacceptable

Intrinsic risk: Core – Investment



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

Opportunities

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

Mitigation

Governance: Board and investment strategy: Our strategy is that investment income is not expected to be the principal driver of our returns. However, we do seek out non-correlated investment opportunities to add yield where appropriate and as we build our casualty portfolio, we will look to match casualty reserves with longer duration assets. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored on a quarterly basis by the Investment Committee and Board. Our biannual strategic asset allocation study was performed during 2022, the recommendations from which were approved by the Board on the recommendation of the Investment Committee in Q3 and will be implemented during 2023.

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

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, as well as performance against the climate-related metrics that have been implemented, including carbon intensity scores and a climate value at risk measure. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances. As noted within the mitigation section, the Board approved the recommendations arising from the biannual strategic asset allocation study which was performed during the year and will be implemented in 2023, unless there are unforeseen circumstances in the market that change the outlook of certain asset classes.

Intrinsic risk: Non-core – Reserving



Because we do not know the quantum of losses, if any, to be incurred at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. Lancashire has a consistent reserving methodology; however, there is a risk that the reserves established based on our estimates are insufficient. 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 evaluate the overall levels of expected losses, including individual large events and benchmarking analyses, to provide assurance over the level of reserves booked.

Recently, there have been several loss events which, due to their ongoing nature and impact across multiple product lines, are exceptionally difficult to reserve for with inherently uncertain ultimate losses. In 2020 the pandemic led us to change the trend for this risk to increased, from stable. In 2021, we retained the elevated status due to the social inflation risk within claims. This year, with inflation across the U.S. and Europe reaching its highest level for many years, we have performed a detailed analysis on the impact of inflation rates to ultimate losses and reserve levels. However, there remains considerable uncertainty and we have therefore again shown the risk as trending upwards.

Whilst our longer tail lines, such as casualty, remain a small proportion of the overall book, these lines, due to their very nature, are more difficult to reserve for and will, over time, increase the inherent risk within this principal risk.

Opportunities

As an intrinsic non-core risk, i.e. one to which we are exposed as a result of our day-to-day business but does not offer a direct potential for return, there are no opportunities as such to speak of.

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

Mitigation

Short-tail business: Lancashire's focus is predominantly on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty. When entering any new line of business, Lancashire adopts a conservative reserving approach as it becomes established.

Experience data: We have access to significant amounts of data, both internal and from the industry as a whole, relating to 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 reserving update is presented to and reviewed by the Audit Committee on a quarterly basis.

External review: Insurers typically facilitate an independent review by external actuaries of their loss reserves. Lancashire retains the services of one of the leading industry experts and our appetite is defined so as to set reserves within a range of reasonable estimates based on both internal and external review. The Audit Committee receives and considers 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 and other natural catastrophe losses and pandemic losses.

Intrinsic risk: Non-core – (Re)Insurance and intermediary counterparty



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

Opportunities

As both a purchaser and seller of reinsurance, opportunities exist throughout the insurance cycle. While rates were suppressed, the quantum of reinsurance coverage purchased increased and therefore so did counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to help 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.

Intrinsic risk: Non-core – 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.

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.

Intrinsic risk: **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 151 for more information). Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposures. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system. Furthermore, unauthorised access to IT systems as a result of a breach or failure could result in data loss, including personal data, which may have regulatory and/or reputational risk implications. With flexible working conditions now the norm we have invested heavily in our information security capabilities, monitoring and staff training to mitigate the risk associated with the change in working environment.

Opportunities

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

Mitigation

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

Testing and access: We mitigate the integrity risk by using independent external penetration tests, and by restricting access to key systems to only those people who are qualified and need to use them. We also have a Cyber Incident Response Plan to guide management should a third party be discovered to have gained access to our systems. This plan is tested on an annual basis in the form of a table-top exercise facilitated by a third party specialist.

Personnel: We mitigate the risks associated with staff recruitment and retention and key-man risk through a combination of resource planning processes and controls. Examples include targeted retention packages, documented position descriptions and employment contracts, resource monitoring and the provision of appropriate compensation and training schemes. In addition, the Group has core values, to which all employees subscribe and which reflect the strong and positive corporate culture described in the People and culture section starting on page 51. The Board regularly reviews succession planning arrangements and remuneration structures.

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

How the Board reviews this risk

The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process and detailed control testing, along with the Group CRO's opinion on the overall control environment. The Audit Committee reviews this alongside the quarterly updates from the internal audit team regarding their programme of work and opinion on the effectiveness of controls. In addition, the quarterly ORSA report from the Group CRO to the Board includes details of a suite of KRIs, any risk events and near misses, changes to the risk register, and the drivers for such change. The Board reviews the culture aspect of operational risk through the Audit Committee, which receives an update in each internal audit report as well as through internal audit's analysis of the root causes of the audit findings. The Board is provided with regular updates on the change management portfolio of work.

Intrinsic risk: **Other**



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

Whilst we view climate change as a factor relevant principally to our underwriting and investment risks (see previous), the Board and business continue to monitor the effects of climate change risk and its perception as a driver of global economic, political, legal and regulatory change. For more detail on this and our governance, strategy, risk management and metrics and targets associated with climate change risks please see the TCFD report starting on page 61.

Of the other risks, the success of the Group is most dependent on its strategy and the successful execution thereof. Strategic risk is not limited to but can be increased by any or all of the following: inappropriate strategic objectives, not adapting to market conditions, poor decision making, poor communication of the strategy and/or the business plan in place to deliver it, and inappropriate or insufficient personnel.

Opportunities

Having a clear vision, and a strategy that is well communicated internally allows the whole Group to understand their role and contribution to the whole.

Mitigation

Review and challenge: The risk of inappropriate strategic objectives and not adapting the strategy / business plan for the market conditions are mitigated by the governance over the Group's strategic planning process and the annual review and challenge by the Group Executive and Board of the strategy document.

Communication: Following the Board's approval of the strategy, events were held in London and Bermuda to communicate the strategy to the wider management team, who then communicated it to their teams prior to town hall events where there was the opportunity to ask questions of executive management.

Performance and appraisal process: There is the risk that poor performance by senior management has a detrimental impact on the Group's performance. This is mitigated by the performance and appraisal process run by the HR department, and the monitoring of senior management's performance by the CEO, overseen by the Remuneration Committee of the Board. The performance and appraisal process is also a mitigant against inappropriate conduct by, or inadequate skills of, personnel.

Succession planning: Being aware of the strength in depth, or lack of, and documenting within a succession plan that is regularly reviewed, mitigates the risk of both inappropriate and insufficient personnel.

How the Board reviews this risk

An annual strategy day is held with the Board and members of the Group Executive, following which management prepares the strategy for review and challenge by both the Group Executive and the Board. The Board then receives quarterly updates on the Group's performance against plan in its execution of the strategy.

Our commitment *to sustainability*

At Lancashire, we're committed to evolving as a business on matters of sustainability and governance.



Our ESG approach is relatively simple. We actively review and consider the wide range of developing requirements and focus on those areas where we can make a tangible impact in the short-term. We also consider the longer-term impact of factors, such as climate change, on our business and our clients.

Peter Clarke
Non-Executive Chair of the Board

Chair's introduction



Embedding *a sustainable approach*

Peter Clarke
Non-Executive Chair of the Board

In last year's Annual Report and Accounts we presented our Group ESG strategy which had the full backing of the Board for implementation by the business.

The strategy was reviewed again in November 2022 and the Board was pleased with the progress we had made against our core priorities focussing on the Lancashire Foundation, people and culture, sustainable insurance, operating responsibly and responsible investment.

Additionally, we have also included a new pillar within our Group strategy which includes as an objective further developing the Group's ESG principles to ensure we continue to operate responsibly. Aligned to this is also fostering an entrepreneurial collaborative culture via the Lancashire values.

Issues of sustainability and governance, and good corporate citizenship, are now at the forefront of business thinking globally. There are few sectors where the impact of a company's activities is not considered.

Our ESG approach is relatively simple. We actively review and consider the wide range of developing ESG requirements and focus on those areas – such as our people and the Lancashire Foundation – where we can make a tangible impact in the short-term. We also consider the longer-term impact of ESG factors, such as climate change, on our business and our clients.

Our efforts are led by the senior management team who receive regular reports from the Group's ESG Committee. In turn the Board monitors and implements the overarching governance arrangements for the Group and receives, as part of its quarterly meetings, reports on all key strategic and ESG developments and business activity, and discusses material issues.

All members of the ESG Committee have operational roles, which ensures our thinking is embedded deep within the business, which means we receive strong buy-in at the outset. Initiatives are truly driven by the business with a realistic lens on how the Company operates.

Much of the focus on ESG is rightly on environmental matters. We have long taken account of the potential impact of climate change on our business. The Board has set clear PML tolerances which identify the amount of our balance sheet we are willing to expose to climate risk. Additionally, we are also a valued partner to our clients, who are taking their own actions as part of the global energy transition. We will continue to work with them and our industry peers through our membership of the ClimateWise organisation.

The global energy transition is part of an ongoing debate. As we have seen during 2022, fossil fuel based forms of energy remain a key component of global energy security while alternative lower carbon energy infrastructure is in a state of further development. While we do not have all the answers, we understand the importance of the global energy transition away from carbon based energy. We welcome the opportunity to work with our clients, and aim to be a constructive participant in these important discussions and the process of transition.

While we are in no doubt that the expectations on businesses in all sectors have grown, and will continue to grow, the Board remains committed to transparency in our reporting.

We continue to report against the United Nations' Environment Programme Finance Initiative's Principles for Sustainable Insurance and the recommendations of the TCFD, which are also aligned with the principles set out in the 2015 Paris Agreement. The Group's UNEP FI

Principles for Sustainable Insurance's report can be found on our website. As in previous years, our progress in the area of climate change management of risk and opportunity is outlined in our TCFD Report starting on page 61.

As the business has grown, ensuring that the Board continues to engage with employees is crucial.

While Alex Maloney and Natalie Kershaw, as Executive Directors, lead that day-to-day engagement, our Non-Executive Directors also welcome the opportunity to meet employees and gain valuable insights. These opportunities are both formal and informal and include representation at the quarterly Town Hall events which are led by Alex Maloney. The Board also receives quarterly updates from the business on employee-related topics. We were pleased to approve a targeted cost-of-living payment and a tiered approach to salary increases to benefit those most impacted by inflationary pressures, alongside a number of changes to policies focused on work/life balance at our meetings in 2022.

The Board's various committees also received presentations from around the Group on a range of matters including specific underwriting opportunities within product classes, ongoing business transformation projects, and the feedback from employee surveys.

During the year, there have been a number of changes within the Board.

Samantha Hoe-Richardson completed nine years of service in early 2022 and accordingly did not stand for re-election at our 2022 AGM. On behalf of the Board, I would like to wish Sam the very best with her future endeavours and to thank her for her service. Sally Williams succeeded Sam as Chair of the Audit Committee.

Irene McDermott Brown was appointed Chair of the Remuneration Committee in April, succeeding Simon Fraser. She has since initiated a review of our Remuneration Policy for Executive Directors and consulted with Lancashire's shareholders. Please see the Remuneration Committee report starting on page 94 for more information.

Additionally, Simon Fraser stepped down from the role of Senior Independent Director which he has held since April 2014. Simon has recently completed nine years of service as a Non-Executive Director and will not stand for re-election at the AGM in 2023. We were pleased that, following a selection process, Robert Lusardi was appointed Senior Independent Director in November. Robert has been an independent Non-Executive Director since July 2016. He is the Chair of the Investment Committee and is also a member of both the Audit and Remuneration Committees.

The Board offers its grateful thanks to Simon for his long tenure and also wishes him the best for the future.

In July we were delighted to welcome Jack Gressier as a Non-Executive Director. Jack has over thirty years' experience in the insurance industry and will bring additional expertise to the Board.

During the year, the Nomination, Corporate Governance and Sustainability Committee reviewed the composition of the Board to ensure that it had the correct balance of skills, knowledge, independence, experience and diversity to be appropriate for the Group to meet its strategic objectives.

The Board is committed to meeting the Parker Review target for minority ethnic representation by December 2024. We are actively progressing recruitment in order to meet this target.

As a premium-listed company on the LSE, Lancashire measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. This requires each company with a premium listing to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance. The Board's Nomination, Corporate Governance and Sustainability Committee monitors the Group's code compliance quarterly and more information can be found in the report starting on page 86. In addition, the Company also monitors compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the BMA, which also regulates LICL, the Group's Bermuda-incorporated (re)insurance entity. The Group's UK insurance entities are regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

The Board has continued to focus on proactive and constructive stakeholder engagement aligned to the Section 172 responsibilities of boards under the UK Companies Act 2006. While not formally subject to Section 172 as a matter of law, due to the Company's incorporation in Bermuda, we believe that, as a responsible business, complying with those responsibilities is a matter of importance and that they provide practical working tools by which we can monitor our engagement. The Board's statement regarding matters covered by Section 172 can be found on page 44 which outlines examples of how the Board and the business have factored in the needs of our stakeholders in their discussions and decision making.

I am pleased to say that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2022, and has appropriately considered those duties set out in Section 172.

During the year the Board conducted a review of the Company's Bye-laws. The Board is recommending certain changes to the Bye-laws, which are of a technical nature, for consideration and approval by shareholders at the 2023 AGM. Details of the proposal will be set out in the AGM notice and on the Company's website.

Evolving our ESG philosophy



“Sustainability is a core part of our strategy, demonstrated by the products we sell and in supporting the energy transition.”

Jelena Bjelanovic
Chair of the ESG Committee and Head of Investor Relations

Q: How does Lancashire think about sustainability?

A: Since its inception, Lancashire has operated as a responsible business. Our ESG strategy is to continue to build and embed a culture of sustainability further within the business. We do this in a number of ways. In our own operations, we have been measuring and offsetting our carbon footprint for a number of years. In 2021, we introduced a target to reduce this footprint by 15% per FTE by 2030, through a number of initiatives, like minimising the use of single use plastics and reducing paper wastage through on-demand printing, to name just two. I'm pleased to say we are progressing well on that target. In 2022, we also surveyed our employees so we can better understand the emissions impact of their commute to the office.

Q: How are you embedding a culture of sustainability at Lancashire?

A: Within our underwriting operations, we continue to monitor and report on compliance with our ESG insurance underwriting guidelines to the Board and have completed a pilot project to monitor the carbon footprint of parts of our underwriting portfolio. This is in addition to the regular and active engagement our underwriters have with their clients on ESG matters, which we are also in the process of documenting. Likewise, our investment team continues to apply and report on our ESG investment guidelines, as well as evaluating

different measures for our financed emissions. We had already introduced a Climate VaR risk appetite statement in 2021 and are evaluating potential sustainability fund investments that may be appropriate for our overall strategic asset allocation.

Q: How are employees helping with these efforts?

A: It goes without saying that people are the biggest asset we have at Lancashire. To that end, we have recently reinvigorated our DE&I working group and launched an employee network, to provide further support to all colleagues through additional educational, mentoring and networking opportunities. In our communities we are all extremely proud of the work of the Lancashire Foundation.

Q: What role does the ESG Committee play?

A: All of these activities are overseen by the ESG Committee, which is fully integrated into the business and reports to the Group Executive Committee and the Board on a quarterly basis. Particularly in the second half of 2022, the Committee spent time developing additional metrics and targets, which will form part of our quarterly Board reporting for 2023. Most importantly for me, sustainability is a core part of our strategy, demonstrated by the products we sell and in actively supporting the energy transition.

ESG strategy and progress

The Board challenges the business on matters of sustainability, people and governance and works collaboratively with the management team.

During 2022, the Board reviewed and approved the Group's ESG strategy and priorities. Progress against these is noted below.

1. People and culture

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

Progress

- High level of diversity maintained (Senior management positions 53% male/47% female; Group executive 57% male/43% female).
- Accredited living wage employer, for our business and our supply chain.
- Hiring practices seek to remove bias through anonymisation of CVs and gender neutral language for role adverts.
- Training on diversity matters included in employee induction programme and unconscious bias training across the Group.

2. Sustainable insurance

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

Progress

- ESG insurance underwriting guidelines implemented by reference to Lloyd's ESG underwriting guidelines.
- We underwrite renewable energy covers, where appropriate, and continue to monitor our energy clients' transition plans.
- 2022 peer benchmarking exercise. ESG framework reviewed annually.
- Our CCWG articulates underwriting related risks and opportunities relating to physical, transition and liability risks and investment-related risks and opportunities.
- Joined ClimateWise in 2022.

4. Operating responsibly

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

Supporting wider society through our corporate and charitable activities including the Lancashire Foundation.

Meet and comply with legal, regulatory and investor obligations on ESG.

Progress

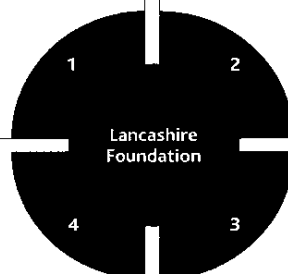
- In the five years from 2015 up until the pandemic hit early in 2020, the Group's emissions reduced by 16% per FTE.
- Fully offset calculated 2022 GHG market-based emissions by purchasing verified credits.
- More than \$22.3 million donated to charitable organisations since 2007.
- The Group continues to operate in line with all relevant regulatory and legal requirements.

3. Responsible investment

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

Progress

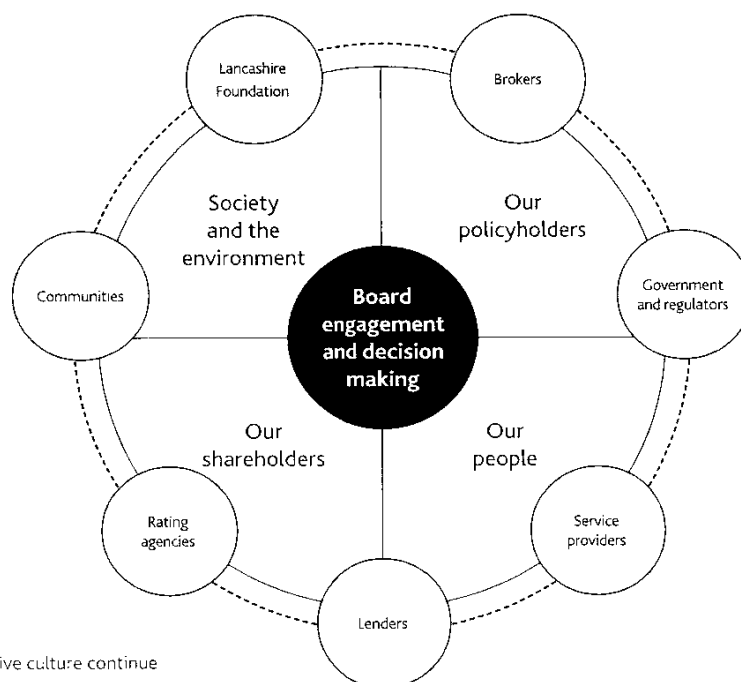
- 93.9% of the Group's principal investment managers are signatories to the UN Principles for Responsible Investment.
- Our ESG investment guidelines embedded in external investment managers' guidelines for 2022.



A responsible business culture

The very foundations of our strategy and success as a business are the solid pillars of engagement that we have built with our people, our stakeholders and society, and the creation of a healthy and sustainable corporate culture. Since its foundation in 2005, the Group has focused on fostering relations with a broad range of stakeholders.

Our universe of stakeholders



Our people

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

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

SEE PAGES 51 TO 55 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 effective partnerships 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 57 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 57 FOR FURTHER DETAILS.

Society and the environment

The Group is committed to measuring and offsetting carbon emissions for its own operations (see page 59) and to creating the governance structure, risk management and metrics for managing the effects of climate change on business strategy and aligning this with the global economy as it transitions to 'net zero' (see our 2022 TCFD report starting on page 61)

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 PAGES 47 TO 50 FOR FURTHER DETAILS.

Responsible Board decision making

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

In this 2022 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of our stakeholders in their discussions and decision making in all areas of performance review, strategy, risk and capital management. To that end, this sustainability segment should be considered together with the rest of this report as the Company's comprehensive account of its Directors' compliance with their Section 172 duties.

Section 172 responsibilities in focus

Operation of the Lancashire Foundation

Criteria considered (See table overleaf)

(c) (d) (e) (f)

Relevant stakeholders

Customers
Our people
Brokers
Communities

The Lancashire Foundation has been a UK-registered charity since September 2012.

The Board approves a funding pool each year which is linked to the Group's financial performance in the last accounting year.

The Board receives regular reports from, and meets with, the Foundation's trustees.

During 2022, the Foundation focused on supporting causes that benefit wider society, including support for two homeless charities. The Foundation also continued to make donations to organisations nominated by employees and to match funds raised.

Loss events during 2022

(Hurricane Ian and the conflict in Ukraine)

Criteria considered (See table overleaf)

(a) (b) (e) (f)

Relevant stakeholders

Customers
Our people
Brokers
Government and regulators
Our shareholders

Lancashire expects its insurance and reinsurance products to respond to catastrophe and exceptional insured losses.

The Board convened ad hoc information calls with management to discuss the impacts upon the Group's underwriting portfolio and the reserving exercise in relation to major loss events. The Board formally discussed the development of claims and the establishment of reserves, the impact of international sanctions and measures taken to comply. The Board also discussed the wider impacts of these events across all operations, including the investment portfolio. Reserving for such events influences the Board's discussion of capital requirements to deliver on the strategy and the business plan. Consideration is also given to the expectations of investors, regulators and rating agencies.

Workforce reward and cost-of-living support

Criteria considered (See table overleaf)

(b) (d) (e) (f)

Relevant stakeholders

Our people
Communities

The Nomination, Corporate Governance and Sustainability Committee and Board discussed the outcome of a staff survey focussed on staff perception and appreciation of reward structures and benefits. In light of the survey feedback, and in view of the inflationary and cost of living crisis, management introduced a targeted package of financial support for lower paid employees and extended the Group's subsidised lunch scheme.

The Board discussed the importance of job satisfaction and reward. It noted that the Group has a high-performance culture which helps in the recruitment and retention of the right people for the business and mitigates significant business planning risk.

Section 172 continued

Duty to promote the success of		
Section 172(1):	the company, with regard to:	For further details, see:
(a)	The likely consequences of any decision in the long term;	<p>The Group's statement of purpose – page 5</p> <p>The Group's business model – page 4</p> <p>The Group's strategic goal and three priorities: that Underwriting comes first; balancing risk and return through the cycle; operating as an insurance market employer of choice – pages 4 and 5</p> <p>Positive culture enables sustainability – page 51</p> <p>The Board's assessment of the Group's viability and prospects as set out in the going concern and viability statement – page 120</p>
(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 and development and workforce engagement – page 51
(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 2022, gave close consideration to business development opportunities as summarised in the Committee's report – pages 92 to 93
(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. 2022 saw the further embedding of our ESG strategy within the business – page 43. The Board is engaged with the impact of the Company's operations through its oversight of the Lancashire Foundation, the Group's submission to the CDP, the annual offsetting of our own operations' GHG emissions, and our commitments to report against the UNEP FI Principles for Sustainable Insurance (see our website for details) and address the requirements of the TCFD – page 61
(e)	The desirability of the company maintaining a reputation for high standards of business conduct; and	<p>Through its compliance with the 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 – page 88</p> <p>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 84</p>
(f)	The need to act fairly as between members of the company.	The Board is committed to treating the Company's shareholders fairly, and engaging with them through a broad programme of investor relations activities, meetings (including the AGM), and targeted consultations; be that with our substantial shareholders, the Company's own employees, private individuals, or via shareholder advisory groups – see in this regard 'Section 172 responsibilities in focus', as well as page 23 Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of dividends – pages 8 and 9, page 23 and page 118

The Lancashire Foundation

The Lancashire Foundation is at the centre of the Group's charitable activities and has made donations totalling more than \$22.3 million since 2007.

The Foundation supports a range of causes each year and, in 2022, had a particular focus on organisations working to resolve societal issues such as homelessness, access to quality education, and assisting the elderly in our communities.

In February 2022, the Foundation also made donations to UNICEF and the Red Cross to aid their work with people in Ukraine, in addition to matching donations from employees.

It is important to the Foundation that our employees are involved in nominating charities for support through smaller donations alongside larger donations to longer-standing charitable partners.

During 2022, a total of more than \$0.6 million was donated to organisations nominated by employees – including a number of matched-funding donations for colleagues who have fundraised themselves through sponsorship of activities such as marathons, triathlons and other activities.

We are proud of our employees' support for a wide range of causes. Many are close to them through personal experience and others are organisations they put forward for funding from the Lancashire Foundation because they believe in the good that helping those less fortunate can do for wider society. Donations to staff-nominated charities are a minimum of £2,000. These donations have an incredible impact, particularly for smaller charities for whom the funding can mean they can continue their work.

The Foundation has been a UK-registered charity since September 2012. It is funded by the business through a donation pool which is linked to the Group's financial performance meaning all employees are aware that strong business performance will assist in supporting the wider community.

The Foundation receives 0.75% of Group profits with a minimum threshold of \$250,000 to a maximum of \$750,000.

The Board receives regular reports from and meets with the Foundation's trustees.

Just some of the charities nominated by employees for funding from the Foundation during 2022.



Hospice UK
A senior underwriter nominated the charity following the death of a family member who themselves was raising funds for the organisation's work offering hospice and palliative care.



Bermuda Education Network
The Foundation Donations Committee gave their backing to the network which aims to address the achievement gap between public and private school systems in Bermuda.



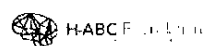
Family in Trust
Two staff members put forward Family in Trust to help cover the costs of supporting children in an adoption home.



Roots
The Foundation supported this charity helping the homeless in Bristol which is run by a friend of an employee.



Mercy Ships
One of our senior marine underwriters nominated Mercy Ships to support their hospital vessels which take healthcare around the world.



H-ABC Foundation UK
A colleague nominated the research charity after a neighbour's son was diagnosed with the rare genetic disorder H-ABC.



Spinal Cure Australia
A colleague in our Australia office nominated this organisation which carries out vital spinal cord research.



Meals on Wheels
The Bermuda charity prepares and delivers up to 220 freshly cooked meals four times a week to those who are incapacitated or are unable to prepare a meal on their own.



Children's Hospital Pyjamas
An employee requested support for this organisation which supplies pyjamas to hospitals, hospices and women's refuges.

Q: Why is the Lancashire Foundation so important?

A: The Foundation has been there since the formation of Lancashire and employees are enormously proud of that. It is part of who we are as a business and the support we get from people within the business is phenomenal.

Charitable giving is a huge talking point now due to the increased focus on ESG but Lancashire was fully committed to giving back to the community before it was seen as something businesses should do.

The \$22.3 million we have given over the past 16 years has made a huge impact and we are so pleased that we have been able to do that.

Q: What is the role of the Foundation's trustees and the donations committee?

A: Importantly, the donations committee is made up of employees from across the organisation who meet quarterly to review submissions from staff and make recommendations for donations. Additionally, the trustees add an enhanced level of governance to approve the recommendations from that committee before donation payments are made.

Q: How do staff get involved in the Foundation?

A: The trustees and committee members are all employees, except for one external trustee. For the past couple of years we have asked staff to submit applications for assistance for a charity that is important to them. This ensures that we align our giving with charities that are supported by a wide range of staff, not just the committee members. In 2022 alone we donated \$149,000 to charities nominated by our colleagues. The Foundation also provides matching donations for fundraising endeavours such as marathons, triathlons, and other activities by staff.

Q: What has been the focus for 2022?

A: This year we decided to focus on the 'Social' in ESG and we were pleased to be able to allocate £150,000 to this initiative. We also started the year with donations in support of people affected by the conflict in Ukraine with donations of £30,000 to both UNICEF and the Red Cross. We also matched staff donations of another £13,000.

We continued to maintain relationships with our core, long-term charities such as the Family Centre, International Care Ministries, St Giles Trust, Tomorrow's Voices and Cancer Research UK.

Q: What is the focus going to be in 2023?

A: We plan to focus on the 'Environmental' in ESG and, while still supporting social organisations, we will look at more environmental charities.

We'll continue to allocate a pot of funds for staff-nominated donations and also hope to do more volunteering.



“Charitable giving is a huge talking point due to the increased focus on ESG but Lancashire was fully committed to giving back to the community before it was seen as something businesses should do.”

Jennifer Wilson
Chair of the Lancashire Foundation Donations Committee and LICI CFO

Giving back through volunteering

Giving back to our communities through volunteering has always been part of Lancashire's way of making a difference to those less fortunate.

Following the COVID-19 pandemic, when it was not possible for employees to give their time to volunteering, we were pleased that in 2022 we were able to again support a number of causes in this way.

To encourage our employees to use their skills and expertise to help others, all staff have the opportunity to attend at least one paid Charity Day per year. Employees use this time to support organisations across a diverse range of activities.

In Bermuda, employees supported the Keep Bermuda Beautiful organisation which aims to keep the island clear of litter and to protect the island's species and wildlife. They participated in a number of activities including maintaining the Bermuda railway trail.

In London, during 2022, we launched a partnership with onHand, an award-winning app that puts employees in control of how, when and where they spend their volunteering time.

Using the app, people can see opportunities to help those who need a hand and can accept 'missions' on an ongoing or one-off basis.

Activities can include food shopping for vulnerable people, befriending phone calls, dog walking, gardening, environmental activities, youth mentoring and lots more. onHand also includes enhanced DBS checks and certificates for volunteers.



Focus on society: Helping the homeless

Helping the homeless in the UK and Bermuda was a focus for the Foundation in 2022 as part of the year's theme of supporting social causes.

In the UK, the Foundation partnered with the Friends of Essex & London Homeless (FOELH).

The charity was initially nominated for a small donation by an employee but, due to its work and impact, the Foundation decided to assist further, with funding totalling £40,000 over two years.

FOELH was founded in 2016 and each week volunteers reach out to those in need at soup kitchens in the Charing Cross area of London and Grays in Essex.

They also signpost people to other services that can help them towards a better future longer-term.

The Foundation agreed to donate 100 rucksacks, which were filled with items supplied by employees in our London office to make the winter a little more manageable for the people the charity supports.

Charity co-founder Steven Stuart visited the London office to thank staff for their support and explain the importance of the organisation's work. Steven said: "We really are lost for words with the Foundation believing in us through a two-year commitment. It is an incredible donation and will have such a huge impact."

"Knowing we have this large amount of guaranteed funds will allow us to really start making an even bigger difference to those in need, homeless and in poverty."

Following the visit a number of employees volunteered with the charity at its London soup kitchen.

In Bermuda, the Foundation has supported HOME, which is working with the Bermuda government and wider local community to create a collaborative plan to eradicate homelessness on the island by 2027.

The charity says 555 people were identified as experiencing homelessness in Bermuda during a study in 2021, a rise of 300 per cent since 2016.

Our Bermuda staff hosted a Christmas lunch for the organisation and the Foundation funded small gifts for the guests. Employees also donated toiletries, socks, blankets and many other items to be distributed by HOME.

Since 2007 the Foundation has put a strong focus on supporting charities with a focus on developing solutions to deal with social exclusion and particularly issues that affect children and young people.

During 2022, the Foundation continued to support a number of charities with which we have established a long-standing relationship over a number of years.

These include ICM (International Care Ministries), St Giles Trust, The Family Centre in Bermuda, Tomorrow's Voices, which have all received more than \$1 million in total donations since 2007, and Cancer Research UK.

\$0.6m

donated in 2022

\$22.3m

donated since 2007

Long-standing partnerships



The Family Centre in Bermuda
The Family Centre in Bermuda was among the very first recipients of donations following the formation of the Foundation in 2007.

Over the years we have continued to support its work providing support to children suffering from emotional, social, behavioural and trauma-based challenges. Its services are available to any Bermuda resident that meets the criteria and has the need.



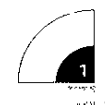
St Giles Trust
The St Giles Trust aims to help offenders realise their potential and avoid re-offending and contribute to a safer and more productive society. It assists some of society's more vulnerable people who may be struggling with issues such as homelessness, unemployment, addiction and discrimination.



ICM (International Care Ministries)
ICM works with the ultra-poor in the Philippines where more than 20 million people live below the national poverty line. In previous years, employees have had the opportunity to travel to the Philippines to see the work of the charity themselves.



Tomorrow's Voices
Tomorrow's Voices is a Bermudian Autism early intervention centre. It was founded in October 2007. It aims to help people diagnosed with Autism or on the Autism Spectrum, starting at the age of two.



Respect, reward and opportunity

Respect, reward and opportunity

During 2022, the Board approved a new strategic focus on our people and culture. This emphasis on ensuring Lancashire attracts and retains talented employees further builds on the business's reputation in the market as an employer of choice.

All the Group's activities are shaped by our values (LANCS – see inside front cover) which underpin both the work we do and how we do it.

Our strong and vibrant culture allows our people to thrive in an environment that values development, retention and respect.

Engagement in a time of growth

The business has continued to grow during 2022, both in terms of gross premiums written and the number of employees.

This growth includes additional underwriters and those in corporate functions who support the underwriting processes and wider corporate infrastructure.

During 2022, we saw our headcount increase from 306 at the end of 2021 to 338.

Central to Lancashire's culture is a philosophy of meritocracy and openness. Senior executives are available to discuss issues with employees on both a formal and ad hoc basis.

The formalised communications calendar includes quarterly all staff 'Town Hall' events, led by Group Chief Executive Officer, Alex Maloney.

To ensure a firm link between the work of the Board and the wider business, Non-Executive Directors attend these events to discuss their role and recent Board discussions, and to invite questions. In addition, Alex Maloney regularly communicates with employees on significant corporate announcements and activities.

Staff engagement channels are kept under review to ensure they remain appropriate and effective. A new Group-wide intranet will be launched in 2023 to further engage with staff and provide news and information.

Employee surveys and acting on feedback

Lancashire is committed to giving people mechanisms for feedback and to suggest how enhancements can be made to the employee experience.

During 2022, a survey was carried out among our London-based staff focusing on wellbeing. This followed a Group-wide 2021 Engagement Survey and was designed to test the effectiveness of a number of initiatives that had been introduced following the wider survey.

A Group-wide reward and benefits survey was also carried out during 2022 to assess employees' views on Company benefits and their understanding of them.

Participation in this survey was high at 85% with extremely positive feedback. A summary of the results was presented to the LHL Board, the Group's subsidiary boards and Group Executive Committee team to assist in identifying areas of positive engagement and those which can be further strengthened.

Nearly three quarters of employees said they considered the range of workplace benefits at Lancashire to be market competitive with a majority saying they would remain working at Lancashire even if a comparable role was available elsewhere.

Following the survey the Company enhanced a number of benefits, with a particular focus on 'family friendly' employment policies. These included enhancements to maternity, paternity and adoption leave, and a new benefit of paid leave for IVF treatment and pregnancy loss.

As a business we benefit from the experience and expertise of our people, many of whom have spent large parts of their career with us. To acknowledge this contribution, we also launched a new sabbatical benefit for those who have served for 10 years or more. This is our way of thanking people for their commitment and dedication.

RSS

All permanent employees have an enhanced interest in the performance and success of the Company through our RSS to ultimately become a shareholder in LHL. The 2022 reward and benefit survey found the RSS to be among the top five benefits valued most by employees.

Practical support

During 2022, the Company acknowledged the difficulties experienced by some employees due to the increased cost-of-living, particularly higher energy prices. To assist, a one-off cost of living payment was made to lower paid employees in London and Bermuda.

For a number of years the Company has provided free lunches on specific days for staff members to encourage them to interact in the office during breaks. This benefit was also expanded during 2022.

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

Supporting our people

Lancashire's goal is to retain and attract people who share our values and can bring their talents to the benefit of the Group.

Group employee turnover in 2022 was 11.2%.

We believe that a mix of new talent and supporting and developing those who have longer service is a differentiator relative to our competitors.

During 2022, we continued to promote talented employees to more senior positions within the business when the appropriate opportunities arose.

A significant number of senior executives have held previous roles with the Group meaning we continue to harness their experience and expertise.

Total years of service with the Company	Selection of roles held in the organisation
Alex Maloney*	LUK CUO
17yrs	Group CUO
	Group CUO and LUK CEO
	Current position: Group CEO
Hayley Johnston*	Claims and Reinsurance Assistant
16yrs	Specialty Lines and Re-insurance Coordinator
	Assistant Underwriter & Reinsurance Coordinator
	Deputy Chief Underwriting Officer & Reinsurance Coordinator
	LUK CUO and Reinsurance Manager – LUK
	Current position: LUK CEO & Reinsurance Manager
Denise O'Donoghue	Corporate Finance Officer
15yrs	Group Head of Investments and Treasury
	Current position: Group CIO
Paul Gregory*	Deputy Energy Underwriter/Marketer
15yrs	LUK CUO
	Group CUO
	Group CUO & LUK CEO
	Current position: Group CUO and LCM CEO
Natalie Kershaw*	Group Financial Controller
13yrs	Group Financial Controller & LUK CFO
	Group Chief Accounting Officer
	Current position: Group CFO
Ben Readdy	Actuary
12yrs	Head of Capital Modelling
	Deputy Chief Actuary
	Current position: Group Chief Actuary
Louise Wells*	Group Head of Internal Audit
11yrs	CRO
	Current position: Group CRO & LUK COO
John Cadman*	Group General Counsel
9yrs	Current position: Group General Counsel and LUK CEO
John Spence*	Active Underwriter Syndicate 3010
8yrs	Current position: LUK CEO

* Member of the Group Executive Committee

“We benefit from the experience and expertise of our people, many of whom have spent large parts of their career with us. To acknowledge this contribution, we also launched a new sabbatical benefit for those who have served for 10 years or more.”

Training and development

At Lancashire, we believe that training and professional development is a continuous career-long process that helps employees make the best of their talents and meet their ambitions. It is also good for the business as we benefit from the increased knowledge, skills and experience that development brings.

During 2022, as part of our on-going enhancements to how we assist our people, we launched a new training and professional study policy.

The policy outlines the support available and includes, in some cases, new financial incentives for completing certain programmes. It also has a clear process for identifying training needs across the Group, both for individuals and for the additional skills we need as a business as we continue to grow.

Regardless of their role, Lancashire also offers all colleagues the opportunity to learn new skills through our online 'LMS - Insurance Assess' e-learning platform which features a wide range of (re)insurance specific training courses, as well as compliance, soft skills, management and health and wellbeing training.

The Group's comprehensive training programme on regulatory and other matters is aligned to a clear set of policies and procedures. This compulsory training ensures we uphold our high standards and is delivered to all new permanent staff, including employees working part time, and those on fixed-term contracts.

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

Other training may be held on an ad hoc, one-off or refresher basis according to an individual's requirements. New employees are expected to complete this training during the first three months of employment.

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

Additionally, training needs and requirements for employees are reviewed at least annually in partnership with the employee and their manager as a part of the performance review process.

Diversity, Equity and Inclusion

We understand that a successful business must have a range of talents available and that this comes from having a diverse workforce. Lancashire has a number of robust policies in place to ensure that people are not discriminated against either during the recruitment process or during their time with us. We operate a zero-tolerance approach to bullying and harassment.

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

People and culture *continued*

During 2022, the Group has actively strived to widen its net for recruitment and to seek to encourage more diverse applicants for roles. A recruitment day was organised for a number of underwriting roles and this was advertised on our corporate website and social media channels. It was specifically broad in its scope to attract those new to the sector and those returning from a career break.

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

Lancashire employees were also asked to attend training on Unconscious Bias and the 2022 programme, aimed to ensure that all staff had the skills they need to support our focus on fairness and inclusion, had a 95% participation rate.

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

The Group runs an 'open door' policy where employees are encouraged to engage with their manager or HR department concerning any matters of concern during their career at Lancashire. This is supported by a Dispute Resolution Policy in instances where issues cannot be initially resolved. Employees are encouraged to use this mechanism without fear that they will be penalised in any way.

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

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

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

During 2022, the Group Executive Committee approved the Group's Diversity, Equity and Inclusion Policy which is available on the Group website.

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

Employees who believe they may have been discriminated against are encouraged to raise the matter through our Grievance Procedure. Likewise, any employee who believes they may have been subject to harassment are encouraged to raise the matter through our Anti-Harassment and Bullying Policy. Details of all internal policies are available to employees on our intranet site.

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

	2022	2021	2020	2019
Number of employees (UK, Bermuda and Australia)	338	306	255	218
Percentage of female employees	37.3%	37.0%	38.8%	38.5%
Percentage of women on the LHL Board	29.0%	44.4%	37.5%	37.5%
Percentage of women on the Group Executive Committee	43.0%	50.0%	50.0%	50.0%
Percentage of women in senior management positions	47.0%	50.0%	50.0%	38.1%
Percentage of the workforce composed of third-party contractors	10.3%	7.1%	6.9%	8.0%
Group employee turnover (annual)	11.2%	15.3%	6.8%	13.8%
Percentage of permanent employees eligible for RSS awards	100%	100%	100%	100%
Accredited London Living Wage employer	Yes	Yes	Yes	Yes

Wellbeing and health and safety

Particularly following the COVID-19 pandemic, the focus on health and wellbeing for employees, both physical and mental, has increased globally.

Lancashire has a range of policies and procedures in place to ensure people are supported. Communications are regularly sent to employees to highlight the initiatives and assistance available through our third-party corporate healthcare providers. This included the 2022 World Mental Health Day.

The Group's Employee Assistance Programme (EAP) includes immediate expert telephone support 24 hours a day, access to a suite of resources aimed at supporting home life, work life and physical and emotional health, and the opportunity to enrol in Self-Help Programmes.

The Group's occupational mental health and well-being policy aims to provide a positive and supportive working environment conducive to good mental health and to eradicate any stigma or discrimination.

The HR department is responsible for leading on mental health and wellbeing for the Group and the initiatives required to achieve its aims.

The Group makes it clear in its recruitment, induction and employee training programmes that it takes the promotion of wellbeing and good mental health seriously, and offers non-judgemental support for those suffering mental health difficulties and ill-health.

Abusive or discriminatory behaviour by a member of staff towards another will be seriously and confidentially investigated and will be dealt with in accordance with the Group's disciplinary procedure.

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

As an office-based business, we are less exposed to major incidents. However, the Group consults with and updates staff regularly on health and safety issues and provides and maintains risk assessments for tasks carried out by employees where potential danger has been identified. Business Continuity, Disaster Recovery, and Fire Safety training, is mandatory for all staff.

Our full Health and Safety Policy is communicated to employees on joining and is available on the intranet.

Whistleblowing

We provide a simple, transparent and secure environment for staff and other stakeholders to raise concerns about any potential wrongdoing within the company. We encourage staff to report any activity that may constitute a violation of laws, regulation or internal policy, and reporting channels are provided to staff for this purpose within a whistleblowing policy available on the Group intranet.

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

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

Data protection and privacy

In order to operate efficiently, the Group must collect and use information about its staff and data protection policies are in place to ensure that information, however it is collected, recorded and used, is handled and dealt with correctly. Overall responsibility for data protection and privacy sits with the Audit Committee, which receives a quarterly report for review.

To this end the Group fully endorses and adheres to the principles of data protection as set out in the relevant UK data protection legislation. All employees are expected to familiarise themselves and comply with the regulations, which are available on the Group intranet.

Supporting the global carbon transition



Meeting the challenges and opportunities of ESG issues has been embedded within the Lancashire business for many years.

The underwriting of complex risks, particularly those within the property catastrophe class, is based on a clear and pragmatic understanding of potential perils, their nature and mitigation factors.

This includes measuring and assessing potential loss exposures due to climate factors and setting clear preferences and tolerances for events, such as hurricanes and other weather occurrences.

Lancashire underwriters use their expertise which is supplemented by a number of sophisticated models.

We believe that the insurance industry has an important role to play in assisting clients with their own role in the global carbon transition. Lancashire operates within a subscription market in which the ability to adapt insurance solutions to address climate-related issues is a shared focus.

In May 2022, Lancashire joined ClimateWise, which brings together the global insurance industry with a focus on driving action on climate change risk.

We look forward to sharing our long-standing expertise and working with firms across the sector as we all rise to the shared challenges we face.

The insurance sector plays a crucial role in empowering people. The risk management solutions we provide give people confidence that the potential effects of catastrophic loss events on business and community are mitigated.

Since 2019, we have been committed to implementing and reporting against the UNEP FI Principles for Sustainable Insurance, a global framework for the insurance industry to address ESG risks and opportunities.

These UN Principles aim to achieve a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for sustainable and effective risk protection and reporting.

Further information on Lancashire's reporting against the UNEP FI Principles for Sustainable Insurance for 2022 can be found on our website.

Lancashire has developed and implemented a number of internal insurance underwriting guidelines focused on assisting with wider global efforts to tackle issues of climate change and other environmental, social and governance factors.

These have been articulated by reference to the Lloyd's market guidance and are applicable across all underwriting platforms. These guidelines are also linked to the Group's formal risk appetite statements.

In addition to these guidelines our long-standing underwriting processes and controls include, where possible, peer review to identify any risks that are written outside predetermined criteria. Underwriters and Lancashire Insurance Companies and senior management also take part in a daily UMCC to discuss potential business. When appropriate, these discussions include consideration of sustainability factors as part of the underwriting process.

Lancashire underwriting teams are a respected risk partner for businesses in the energy sector.

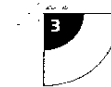
This specialist expertise means we are valued for our assistance in providing solutions to clients that may assist in delivering safer operations and resilience.

We regularly engage with our trading partners on ESG matters during the course of our business discussions and fully support their efforts as they transition away from carbon-based forms of energy.

While the process will take some years we believe we are well placed to have a positive impact.

"In May 2022, Lancashire joined ClimateWise, which brings together the global insurance industry with a focus on driving action on climate change risk."

Responsible investment



Our shareholders

Our relationship with our shareholders is led by our Group Head of Investor Relations, in collaboration with members of the Board and the wider executive team.

Lancashire has an open and transparent communication philosophy.

In November 2022, the Group held our first Investor Day in London which included presentations from senior underwriters on their class of business and market challenges and opportunities. These presentations were followed by a questions and answers session.

In addition, Lancashire carries out a full programme of outreach (including meetings, presentations and periodic consultation initiatives) to assist shareholders, and potential investors, in understanding our strategy, business model and performance.

Our corporate brokers also provide advice and guidance on investor priorities, the business's performance, and perception amongst investors. The Board meets our corporate brokers regularly as part of these discussions.

Service excellence for policyholders

Our experienced teams include our claims specialists, who have specific and detailed knowledge of our diverse product lines.

This expertise aids us in achieving our goal of ensuring a timely and equitable claim resolution for our clients.

While acting in accordance with the terms and conditions of the (re) insurance policy provided to our clients, we aim to adopt an approach to the claims handling process which is proactive and efficient, as well as transparent and flexible. This approach is specifically designed to enable our clients to recover from the impact of loss events as soon as practicable.

We have fostered strong relationships with our clients, brokers and outside advisors, which we work hard to develop and maintain.

We manage and investigate any loss our clients may sustain to achieve a timely, straightforward and fair resolution.

Brokers

Lancashire has strong relationships with brokers distributing its products. This includes large international firms and smaller independent intermediaries. We strive to be a trusted partner and add value through our expert understanding of risk management and transfer. During 2022, a new Business Development team was formed which will further strengthen and enhance our relationships.

We continue to monitor ESG and climate change factors on our investment portfolio.

While metrics and the means of measuring these factors are in development, they remain imperfect and Lancashire is committed to working with its external portfolio managers to further refine our analysis.

Of the Group's externally managed investment portfolio, 93.9% of portfolio managers are signatories to the UN-supported 'Principles for Responsible Investment'.

Lancashire operates ESG and carbon management investment guidelines, implemented by the Group's investment managers, across the Group's fixed maturity investment portfolios.

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

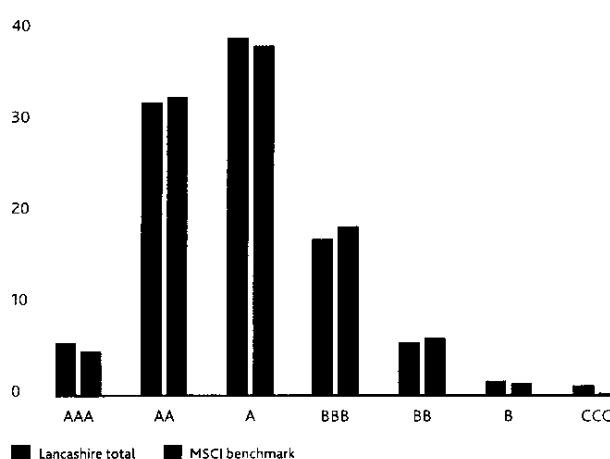
Lancashire monitors the ESG profile of its fixed maturity portfolio through the MSCI ESG rating tool. The current portfolio is designated as within the "average" ESG category.

In addition, 2022 was the second year in which Lancashire measured climate sensitivity of corporate bonds, so far as covered by MSCI, within its fixed maturity portfolio through a Climate Value at Risk metric (Climate VaR) aligned to the Paris Accord 1.5°C goal.

We are also investigating the development of a sustainable fund during 2023.

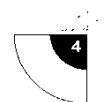
Please see the Investment Committee report starting on page 90 for further information.

MSCI Overall Rating (%)



Percentages for the MSCI Benchmark data are up-scaled to compare with the Lancashire securities that are covered by the MSCI.

Understanding the role we play



A culture of responsibility

We understand that successfully operating a modern business comes with increased responsibility.

We embed our values across our operations including showing appropriate leadership and acting as a good corporate citizen and a responsible preserver of resources.

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

Our regulators, rating agencies and lenders

The Group has an active programme of engagement with the relevant regulatory bodies who provide the Group with supervision and oversight.

This includes meetings, regular reporting or engaging with routine regulatory reviews. The Board and management monitors changes in regulatory and supervisory requirements closely.

Lancashire and its insurance subsidiaries are assessed for financial strength and creditworthiness by three major rating agencies: A.M. Best, S&P and Moody's. We engage with each quarterly to discuss financial performance and when significant events occur such as loss events.

We write business successfully in all major global insurance markets and comply with reinsurance contracts under which the Group is reinsured, as well as our credit facilities which support underwriting obligations.

Additionally, the syndicates benefit from Lloyd's current ratings, resources, brand, and network of global licences.

We help support and fund our underwriting operations, and comply with regulatory capital requirements, through a number of long-term debt and financing arrangements with lenders.

The Group requires the flexibility to execute its strategy and react to economic conditions and values its strong relationships with its lenders.

Tax authorities

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

Collaboration with third parties

During the course of our business operations, Lancashire utilises a number of third-party suppliers. These providers complement our in-house skills and we recognise the importance of these partnerships and that success comes through openness and collaboration.

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

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

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

Anti-slavery and human trafficking

The Group's Anti-Slavery and Human Trafficking Statement is available on our website. We consider that there is minimal risk that, within either the Lancashire Group or the very limited supply chains which support our business activities, the Lancashire Group is involved in, supportive of, or complicit in slavery and human trafficking.

We are proud of the conditions of employment for all our employees throughout the Lancashire Group.

Environmental impact and offsetting

The Group is committed to understanding and managing the environmental impact of its business and has engaged ClimatePartner to calculate its corporate carbon footprint (CCF), for the 2022 reporting year. The CCF reflects the total CO₂ emissions released by the company's own business operations, within defined system boundaries and over a specified period of time, with the calculations based on the guidelines of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol). We continue to measure our carbon footprint for our own operations annually with a view to minimising its negative impact through mitigation strategies and by offsetting at least 100% of our calculated GHG emissions, in order to remain carbon neutral. Previously, Lancashire has calculated its emissions from 1 January until 31 December for each calendar year. Due to the publication date of this report, this necessitated some estimation for the data in the latter part of the year, the particulars of which were detailed alongside the CCF in each report. In order to improve the efficacy of the data collection process, and to reduce our reliance on data estimations as well as increase our use of primary data, we have changed the reporting period for our CCF to an annual period measured from 1 July to 30 June. Accordingly, for this report we have calculated our emissions from 1 July 2021 to 30 June 2022 and given their inclusion in this 2022 annual report, we refer to these as our 2022 emissions.

Historically, the Group has achieved its carbon neutral status for its own operations through the purchase of carbon credits, predominately in carbon avoidance programmes, which assist in the creation and/or maintenance of systems and technologies that replace the use of carbon intensive processes. In order to maintain our own operations' carbon neutral status, despite a change to the CCF reporting period, we have calculated and offset our emissions from 1 July 2021 to 30 June 2022. The emissions from July 2021 until December 2021 were also offset last year, but we have offset this time period twice to ensure that our carbon neutral status is not interrupted. In 2021, for the first time, the Group offset 15% of its emissions via a carbon sequestration project, which

“We have procured 100% renewable electricity for our London operations.”

aims to actively remove carbon from the atmosphere, with the remainder of our carbon credits procured via carbon avoidance projects. We have followed the same approach for 2022 and report the emissions data for the Group in the table on page 60.

The Group recognises the challenges posed by climate change and considers its environmental impact as part of its wider risk management and strategic planning process (please refer to the section on principal risks from pages 30 to 37 for further details). The Group CRO and the Board oversee the Company's annual submission to the CDP, which includes the information detailed in this CCF. The CDP reporting process is aligned with the recommendations of the TCFD and the business, led by the Group CRO, has further developed its understanding and reporting in line. Please see pages 61 to 69 for more information on our TCFD journey.

As set out above, as a result of a change to our CCF methodology in line with our work with ClimatePartner, emissions data was calculated using the company's consumption data as well as emission factors researched by ClimatePartner. Wherever possible, primary data was used. If no primary data was available, secondary data from highly credible sources was used. Emission factors were taken from scientifically recognised databases such as 'Ecoinvent' and DEFRA.

Lancashire used an operational control approach, to assess its boundaries and identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 CCF, along with areas of our Scope 3 CCF 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. Where data was not available for the 2022 report, values have been either extrapolated by using available data or calculated using industry benchmarks. Lancashire does not own company vehicles; thus, business travel emissions fall entirely in Scope 3 and vehicle energy is not included in the numbers below.

For the first time, the Group has reported emissions associated with its employees' commuting and home working within its Scope 3 emissions. For the third year, Lancashire has also calculated its Scope 2 market-based emissions, in line with the Greenhouse Gas Protocol's guidance

on dual reporting. With operations in London, Bermuda and now Australia, and with clients and brokers around the globe, the Lancashire Group has typically incurred the bulk of its carbon footprint within Scope 3 as a result of airline travel. Historically, these emissions were calculated based upon all of the flights booked within the reporting period. This year, in order to improve the accuracy of our reporting, we have changed the methodology to include flights that were taken within the booking period. Following the easing of international COVID-related travel restrictions, there has been more opportunity for employees to travel between our offices, as well as to meet our clients and brokers during 2022. This has resulted in a significant and expected increase in our business travel emissions from the 2021 level of 291.2 tCO₂e to 1348.0 tCO₂e for 2022. This change, together with the recent addition of our employee commuting emissions, underpins the increase in our overall emissions this year.

We have procured 100% renewable electricity for our London operations on a tariff which is backed up by associated Renewable Energy Guarantees of Origin (REGOs), with an appropriate residual grid factor applied for our operations in Bermuda and Australia. Under the market-based methodology, the Group's Scope 2 emissions are therefore 265.1 tCO₂e. Lancashire did not implement any further energy efficiency measures in the business during 2022 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, and representatives from the Company engaged with the building management's "Green Building" meetings and the property's energy saving initiatives.

Lancashire uses tCO₂e per full time employee (FTEs) as its intensity metric in its CCF. FTEs have increased year-on-year, with a period of significant recruitment continuing during 2022. The Group has also expanded geographically with an office now in Australia and we include their emissions for the reporting period in the total below, alongside those from our Bermuda and London offices. Given the increase in total emissions from 2021, emissions per FTE have also increased. The table on page 60 sets out the Group's CCF for the current and prior reporting period, noting both the change in reporting period and the emissions broken down by source.

Streamlined Energy & Carbon Reporting disclosure – 1 July 2021 to 30 June 2022

	Current 2022 reporting year (market-based)		Previous 2021 reporting year (location-based)	
	(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 ₂ e	154.1	150.5	106.7	106.7
Emissions resulting from the purchase of electricity, heat, steam or cooling by the company for its own use / tCO ₂ e	265.1	—	279.9	138.8
Gross Emissions (Scope 1, 2) / tCO ₂ e	419.2	150.5	386.4	245.0
Energy consumption used to calculate above emissions / kWh	2,004,830	1,366,540	1,899,648.9	1,233,727.6
Total gross emissions (Scope 1, 2, 3) / tCO ₂ e	2,407.7	—	842.1	—
tCO ₂ e per FTE	7.8	—	2.8	—

Please note that in previous years the data in this table has been provided according to our location-based emissions. For 2022 onwards, our market-based emissions will be used.

Operating responsibly *continued*

The Group has fully offset its calculated GHG market-based emissions for 1 July 2021 to 30 June 2022 with ClimatePartner, by purchasing verified credits in both carbon avoidance and carbon sequestration programmes. To ensure that all emissions generated from our own operations are offset within the system boundaries, a safety margin of 10% was applied to the total carbon footprint incurred. This margin compensates for uncertainties in the underlying data that naturally arise from the use of database values, assumptions or estimates. We have therefore purchased a total of 2,648.49 carbon credits, to support our continued carbon neutral status. 85% of the Group's carbon credits have been purchased in a Solar Energy Project in Alt Ougrou, Morocco, a VCS carbon avoidance project. The remaining 15% of the Group's 2022 carbon credits have been purchased in an afforestation project in Dingxi, China, which is categorised as a VCS and CCBS approved carbon sequestration programme. These offsetting proposals were discussed and agreed with the Group CEO.

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

In addition, we encourage the use of public transport, walking and cycling by employees travelling to work to assist in reducing the number of car journeys. As a result of the employee commuting survey completed during Q4 2022, we note that the majority of our employees commute to their place of work via public transport. Incentives include a season ticket loan scheme and assistance in purchasing bicycles, with designated storage for employees' bicycles at all our offices.

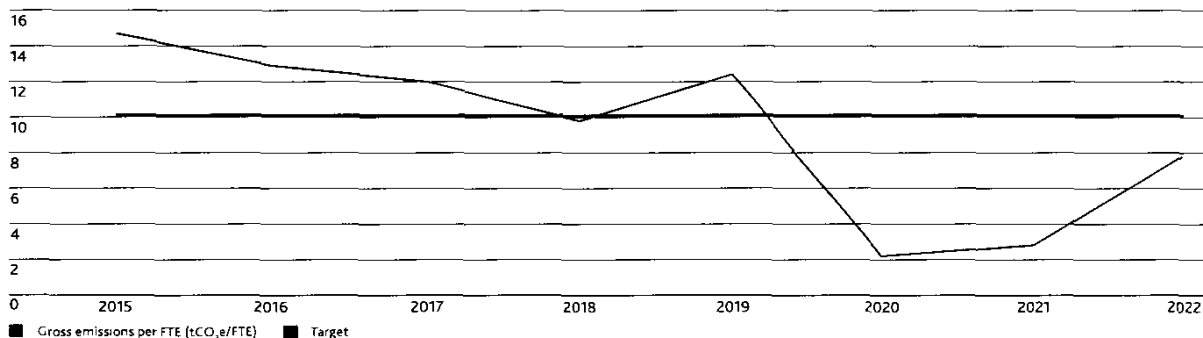
Types of emissions	Activity	1 July 2021 – 30 June 2022 tCO ₂ e	1 January 2021 – 31 December 2022 tCO ₂ e
Scope 1	Heat (self-generated)	135.6	106.7
Direct emissions from company facilities	Refrigerant leakage	18.5	–
Scope 2			
Purchased electricity for own use	Electricity (stationary)	265.1	259.7
Scope 3	Business Travel (flights, hotel nights, vehicles, and rail)	1,348.0	291.2
	Employee commuting and home office	515.8	–
	Fuel- and energy-related activities (upstream emissions for electricity and heat)	116.0	153.5
	Purchased good and services (office paper and water)	7.0	9.7
	Waste generated in operations	1.7	1.3
Gross emissions (tCO ₂ e) (market-based)		2,407.7	822.1
Gross emissions per FTE (tCO ₂ e/FTE)		7.8	2.8
Carbon credits		2,648.5	823.0
Total net emissions after offset (tCO ₂ e)		–	–

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

Upstream fuel- and energy-related 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.

Progress against our targets

The following diagram shows the change in the Group's emissions per FTE from the baseline year of 2015 against our current target of a further reduction in emissions per FTE of 15% by 2030.



2022 TCFD Report

Lancashire supports the aims of the TCFD, and recognises we need to play our part in supporting the transition to a more sustainable future. This includes supporting our customers and partners with their own transition journeys. The summary below and in detail on the following pages details our disclosures consistent with the four recommendations and the 11 recommended disclosures.

	Recommendation	TCFD Disclosure status	Reference
Governance	Describe the Board's oversight of climate-related risks and opportunities	Disclosed	See page 62
	Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed	See page 63
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Disclosed	See page 64
	Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	Disclosed	See page 65
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Partially disclosed – work continues on the development of a range of scenarios at the short, medium and long-term milestones. We expect to fully disclose in the next year.	See page 66
Risk Management	Describe the organisation's processes for identifying and assessing climate-related risks	Disclosed	See page 67
	Describe the organisation's processes for managing climate-related risks	Disclosed	See page 67
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Disclosed	See page 67
Metrics and targets	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	Disclosed	See page 68
	Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks	Disclosed	See pages 60 and 69
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Disclosed	See page 69

Governance

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

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

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

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

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

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

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

Examples of Board ESG and climate change oversight in 2022 include:

- Its annual review and approval of the Group's ESG framework
- Annual review and approval of the Group's ESG strategy
- Annual review and approval of the Group's risk appetite statements, including the tolerances for elemental PMLs and non-elemental RDSs. More information on this can be found on page 138. These risk appetite statements include climate-related statements for both the asset and liability side of our business
- Review and approval of the Group's ESG insurance underwriting guidelines
- Review and approval of the annual ORSA report
- Review of the quarterly ORSA reporting which contains information on all risk categories highlighting material risk considerations including climate-related risk where appropriate
- Review of the output from stress tests performed as part of both the annual business planning exercise and the annual ORSA reporting process, including climate-related scenarios.

The actual business underwritten within the Group is monitored against both the strategic plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events) and is reported to the Board quarterly within the Group CRO's quarterly ORSA report. Please see page 27 for more information. In addition, the Group CUO and Group CRO regularly review current and emerging (re)insurance risks.

The Investment Committee oversees the management and performance of the Group's investment portfolio including investment risk parameters, which include specific Board approved climate-related investment guidelines applied across the Group's fixed maturity portfolio. In addition, the Investment Committee monitors performance against a Climate VaR risk appetite statement as part of the regular quarterly reporting process. This includes an agreed preference for the financial impact of the Climate VaR on the Group's actual fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model. The Committee also considers investment portfolio performance by reference to an MSCI carbon sensitivity tool and ESG profile tool. Please see the Investment Committee report starting on page 90 for more information.

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

The Group CEO is accountable for the development and execution of the Group strategy, including the management of climate-related risks and opportunities. The Group CUO is ultimately responsible for the business written by the Group, assisted by the subsidiary CUOs and active underwriters. Climate-related risks and opportunities as they relate to the business written are assessed as part of the underwriting process. Each underwriter has their own underwriting authority in which climate-related underwriting guidelines have been embedded. Management information is available to monitor the business written against these guidelines.

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

The ESG Committee, established by management in 2021, is tasked with the oversight, co-ordination and internal management of the Group's ESG strategy. The ESG Committee reports to the Board on a quarterly basis, as well as regular reporting to the Group Executive Committee, and is supported by both the Climate Change and Diversity, Equity & Inclusion Working Groups. Key developments are reported to the Nomination, Corporate Governance and Sustainability Committee

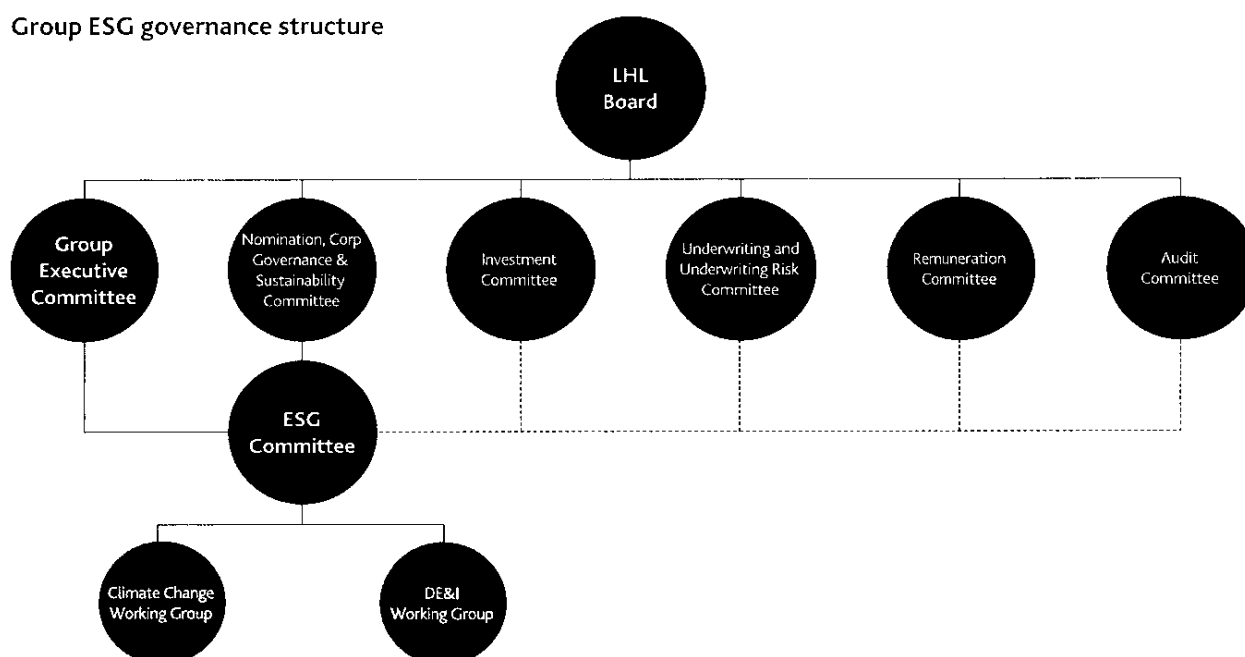
as well as the Investment and the Underwriting and Underwriting Risk, Audit and Remuneration Committees as appropriate, and ultimately to the Board via the Group CRO's quarterly reporting and periodic reporting from the ESG Committee Chair.

The RRC evaluates and monitors the Group's modelled underwriting PML and RDS risk exposures against the Group's tolerance levels on a monthly basis. Lancashire underwrites predominantly short-tail business, with loss exposures usually crystallising within a policy period of 12 months. As a result, with PML levels updated monthly and shared internally, we ensure we closely track both market pricing and coverage conditions and the Group's modelled climate-related loss exposures. Please see page 146 for more information.

The IRRC actively monitors the potential impacts of climate change-related transitional risk on assets within the Group's investment portfolio. The requirement to monitor, develop and implement ESG and TCFD principles is included within its terms of reference. Both the RRC and the IRRC are supported by the Climate Change Working Group.

The diagram below illustrates the Group Board, Board sub-committee and management committee governance structure as it pertains to ESG. The role and responsibilities of each of the Board's sub-Committees is explained within the Governance section starting on page 76 and in each Committee's Terms of Reference which can be found on the Group's website. The Group CRO is a member or attendee of all the fora shown above and provides a link between each individual forum and the management RRC and Group Executive Committee.

Group ESG governance structure



Strategy

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

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

We consider the actual and potential impacts of climate-related risks and opportunities on Lancashire's strategy and financial planning across the following timeframes: short-term being up to five years, medium-term being five to 15 years and long-term being 15 to 30 years from now. Lancashire underwrites predominantly short-tail business, and so the principal impact of climate-related risks and opportunities is on short-term strategy. Such impact is mitigated by our ability to re-evaluate the portfolio on an annual basis and therefore re-price physical risks and reset exposure levels to take into account new data regarding the frequency and severity of elemental catastrophe events. During 2022, we have engaged more actively with our insured clients and seen an increase in the level of climate-related information provided as part of the underwriting process. We recognise that climate change does also impact the longer-term strategy in terms of emerging risk and accordingly management works with some of the leading external catastrophe model providers to understand the science which underlies and informs developments in the short- and long-term climate-related assumptions in their stochastic models. These developments are included in the Group's management- and Board-approved annual five-year business strategy and the three-year forward-looking business plan. More information can be found in the going concern and viability statement on page 120 of this report.

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

Since 2021, significant work has been undertaken to identify and articulate the financial impacts of climate-related risks, including physical, transitional, regulatory (current and emerging), technological, legal, market and reputational risks. As an example, for each physical risk identified, the loss amplification factors, time-frame and magnitude were considered, as were metrics by which these risks could be monitored and reported upon. Examples of short- to medium-term risks identified included increased severity of tropical cyclones and heightened storm surge resulting from the enhanced strength and duration of storms combined with sea level rise; increased intensity of extratropical cyclones; increased intense rainfall due to the warming atmosphere thus increased risk of flooding; and increased risk of wildfire due to warming temperatures combined with shifting precipitation patterns. A longer-term risk being considered is the emergence of new natural catastrophe zones due to the shifting weather patterns. The potential financial impact from these risks is included within the metrics and targets section on page 68. In addition, the Group's current catastrophe exposure by geographical zone for our peak perils are listed on page 146 along with details of annual gross premiums written by geographic area of risks insured and by business segment.

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

Examples of transitional risks that may be faced by the Group include the probability of a declining premium environment in the traditional oil and gas sector or transportation classes over time, or the risk of exposure to climate change-related litigation. The potential impact in terms of premium is thought to range from low to medium for the relevant subsidiary writing the business, however the financial impact to the Group of these risks ranges from very low to low at this time due to the inherent responsiveness in the Group's nimble underwriting strategy. The impact would expect to be felt in both segments of the business i.e. insurance and reinsurance.

As a (re)insurer, the Group is in the business of accepting and mitigating risk; for every risk identified there is the potential for an opportunity. Opportunities come in the form of new products and services, as we work closely with existing clients to provide the insurance they need as they undertake their own transition; and access to new markets in the form of new assets and locations requiring insurance coverage.

Risk radar

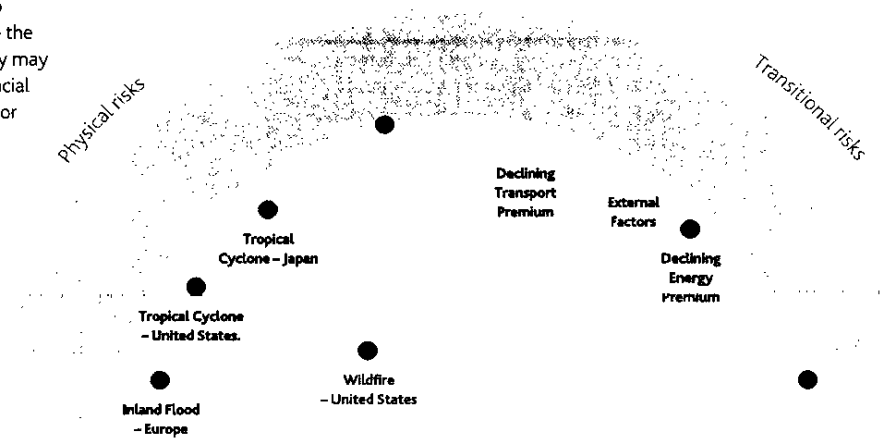
Lancashire's current internal view of the physical and transition risks the Group may face from climate change include the potential time horizon over which they may be faced, potential magnitude of financial impact, and the geographical region (for physical risks).

Time horizon

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

Magnitude

● High
● Medium
● Low



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

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

For 2022, we developed insurance underwriting guidelines which were embedded within our Underwriting Authority framework, in order to effectively monitor and guide underwriting in the more carbon-intensive industries and we continue to further develop and enhance how we track premium and policies according to their climate profile.

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

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

We also recognise the potential impacts of climate-related risks and opportunities upon the Group's investment portfolio, in particular the potential impacts of the transition away from a carbon intensive economy. We have tools in place to identify, measure and manage these risks and opportunities; our findings are reviewed and reported through the IRRIC, the RRC and the Investment Committee to the Board.

With respect to opportunities arising from climate change, immense investment in infrastructure will be required as the world transitions to a lower-carbon economy, and such infrastructure will require insurance which lies within the Group's existing classes of business and appetite. The demand for environmental insurance products is also expected to increase. A summary of the opportunities, their likelihood, timeframe and magnitude of impact on comprehensive income, is included on the following page.

TCFD *continued*

Risk Description	Market Opportunity	Time-frame	Likelihood	Magnitude
Political Risk insurance	There is currently a strong uptick in ESG related funding from our existing client base and this trend is expected to continue.	Short to Medium Term	High	Low
Natural Catastrophe (re)insurance	Additional limit purchased by insureds and reinsurers at improved pricing levels as catastrophe risk increases; both earnings protection and capital protection being sought to significantly increase demand.	Medium Term	High	High
Renewables	The share of renewables in global electricity generation jumped to an all time high of 29% in 2020 and this trend is fully expected to continue. As our clients transition from fossil fuels to renewable energy there will be sizeable opportunities in the market to grow this part of our portfolio.	Medium Term	High	Medium
Carbon Capture: injection of CO ₂ into depleted gas fields	We believe that offshore carbon capture and storage (CCS) may play a major role in global efforts to reduce emissions.	Medium to Long Term	Medium	Medium
Decommissioning Insurance: Oil & Gas assets	The pace of the energy transition will accelerate the decommissioning of a large number of offshore platforms and complexes. As these assets reach the end of their commercial life there will be increased pressure to ensure that their decommissioning is done in an environmentally friendly way with appropriate risk management solutions.	Medium Term	Medium	Low
Environmental Insurance Products	Environmental insurance provides coverage for loss or damages resulting from unexpected releases of pollutants typically excluded in general property and liability policies.	Medium to Long Term	Low	Low
Parametric (weather) Insurance Products for food & agriculture industry	Industries will look at new ways of managing weather risk where parametric triggers are more likely to offer a form of indemnity.	Long Term	Low / Medium	Low

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

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

During 2022, stress testing has been performed on the Group's business plans to understand the impact should the recent high catastrophe event experience (2017-2022) be more indicative of the average experience than that currently predicted by the third party catastrophe models. In addition, we have transitioned to a different catastrophe model provider to increase the range of secondary perils we are able to model. As part of this transition and our annual model review, we have explicitly considered the impact of climate change to ensure our hazard selections within the model are appropriate for our understanding of the current environment and impact with respect to climate change. On a quarterly basis we also model historic climate-related loss events for our current portfolio to understand the current day impact of their re-occurrence. Such events include the Katrina, Rita and Wilma hurricanes of 2005, the Florida hurricanes of 2004 (Charley, Frances and Ivan), the San Francisco earthquake of 1906, the New Madrid earthquake of 1811 and hurricanes Harvey, Maria and Irma of 2017.

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 'balance risk and return 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 'responsive' approach to the management of climate change transition risk helps inform asset allocation and investment portfolio management. As of 31 December 2022, 93.9% of our externally managed investment portfolio, excluding internally managed cash, is managed by signatories to the United Nation's Principles for Responsible Investment. Analysis of our investment portfolio, specifically the fixed maturity portfolio, has shown it is more resilient to the impacts of climate change than the relevant benchmark which we have linked to a 1.5C future pathway scenario. As part of our biennial strategic asset allocation study, we recommended a target percentage to be invested in a sustainable fund which we are looking to implement in 2023.

Given the Group's predominately short-tail nature of, and the ability to model the geographical and economic impacts of climate risk on, the insurance products it sells and its ability to price insurance premiums on the basis of a flexible and dynamic risk analysis, the Board and management consider that there is some resilience in both the Group's underwriting and investment strategy and its business model to the challenges of increased frequency and severity of physical damage and the effects of transition risk, as a result of climate change risk.

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.

The impact of climate-related risks is managed within existing principal risks see page 30.

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

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

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

Nonetheless, climate-related risks (and opportunities) are a constituent part of the Group's underwriting and investment risks. As we have detailed in this TCFD report, such risks are managed in the same way as other risks: they are identified, monitored, mitigated and reported upon against tolerance as appropriate. For elemental perils this includes monitoring and reporting the PMLs related to the top perils on a monthly basis to the RRC and quarterly to the Board. In addition, we monitor our PMLs as a percentage of GPW; the chart on the following page shows this for our 100 year Gulf of Mexico wind net PML at 31 December.

Opportunities are monitored and taken advantage of where it makes sense to do so. More information can be found on pages 26 and 27.

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

As noted in the ERM section, the Group subscribes to a 'three lines of defence' model with respect to the identification, ownership, monitoring and mitigation of risk. The management of climate-related risk falls within this same framework, which is fully embedded throughout the Group and includes for a with climate change at the heart of their agenda such as the CCWG and the ESG Committee. The ESG Committee reports to the Group Executive Committee via the CRO and the Nomination, Corporate Governance and Sustainability Committee through the Chair of the ESG Committee. The CRO also provides an ESG update to the LHL Board in her Quarterly ORSA report. The RRC considers all aspects of risk for the Group at a management level and reports through the Group CRO to the Board. The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors.

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

The IRRC is alive to the potential impacts of climate change-related transitional risk on the Group's assets within the Group's investment portfolio and its work is reported to the Board-level Investment Committee. We continue to monitor the carbon intensity and transition risk of our fixed income portfolio and are working to develop our modelling capabilities to also monitor against MSCI Physical Risk. During 2022, carbon intensity limits were added to our fixed income managers' guidelines. Updates on these metrics, including the exposure of the investment portfolio to climate-related risk, as compared to the MSCI Climate VaR, are provided to the Investment Committee on a quarterly basis.

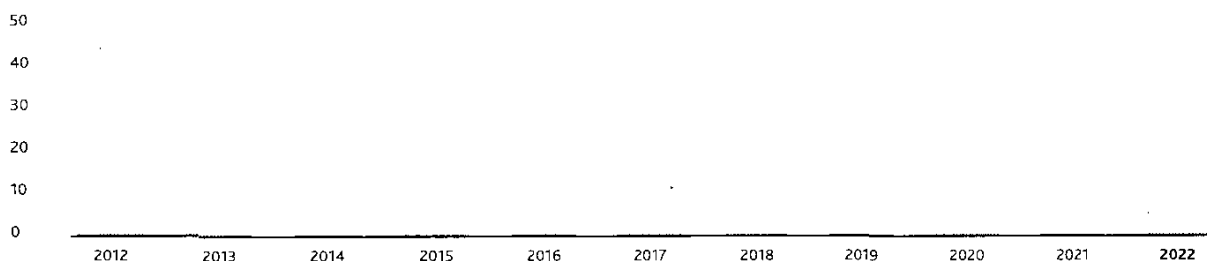
Metrics and targets

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

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

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

PML as a % of GWP



Impact of climate-related risk

The table below shows the impact based on our current portfolio, if exposure or experience was to change materially the financial impact could be more significant. However, the longer term impact to the Group should be managed by our ability to reprice contracts if needed and develop new products. Further detail is also included within insurance risk disclosures on pages 145 to 146, where we have noted the geographical area of risks insured and the Group's exposure to certain peak zone elemental losses by geography as a percentage of tangible capital over a 100 and 250 year return period.

Physical: acute and chronic	Timeframe	Magnitude of impact	Potential financial impact Group net PML/ % of capital	Mitigation
Tropical Cyclone				
U.S. Windstorm – Gulf of Mexico	Medium	High	\$301.2 million / 19.5%	<ul style="list-style-type: none">• Positive feedback loop in pricing models that reflect heightened risks from climate change• Lancashire adjusts gross risk appetite wherever the risk is viewed as inappropriately priced for the exposure• Outwards reinsurance is adapted to reflect the changing exposures
U.S. Windstorm – Non-Gulf of Mexico	Medium	High	\$248.0 million / 16.1%	
Japan Windstorm	Medium	Medium	\$144.5 million / 9.4%	
Extratropical Cyclone				
European Windstorm – Long	Medium	Medium	\$181.2 million / 11.8%	<ul style="list-style-type: none">• Robust internal controls ensuring PMLs are monitored monthly by the RCC• Additional secondary perils now modelled• We continue to develop views on other perils

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

On pages 64 to 66 we described the work undertaken in 2022 to identify and articulate the financial impacts of climate-related risks. The table below sets out the financial impact of physical risk.

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

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

Our portfolio at 31 December 2022 consisted of the following:

Fixed maturity securities	79.8%
Managed cash	10.5%
Private investment funds	4.4%
Hedge funds	4.2%
Index linked securities	1.1%
Total	100.0%

As shown in the table above, we have 90.3% 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 30.5% allocated to corporate bonds, of which we have a small amount of exposure to climate-related risks. The Group itself does not hold any equities (although we have exposure to a small number of equities in the hedge fund portfolio).

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

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint to minimise its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, in order to remain carbon neutral. In 2022, we instructed ClimatePartner as our new consultant to calculate and facilitate the offsetting of our carbon emissions. Please see page 60 of this Annual Report and Accounts where we report our Scope 1, 2 and 3 GHG emissions and the changes to the methodology of this reporting following ClimatePartner's appointment. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning processes, as discussed above. The Group CRO and the Board oversee the Company's annual submission to the CDP and note that the information which is requested as part of that reporting process is aligned with the recommendations of the TCFD.

With operations in London, Bermuda and Australia, as well as clients and brokers around the globe; the Lancashire Group has (with the exception of the period of the COVID-19 pandemic) incurred the bulk of its carbon footprint as a result of its business 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 spaces and boardrooms. During 2022, business travel has started its trajectory towards a more normal level as restrictions have lifted, in-person conferences and events have recommenced and it has been considered safe for our employees to travel.

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

Last year, the Group articulated its path to meeting the UK Government's net-zero target by 2050 with 2015 selected as our baseline year on the basis it was the first full year in our London office at 20 Fenchurch Street, an energy efficient building with a BREEAM Excellent rating.

The following diagram shows our path to carbon net-zero in 2050, illustrating the intended downwards trajectory of our emissions per FTE and the intended increase in offsetting projects which remove carbon from the atmosphere.

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

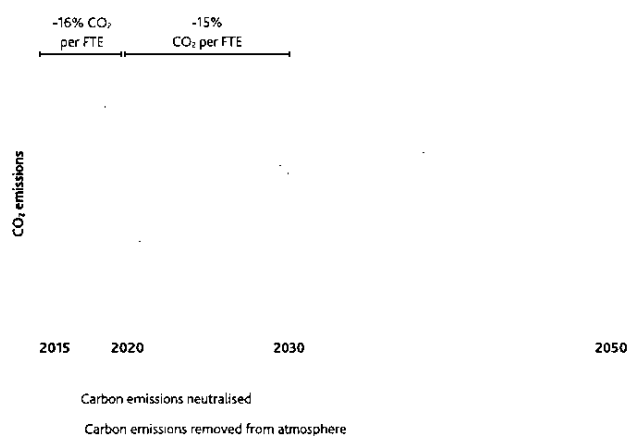
The Group also commits to continue to offset 100% of Scope 1 and 2 emissions and 100% of the Scope 3 emissions pertaining to our operations which we are able to accurately calculate and exercise sufficient control over at this time. These include business travel, waste generated in operations, our employees'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

The Group will continue to source and utilise 100% renewable electrical energy for its 20 Fenchurch Street London offices. Other targets for the Group's own emissions remain under discussion but areas under consideration (outside of those related to business travel) include further reducing paper usage, reducing water waste, improving the level of recycling, and eliminating the use of single-use plastics. Please see page 59 for more information.

In relation to the Group's investments, we have a target of managing the impacts of our fixed maturity portfolio by reference to a Climate VaR appetite statement.


For the Group's underwriting exposure, Lancashire limits its tangible capital at risk by reference to a series of PML loss exposure scenarios (which include climate-related loss scenarios). PMLs are regularly monitored and reported to the Board on a quarterly basis and reflect real time changes in the Group's underwriting portfolio. The Group's stated tolerance is to expose not more than 25% of its tangible capital by reference to any one of its principal PMLs. For the reported outcomes of this process see page 146 which shows details of the Group's principal PMLs including those related to catastrophic weather loss events linked to climate change risk.

Lancashire's path to carbon net-zero in 2050





Our practice



At Lancashire, we conduct our business in an accountable, open, honest and sustainable way.

Strong corporate governance is at the heart of our culture - the Board and management team are focused on creating a diverse and vibrant culture which is sustainable over the long term.

Peter Clarke
Non-Executive Chair of the Board

A focused Board

Peter Clarke
Non-Executive Chair



Date of appointment to the Board: 9 June 2014

Board meeting attendance: 4/4

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 Chair 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, RWC Holdco Limited, RWC Midco Limited and Lombard Odier Asset Management.

Alex Maloney
Group Chief Executive Officer



Date of appointment to the Board: 5 November 2010

Board meeting attendance: 4/4

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 30 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 over 20 years' experience of the insurance/reinsurance sector with previous roles at Swiss Re, ALAS (Bermuda) Ltd and PwC. Ms Kershaw graduated from Jesus College, Oxford in 1996 with a first class degree in Geography and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Michael Dawson
Non-Executive Director

B N R U



Date of appointment to the Board: 3 November 2016

Board meeting attendance: 4/4

Skills, experience and qualifications:

Michael Dawson has more than 40 years' experience in the insurance industry, having started his career at Lloyd's in 1979. He joined Cox Insurance in 1986 where he was the Chief Executive from 1995 to 2002. In 1991, Mr Dawson formed and became the underwriter of Cox's and subsequently Chaucer's specialist nuclear syndicate 1176, where he remains the active underwriter. 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 Chair of the Management Committee of Nuclear Risk Insurers Limited. He is also a director of Knoll Investments Limited, Dawmouse Limited and Glengau Limited, all private family companies.

Simon Fraser
Non-Executive Director

B A R



Date of appointment to the Board: 5 November 2013

Board meeting attendance: 4/4

Skills, experience and qualifications:

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

External appointments/Other roles:

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

Jack Gressier
Non-Executive Director

B R U



Date of appointment to the Board: 26 July 2022

Board meeting attendance: 1/1

Skills, experience and qualifications:

Jack Gressier has over thirty years' experience in the insurance industry, including as Chief Operating Officer of Axis Capital Holdings Ltd. and the Chief Executive Officer of its Insurance segment. He served as an underwriter at Charman Underwriting Agencies from 1989 until 1998, when acquired by ACE Limited. At ACE, he served in a number of senior roles including as a member of the Global Markets Executive Underwriting Committee and was appointed Joint Active Underwriter of Syndicate 2488 and director of the ACE Agency Board, where he served until joining AXIS in 2002.

External appointments/Other roles:

Currently serving as Non-Executive Chair to strategic intelligence firm, Herminius Holdings Ltd. Previous Non-Executive appointments include Chair of Syndicate Holdings Corp, the holding company for the Lloyd's managing agency, Vibe Syndicate Management. In addition, Mr Gressier served as Non-Executive Chair of Limehouse Agencies Limited.

Key



Chair



Board of
Directors



Audit
Committee



Investment
Committee



Nomination,
Corporate Governance
and Sustainability
Committee



Remuneration
Committee



Underwriting and
Underwriting Risk
Committee

Board of directors continued

Robert Lusardi
Senior Independent
Non-Executive Director



Date of appointment to the Board: 8 July 2016

Board meeting attendance: 4/4

Skills, experience and qualifications:

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

External appointments/Other roles:

He is also on the boards of Symetra Financial Holdings, Inc., a life insurer, and a Board member of Oxford University's 501(c)3 charitable organisation.

Irene McDermott Brown
Non-Executive Director



Date of appointment to the Board: 28 April 2021

Board meeting attendance: 4/4

Skills, experience and qualifications:

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

Sally Williams
Non-Executive Director



Date of appointment to the Board: 14 January 2019

Board meeting attendance: 4/4

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. Ms Williams is also a Director of Lancashire Insurance Company (UK) Limited.

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 their With Profits Committee, and a member of the Risk, Nominations and Member & Customer 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.

Ms Williams was recently appointed as a Trustee to Ovarian Cancer Action Charity.

Christopher Head
Company Secretary



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 skills matrix

	Peter Clarke	Alex Maloney	Natalie Kershaw	Robert Lusardi	Michael Dawson	Simon Fraser	Jack Gressier	Irene McDermott Brown	Sally Williams
Corporate Governance ¹	●	●	●	●	●	●	●	●	●
Strategy ²	●	●	●	●	●	●	●	●	●
Accounting / Audit	●		●	●		●			●
Insurance / Reinsurance	●	●	●	●	●	●	●		
Corporate Finance / Investment ³	●	●	●	●		●			
Actuarial / Reserving		●	●	●	●		●		●
Risk Management ⁴	●	●	●		●	●		●	●
ESG ⁵	●	●	●		●	●		●	●
People and Management ⁶	●	●	●	●	●	●	●	●	●
Digital and Technology ⁷	●	●	●	●	●	●	●		●

1. Including legal, regulatory and compliance

2. Including business development and M&A

3. Investment Treasury, portfolio and asset-liability management

4. Including internal control and internal audit processes

5. Including sustainability and climate change

6. Including Senior Management experience, HR, culture, and communications

7. Including data management, information security and cyber

Key



Chair



Board of
Directors



Audit
Committee



Investment
Committee



Nomination,
Corporate Governance
and Sustainability
Committee



Remuneration
Committee



Underwriting and
Underwriting Risk
Committee

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 Chair and the Group CEO. The Chair 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, reinsurance, finance, investments, capital management, internal audit, risk, legal and regulatory developments, compliance, climate change risk, ESG and sustainability and other matters affecting the Group. Management provides the Board with the information necessary for it to fulfil its responsibilities. In addition, presentations are made by external advisers such as the independent actuary, the investment managers, the external auditors, the remuneration consultants and the corporate brokers. The Board Committees are authorised to seek independent professional advice at the Company's expense.

The Board also meets to discuss strategic planning matters in addition to the customary schedule of quarterly meetings. The Board dedicated time to strategic opportunities and capital planning at a dedicated Board strategy day which was held in April 2022 in which all Directors and members of the management team participated.

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 Chair also holds regular meetings with the Chairs of the Group's principal operating subsidiaries: LIL, LUK, LSL and LCM.

All Directors attended the scheduled quarterly proceedings of the 2022 Board and Committees meetings.

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, Robert Lusardi, Irene McDermott Brown 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 Chair on 4 May 2016.

Jack Gressier joined the Board as a Non-Executive Director with effect from 26 July 2022. The appointment of Jack Gressier was facilitated by the specialist recruitment agency Per Ardua which conducted a Non-Executive Director search exercise under the direction of the Nomination, Corporate Governance and Sustainability Committee and Peter Clarke as the Company Chair. Per Ardua prepared an independent candidate report which was considered at the Nomination, Corporate Governance and Sustainability Committee meeting held on 25 July 2022. The Board also considered the question of Jack's independence of character and judgement, and considered that he should be considered independent on his appointment. Jack has over thirty years' experience in the insurance industry, including as Chief Operating Officer of Axis Capital Holdings Ltd, and the Chief Executive Officer of its insurance segment. Jack Gressier was also appointed as a member of the Remuneration Committee, and Underwriting and Underwriting Risk Committee.

At the Board meeting held on 9 February 2023, further to a recommendation by the Nomination Corporate Governance and Sustainability Committee, the Board affirmed its judgement that six of the nine members of the Board are independent Non-Executive Directors. However, it was noted that Simon Fraser had been first appointed to the Board on 5 November 2013 and had therefore recently completed nine years' service as a Director. The Committee considered it appropriate for Simon Fraser to participate in the 2022 year end Board meetings in February 2023 and to continue to be treated as independent in character and judgement. Simon Fraser will not submit himself for re-election as a Non-Executive Director at the 2023 AGM. Therefore, in the Board's judgement, the Board's composition complies with the Code requirement that at least half the Board, excluding the Chair, should comprise Non-Executive Directors determined by the Board to be independent.

In accordance with the provisions of the Company's Bye-laws and the Code, and for 2023, with the exception of Simon Fraser, 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. That Committee also receives periodic reports from the ESG Committee Chair on its work. The Directors have access to the Company Secretary and the Group General Counsel who are responsible for advising the Board on all legal and governance matters.

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

Board performance – 2022 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, stakeholder and employee engagement, composition, skillset, supporting processes and management of the Group. The evaluation is forward-looking in terms of identifying 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. In accordance with the Code requirements, the 2021 evaluation was facilitated externally by Independent Audit, a London-based corporate advisory firm with no other connection to the Group. Following the 2021 Board and Committee evaluation process, the Board made progress during 2022 in the areas of board succession planning, the use of "deeper dive" sessions in the Underwriting and Underwriting Risk Committee and in the delivery of training, in particular around preparation for the introduction of IFRS 17.

The 2022 evaluation was conducted internally, facilitated by the Company Secretary and the Chair. The evaluation for the Board and each of its Committees was based on a set of questionnaires which were prepared by the Company Secretariat and agreed with the Board Chair and the Chairs of each of the Committees and made available to participants using a web based survey platform. The Group's principal operating subsidiaries, LICL, LUK, LSL and LCM also carried out a web-based questionnaire performance appraisal facilitated by the respective company secretaries. The draft reports covering the subsidiary boards and relevant committees including recommendations were discussed with the respective subsidiary chairs and have been discussed within the relevant subsidiary boards. Key themes from those subsidiary evaluations were also reported to the Lancashire Holdings Board.

The 2022 Lancashire Holdings Board and Committee evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other Committee members and members of senior management who were invited to review and complete the online questionnaires. Further to this process the Company Secretary prepared a draft evaluation report for the Board which collated feedback from the responses on an anonymised basis and identified a series of themes covering both areas of effectiveness and potential actions and areas for further discussion or development. The summary reports were discussed in draft between the Company Secretary and the Board Chair before being distributed to each of the Directors. The Chair invited feedback on key findings in the evaluation reports prior to their finalisation.

The performance evaluation reports were formally tabled and discussed at meetings of the Nomination, Corporate Governance and Sustainability Committee and the Board held in February 2023, and each of the other Committees discussed the report pertinent to its own operation and performance. The reports identified a number of key strengths of the Board and its Committees, including; dynamics and chairing; skills and expertise of both Non-Executive and Executive Directors; effective oversight of strategy and performance; strong Committee reporting; effective risk management and controls; subsidiary governance; and company secretariat support. The Board discussions on the reports were led by the Chair.

In summary, in its consideration of the 2022 performance evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial, regulatory and other relevant expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The Group CEO and the Group CFO, the Company's Executive Directors, were also found to be operating effectively.

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

Further to the Board engagement with the evaluation process and consideration of the reports, the Board concluded that Board and Committee oversight of strategy, risk tolerances and controls had operated effectively. The Board discussions around the wider business and market impacts of the conflict in Ukraine were considered to have been effective and to have been appropriately focused. Management's presentation to the Board of a strategic vision to 2030 had generated a useful discussion of the longer term strategic trajectory of the Group. Discussion of the Group's exposures to hurricane Ian had been conducted on the basis of a thorough ground up large loss analysis, which had been well presented by management.

Engagement between the Board and the workforce was considered to be generally strong and beneficial to the operation of the business and had improved during 2022 as COVID-19 restrictions were relaxed. Effective workforce engagement will continue to be a priority for the Board. For further information on workforce engagement, please see Peter Clarke's introduction to the Sustainability and Governance sections starting on page 40 and the report from the Nomination Corporate Governance and Sustainability Committee starting on page 86.

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

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

- To monitor the implementation of the IFRS 9 and IFRS 17 accounting standards during the course of 2023, supported by appropriate and targeted training; and
- Continue to monitor expected legislative and regulatory changes in the area of UK financial reporting, audit and associated regulation.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2023.

The Chair's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2022. The discussion and feedback were positive regarding the Chair's performance. The Chair was considered to be effective in facilitating strategic decision making, whilst ensuring an appropriate level of challenge and a culture of open, honest and constructive discussion.

Following the year end, the Chair met with the Group CEO, and the Group CEO met with the Group CFO, to conduct a performance appraisal in respect of 2022 and to set targets for 2023. The results of these performance evaluations were discussed by the Chair and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 96.

Relations with shareholders

During 2022, 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 September and October 2022, Irene McDermott Brown, the Chair of the Remuneration Committee, conducted a consultation with the Company's significant shareholders concerning the review of the Remuneration Policy and its implementation in advance of the shareholder Remuneration Policy vote which is to be tabled as a resolution at the 2023 AGM. The feedback from shareholders was reported to the Remuneration Committee at its meeting in November 2022 and a summary of the consultation process and outcomes can be found in Irene McDermott Brown's introduction to the Directors' Remuneration Report on page 96.

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 in person or virtually with shareholders at the Company's 2023 AGM.

The Company commissions regular independent shareholder analysis reports, and also receives periodic reports from the Group's Head of Investor Relations on feedback from shareholders and analysts.

The Company's bye-laws are governed by Bermuda Company Law and subject to approval of shareholders in a general meeting. The bye-laws are available on the Company website. A copy of the Company's bye-laws is also available for inspection at the Company's registered office. The bye-laws have been subject to review by the Group's Legal and Compliance department and the Board during 2022 and the Board is proposing revisions which will be put as a resolution to shareholders at the 2023 AGM. Details of the proposed changes will be summarised in the AGM Notice and on the Group website.

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 2022, the Board carried out a robust assessment of the emerging and principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the emerging and principal risks affecting the Group, as well as the procedures in place to identify and manage them, can be found in the ERM section of this report on pages 26 to 29 and in the risk disclosures section on page 144. The Group's reporting of climate change risk and its management within the business can be found in the TCFD Report starting on page 61.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from pages 80 to 95 for further detail). The Group CRO reports directly to the Group and subsidiary boards and facilitates the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, loss events and near misses, key risk indicators, and an overview of the control environment (driven by key control testing and control affirmations, and supported by internal audit findings). Areas of particular focus during 2022 have been the risks associated with global instability arising from the conflict in Ukraine, rising inflation during 2022 and heightened volatility in international energy, bond and investment markets, the associated "cost-of-living" implications in particular for employees and also for wider society, risk exposure and capital considerations associated with the improving (re)insurance market opportunity and recent growth, climate change risk management and the implementation of the TCFD recommendations and developments in the area of ESG risk management and reporting. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review. In this regard, please see the Audit Committee report on page 80.

Committees

The Board has established Audit, Investment, Nomination, Corporate Governance and Sustainability, Remuneration, and Underwriting and Underwriting Risk Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website. The Committees' Terms of Reference were reviewed by the Board during 2022 and considered again as part of the 2022 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 2022 Board meetings is set out on pages 72 to 74. A report from each of the Committees, which covers Committee attendance, is set out from pages 80 to 95.

Audit Committee



Sally Williams
Chair of the Audit Committee

"2022 was my first year as Committee Chair and I would like to thank my predecessor, Samantha Hoe-Richardson, the current Audit Committee members and the management team in facilitating an orderly and smooth transition into that role. In the year ahead, the Audit Committee will continue to work closely with the business and the Company's external auditors in ensuring the Group's readiness for reporting under the IFRS 17 accounting standard, with continued financial reporting integrity."

Committee membership

The Audit Committee comprises three independent Non-Executive Directors and is chaired by Sally Williams. The qualifications for each of the Committee members are detailed on pages 72 to 74. The Board considers that the three independent Non-Executive Directors all have recent and relevant financial experience, with competence in accounting and/or auditing. The Audit Committee as a whole has competence in the specialty insurance and reinsurance sectors. The internal and external auditors have the right of direct access to the Audit Committee. The Audit Committee's detailed Terms of Reference are available on the Group's website.

Committee members	Meetings attended
Sally Williams (Chair)	4/4
Simon Fraser	4/4
Robert Lusardi	4/4
Samantha Hoe-Richardson	2/2

Sally Williams assumed the role of Committee Chair on 9 February 2022. Samantha Hoe-Richardson stepped down as Committee Chair and as a member of the Board with effect from 9 February 2022 and 27 April 2022, respectively.

Principal responsibilities of the Committee

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

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

During 2022, the Committee focused on the adequacy of the Group's loss reserves, with particular regard to the business's thorough assessment of its exposures arising from the conflict in Ukraine, as well as hurricane Ian that occurred during the year; the effectiveness of the business's control environment; the continued integrity of external financial reporting; the oversight of corporate and risk culture through the reporting of the internal audit and risk management functions; and the progress of the Group's implementation plans for the IFRS 9 (Financial Instruments) and IFRS 17 (Insurance Contracts) accounting standards.

How the Committee discharged its responsibilities

Financial and narrative reporting

Committee responsibility	Committee activities
Monitors the integrity of the Group's consolidated financial statements, including its annual and half-yearly reports, annual reporting arising under applicable supervisory rules, interim management statements, preliminary announcements and any other formal statements relating to the Group's financial performance.	<p>At each meeting the Committee reviews the Group's quarterly consolidated financial statements, including the annual consolidated financial statements, the Annual Report and Accounts and other public financial disclosures for the purpose 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 2022 at the Audit Committee meeting prior to the recommendation of their approval by the Board. The Committee also monitors the activities of the Group's Disclosure Committee and reviews the Group's quarterly financial releases and accompanying earnings call investor presentations.</p> <p>During 2022, the Committee received regular and ad hoc reports from management on:</p> <ul style="list-style-type: none"> • loss reserving and developments to the Group's reserving process, including those to take account of the implications of adopting IFRS 17 going forward, considered in conjunction with the comparison of the Group's reserves to the best estimates of its external actuarial consultants and the reports provided by the external auditors. The Committee also received a report during the year from the Group Chief Actuary on the impact of claims inflation (i.e. above initial inflation projections) on reserve estimates; • developments in accounting and financial reporting requirements, including a summary of any updates to disclosures in the consolidated financial statements; • the quarterly activities of the Group finance team, which, for 2022, included delivering 'lunch and learn' sessions for new joiners to facilitate greater organisational awareness and overall alignment across the business; • any new and/or significant accounting treatments/transactions (including related party transactions) in the quarter, with a particular focus this year on the adjustments to estimated premium income in respect of insurance contracts impacted by the imposition of sanctions on Russia, arising from the conflict in Ukraine; • the assessment of the Group's ability to continue as a going concern and longer term viability (see page 120 for further details) which, for 2022, included detailed consideration of the impacts of the conflict in Ukraine and the volatility in global investment markets; • the programme of change across the Group, as well as enhancements in information security and the wider technology infrastructure. Information security matters are also reported to the Committee as part of the quarterly confirmatory compliance statements from the Group's legal and compliance function; • 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 received quarterly reports from the external auditors covering audit planning and the results of their assessment of key financial statement judgements and estimates, control testing, misstatements identified and other audit and accounting matters. <p>The Committee attended a refresher training session delivered by the management team to the Board on the Group's IFRS 17 implementation project. In addition, the Audit Committee continued its constructive engagement with the Group CFO to ensure maintenance of high standards of financial controls and reporting.</p> <p>Judgements and estimation in the consolidated financial statements</p> <p>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 84.</p>
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.	<p>The Committee reviewed the early drafts of the 2022 Annual Report and Accounts in order to keep apprised of its key themes and messages. During this review, the Committee carefully considered the clarity of disclosures made in respect of the material growth in Group premium income and the related developments in the business's underwriting portfolio; the impact of major market losses and ongoing development events; loss reserving; the evolution of the Group's ESG strategy; the account of the Group's carbon footprint measurement and offsetting; the Group's TCFD report; and the in-depth assessment conducted around going concern and viability. The Committee reviewed the final draft of the 2022 Annual Report and Accounts at the February 2023 Audit Committee meeting, together with the external auditor's report. The Committee advised the Board that, in its view, the 2022 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.</p>

How the Committee discharged its responsibilities *continued*

External audit oversight

Committee responsibility	Committee activities
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity, taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	<p>The Committee approves the annual external audit plan, ensuring its consistency with the scope of the audit engagement, and receives reports from the external auditors, including an ongoing assessment of the effective performance of the audit compared to the plan.</p> <p>KPMG LLP's terms, scope of engagement and fees are approved by the Committee at the start of each audit.</p> <p>Following the year-end audit, the Committee performs an assessment of the effectiveness of the external audit process. This assessment was last conducted, and designed to align with good practice guidance, at the April 2022 Audit Committee meeting and it was concluded that the external audit process was operating effectively, both with respect to the service provided by KPMG LLP and management's support of the audit process. Similarly, the Committee receives from the external auditors a management letter setting out certain findings and recommendations in respect of the audit of the control environment and receives regular updates from management on the steps taken in addressing the observations raised.</p> <p>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.</p> <p>The Committee Chair conducts informal meetings with the external auditors and the Group CFO prior to 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.</p>
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.	<p>The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis. The policy was last reviewed by the Group CFO in April 2022 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 2022, KPMG LLP provided \$0.4 million of non-audit services to the Group relating to the half-year reporting review, as well as Solvency II and Lloyd's regulatory returns. The Committee gave careful consideration to the nature of the non-audit services provided, the suitability of KPMG LLP as the most suitable supplier of the non-audit services and the level of fees charged and has determined that they do not affect the independence and objectivity of KPMG LLP as auditors.</p>
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.	<p>Following a competitive external audit tender process undertaken during 2016, the appointment of KPMG LLP as external auditors was first approved by shareholders at the 2017 AGM and has been approved at subsequent AGMs. The 2022 financial year was the sixth financial year in which KPMG LLP acted as the Group's external auditors. The incumbent lead audit partner is Salim Tharani, who assumed this role from his predecessor, Rees Aronson, at the beginning of the 2022 financial year, in accordance with an orderly plan of partner rotation under the guidance of the UK Ethical Standard.</p> <p>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. Since 2020, the Audit Committee has discussed and agreed with KPMG LLP, in consultation with management, the annual fee structure for the forthcoming year-end audit, most recently in respect of the 2022 financial year.</p> <p>The Committee and the Board are recommending the re-appointment of KPMG LLP as external auditors at the 2023 AGM.</p> <p>The Committee has and will continue to evaluate the impact on the Group of the Department for Business, Energy and Industrial Strategy (BEIS) consultation and resulting proposals for restoring trust in audit and corporate governance.</p>

How the Committee discharged its responsibilities *continued*

Internal audit oversight

Committee responsibility	Committee activities
Monitors and assesses the role and effectiveness of the Group's internal audit function in the overall context of the Group's risk management system, ensuring it has unrestricted scope, and the necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards.	<p>The Group's internal audit function reports directly to the Committee. The Committee meets in executive session with the Group Head of Internal Audit on a quarterly basis. Each year, the Group Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are considered for audit annually, whilst less critical risks are audited periodically as part of a flexible multi-year programme. The internal audit plan also considers emerging risks which may impact on the business, with input in this area from the Group risk management function.</p> <p>The Committee receives a quarterly report from the internal audit function summarising the status of the internal audit plan; findings from internal audits conducted in the period; and the status of actions taken by management to implement recommendations arising. Consideration is also given to the assessment of the Group's culture, including risk culture, for each audit undertaken and an overall summary of observations identified in respect of the Group's culture is presented to the Committee on a quarterly basis.</p> <p>During 2022, 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 Chair of the Committee undertook an annual review of the effectiveness of the internal audit function and its activities during 2022. The Committee discussed the report and its findings with the Group CRO and the Group Head of Internal Audit and concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system, has appropriate standing within the Group and that the Group Head of Internal Audit has the appropriate reporting lines to maintain independence.</p>

Internal controls and risk management systems

Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems.	<p>The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee received from the Group CRO periodic reports detailing results of the quarterly risk and control affirmation review and testing work, together with an overview of the Group's control environment and its effective operation. The Committee also received additional reports from the Group CRO and Group Head of Internal Audit on the ongoing effective operation of key controls during the programme of change arising through growth in the business and the resultant increase in headcount across the Group. 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 and ongoing viability, as well as the risk mitigation procedures in place to identify and manage them, see pages 30 to 37.</p>
Reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management, including the assessment of principal and emerging risks, and the viability statement.	<p>The Committee received from the Group Head of Internal Audit an annual assessment of the effectiveness 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. As part of the most recent annual appraisal, the Group Head of Internal Audit gave explicit consideration to management's fraud risk assessment and reported to the Committee that no instances of actual or potential fraud had been identified as part of the review work and other assurance activities undertaken, nor had the Group Head of Internal Audit been informed of, or made aware of, potential fraud by the management team. Fraud risk and the associated controls are, otherwise, ordinarily considered by the Group internal audit function as part of the planning phase for each audit conducted. In 2022, the Committee and Board were satisfied that the governance, risk and control framework continue to remain both effective and appropriate for the Group.</p>

How the Committee discharged its responsibilities *continued*

Compliance, speaking up and fraud

Committee responsibility	Committee activities
Reviews for adequacy and security the Group's compliance, speaking-up and fraud controls.	<p>During 2022, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls to ensure their adequacy and effectiveness, and recommended the adoption by the Board of updated policies and procedures in respect of: anti-money laundering; the prevention of bribery and financial crime (including the detection of fraud); conflicts of interest; whistleblowing arrangements; and sanctions monitoring. The operation of the controls that are documented in these policies and procedures are reported to the Committee on a quarterly basis in the form of confirmatory compliance statements from the Group's legal and compliance function, members of which include the Group's Money Laundering Reporting Officers and Group Data Protection Officer. 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 53 for further details).</p> <p>The Group's whistleblowing policy and procedure provide an internal mechanism for the reporting, investigation and remediation of any workplace wrongdoing, with arrangements in place that allow for the independent investigation of such matters and appropriate follow-up action. A whistleblowing champion has been appointed to each of the Group's principal operating subsidiaries, as well as at a parent company level, with the Chair of the Audit Committee serving in such capacity. The appointed whistleblowing champions have responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Company's policies and procedures on whistleblowing. The Group places a high priority on staff understanding of this process to enable them to speak out with confidence when appropriate and this message, as well as the arrangements that are in place, is regularly communicated to all staff.</p>

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 which covers areas relevant to the longer term viability of the business.

The valuation of loss reserves and expenses

The most significant area of judgement and estimation considered by the Committee during 2022 was the valuation of loss reserves.

As detailed on page 140 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. 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. KPMG LLP conducts a detailed re-projection of the Group's loss reserves as part of the full-year audit. The Committee meets in executive session with the Group's Chief Actuary twice a year (at half year and year-end) to discuss the operation and effectiveness of the actuarial function and the reserving process.

During 2022, the Committee focused its discussions pertaining to the Group's loss reserves on:

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

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

The fair value of financial instruments

Less significant estimates are made in determining the fair value of certain financial instruments and management judgement is applied in determining impairment charges. The investment portfolio is of a high credit quality and highly liquid and the Audit Committee obtains comfort from the impairment policy being applied consistently over time. The estimation of the fair value, specifically 'Level (iii)' investments, is discussed on pages 139 and 141 and in note 11.

Valuation of premiums received which are estimated

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

Going concern basis of accounting and longer term viability

The Audit Committee reviewed and challenged the going concern assessment prepared by management at both its July 2022 and February 2023 meetings, with particular consideration of capital management, the current underwriting and loss environment, the composition and liquidity of the investment portfolio, long-term debt financing arrangements, strategic and financial forecasts over the business planning horizon, and stress and scenario testing (including climate-change risk scenarios). These factors are also relevant to giving assurance to the Board on the longer term viability of the Group's business strategy.

Having reviewed and challenged these areas, the Committee concurred with management's going concern assessment and the relevant disclosures around going concern and longer term viability in the Group's consolidated financial statements.

Implementation plans for IFRS 9 and IFRS 17

During 2022, the Committee monitored on a quarterly basis the preparation by the Group for the implementation of IFRS 9 and IFRS 17 (see future accounting changes on page 137).

In particular, the Audit Committee received a quarterly IFRS 17 reporting pack outlining the financial reporting outputs from the IFRS 17 implementation project, which included an overall project plan and status update to enable the Audit Committee to monitor the IFRS 17 deliverables. All Board and Audit Committee members attended an IFRS 17 training session in November 2022, where the topics covered included: accounting policy choices, measurement models, valuation and presentation differences, approach to discounting, disclosure requirements, key performance indicators and significant estimates and judgements.

The Audit Committee also monitored the work of KPMG LLP in their ongoing assessment of the Group's preparedness to transition to IFRS 17 and IFRS 9 and discussed with them the external audit-related implications of these changes.

Priorities for 2023

- To maintain the focus on the effectiveness of the Group's control environment, the operation of the business's financial reporting systems and the integrity of external financial reporting;
- To monitor the implementation of IFRS 9 and IFRS 17 in 2023 financial reporting;
- 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; and
- To continue to monitor developments and implement recommendations relating to anticipated changes in the corporate governance, corporate reporting and audit practice landscape arising from the BEIS consultation.

Nomination, Corporate Governance and Sustainability Committee



Peter Clarke
Chair of the Nomination, Corporate Governance
and Sustainability Committee

Committee membership

The majority of the Nomination, Corporate Governance and Sustainability Committee members are independent Non-Executive Directors. The Committee Chair is Peter Clarke, who is the Chair of the Board. Samantha Hoe-Richardson stepped down from the Board and the Committee with effect from 27 April 2022, having completed nine years of service as a Director.

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

“Strong corporate governance is at the heart of our culture and our rigorous system of risk management. During the year, we have further refreshed our Board membership, rotated the leadership of our Audit and Remuneration Committees and appointed a new Senior Independent Director in line with Code expectations for director independence.

The Committee’s role continues to focus on sustainability issues for the Group, and includes monitoring evolving developments in climate risk and ESG management, and within regulation, guidance and reporting requirements. During the year, the Committee has formalised the reporting line from the management ESG Committee.

The focus of the Board and management team is on the creation of a diverse and vibrant culture and business which is sustainable over the long-term.”

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

Corporate governance

Committee responsibility	Committee activities
Board composition and effectiveness	<p>The Committee discussed in its meetings the skills and experience needed to complement those already on the Board and its Committees. The Committee regularly discussed matters of Board succession and skills planning over the medium to longer term including the process for Chair succession planning, which is to be a process facilitated by the Board's Senior Independent Director (SID). The Committee considered questions of fitness and independence in recommending to the Board the appointment of Jack Gressier, who was appointed as a Non-Executive Director with effect from 26 July 2022. The Committee also approved the appointment of Mr Gressier to the Underwriting and Underwriting Risk Committee and the Remuneration Committee. During the year the Committee oversaw the appointments of Sally Williams and Irene McDermott Brown respectively to the Chairs of the Audit and Remuneration Committees.</p> <p>The Committee reviewed the composition of the Board at its November 2022 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.</p> <p>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 facilitated internally by the Company Secretariat team. The Committee and the Board were satisfied that the Board and each of its Committees were operating effectively. Further details of the performance evaluation process and its outcomes can be found on page 77.</p> <p>In accordance with the provisions of the Code, all of the Directors are subject to annual (re)election by shareholders. With the exception of Jack Gressier who was appointed in July 2022, all of the Group's current Directors were elected or re-elected by shareholders at the 2022 AGM. With the exception of Simon Fraser, who will not submit himself for re-election having completed nine years' service as a Director, all other serving Directors will be submitted for re-election at the 2023 AGM.</p> <p>In light of Simon Fraser's planned rotation off the Board, the Committee facilitated a process for the selection of a new SID, which resulted in the appointment of Robert Lusardi as SID with effect from 3 November 2022. The Committee has also received regular updates with respect to the succession planning for the Board's Chair.</p>
UK Code compliance	<p>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.</p>
Governance documentation	<p>The Committee considered the Terms of Reference for all the Committees which were considered fit for purpose. A review was implemented during 2022 to ensure the Terms of Reference reflect the Group's approach regarding the use of non-gendered language and inclusivity. In July 2022, the Committee reviewed and recommended to the Board an updated version of both the Board's Schedule of Reserved Matters and of the document describing the division of responsibilities between the Group CEO and the Chair. In November 2022, the Committee reviewed and recommended to the Board for recommendation to shareholders the revised Company Bye-laws. The revised Bye-laws will be put to shareholders for approval at the Company's 2023 AGM.</p>

How the Committee discharged its responsibilities *continued*

Corporate governance

Committee responsibility	Committee activities
Appointments and succession planning	The Committee reviewed and recommended the approval and adoption by the Board of the Group's succession plan and talent management and development programme for the 2022/2023 year in July 2022. The business has the objective of fostering a skilled and 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 2022, the Group continued the practice of the Group CEO holding 'town hall' meetings with employees following the announcement of the Group'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 Chair of the Board or another Non-Executive Director. Peter Clarke attended the town hall meetings held virtually for both our Bermuda and London offices in February 2022; Sally Williams attended in-person town hall meetings in our London offices in May 2022; Irene McDermott Brown attended an in-person meeting in London in both August and November 2022. The Board and Committee also received the results of two staff engagement surveys undertaken during 2022. In March 2022, the Group conducted a wellbeing survey as a follow up to the engagement survey conducted in 2021 and in September 2022, the Group conducted a rewards and benefits survey to better understand the views of staff on the compensation and benefits offered at Lancashire (see page 51 for further details of these surveys). With the relaxation of COVID-19 related restrictions on social interaction, the Directors once again had the opportunity to meet with staff less formally at staff lunches and other social gatherings organised around the time of the Board's regular meetings in Bermuda. The Committee considered these and other tools for workforce engagement at its November 2022 meeting and discussed arrangements for workforce engagement during 2023. The Committee considers that the mechanisms for workforce engagement and feedback have an appropriately high profile and this, in turn, informs debate within the relevant Committees, the Board and the wider Group.
Audit reform	The Committee has monitored developments in the area of audit market reform, regulation and practice during 2022, including proposals for UK legislative change as a result of the FRC's final consultations, the Department for Business, Energy and Industrial Strategy's consultation and the planned establishment of Auditing Reporting Governance Authority (ARGA).
Subsidiary boards	The Committee and Board monitored the composition and appointments and changes to the Group's subsidiary boards during 2022.

How the Committee discharged its responsibilities *continued*

Sustainability

Committee responsibility	Committee activities
Sustainability and ESG reporting	The Committee has continued to monitor developments in the area of the Group's ESG responsibilities, including the impact of climate change, throughout its work in 2022. The Committee has received reports from the management ESG Committee (which was established during 2021) regarding the current and developing ESG regulatory landscape as well as the Group's progress in these areas. Upon the recommendation of the Committee, the Board agreed the Group's 2022 ESG strategic statement and the Group's ESG risk framework, both of which have been embedded into the business.

Environment

Climate change risk and opportunity	The Committee also periodically reviews developments in the areas of environmental sustainability and climate change, and the management of related risks and opportunities. The Committee reviewed and ratified the Group's 2022 CDP response. For more information on these matters, please see the Group CRO's report on page 26 and the 2022 TCFD report starting on page 61.
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Social responsibility

Diversity	<p>The Committee recommended approval of an updated Board diversity policy, which is posted on the Company's website. The main change in this policy was to include a commitment to meet the Parker review target for minority ethnic representation by December 2024. The Committee is actively progressing recruitment in order to meet this target.</p> <p>The Committee also noted and approved proposals for the introduction by management of a staff level Diversity, Equity and Inclusion Policy, which was approved by the Group Executive Committee during the year.</p>
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 2022, the Committee received a report from the Foundation, including its objectives, governance, approach to funding for 2023 and beyond, alongside its investment strategy, donations policy and charitable activities, as well as the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that the Company make a donation to the Foundation of 0.75% of full-year Group profits (subject to a cap of \$750,000 and a \$250,000 collar), conditional on the determination of financial performance for the full year. 2022 marks 16 years of the Lancashire Foundation – for more information regarding its work, please see pages 47 to 50.
UK Modern Slavery Act 2015	During 2022, the Committee recommended the approval by the Board of an updated anti-slavery and human trafficking statement, a copy of which is posted on the Company's website.

Priorities for 2023

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

Investment Committee



Robert Lusardi
Chair of the Investment Committee

"The Group's investment portfolio has been negatively impacted in 2022 by volatility in global markets, inflationary trends and a rapidly rising interest rate environment. In the face of these challenges the Group's defensive short duration profile of the investment portfolio has helped mitigate the impacts of rising interest rates.

The negative impacts on the portfolio are principally comprised of unrealised losses on relatively short duration assets which we expect to unwind for the most part over the medium term. The Committee conducted a strategic asset allocation review during the year, which has served largely to validate our investment approach over recent years. The investment portfolio is managed with a view to preserving capital to support underwriting opportunities and to provide adequate liquidity to match the Group's risk exposures. Given that the vast majority of the Company's premium writings, reserves and investments are U.S. dollar denominated, economic and capital market conditions in the U.S. are the primary determinant of investment results. Currently, inflation is subsiding somewhat in the U.S., unemployment is at a long-term low, and interest rates, which rose by more than 300 basis points in 2022, have recently stabilised. As such we expect the portfolio to make a more significant contribution to returns in 2023, particularly as lower yielding assets roll off."

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 Chair 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 Chair of the Board, one Executive Director (the Group CFO) and the Group CIO (who is not a Director).

Committee members	Meetings attended
Robert Lusardi (Chair)	4/4
Peter Clarke	4/4
Natalie Kershaw	4/4
Denise O'Donoghue	4/4

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

For the full 2022 year there was a negative return on the Group's investment portfolio of \$76.7 million, being a portfolio percentage return of negative 3.5%. The largest factor in the negative return was mark to market unrealised losses, which for the full year were \$93.2 million.

During 2022, the Committee focused on the challenge of volatility arising from the effects of the continuing impact of the COVID-19 pandemic, the conflict in Ukraine, inflationary pressures and changes in the U.S. Federal Reserve's interest rate policy and the wider U.S. and global economic and political environment. The Committee monitored the impacts on the fixed income assets within the investment portfolio of the rising interest rate environment within the U.S. and the impact on mark to market valuations and unrealised losses within the portfolio.

The Committee continued to work with management to articulate, support and implement the Board's investment philosophy. The Group's investment strategy continues to be conservative in nature, to 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 received a proposal from management with regard to asset allocation guidelines further to the biennial asset allocation review, which was externally facilitated by an independent advisory firm. The strategic asset allocation review was discussed and agreed at the November 2022 meeting. The analysis factored in consideration of growth in the Group's casualty reinsurance portfolio reserves on the desired overall target investment portfolio duration and liquidity requirements. A number of investment strategy recommendations were debated and agreed.

The Committee held regular discussions with the professional investment portfolio managers concerning the macroeconomic environment and implications for investment asset classes and strategy.

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

The Committee monitored a suite of investment portfolio risk analytics throughout the year including a 1 in 100 Value at Risk measure, realistic disaster scenarios and realistic loss scenarios, credit risk, liquidity risk and other market risks. The Committee also tracked FX exposure and its management.

The Committee continues to monitor ESG and climate change developments and expectations within the market. The Committee monitors and will continue to develop a number of tools to measure the ESG profile, climate change risk exposure and carbon intensity of the Group's investment portfolio. It is recognised by the Committee that most of the available measurement metrics and methodologies for these factors are imperfect, and the Committee expects to further develop and refine its ability to analyse these factors in future years, in consultation with the Group's external advisors and portfolio managers, particularly as external tools and standards for measuring potential climate effects on investments become more developed.

The Committee noted that 93.9% of the Group's externally managed investment portfolio are signatories to the UNPRI. The Committee monitored the ESG profile of the Group's fixed maturity portfolio by reference to the MSCI ESG rating tool, noting that the Lancashire portfolio sits near the high end of the average ESG category rating. The proportion of the fixed maturity portfolio covered by the available rating methodology was approximately 47.2% of the public fixed maturity portfolio, due to the high number of U.S. treasuries and structured products that are not covered by the available methodology.

The Committee has for the second year operated a framework for the measurement of climate sensitivity for corporate bonds within the fixed maturity portfolio through the use of a Climate Value at Risk metric (Climate VaR), which is aligned with the Paris Accord goal of limiting global temperature increases to a maximum of 1.5°C, for the Group's investment risk tolerance statements. The Committee and Board have a preference for the financial impact of this scenario on the Group's fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model. Due to limited coverage of the available measurement tool mentioned above, the portfolio performance is grossed up by reference to covered assets. The Committee noted that the fixed maturity portfolio continues to outperform the benchmark portfolio on the Climate VaR measure.

The Committee monitored the implementation of carbon intensity guidelines for investment managers in the fixed maturity portfolio. The carbon intensity score for the fixed maturity portfolio reduced against the prior year. The Committee expects to see a further reduction in the carbon intensity of the fixed income portfolio as securities with a greater carbon intensity score roll off the portfolio over the next few years, although the reductions will be lower because of management actions previously taken.

The Committee and the Board continued to operate ESG and carbon management investment guidelines implemented by the Group's investment managers across the Group's fixed maturity investment portfolios.

Priorities for 2023

- To maintain a continued focus on a diversified portfolio, continuation of its contribution to the Group's operating income and FCBVS, the preservation of capital, the maintenance of liquidity in order to pay claims and the prudent management of investment risks aligned with the developing profile of the Group's underwriting portfolio, including the addition of longer tail lines;
- To focus on the implications of macroeconomic trends, in particular the threat of more sustained inflationary pressures, trends in interest rates, the U.S. domestic economy and instability within the international political environment; and
- To monitor climate change risk sensitivity, the ESG profile and carbon intensity profile of the Group's investment portfolio as the external market for measurement of such items continues to develop.

Underwriting Committee



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

Committee membership

During 2022, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and two Non-Executive Directors (Jack Gressier joined the Committee during the third quarter), together with the Group CUO, the CUO of LICI, the CUO of LUK, the CEO and CUO of LSL, the LICI CEO and the Group Chief Actuary (who are not Directors).

Committee members	Meetings attended
Alex Maloney (Chair)	4/4
Jon Barnes	4/4
Michael Dawson	4/4
James Flude	4/4
Paul Gregory	4/4
Jack Gressier	1/1
James Irvine	4/4
Hayley Johnston	4/4
Ben Readdy	4/4
John Spence	4/4

"The Committee's principal focus in 2022 was in monitoring the strong premium growth trend during the year as pricing in the insurance and reinsurance markets continued to harden. With organic and complementary growth in the Group's core specialty lines, improved pricing on the catastrophe book and the strong build out of the Group's newer casualty and financial lines exposures, the Committee has monitored the relative rebalancing of catastrophe risk within the overall portfolio.

Overall, the Group has developed a more diversified portfolio which, over time, is expected to generate more consistent and less volatile returns.

In another year of global volatility marked by the conflict in Ukraine, the Committee has continued to monitor both the risks and the underwriting opportunities arising from dislocation in a number of insurance and reinsurance classes."

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

During 2022, the Committee continued to focus upon the improved pricing and market conditions in most of the Group's existing lines of business, the development of the Group's casualty and financial lines portfolios and other more recently established business lines, and the opportunities to grow and diversify the underwriting portfolio through the addition of new lines of business.

Throughout the year the Committee discussed areas of risk and opportunity, in particular arising from market dislocation caused by the conflict in Ukraine and the impacts of hurricane Ian. The Committee monitored what was, for the most part, an improving pricing trend which facilitated strong premium growth as the year developed. The Group's RPI, which shows the trend in renewal pricing on like-for-like contracts, was 108% for the full year across the portfolio. Gross premiums written for the full year increased to \$1.7 billion, which was a 34.9% increase on 2021. The Committee benefitted from the enhancements to the

reporting of management performance data introduced during 2021 and the more readily digestible and granular detail of pricing trends and premium income, claims developments and overall performance by underwriting segment.

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 CUOs for LUK and LICL, the Active Underwriters of Syndicates 2010 and 3010, and the CEO of LCM.

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

- Casualty reinsurance;
- Development of the Syndicate 3010 Lloyd's Australian D&F property class;
- Syndicate 3010 and LUK marine and energy liability growth;
- The newly established construction and engineering classes;
- Lloyd's casualty consortium participation; and
- Aviation classes – in particular opportunity arising from market dislocation.

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

The Committee received a claims update on a quarterly basis and monitored the claims and reserving processes for any material losses as they developed during the year. During 2022, the Committee had a particular focus on the Group's potential exposures arising from the conflict in Ukraine and also monitored the claims and reserving process for the Group's Florida and other U.S. exposures to hurricane Ian. The Committee also monitored developments in international law relating to insurance coverage for COVID-19 related claims.

The Committee has been actively engaged during 2022 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. This included the discussion and approval of tolerances in relation to mortgage risk and cyber exposures. In particular, the Committee received quarterly risk data tracking movements in the Group's exposures to modelled PMLs and RDSs. The Committee also reviewed developments in the formal underwriting authorities implemented across the Group. The Committee also reviewed and approved underwriting risk appetite statements, including in relation to adherence to formal Group ESG and climate risk underwriting guidelines which have been articulated and operated by reference to Lloyd's guidance.

The Committee, through the review and monitoring of underwriting PMLs, continued to monitor exposures to a range of natural catastrophe risks, including regional windstorm and hurricane exposures, and the articulation of an appropriate underwriting and risk management strategy and management preference for these and other risk exposures linked to climate change factors. The Committee discussed the impacts of hurricane Ian during the third quarter. The Committee is satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk and natural catastrophe and climate linked exposures relating to these factors. For more detail, please see the ERM report starting on page 26 and the Group's TCFD report starting on page 61.

The Group's programme of outwards reinsurance protections is a core risk and exposure management tool. The Committee reviewed the structure, pricing and operation of the outwards reinsurance programme and regularly discussed management reports covering outwards reinsurance developments. In particular, the Committee held a dedicated strategic discussion at its November 2022 meeting to consider reinsurance market dynamics, in particular in the light of market dislocation as a result of the impacts of hurricane Ian. The Committee discussed options for the development and focus of the Group's outwards reinsurance programmes, the opportunities for alignment and efficiencies across the Group and the related strategic opportunities within the Group's inwards reinsurance portfolio.

The Committee also convened a number of other themed 'deeper dive' strategic sessions at its quarterly meetings involving the participation of underwriters from across the Group. These included sessions on the Group's aviation underwriting strategy, discussion of developments in the specialty reinsurance markets and related risks and opportunities for the Group, and the Group's inward retrocessional reinsurance portfolio.

The Committee received management reports on the progress and approval by Lloyd's of the business plans for Syndicates 2010 and 3010, including the Lloyd's approval of growth plans for 2023.

The Committee also reviewed developments in the third-party reinsurance capital markets and the performance of the LCM platform. The Committee discussed changes in the ownership of LCM to achieve full alignment with the Group and the related opportunities to use third party capital structures to support Group underwriting initiatives.

During 2022, the Committee meetings were attended 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 starting on page 20.

Priorities for 2023

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

Remuneration Committee



Irene McDermott Brown
Chair of the Remuneration Committee

"I was pleased to take on the role of the Remuneration Committee Chair during 2022. The Committee has carried out a review of our Remuneration Policy for Executive Directors and its implementation and I would like to thank shareholders who engaged in this process.

The Committee has recommended some minor changes to the Remuneration Policy, and for 2023 we have introduced a new RoE measure for use in the annual bonus for our Executive Directors. The Committee is satisfied that Lancashire's remuneration structures are appropriately aligned with the Group's strategic priorities. Our focus remains to ensure appropriate reward for our people, who are the Group's key asset, to deliver on our strategy."

Committee membership

The Remuneration Committee comprises five independent Non-Executive Directors and the Chair of the Board. Immediately following the April 2022 AGM, Irene McDermott Brown assumed the role of Committee Chair succeeding Simon Fraser in that role. Simon Fraser will remain a member of the Committee until the 2023 AGM when he will step down as a Director, having completed nine years' service. Jack Gressier was appointed as a member following his appointment to the Board in July 2022. Jack has extensive insurance industry management experience including knowledge of remuneration practice.

Committee members	Meetings attended
Irene McDermott Brown (Chair)	4/4
Peter Clarke	4/4
Michael Dawson	4/4
Jack Gressier	1/1
Robert Lusardi	4/4
Simon Fraser	4/4

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

Throughout the year the Committee kept under review the Group's performance and remuneration structures, in the light of investor and stakeholder input.

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 conducted a review of the Remuneration Policy during the course of the year in a process which was informed by advice from Alvarez & Marsal on current good practice. Irene McDermott Brown led a shareholder consultation with major shareholders and several of the key shareholder governance advisory services. The Committee is proposing certain minor changes to the Remuneration Policy, which we are recommending to shareholders for approval at the 2023 AGM. A summary of the key Remuneration Policy changes is set out in the Directors' Remuneration Report on page 106. Subject to shareholder approval of these changes the Remuneration Committee considers that the Policy remains fit for purpose.

The Remuneration Committee also sought shareholder feedback on a proposal to change the financial performance metric to be used in the annual bonus for Executive Directors. For 2023, the annual bonus will utilise a profit related RoE measure. Further details of this change are set out in the Directors' Remuneration Report on pages 96 and 107.

More generally during 2022, 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 and the Board discussed the outcomes of the staff surveys conducted during the year and the results of a gender pay gap data review (see the Nomination, Corporate Governance and Sustainability Committee report pages 86 to 89). The Committee also noted management actions to help mitigate inflationary pressures for lower paid staff and to promote a family friendly working environment (see page 51).

During 2022, the Committee addressed the need to review the remuneration package for the Group CFO on an exceptional, mid-year basis, and agreed to an increase in the salary for the Group CFO. Details of the change and the surrounding process are set out in the Directors' Remuneration Report on page 96. The salary increase was also explained to and discussed with the Group's major shareholders as part of the shareholder consultation conducted during the third quarter of 2022.

The Committee also approved the grant of long-term incentivisation awards under the Company's RSS, considering a range of factors including the Company's share price movement. For further discussion of the linkage between performance and remuneration outcomes, please see Irene McDermott Brown's introduction to the Directors' Remuneration Report on pages 96 and 97.

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 2022, 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 implementation and alignment of remuneration practices across the Group and reviewed the operation of the Group's remuneration policy.

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 97 to 117.

Priorities for 2023

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, ESG strategy, changes in accounting and financial reporting in particular as a result of the introduction of IFRS 17, risk profile, objectives, risk management practices and long-term interests of stakeholders;
- To ensure that remuneration across the wider Group remains competitive and appropriate to meet the skills and staffing needs and staff retention requirements of the business in a period of significant growth and developing complexity; 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 2022 Directors' Remuneration Report to shareholders.

As we set out at the front of this annual report, 2022 has been a year marked by an improving underwriting environment and strong premium growth in the face of another year of insurance losses and volatility in investment markets. Our results have been affected by the impact of hurricane Ian which is likely to be the second largest insured wind loss on record. Additionally, the conflict in Ukraine has impacted the business both as an insured loss and as a source of geo-political volatility, and a rapidly rising U.S. interest rate environment has further affected results. As Peter Clarke notes in his introduction on page 8, the combined ratio of 97.7% in the face of another year of exceptional insurance losses illustrates the benefits of growth and portfolio diversification which the Group has achieved, in particular over the last two years. With regard to the investment portfolio performance, as Rob Lusardi notes in the Investment Committee report, the rapidly increasing interest rate environment has resulted in material unrealised losses on the Group's investment portfolio and this has had a material impact on the Group's negative change in FCBVS of 6.7% for the year. However, these unrealised losses are expected to unwind in the relatively short term and the higher interest rate environment is expected to boost future investment returns in the investment portfolio.

In light of these factors, whilst the negative change in FCBVS of 6.7% is disappointing, it is principally driven by volatility in global investment markets and it tends to mask the strong growth and diversification which the Group has achieved this year in its underwriting portfolio. Moreover, current indications are that the strong pricing environment and growth opportunity will continue into 2023. Overall, as we enter 2023, the Group is in a strong position to maximise attractive underwriting opportunities in what we believe to be an improving pricing environment.

Against this background our Group CEO's total remuneration has decreased in comparison to 2021 by 21% and the Group CFO total remuneration has increased in comparison to 2021 by 38%, the increase observed is partly due to the 2020 Long Term Incentive award vesting which was reported in 2022. She did not receive an executive LTI Award in 2019 therefore she had no LTI vesting in 2021. The increase excluding the effect of this Long Term Incentive vesting is 16% (see the comparison table for single figure remuneration on page 109).

Remuneration report voting outcome 2022 and shareholder engagement

The Committee was pleased with the level of shareholder support for the remuneration report at the 2022 AGM with a vote of almost 90% in favour of the report.

Since the 2022 AGM, the Committee has maintained its ongoing engagement with shareholders and in the autumn of 2022, I led a shareholder consultation exercise in which shareholder feedback was sought, with a particular focus on the updated Remuneration Policy which is included in this report. Changes to the Remuneration Policy are modest, reflecting feedback from the engagement, and are set out at the end of the Policy section. The 2023 Remuneration Policy will be put to binding shareholder vote at the 2023 AGM, and will be applicable to remuneration for the three years from 2023 to 2025, inclusive.

During the consultation we also sought shareholder feedback on Policy implementation, in particular a proposal to simplify the financial metric for bonus purposes from Change in FCBVS, which has formed part of bonus metrics for several years, to a new measure of Return on Equity, which was well received. Updating the financial performance measure will add clarity to the bonus measures and remove the use of essentially the same metric in both short-term and long-term incentive awards. We believe that the focus on a profit measure in the annual bonus and a focus on capital growth in the longer term model will ensure an appropriate balance.

The final substantive point from the recent shareholder consultation was the decision taken to adjust Group CFO salary at the mid-year point from £406,250 to £500,000 per annum, a 23% uplift. Natalie Kershaw was appointed Group CFO in March 2020, as an internal appointment. The Committee elected to use the flexibility offered by the Policy to set a salary at the lower end of the market range at appointment with a view to adjusting the level as she developed in the role. Shareholders were supportive of the change to salary, but were clear that material adjustments should not become a regular occurrence. The Committee did not take the decision to make an out of cycle adjustment lightly, but the argument to align CFO salary with the appropriate external market level and thereby to mitigate retention risk in a competitive jobs market was compelling, and it was felt essential that this correction should be implemented immediately in a single move so that executive pay can revert to the normal annual cycle. The Committee will continue to consider individual performance, stakeholder experience, including the broader employee base, and external influences when reviewing Executive Director salary levels in future.

The Board and management continue to believe that there is a strong link between the Remuneration Policy and business strategy, which will be further enhanced with the introduction of an RoE profit measure for the 2023 annual bonus structure.

The Committee and Board intend to keep remuneration performance metrics under review in future to ensure appropriate focus and alignment of our management team with the interests of our stakeholders.

Performance outcomes for 2022

The Executive Directors' annual bonus performance targets for both financial and personal performance were stretching. The financial element, which made up 75% of the annual bonus opportunity, resulted in no bonus pay out for this element given the Company's Change in FCBVS in 2022 was below the threshold. This was due to the combination of a challenging loss environment and volatility in our investment portfolio, resulting in a negative impact on our returns from unrealised investment losses.

In the face of these dual challenges, the Board considered that the Executive Directors had nonetheless performed well in achieving strong organic growth in underwriting premium income, in establishing and embedding new lines of underwriting, in managing risk within the business and in structuring a more diversified and resilient underwriting portfolio (see pages 10 and 16). The business has achieved controlled growth during the year and demonstrated strong operational effectiveness. As we note on page 15, with regard to the work performed during 2022 in relation to the capital requirements of the business, the Board also noted the dynamic action of management in continuing to use the full range of capital and risk management tools at its disposal to match the capital resources of the business to the exciting underwriting opportunities that developed during the year and will continue to develop in the current hardening pricing environment. In view of these factors the Board considered that our Executive Directors have continued to provide effective leadership, strong and targeted growth in premium income, an effective programme to broaden the talent base of the business in both underwriting and other business functions to maximise market opportunities and strong project management to enhance control and reporting systems (see page 111 for further details).

In relation to long-term incentives for Executive Directors and other senior management, the 2020 Performance RSS awards were 85% based on annual Change in FCBVS targets and 15% on compound annual growth TSR targets over the three-year period to 31 December 2022. The Company's TSR (calculated in U.S. dollars) for the performance period resulted in a compound annual rate of negative 8.8%, 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 112, resulting in 23.3% of this component of the 2020 Performance RSS awards vesting. Therefore overall, the 2020 Performance RSS awards vested at 19.8%.

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 throughout every phase of the insurance cycle. The Board seeks to 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 19.8% vesting of the 2020 RSS and is satisfied that there has been sufficient linkage between performance and reward for Executive Directors and that the Executive Directors will not benefit from any windfall gains; as a result no discretion was applied to the formulaic outcome. The Committee will continue to ensure that there is appropriate alignment between executive remuneration and Company performance in line with the Group's cross-cycle return expectations.

During the year, the Committee also engaged with management on matters of broader employee engagement and remuneration. The Committee was particularly supportive of the additional family friendly policies and the introduction of a sabbatical policy in response to employee survey feedback. The proposal to make one-off cost-of-living payments to employees and to take a tiered approach to salary increases to benefit those employees most impacted by rising inflation, and to enhance the provision of free lunches was also strongly supported.

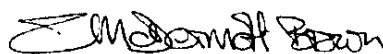
As a Committee, we value the opportunity to hear the views of employees and to support management in considering feedback and implementing changes. It was a pleasure to join the Group CEO in thanking employees directly for their feedback during a recent town hall meeting.

Application of Remuneration Policy for 2023

The Committee has reviewed and discussed the remuneration structures to be used in 2023 in some detail. As outlined above in response to shareholder feedback, this included a detailed review of the performance metrics and the shareholder consultation, which I conducted during the autumn of 2022. The Committee had agreed to implement some minor changes to the existing structure, principally with the introduction of the new RoE profit measure for the 2023 annual bonus element. For the second year running, we have also agreed to the use of certain ESG linked metrics as part of the personal performance metrics to be used in the 2023 annual bonus. The performance metrics for the 2023 Performance RSS awards will remain unchanged.

The Annual Report on Remuneration provides detailed disclosure on how the Policy will be implemented for 2023 and how Directors have been paid in relation to 2022.

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. As I noted above, there will also be a binding shareholder vote on the proposed three-year Remuneration Policy set out in this report at the 2023 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.



Irene McDermott Brown
Chair 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 current Remuneration Policy was approved by shareholders at the 2020 AGM, which is effective for a period of three years.

The Committee carried out a detailed review of the current Policy during 2022, taking into account the Code, pay and employment conditions of other employees in the Company and the shareholder feedback received during the year. Following the review, the Committee concluded that the current Policy continues to be in line with best practice and shareholder expectations. Therefore, the Committee is not proposing any material amendments to the Policy this year. However, some minor wording changes have been made to the current Policy in various sections for greater clarity.

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 106 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 Company and individual performance and to reward them fairly for their contribution to the successful performance of the Company.

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

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- in the case of Alex Maloney, the Group CEO, there is a high level of share ownership, and in the case of Natalie Kershaw, who assumed the role of Group CFO and Executive Director during 2020, there is an appropriate opportunity to acquire a longer-term equity holding on a measured basis, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, corporate failure and material damage to the Group's business or reputation or the Executive Director ceasing to be a Director and/or employee due to gross misconduct (see pages 101 to 102 for the full Policy details).

How the views of shareholders are taken into account

The Committee Chair and, where appropriate, the Company Chair 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 or other LTI structures, and its practice in this regard is well aligned with the expectations introduced within 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 would be assessed with due regard to market conditions at the time, taking into account role, experience and performance. Percentage increases would normally be aligned with the rates for the wider workforce, other than by exception, such as:

- changes to the size and complexity of the business; and
- changes in responsibility, workload or position.

Where new appointees (whether external or internal) have been given a starting salary below mid-market level, increases above those granted to the wider workforce (in percentage terms) may be awarded, subject to individual performance and development in the role.

Salaries are benchmarked periodically against comparable insurance company peers in the UK, U.S. and Bermuda as these are where we would normally expect to recruit from or lose talent to.

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.

Remuneration Policy table *continued*

Annual bonus^{1,2}

Purpose and link to strategy

Rewards the achievement of financial and strategic/personal targets.

Operation

The annual bonus is based on financial and strategic/personal performance.

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

The Committee will have the ability to override the formulaic 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 one third 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 equivalent provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil-cost options up to the point of exercise.

The bonus is subject to clawback if:

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

Opportunity

The maximum bonus for Executive Directors for achieving the target level of performance as a percentage of salary is 200%. Maximum opportunity is two times target (i.e. 400%).

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 (but are not limited to) the growth in DBVS, profit, comprehensive income, combined ratio, investment return, simple return on equity or any other financial KPI³.

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 target bonus opportunity is payable for achieving threshold performance, rising to maximum bonus for stretch 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.

Strategic/personal performance

Strategic/personal performance is based upon achievement of clearly articulated objectives, which may include ESG measures that are aligned with the Company's overall purpose and strategy. A performance rating is attributed to participating Executive Directors, which determines the pay-out 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^{7,3}

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 shares to be awarded 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 equivalent 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 (see page 109).

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 (but are not limited to) measures such as TSR, the growth in DBVS, Company profitability, or any other relevant financial or strategic 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 or a threshold target if absolute rather than relative TSR is used. No more than 25% of this part of the award will vest for achieving median or index or a threshold target of absolute TSR.

Remuneration Policy table *continued*

Share ownership guidelines and requirements⁴

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

In respect of performance RSS and deferred bonus RSS awards made after 1 January 2020, there is to be a requirement on each Executive Director to retain 50% of the vested shares (net of tax) 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.

Chair and Non-Executive Directors' fees

Purpose and link to strategy

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

Operation

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

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

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

Opportunity

No maximum.

1. The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this Policy.
2. All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the Policy.
3. Performance measures: these may include the KPIs shown on page 3 or others described within the Annual Report and Accounts Glossary commencing on page 191 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.

Committee discretion

The Committee will operate the annual bonus plan and the LTI plan according to the rules of each respective plan and consistent with normal market practice and the Listing Rules, where relevant. The Committee will retain flexibility in a number of areas regarding the operation and administration of these plans, including, but not limited to, the following:

- Who participates in the plans;
- When to make awards and payments;
- How to determine the size of an award, a payment, or when and how much of an award should vest;
- How to deal with a change of control or restructuring of the Group;
- In the case of stated good leaver reasons or otherwise, whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s) as relevant;
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends); and
- In the event of a capital raise, whether a greater percentage of any annual bonus payable should be deferred, where performance metrics have been beneficially influenced by the capital actions taken; and whether the remuneration outcomes should be adjusted to limit the impact of such capital actions, where appropriate.

The Committee also has the discretion within the Policy to adjust targets and/or set different measures and alter weightings for annual bonus and the LTI if events happen that cause it to determine that the original targets or conditions are no longer appropriate and the amendment is required so that the targets or conditions achieve their original purpose and are not materially less difficult to satisfy. The Committee has the discretion to adjust the application of the minimum shareholding requirements, in role or post-cessation, to take account of exceptional circumstances.

Any use of exceptional discretion to override formulaic outcomes would, where relevant, be explained in the Annual Report on Remuneration, as appropriate.

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. Similarly, the Committee retains the flexibility to set base salary for a newly appointed Executive Director at above the mid-market level to secure an individual who is considered by the Committee to possess significant and relevant experience which is critical to the delivery of the Company's strategy.

The annual bonus and LTI potential would be in line with the Policy. Participation in the annual bonus will normally be pro-rated for the year of joining. 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

Notice periods for Executive Directors will normally be limited to six months from either the Company or from the Executive Director. In the event of termination, the Executive Directors would ordinarily receive payment 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 ability 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, in accordance with the relevant plan rules, 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. The Committee has discretion to permit any bonus payable to be settled in cash with no deferral.

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.

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, subject to performance, 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. The Committee may, in its discretion, waive any post vesting holding requirement for any good leaver.

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 109).

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.

Cessation of employment in other circumstances

If an Executive Director ceases to be a Director or employee of the Company for any reason other than:

- a Death;
- b Retirement with the agreement of the Committee;
- c Injury or disability evidenced to the satisfaction of the Committee;
- d Change of control; or
- e For any other reason, if the Committee at its discretion so decides then any outstanding RSS awards shall lapse in full immediately on such cessation.

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.

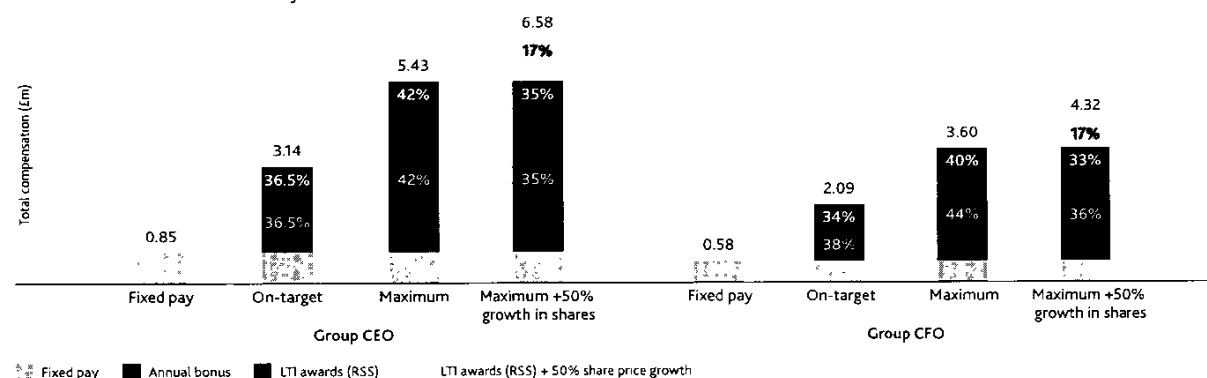
For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy first approved at the 2014 AGM and as varied at subsequent AGMs, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this Annual Report and Accounts (including for current Executive Directors as detailed on page 113) remain eligible for vesting or exercise based on their original award terms.

Proposed 2023 Policy changes vs 2020

- Clarification on normal salary positioning considerations, and when exceptions to this may be considered by the Committee
- Minimum bonus deferral increased from 25% to one-third of annual award
- Minor clarification points relating to potential annual bonus and Long Term Incentive metrics
- Stating clearly the timeframe in which Executive Directors should achieve a shareholding at least equal to two times salary
- A description of the operational and administrative areas in which the Committee retains discretion to take a flexible approach
- Minor clarification points relating to the approach to recruitment and cessation and, particularly, the treatment of 'bad leavers'

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2023 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2023 Salary + Actual Value of 2022 Benefits + 2023 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2023 RSS grant (assuming 50% vesting with the face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2023 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 2023 RSS grant + 50% share price appreciation (assuming 100% vesting with the face values of grant).

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chair's statement, as detailed on pages 96 to 97 and 107 to 121, will be subject to an advisory vote at the 2023 AGM. The following sections in respect of Directors' emoluments have been audited by KPMG LLP:

- Single figure of remuneration
- Non-Executive Director fees
- 2023 annual bonus payments in respect of 2022 performance
- Long-term share awards with performance periods ending in the year – 2020 RSS awards
- Scheme interests awarded during the year
- Performance and deferred bonus awards under the RSS
- Directors' shareholdings and share interests.

Implementation of Remuneration Policy for 2023

Base salary and fees

Executive Directors

Salaries effective from 1 January 2023 are set out below:

- Group CEO – £764,000, a 5% increase
- Group CFO – £525,000, a 5% increase
- Salary uplifts for Group employees were graduated with larger uplifts targeted at lower paid employees with an average salary uplift of 11% for the lowest paid cohort and 5% for the highest paid. The overall average uplift for Group employees for 2023 is 8%.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2023:

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

Other fees

- Simon Fraser is a Non-Executive Director of LSL in which capacity he will receive a fee of \$100,000 per annum.
- Sally Williams was appointed as a Non-Executive Director of LUK on 10 May 2022 in which capacity she will receive a fee of £50,000 per annum.

Annual bonus

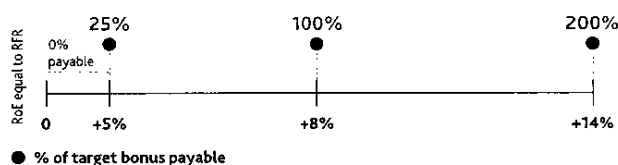
For 2023, the Group CEO and the Group CFO will have a target bonus of 150% of salary and, therefore, a maximum opportunity of 300% of salary. This is within the approved policy limit and is in line with last year's opportunity and represents a maximum bonus opportunity which is 100% of salary less than 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%)

During 2022, a review of financial metrics for annual bonus purposes was undertaken. Shareholders were consulted on a proposal to move from Change in FCBVS to a simplified measure of RoE. For 2023 annual bonus, financial performance will be measured on the basis of simple RoE adjusted for unrealised gains and losses and discounting with targets set by reference to the RFR based on the average 13 week UST rates for the year as follows:

Performance	Payout level	% of target bonus payable
RoE equal to RFR + <5%	Below threshold	0%
RoE equal to RFR + 5%	Threshold	25%
RoE equal to RFR + 8%	Target	100%
RoE equal to RFR + 14%	Maximum	200%



There shall be linear interpolation between these points. When considering appropriate target ranges, the Board was mindful that the inclusion of equity compensation charges results in RoE outcomes typically 1% lower than those delivered by the Change in FCBVS, where the equity compensation charge in the income statement is offset in shareholders' equity. The agreed threshold vesting level of RFR + 5% is therefore 1% lower than previously applied. The performance required to meet target and maximum outturns has been set at the same level of RoE over the RFR as previously applied to FCBVS, making achievement of target more challenging. In current insurance market conditions, the Board believes these ranges are suitably challenging 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.

Directors' Remuneration Report *continued*

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 2023 personal objectives for each Executive Director.

Executive Director	Personal performance
Alex Maloney	<p>Business Management and Leadership, including transformation and values.</p> <p>Implementation of agreed long-term Business Strategy, designed, approved and rolled out in 2022 and continuing to develop the ESG strategy for the business as a whole.</p> <p>ESG, focusing on People and Culture and further embedding environmental considerations in underwriting and investment portfolio management.</p>
Natalie Kershaw	<p>Business Management and Leadership, including transformation and values.</p> <p>Strategic Financial Management supporting growth and transformation.</p> <p>ESG, focusing on maintaining environmental considerations in investment portfolio management, ensuring fairness and equity in remuneration for all employees and continued strong financial governance.</p>

Due to their close link to Business Strategy detail, personal objectives for both CEO and CFO are considered commercially sensitive at the present time. Detailed objectives have been presented to and approved by the Committee and will be described in the 2023 annual report.

Restricted Share Scheme

Performance conditions

For Executive Directors, 2023 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 2025. 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 2023, 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 2023 awards is:

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

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

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

The TSR target range for 2023 awards is:

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

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

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

Overriding downwards discretion

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

Award levels

2023 RSS award levels are as follows:

- Group CEO – RSS awards in respect of shares to the value of £2,292,000 (being 300% of salary)
- Group CFO – RSS awards in respect of shares to the value of £1,443,750 (being 275% of salary)

The number of shares subject to the awards shall be determined based on the closing average share price for a period of five trading days immediately prior to the date of the award.

Post-vesting holding period

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

Post-employment holding requirements

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

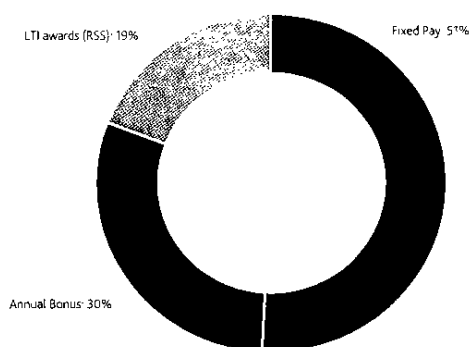
Single figure of remuneration

The following table presents the Executive Directors' emoluments in GBP in respect of the years ended 31 December 2022 and 31 December 2021 for time served as an Executive Director.

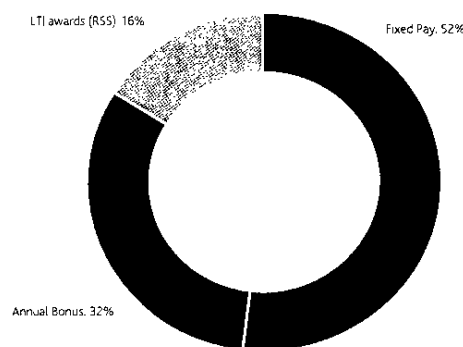
Executive Directors		Salary £'000	Pension £'000	Taxable benefits* £'000	Total Fixed pay £'000	Annual bonus ¹ £'000	Long-term incentives (RSS) ^{2,3} £'000	Total Variable pay £'000	Total '000
Alex Maloney, Group CEO	2022	728	73	8	809	484	307	791	1,600
	2021	700	70	8	777	394	862	1,255	2,033
Natalie Kershaw, Group CFO	2022	453	45	7	505	306	157	463	968
	2021	391	39	7	437	264	—	264	700

The following charts set out the above disclosed 2022 total remuneration received by serving Executive Directors as a percentage of their total 2022 remuneration.

Alex Maloney



Natalie Kershaw



- Bonus targets were set at the beginning of 2022 and are based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component did not pay out as it did not meet the required threshold. The final bonus payout to Executive Directors will be 22% of the maximum for the Group CEO, 23% of the maximum for the Group CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 111 and 112. 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.
- For 2022, the long-term incentive values are based on the 2020 Performance RSS awards which vested at 19.8% and are based on a three-year performance period that ended on 31 December 2022. The values above are based on the average share price for the final quarter of 2022, being £5.6005, and includes the value of dividends accrued on vested shares.
- For 2021, the long-term incentive values are based on the 2019 RSS awards which vested at 48.2%, and have been restated using the share price as at the date of vesting (11 February 2022) which was £5.480.
- Benefits shown include taxable benefits only (Private Medical, Critical Illness, Dental and Gym reimbursement). 2021 figures have been adjusted from the published amounts of CEO £16,102 and CFO £11,737 (which included non-taxable benefits of Life Assurance and Income Protection) to show a true comparison.

Directors' Remuneration Report continued

Non-Executive Directors' fees

Current Non-Executive Directors		Fee \$'000	Other \$'000	Total \$'000
Peter Clarke	2022	350	—	350
	2021	350	—	350
Michael Dawson	2022	175	—	175
	2021	175	—	175
Simon Fraser	2022	175	95	270
	2021	175	80	255
Jack Gressier ¹	2022	75	—	75
	2021	—	—	—
Samantha Hoe-Richardson ²	2022	58	24	82
	2021	175	69	244
Robert Lusardi	2022	175	—	175
	2021	175	—	175
Irene McDermott Brown	2022	175	—	175
	2021	118	—	118
Sally Williams ³	2022	175	39	214
	2021	175	—	175

1. Jack Gressier was appointed to the Board on 26 July 2022 and his fees represent his time as a Director.

2. Samantha Hoe-Richardson stepped down from the Board on 27 April 2022 and her fees represent her 2022 tenure. Her LUK fees were paid in GBP and converted at the average exchange rate for the month of payment.

3. Sally Williams was appointed to the LUK Board on 10 May 2022 and fees for LUK represent her time as a Director in 2022 and were paid in GBP and converted at the average exchange rate for the month of payment.

Annual bonus payments in respect of 2022 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 2022 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The target value of bonus was 150% of salary for the Group CEO and Group CFO respectively, and the maximum payable was two times the target value.

Financial performance

75% of the 2021 bonus was based on Company performance conditions and the extent to which these were achieved is as follows:

Performance measure	Financial performance weighting (of total bonus) %	Threshold %	Target %	Max %	Actual performance %	% payout
Change in FCBVS	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	(6.7)	0% of target payable in respect of Company performance

In 2022, the Company financial performance component paid out at 0% of target (being 0% of the maximum) as the Change in FCBVS was negative 6.7% against a target level of RFRoR +8% and a threshold of RFRoR +6%.

Personal performance

25% of the 2022 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 2022 personal objectives for each Executive Director and some of the factors the Board has considered to determine whether the objectives have been met.

Executive Director	Personal objectives	Factors relevant to the Board's determination for the 2022 performance year
Alex Maloney	<ul style="list-style-type: none"> Effective leadership and management of the senior executive team and the Group. Development of the general business strategy. To further develop and deliver the Group's climate and ESG strategy and to lead the Company's values. 	<ul style="list-style-type: none"> Creation and roll-out of the long-term Group Strategic Vision; Realisation of initial benefits from ongoing transformation projects; Key senior executive succession commenced. Achieving growth in GWP of 34.9% year on year; Delivery of a combined ratio of 97.7% in a year of substantial claims losses, demonstrating the portfolio resilience achieved through growth and diversification in underwriting of exposures; Focused capital management matched to risk appetite and strategic opportunity; Leadership of investor engagement. Promoted the reporting line of the ESG Committee to the Group Executive Committee to reflect importance and focus; Joined ClimateWise and continued reporting within the CDP framework; Climate VaR target met. Significant improvement in staff turnover and 85% participation in employee survey with tangible responses implemented including new family friendly policies and the creation of a sabbatical policy. Company values are demonstrated consistently with the positive culture central to the roll-out of the long-term strategic vision; Production of a revised ESG framework and policy, forming a strong foundation for continued evolution.
Natalie Kershaw	<ul style="list-style-type: none"> Effective management of the finance function and participation in Group management and the Board, including leading the transition and preparations for the implementation of IFRS 17 in 2023. Overall responsibility for the IT, Change and Data functions. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Climate, sustainability and ESG strategy and values. 	<ul style="list-style-type: none"> Demonstrated diligent leadership and oversight in all aspects of financial and capital reporting; Ownership and management of relationships with ratings agencies and brokers; Efficiencies identified and realised and strong leadership, planning and oversight demonstrated on IFRS 17 and 9 implementation project. Direct management of ongoing business transformation projects with 2022 delivery targets achieved on schedule and under budget due to a number of stretch achievements; Shift to a Group-wide product lines based approach to reporting and significant improvement in the quality of data presentation achieved. Instigated and developed a clear strategic view for the Group, and led the delivery of the long-term strategic plan; Improvements to production and presentation of financial reporting and capital metrics are ongoing, reflecting the requirements of IFRS 17 and 9. Leadership by example with a strong foundation in the Lancashire values has been demonstrated consistently resulting in improved inter-department relationships and more productive working practices.

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

During the 2022 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus payout for which each Executive Director was eligible for the personal performance element of the bonus.

For the 2022 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 2022 performance. As a result of the 2022 personal performance evaluation process for the Executive Directors, a bonus at 44% of target (being 89% of the maximum personal element) for the Group CEO and 45% of target (being 90% of the maximum personal element) for the Group CFO were awarded for the personal component. The overall 2022 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 opportunities and challenges which lie ahead.

Directors' Remuneration Report continued

A table of performance measures and total 2022 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 £'000	Value of bonus paid in cash (75% of total bonus) £'000	Value of bonus deferred into RSS awards (25% of total bonus) ¹ £'000
Alex Maloney ¹	75	25	22	484	363	121
Natalie Kershaw ¹	75	25	23	306	229	77

1. In line with the 2020 Remuneration Policy, 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 2024, subject to the Company not being in a closed period. These awards vest on the relevant dates subject to continued employment.

Long-term share awards with performance periods ending in the year – 2020 RSS awards

The 2020 RSS awards were based on a three-year performance period ending on 31 December 2022 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 19.8%. This is calculated as 23.3% vesting of the Change in FCBVS element (for 85%) and 0% vesting of the TSR element (for 15%).

Performance level	Absolute compound annual growth in TSR (relevant to 15% of the 2020 RSS awards)		Annual Change in FCBVS (within the three year performance period) (relevant to 85% of the 2020 RSS awards) ¹	
	Performance required (%)	% vesting	Performance required (%)	% vesting
Below threshold	Below 8	–	Below 6	0
Threshold	8	25	6	25
Stretch or above	12 or above	100	13 or above	100
Actual achieved	(8.8)	–	see note ¹	23.3

	2022	2021	2020
1. Change in FCBVS	(6.7%)	(5.8%)	10.2%
Vesting % of one third by performance year	0.0%	0.0%	70%
2020 RSS Awards	0.0%	0.0%	23.3%

The table above shows the growth in FCBVS for the performance period and the table below shows the details of the vesting for each Executive Director.

Executive Director ³	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 ² £
Alex Maloney	260,292	208,754	51,538	18,056	306,695
Natalie Kershaw	133,216	106,839	26,377	9,241	156,966

1. Dividend equivalent accrues on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividend equivalent is paid to the employee on the number of vested awards net of tax required.

2. The value of vested shares is based on the 2020 RSS awards which vest at 19.8% and are based on a three-year performance period that ended on 31 December 2022. The average share price rate for the final quarter of 2022 (£5.6005) is used for this calculation.

3. There is a two-year post-vesting holding requirement for the 2020 RSS awards for Executive Directors.

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 22 February 2022.

Executive Director	Grant date ¹	Number of awards granted during the year	Face value of awards granted during the year ¹ £	% vesting at threshold performance
Alex Maloney	22-Feb-22	415,078	2,182,895	25
Natalie Kershaw	22-Feb-22	212,434	1,117,190	25

1. The awards were based on the five-day average closing share price following announcement of the 2021 results, being £5.259 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 2024 and becoming exercisable in the first open period following the release of the Company's 2024 year-end results after the meeting of the Board in February 2025.

3. The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Details of all outstanding share awards

In addition to awards made during the 2022 financial year, the table below sets out details of all outstanding awards made under the RSS held by Executive Directors.

Awards made under the RSS⁶

	Grant date ¹	Exercise price	Awards held at 01-Jan-22	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-22	End of performance period
Alex Maloney, Group CEO									
Performance RSS ^{2,1}	22-Feb-19	–	306,915	–	147,934	158,981	147,934	–	31-Dec-21
Deferred Bonus RSS ³	22-Feb-19	–	4,656	–	4,656	–	4,656	–	
Performance RSS ^{2,1}	21-Feb-20	–	260,292	–	–	–	–	260,292	31-Dec-22
Deferred Bonus RSS ³	21-Feb-20	–	33,551	–	16,775	–	16,775	16,776	
Performance RSS ^{2,4}	19-Feb-21	–	313,321	–	–	–	–	313,321	31-Dec-23
Deferred Bonus RSS ³	19-Feb-21	–	43,622	–	14,540	–	14,540	29,082	
Performance RSS ^{2,4}	22-Feb-22	–	–	415,078	–	–	–	415,078	31-Dec-24
Deferred Bonus RSS ³	22-Feb-22	–	–	18,709	–	–	–	18,709	
Total			962,357	433,787	183,905	158,981	183,905	1,053,258	
Natalie Kershaw, Group CFO									
Non-Performance RSS ⁵	15-Feb-19	–	12,075	–	12,075	–	12,075	–	31-Dec-21
Performance RSS ^{2,4}	21-Feb-20	–	133,216	–	–	–	–	133,216	31-Dec-22
Performance RSS ^{2,4}	19-Feb-21	–	160,356	–	–	–	–	160,356	31-Dec-23
Deferred Bonus RSS ³	19-Feb-21	–	26,873	–	8,957	–	8,957	17,916	
Performance RSS ^{2,4}	22-Feb-22	–	–	212,434	–	–	–	212,434	31-Dec-24
Deferred Bonus RSS ³	22-Feb-22	–	–	12,535	–	–	–	12,535	
Total			332,520	224,969	21,032	–	21,032	536,457	

1. The market values of the common shares on the dates of grant were:

- 15 February 2019 £6.37 • 22 February 2019 £6.54 • 21 February 2020 £7.61
- 19 February 2021: £6.37 • 22 February 2022 £4.93

2. The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:

- 2020 – first open period following the release of the Company's 2022 year-end results and
- 2021 – first open period following the release of the Company's 2023 year-end results and
- 2022 – first open period following the release of the Company's 2024 year-end results

3. The vesting dates of the RSS deferred bonus awards are subject to being out of a closed period and, for the 2020 to 2022 deferred bonus awards, are as follows:

- 2020 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2020, 2021, and 2022 and
- 2021 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2021, 2022, and 2023 and
- 2022 – 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 2022, 2023, and 2024

4. The vesting of the RSS performance awards above is subject to two performance conditions as follows:

- 15% of each award is subject to a performance condition measuring the absolute compound annual growth in TSR performance of the Company over a three-year performance period. 25% of this part of the award vests for threshold performance (8% compound annual growth) by the Company, rising to 100% vesting of this part of the award for maximum performance (12% compound annual growth) by the Company or better. Performance between threshold and maximum is determined on a straight-line basis.
- The other 85% of each award is subject to a performance condition based on the Change in FCBVS over a three-year performance period. 25% of this part of the award will vest if Change in FCBVS over the performance period exceeds the criteria set out in the table on page 114, whilst all of this part of the award will vest if the Company's Change in FCBVS is equal to the more stringent criteria set out in the table. Between these two points vesting will take place on a straight-line basis. Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. Details of this calculation method were disclosed on page 79 of the 2018 Annual Report and Accounts.

- 5. These RSS awards were granted to staff with no performance conditions attached. The awards were granted to Natalie Kershaw prior to becoming an Executive Director.
- 6. All awards made under the RSS have an expiry date of 10 years from the date on which they were granted.

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

	2020	2021	2022	2023
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)*

	2020	2021	2022	2023
100%	13%	13%	13%	13%
25%	6%	6%	6%	6%
Nil	< 6%	< 6%	< 6%	< 6%

* See page 108 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.

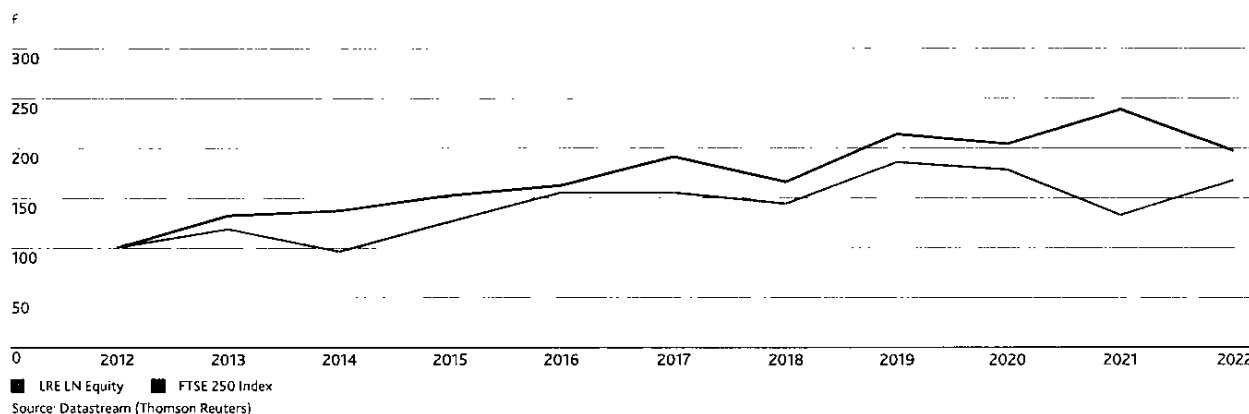
Directors	Number of common shares							Shareholding guideline achieved
	Total as at 1 January 2022	Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Unvested and not subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	
Alex Maloney	1,749,927	910,899	64,567	988,691	N/A	N/A	1,964,157	726%
Natalie Kershaw	373,735	77,922	30,451	506,006	N/A	N/A	614,379	104%
Peter Clarke	82,500	82,500	N/A	N/A	N/A	N/A	82,500	N/A
Michael Dawson	20,000	20,000	N/A	N/A	N/A	N/A	20,000	N/A
Simon Fraser	3,000	3,000	N/A	N/A	N/A	N/A	3,000	N/A
Jack Gressier	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
Robert Lusardi	28,000	48,000	N/A	N/A	N/A	N/A	48,000	N/A
Irene McDermott Brown	—	—	N/A	N/A	N/A	N/A	—	N/A
Sally Williams	11,082	11,082	N/A	N/A	N/A	N/A	11,082	N/A

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

The Committee has noted the shareholdings maintained by Natalie Kershaw during her initial period 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.



This graph shows the value, by 31 December 2022, of £100 invested in LHL on 31 December 2012 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

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

	2013	2014 ¹	2014 ²	2015	2016	2017	2018	2019	2020	2021	2022
Total remuneration (£000s ³)	6,511	6,088	1,453	2,511	2,758	1,517	1,067	2,398	3,193	2,033	1,600
Annual bonus (% of maximum)	80	80	73	72	76	17	19	80	60	19	22
LTI vesting (%)	100	611	50	75	67	22.5	—	—	48.2	48.2	19.8

1. Richard Brindle was the Group CEO from 2005 until he retired from the Group and as a Director on 30 April 2014. Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values (as then defined) at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.
2. Alex Maloney was appointed Group CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.
3. For the years 2013 – 2020 these figures were converted to GBP using the average exchange rate for the relevant year.

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

Group Chief Executive Pay Ratio

	Method	25 th percentile Total Pay Ratio	Median Total Pay Ratio	75 th percentile Total Pay Ratio
2022	C	24:1	15:1	8:1

During 2022 the number of UK based employees of the Group exceeded 250 for the first time. The table above sets out how the single total figure of remuneration (STFR) for the Group Chief Executive compares to the STFR of the UK employees at the 25th percentile, median and 75th percentile. The table below sets out the split between total remuneration (fixed and variable pay and benefits) and the salary component of that total for UK employees used in the above total pay ratio calculations. Lancashire has chosen to use methodology C (as defined in the applicable regulations) to calculate the figures in the tables above and below.

	25 th percentile pay ratio		Median pay ratio		75 th percentile pay ratio	
	Total Remuneration (£)	Base Salary (£)	Total Remuneration (£)	Base Salary (£)	Total Remuneration (£)	Base Salary (£)
2022	65,627	50,000	107,128	75,000	196,277	130,000
	24:1	15:1	15:1	10:1	8:1	6:1

Lancashire uses methodology C and has used the population identified to calculate the average percentage change in remuneration based in the UK to identify the relevant comparator employee falling at each percentile and to calculate the annual total remuneration relating to 2022 for the three identified employees on the same basis as the Group Chief Executive's annual total remuneration for the same period in the single figure table. Methodology C was chosen over Methodology B as, at the point of producing this report, the Group had not yet reached the threshold number of employees based in the UK for gender pay gap reporting.

Percentage change in Directors' remuneration¹

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.

	2022			2021			2020		
	Base salary/ Fees	Benefits ²	Bonus	Base salary/ Fees	Benefits ²	Bonus	Base salary/ Fees	Benefits ²	Bonus
Executive Directors									
Alex Maloney	4.0	4.3	23.1	(0.2)	(0.5)	(223.1)	3.1	–	(27.9)
Natalie Kershaw ³	16.0	13.4	16.0	16.2	11.1	(197.0)	N/A	N/A	N/A
Non-Executive Directors									
Peter Clarke	–	–	N/A	–	–	N/A	–	–	N/A
Michael Dawson	–	–	N/A	–	–	N/A	–	–	N/A
Simon Fraser	5.9	–	N/A	–	–	N/A	–	–	N/A
Samantha Hoe-Richardson	–	–	N/A	–	–	N/A	–	–	N/A
Robert Lusardi	–	–	N/A	–	–	N/A	–	–	N/A
Irene McDermott Brown	–	–	N/A	N/A	N/A	N/A	–	–	N/A
Sally Williams	34.1	–	N/A	–	–	N/A	–	–	N/A
Employees of the parent company ⁴	N/A	N/A	N/A	N/A	N/A	N/A	–	–	N/A
Employees of the Group	7.5	7.9	105.0	15.2	27.5	(57.9)	8.7	17.5	4.3

1. The change in remuneration for employees of the Group reported in the 2020 and 2021 annual reports and shown in the table above include the effect of headcount changes. The figures presented for 2022 represent employees in post on 31 December 2021 and 31 December 2022 to provide a like-for-like comparison to Directors. This will form the basis of calculation going forward.

2. Benefits include pension and all taxable benefits as reported on page 109 in the Single Figure on Remuneration table.

3. The change to Natalie Kershaw's salary in 2022 reflects salary paid including the mid-year adjustment described in the Chair's statement on page 96. There was no change in her CFO salary from 2020 to 2021. The apparent increase has arisen due to her 2020 salary being pro-rated following her appointment as Group CFO on 1 March 2020.

4. As the parent company does not have any employees, it is not possible to provide a percentage change in their pay and therefore the comparison is to the Group as a whole.

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 2022 compared with the year ended 31 December 2021.

	2022 \$m	2021 \$m	Percentage change %
Employee remuneration costs	82.6	79.6	3.8
Dividends	36.2	36.4	(0.5)

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2022, please refer to page 94 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 Chair and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

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

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

The total fees paid to A&M in respect of its services to the Committee for the year ended 31 December 2022 were \$115,192. Fees are predominantly charged on a 'time spent' basis.

Engagement with shareholders

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below along with the votes to approve the 2020 Remuneration Policy; any matters discussed with shareholders during the year, including the autumn 2022 consultation led by the Remuneration Committee Chair, are provided in the Annual Statement for 2022 starting on page 96. Details on the 2022 AGM vote are also outlined in the statement.

	Vote to approve 2021 Annual Report on Remuneration (at the 2022 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	162,129,911	89.7	139,296,316	88.0
Against	18,531,453	10.3	18,944,612	12.0
Total	180,660,364	100.0	158,240,928	100.0
Abstentions	1,018		395,937	

Please see page 96 for the Chair's discussion of the 2022 AGM Remuneration vote outcomes and for the proposal to submit a revised Remuneration Policy for the period from 2023 to 2025 inclusive for shareholder approval at the April 2023 AGM.

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



Irene McDermott Brown
Chair of the Remuneration Committee

9 February 2023

Directors' Report

Overview of the Group

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

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

Principal activities

The Company's principal activity, through its wholly-owned subsidiaries, is the provision of global specialty, catastrophe and casualty insurance and reinsurance products. An analysis of the Group's business performance can be found in the business review starting on page 20.

Dividends

During the year ended 31 December 2022, the following dividends were declared:

- a final dividend of \$0.10 per common share was declared on 10 February 2022 subject to shareholder approval, which was received at the 2022 AGM. The final dividend was paid on 10 June 2022 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2196 or £0.082 per common share; and
- an interim dividend of \$0.05 per common share was declared on 26 July 2022 and paid on 2 September 2022 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2141 or £0.0412 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 Chair)
- Alex Maloney (Group Chief Executive Officer)
- Natalie Kershaw (Group Chief Financial Officer)

- Michael Dawson (Non-Executive Director)
- Simon Fraser (Non-Executive Director)
- Jack Gressier (Non-Executive Director)
- Robert Lusardi (Senior Independent Non-Executive Director)
- Irene McDermott Brown (Non-Executive Director)
- Sally Williams (Non-Executive Director)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2022 and 2021, including interests held by family members, were as follows:

Directors	Common shares held as at 31 December 2022	Common shares held as at 31 December 2021
Peter Clarke	82,500	82,500
Michael Dawson	20,000	20,000
Simon Fraser	3,000	3,000
Jack Gressier ¹	—	N/A
Samantha Hoe-Richardson ²	N/A	5,356
Natalie Kershaw ³	77,922	41,215
Robert Lusardi ⁴	48,000	28,000
Alex Maloney ⁵	910,899	787,570
Irene McDermott Brown	—	—
Sally Williams	11,082	11,082

- Jack Gressier was appointed to the Board with effect from 26 July 2022.
- Samantha Hoe-Richardson ceased being a Director on 27 April 2022. Ms Hoe-Richardson held 5,356 shares in the Company as at 27 April 2022.
- Includes 25,082 shares held by her spouse, Adam Burton. Natalie Kershaw conducted the following transactions in the Company's shares during 2022:
 - 15 February 2022 – exercise of 21,032 RSS awards and related sale of 9,407 shares to cover tax liabilities, at a price of £5.32 realising £50,045.24.
 - 14 March 2022 – purchase of 12,438 shares at a price of £4.02 costing £49,985.09 by Adam Burton.
 - 9 May 2022 – purchase of 12,644 shares at a price of £3.95 costing £49,986.21 by Adam Burton.
- Robert Lusardi conducted the following transactions in the Company's shares during 2022:
 - 11 May 2022 – purchase of 20,000 shares at a price of \$5.87 costing \$97,490.94.
- Includes 181,819 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2022:
 - 23 February 2022 – exercise of 183,905 RSS awards and related sale of 86,673 shares to cover tax liabilities, at a price of £4.99 realising £432,680.28.
 - 10 March 2022 – purchase of 22,135 shares at a price of £3.84 and 3,962 shares at a price of £3.79 for a total costing of £99,998.25 by Amanda Maloney.

Transactions in own shares

Pursuant to the authority granted at the AGM held on 27 April 2022, the Company has carried out three separate share repurchase programmes commencing on 16 May 2022, 8 August 2022 and 14 November 2022 respectively and repurchasing a total of 4,589,592 common shares for an aggregate amount of \$23.3 million. The repurchased shares were acquired to satisfy future exercises of awards made under the Group's RSS.

Under the current authority, the Company has 19,811,408 common shares remaining to be purchased as at 31 December 2022 (approximately \$155.8 million at the 31 December 2022 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 183. The authority to repurchase shares is subject to renewal at the 2023 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the Company. Details of the Directors' remuneration are set out in the Directors' Remuneration Report starting on page 96.

Substantial shareholders

As at 9 February 2023, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Shareholder	No. of Shares	% of issued ISC
Baillie Gifford	28,663,197	11.75
Setanta Asset Management	24,154,461	9.90
GLG Partners	13,998,754	5.74
Polar Capital	11,847,231	4.86
Vanguard Group	11,361,922	4.66
BlackRock	11,287,888	4.63
Invesco	9,607,325	3.94
Fidelity International	8,088,204	3.31

Corporate governance – compliance statement

The Company's compliance with the Code is detailed in the Sustainability and Governance reporting sections of this Annual Report and Accounts on pages 44 to 46 and more particularly in Peter Clarke's introduction to those sections on page 40.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain', that the Company has applied the principles and complied with the provisions and guidance set out in the Code throughout the year ended 31 December 2022.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions and TCFD reporting

The Group's greenhouse gas emissions are detailed in this Annual Report and Accounts on page 60. The Group's TCFD Report is included in this Annual Report and Accounts starting on page 61.

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 starting on page 26 and in the risk disclosures section starting on page 144 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on page 141.

Accounting standards

The Group's consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. Where IFRS 4, Insurance Contracts is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

Annual General Meeting

The Notice of the 2023 AGM, to be held on 26 April 2023 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 performance review section starting on page 20 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 30 to 37. Starting on page 144 the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, climate change, pandemic, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. Further details of the Group's scenario testing and resilience to climate change risk can be found in the TCFD Report starting on page 61.

The Board considers annually and on a rolling basis, a strategic plan for the business which the Company progressively implements. The strategic plan approved by the Board at its meeting on 26 July 2022 covered the five-year period, including the current year, from 2022 to 2026 as well as a longer term strategic plan towards the year 2030. The Board also approved at its meeting on 2 November 2022 a management proposal for a more detailed three-year business forecast covering 2023 to 2025, which (as in 2022 and prior years) will be revised and reviewed by the Board at each of its quarterly meetings throughout 2023. The three year business plan period aligns to the predominantly short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2022, 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 80 and throughout this Annual Report and Accounts, the Board had a particular focus on the impacts of the conflict in Ukraine and a number of major natural catastrophe loss events, including the U.S. hurricane Ian. The Board also continued to monitor the ongoing volatility in the global investment markets. The Audit Committee also considered a formal and thorough 'going concern' analysis from management at both its July 2022 and February 2023 meetings (for further details see page 85 in the Audit Committee report). The Directors believe that the Group is well placed to manage its business risks successfully, having considered the current economic outlook. Accordingly, the Board has a reasonable expectation 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 2025, being the period considered under the Group's current three-year business plan.

Going Concern

Based on the going concern assessment performed as at 31 December 2022, 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 and to adopt the going concern basis of accounting. The Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence as a going concern in the foreseeable future, a period of at least 12 months from the date of signing the Group's consolidated financial statements.

Auditors

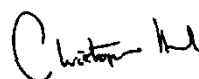
Resolutions will be proposed at the Company's 2023 AGM to re-appoint KPMG LLP as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

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 2023

Statement of Directors' Responsibilities

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 2023

Independent Auditor's Report to the Members of Lancashire Holdings Limited

1. Our opinion is unmodified

We have audited the consolidated financial statements of Lancashire Holdings Limited ("the Group") for the year ended 31 December 2022 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 136 to 143 of this Annual Report and Accounts.

In our opinion:

- the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2022 and of the Group's loss for the year then ended; and
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. 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 other listed entities.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed, in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

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

(2022: \$1,780.8 million gross, \$1,188.7 million net of outwards reinsurance, of which incurred but not reported represented \$1,069.8 million gross, \$609.9 million net of outwards reinsurance; 2021: \$1,291.1 million gross, \$872.3 million net of outwards reinsurance, of which incurred but not reported (IBNR) represented \$664.2 million gross, \$364.1 million net of outwards reinsurance).

Refer to pages 80 to 85 (Audit Committee report), page 140 (accounting policy) and pages 177 to 179 (financial disclosures)

Risk vs 2021: <>

The risk	Our response
<p>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 Ukraine conflict which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Group.</p> <p>Subjective valuation: Insurance contract liabilities represent the single largest liability for the Group. Valuation of the incurred, but not reported, liabilities is highly judgmental 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, inflation and rate changes. The determination and application of the methodology and performance of the calculations are also complex. These judgmental and complex calculations for insurance contract liabilities are also used to derive the valuation of the related reinsurance assets.</p> <p>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. We consider the uncertainty to be elevated in the current year as a result of the judgement required in respect of potential claim scenarios that could arise in respect of the Ukraine conflict.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount. The consolidated financial statements (note 13) disclose the sensitivity estimated by the Group.</p>	<p>We have used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <p>Controls design and implementation Evaluating and testing the design and implementation of key controls over the appropriateness of the methodology, actuarial assumptions and data used in the valuation process of insurance contract liabilities.</p> <p>Assessment of assumptions and methodology Assessing and challenging the reserving assumptions and methodology (on a gross and net of outwards reinsurance basis) based on our 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.</p> <p>We have also specifically assessed the methodology employed to determine potential losses that could arise in respect of the Ukraine conflict.</p> <p>Historical experience Challenging the quality of the Group's historical reserving estimates by monitoring the development of losses against initial estimates.</p> <p>Independent re-projections Applying our own assumptions, across all attritional classes of business, to perform re-projections on the insurance contract liabilities on both a gross and net of outwards reinsurance basis and comparing these to the Group's projected results including any allowance for specific risks. Where there were significant variances in the results, we have challenged the Group's assumptions with respect to selected initial expected loss ratios and inflation.</p> <p>Data reconciliations Assessing the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems.</p> <p>Sector experience and benchmarking of large losses Assessing and challenging the reserving assumptions by comparing the Group's loss experience to peers in the market, on a gross and net of outwards reinsurance basis, including on a contract by contract basis for large loss and catastrophe events. A large loss is defined as a single loss or event greater than \$5m on a gross ultimate basis.</p> <p>We performed the tests above over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Assessing transparency Considering the adequacy of the Group's disclosures in respect of the valuation of insurance liabilities.</p>

Valuation of premiums receivable from insureds and cedants which are estimated (related to one component of the Group, Lancashire Insurance Company Limited "LICL")

(2022: \$688.3 million, 2021: \$490.6 million) A portion of inwards premiums receivable from insureds and cedants are estimated and relate to LICL.

Refer to pages 80 to 85 (Audit Committee report), page 140 (accounting policy) and page 180 (financial disclosures)

Risk vs 2021: <>

The risk	Our response
<p>Subjective valuation:</p> <p>A material proportion of premiums written through the syndicates (LSL), UK and Bermudan insurers (LUK and LICL), 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.</p> <p>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.</p> <p>We consider the judgement and the estimation uncertainty to be significant within LICL as there is limited historical data to assess management's past accuracy of estimating premium income ("EPI") within LICL and the EPI monitoring process within LICL is newly established. We note that LICL increased its revenue from existing and new lines of business in the year. For LUK and LSL, although we continue to perform procedures over the estimated premium receivable, we did not identify significant subjectivity and estimation uncertainty within these balances as part of our risk assessment, and therefore have not assessed these as a significant risk in our current year audit.</p> <p>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 related to the LICL balances in the consolidated Group balance sheet 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.</p> <p>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.</p>	<p>Our procedures over the LICL EPI balances in the consolidated financial statements included:</p> <p><i>Controls design and implementation</i> Evaluating and testing the design and implementation of key controls over the initial recording and periodic review of premium estimates booked.</p> <p><i>Tests of detail</i> Assessing estimated premium balances for a sample of policies, by corroborating to third party supporting evidence or signed contracts.</p> <p><i>Independent re-projections</i> Using our own actuarial specialist, performing rejections of the ultimate premium on a sample of mortgage contracts and comparing these to the Group's projected ultimate premium estimates.</p> <p><i>Retrospective analysis</i> Assessing the Group's past expertise in making premium estimates by comparing the estimates and actuals for prior year estimated debtor balance for a sample of policies.</p> <p>We performed the tests above over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><i>Assessing transparency</i> Considering the adequacy of the Group's disclosures in respect of the valuation of premiums which are estimated.</p>

Valuation of level 3 investments

(2022: \$215.1 million, 2021: \$212.5 million)

Refer to pages 80 to 85 (Audit Committee report), page 141 (accounting policy) and pages 172 to 175 (financial disclosures)

Risk vs 2021: <>

The risk	Our response
<p>A proportion of the Group's invested assets comprise holdings in hedge funds and private investment funds which are classified as level 3 investments.</p> <p>The valuations of these investments are based on the relevant fund managers' valuation reports. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date.</p> <p>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.</p>	<p>Our procedures included:</p> <p>Control design and implementation Evaluating and testing the design and implementation of the controls associated with the valuation of level 3 investments.</p> <p>Comparing valuations Obtaining the latest fund managers' valuation reports and comparing them to the valuations recorded by the Group as at year end to assess for any material valuation differences.</p> <p>Benchmarking hedge funds & private debt funds Understanding the strategy for each investment fund held by the Group to identify relevant comparable indices and comparing their valuations with the hedge funds and private investment funds held by the Group. Where this benchmarking identifies a material difference we investigate the possible reasons for differences and assess if any adjustment is required at the year-end.</p> <p>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 reasons for differences and evaluate the reliability of management's valuation process and their historic ability to estimate the year end valuation.</p> <p>We performed the tests above over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Assessing transparency Considering the adequacy of the Group's disclosures in respect of the valuation of level 3 investments.</p>

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 \$12.0 million (2021: \$9.7 million), determined with reference to a benchmark of gross premiums written (2021: gross premiums written), of which it represents 0.7% (2021: 0.8%). We consider gross premiums written to be the most appropriate benchmark given the size and complexity of the business as it provides a stable measure year on year. We also compared our materiality against other relevant benchmarks (total assets, net assets and loss before tax) to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold: performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the consolidated financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the consolidated financial statements as a whole, which equates to \$9.0 million (2021: \$7.2 million). 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 \$0.56 million (2021: \$0.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

Of the Group's ten (2021: nine) reporting components, we subjected five (2021: five) to full scope audits for Group purposes which were the parent company (LHL), UK insurance company (LUK), Bermudan insurance company (LICL), UK service entity (LISL) and the Group's participation in Lloyd's Syndicate 2010 and 3010. Including the audit of the consolidation adjustments, our scope covered 100% (2021: 100%) of gross premiums written, total assets and total liabilities.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be included within audit scope, including the relevant risks detailed above and the information to be reported back.

The Group team determined the component materialities, which ranged from \$3.0 million to \$8.9 million (2021: \$2.4 million to \$8.0 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 (2021: four of the five components) was performed by component auditors with the audit of the parent company performed by the Group team.

In working with component auditors, we:

- Held planning calls with component audit teams to discuss the significant areas of the audit relevant to the components;
- Issued group audit instructions to component auditors on the scope of their work;
- Held risk assessment update discussions with the component audit teams before the commencement of the final phases of the audit led by the Group engagement partner and engagement quality control partner;
- Visited Bermuda and UK (2021: UK) components in-person as the audit progressed to understand and challenge the audit approach and organised video conferences with the partners and directors of the Group and component audit teams. At these visits and video conferences, 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 audit teams;
- Inspected component audit teams' key work papers in person and/or using remote technology capabilities to evaluate the quality of execution of the audits of the components.

4. The impact of climate change on our audit

In planning our audit, we performed a risk assessment, including enquiries of management, to determine how the impact of commitments made by the Group in respect of the transition to net zero carbon emissions, as well as the physical risks of climate change, and transition risks faced by the Group's customer base, could impact on the financial statements and our audit. We held discussions with our own climate change professionals to

challenge our risk assessment. Through the procedures we performed, we did not identify any material impact of climate change on the Group's material accounting estimates and there was no significant impact of this assessment on our key audit matters.

The Group predominantly underwrites short-tail catastrophe risks. Climate change may result in an increase in the frequency and severity of climate-related catastrophe events, leading to higher insurance pay-outs. However, the short-term nature of the Group's insurance contracts means that the impact of losses from catastrophes for the year ended 31 December 2022 is already recorded within the group's insurance contract liabilities at the balance sheet date. The Group considers this loss experience in evaluating individual risk exposures, and the setting of insurance premium rates for both new policies and the periodic renewal of its existing insurance underwriting portfolio. The Group expects any increase in the frequency and severity of climate-related catastrophe events to be reflected in future market premium rates. These considerations are factored into the Group's going concern assessments, in the assessment of which the Group performed a specific climate change stress scenario.

The Group also holds investments and assesses climate risk exposure within the portfolio. Given the predominantly short-term nature of these investments, we have assessed that there is no significant risk related to climate with regards to the valuation of these investments at the balance sheet date.

Taking into account the extent of the headroom of the recoverable amount over the carrying amount of the cash generating units, including the Group's intangible assets with indefinite useful lives, we assessed the risk of climate change to the carrying amount of these assets at the balance sheet date to be not significant.

We have read the disclosures of climate related information in the Annual Report and Accounts and considered their consistency with the consolidated financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report and Accounts.

5. Going concern

The directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period was the valuation of insurance contract liabilities, given the estimation and judgement involved in setting these reserves.

We also considered less predictable but realistic second order impacts that could affect demand in the Group's markets, such as the impact of climate change on the Group's results and operations, the performance of the investment portfolio, credit ratings for key insurance subsidiaries, solvency and capital adequacy.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios and the degree of downside changes in assumptions that, individually and collectively, could result in a liquidity and solvency issue taking into account the Group's current and projected financial resources (a reverse stress test).

We considered whether the going concern disclosure on page 136 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; and
- we have nothing material to add or draw attention to in relation to the directors' statement on page 121 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 136 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.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, Internal Audit, the Risk function, Head of Group legal and the Company Secretary, together with inspection of policy documentation, as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and Audit Committee minutes;
- Considering remuneration incentive schemes and performance conditions for management remuneration which includes the annual change in fully converted book value per share and absolute total shareholder return;
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communications from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and requests to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the portion of premium which is estimated.

We also identified a fraud risk in relation to the following area:

- 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.

Further detail in respect of our procedures around the valuation of insurance contract liabilities and the valuation of premiums which are estimated is set out in the key audit matter disclosures in section 2 of this independent auditor's report. The Audit Committee report on pages 80 to 85 also references the entity level controls in operation across the Group.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

With respect to the valuation of premiums receivable which are estimated, we evaluated and tested the design and implementation of key controls over the periodic review of premium estimates booked and assessed estimated premium balances for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by 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.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As certain entities within the Group are regulated, our assessment of risks involved gaining an understanding of the control environment including an entity's procedures for complying with regulatory requirements. This was achieved through the procedures noted above.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the consolidated financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines, litigation or loss of regulatory approval to write insurance contracts. We identified the following areas as those most likely to have such an effect: anti-bribery and certain aspects of company legislation, *recognising the financial and regulated nature of certain of the Group's activities and its legal form*. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee and those charged with governance matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report and Accounts

The directors are responsible for the other information presented in the Annual Report and Accounts together with the consolidated financial statements. Our opinion on the consolidated financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our consolidated financial statements audit work, the information therein is materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' remuneration report

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company was required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 120 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our consolidated financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the consolidated financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report and Accounts describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the consolidated financial statements, and how these issues were addressed; and
- the section of the Annual Report and Accounts that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 121, the Directors are responsible for: the preparation of the consolidated financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Salim Tharani
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

9 February 2023

Financial Statements

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	2022 \$m	2021 \$m
Gross premiums written	2	1,652.3	1,225.2
Outwards reinsurance premiums	2	(464.3)	(409.1)
Net premiums written		1,188.0	816.1
Change in unearned premiums	2	(223.2)	(140.0)
Change in unearned premiums on premiums ceded	2	23.6	20.4
Net premiums earned		988.4	696.5
Net investment income	3	43.7	23.0
Net other investment (loss) income	3	(4.5)	3.8
Net realised (losses) gains and impairments	3	(22.7)	6.1
Share of loss of associate	16	(6.5)	(3.9)
Other income	3	6.5	18.2
Net foreign exchange (losses) gains		(3.6)	3.5
Total net revenue		1,001.3	747.2
Insurance losses and loss adjustment expenses	2, 13	922.7	667.6
Insurance losses and loss adjustment expenses recoverable	2, 13	(346.3)	(197.1)
Net insurance losses		576.4	470.5
Insurance acquisition expenses	2, 4	298.8	188.6
Insurance acquisition expenses ceded	2, 4	(37.6)	(31.6)
Equity based compensation	7	8.6	11.1
Other operating expenses	6, 7, 20	128.7	119.6
Total expenses		974.9	758.2
Results of operating activities		26.4	(11.0)
Financing costs	8	29.2	45.8
Loss before tax		(2.8)	(56.8)
Tax charge	9	(0.5)	(4.8)
Loss for the year		(3.3)	(61.6)
Loss for the year attributable to:			
Equity shareholders of LHL		(3.3)	(62.2)
Non-controlling interests		–	0.6
Loss for the year		(3.3)	(61.6)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Net change in unrealised losses on investments	3, 11	(93.2)	(31.6)
Tax credit on net change in unrealised losses on investments	11, 15	3.9	0.9
Other comprehensive loss		(89.3)	(30.7)
Total comprehensive loss for the year		(92.6)	(92.3)
Total comprehensive loss attributable to:			
Equity shareholders of LHL		(92.6)	(92.9)
Non-controlling interests	23	–	0.6
Total comprehensive loss for the year		(92.6)	(92.3)
Loss per share			
Basic	22	(\$0.01)	(\$0.26)
Diluted	22	(\$0.01)	(\$0.26)

Consolidated balance sheet

As at 31 December 2022

	Notes	2022 \$m	2021 \$m
Assets			
Cash and cash equivalents	10, 18	548.8	517.7
Accrued interest receivable		11.3	7.1
Investments	11, 12, 18	2,204.9	2,048.1
Inwards premiums receivable from insureds and cedants	14	688.3	490.6
Reinsurance assets			
• Unearned premiums on premiums ceded		141.4	117.8
• Reinsurance recoveries	13	592.1	418.8
• Other receivables	14	96.8	38.2
Other receivables	14	30.1	18.8
Corporation tax receivable		1.1	–
Investment in associate	12, 16	57.2	118.7
Property, plant and equipment		1.1	0.8
Right-of-use assets	20	20.3	13.4
Deferred acquisition costs		180.8	121.6
Intangible assets	17	172.4	157.9
Total assets		4,746.6	4,069.5
Liabilities			
Insurance contracts			
• Losses and loss adjustment expenses	13	1,780.8	1,291.1
• Unearned premiums		821.1	597.9
• Other payables		52.9	20.3
Amounts payable to reinsurers		268.2	205.6
Deferred acquisition costs ceded		32.9	27.0
Other payables		44.1	37.4
Corporation tax payable		–	1.6
Deferred tax liability	15	9.3	12.2
Lease liabilities	20	23.3	17.9
Long-term debt	18	446.1	445.7
Total liabilities		3,478.7	2,656.7
Shareholders' equity			
Share capital	19	122.0	122.0
Own shares	19	(34.0)	(18.1)
Other reserves	19	1,221.9	1,221.6
Accumulated other comprehensive (loss) income	11	(86.4)	2.9
Retained earnings		44.4	83.9
Total shareholders' equity attributable to equity shareholders of LHL		1,267.9	1,412.3
Non-controlling interests	23	–	0.5
Total shareholders' equity		1,267.9	1,412.8
Total liabilities and shareholders' equity		4,746.6	4,069.5

The consolidated financial statements were approved by the Board of Directors on 9 February 2023 and signed on its behalf by:



Peter Clarke
Director/Chair



Natalie Kershaw
Director/CFO

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2022

	Notes	Share capital \$m	Own shares \$m	Other reserves \$m	Accumulated other comprehensive (loss) 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 2020		122.0	(21.2)	1,221.6	33.6	182.5	1,538.5	0.4	1,538.9
Total comprehensive loss for the year		—	—	—	(30.7)	(62.2)	(92.9)	0.6	(92.3)
Share repurchases	19	—	(6.9)	—	—	—	(6.9)	—	(6.9)
Distributed by the trust	19	—	9.9	(10.9)	—	—	(1.0)	—	(1.0)
Shares donated to the trust	19	—	0.1	(0.1)	—	—	—	—	—
Dividends paid on common shares	19	—	—	—	—	(36.4)	(36.4)	—	(36.4)
Dividends paid to minority interest holders	23	—	—	—	—	—	—	(0.5)	(0.5)
Net deferred tax	15	—	—	(0.5)	—	—	(0.5)	—	(0.5)
Equity based compensation		—	—	11.5	—	—	11.5	—	11.5
Balance as at 31 December 2021		122.0	(18.1)	1,221.6	2.9	83.9	1,412.3	0.5	1,412.8
Total comprehensive loss for the year		—	—	—	(89.3)	(3.3)	(92.6)	—	(92.6)
Share repurchases	19	—	(23.3)	—	—	—	(23.3)	—	(23.3)
Distributed by the trust	19	—	8.1	(8.9)	—	—	(0.8)	—	(0.8)
Shares donated to the trust	19	—	(0.7)	0.7	—	—	—	—	—
Dividends on common shares	19	—	—	—	—	(36.2)	(36.2)	—	(36.2)
Repurchase of shares from non-controlling interest	23	—	—	(0.6)	—	—	(0.6)	(0.5)	(1.1)
Net deferred tax	15	—	—	0.1	—	—	0.1	—	0.1
Equity based compensation		—	—	9.0	—	—	9.0	—	9.0
Balance as at 31 December 2022		122.0	(34.0)	1,221.9	(86.4)	44.4	1,267.9	—	1,267.9

Statement of consolidated cash flows

For the year ended 31 December 2022

	Notes	2022 \$m	2021 \$m
Cash flows from operating activities			
Loss before tax		(2.8)	(56.8)
Adjustments for:			
Tax paid		(2.1)	(3.2)
Depreciation	6, 20	3.1	3.3
Interest expense on long-term debt	8	25.8	25.8
Interest expense on lease liabilities	20	0.8	1.1
Interest income	3	(46.1)	(34.1)
Net amortisation of fixed maturity securities		(0.2)	7.0
Redemption cost on senior and subordinated loan notes	8	–	12.8
Net realised / unrealised losses on interest rate swaps	8	–	3.4
Equity based compensation	7	8.6	11.1
Foreign exchange gains		(4.9)	(0.4)
Share of loss of associate	16	6.5	3.9
Net other investment loss (income)		3.8	(4.7)
Net realised losses (gains) and impairments	3	22.7	(6.1)
Changes in operational assets and liabilities			
• Insurance and reinsurance contracts		313.1	285.6
• Other assets and liabilities		(4.5)	(4.9)
Net cash flows from operating activities		323.8	243.8
Cash flows used in investing activities			
Interest received		50.0	42.7
Purchase of property, plant and equipment		(0.7)	(0.7)
Purchase of underwriting capacity	17	(4.2)	(0.2)
Internally generated intangible asset	17	(10.3)	(3.2)
Investment in associate	23	55.0	4.6
Purchase of investments		(1,130.2)	(1,348.5)
Proceeds on sale of investments		845.5	1,118.5
Net cash flows used in investing activities		(194.9)	(186.8)
Cash flows (used in) from financing activities			
Interest paid		(25.8)	(20.8)
Interest rate swap	8	–	(3.4)
Lease liabilities paid	20	(3.6)	(4.0)
Proceeds from issue of long-term debt	18	–	445.4
Redemption of long-term debt	18	–	(339.6)
Dividends paid	19	(36.2)	(36.4)
Dividends paid to minority interest holders	23	–	(0.5)
Repurchase of shares from non-controlling interest	23	(1.1)	–
Share repurchases	19	(23.3)	(6.9)
Distributions by trust		(0.8)	(1.0)
Net cash flows (used in) from financing activities		(90.8)	32.8
Net increase in cash and cash equivalents		38.1	89.8
Cash and cash equivalents at beginning of year		517.7	432.4
Effect of exchange rate fluctuations and other items on cash and cash equivalents		(7.0)	(4.5)
Cash and cash equivalents at end of year	10	548.8	517.7

Accounting policies

Summary of significant accounting policies

The basis of preparation, use of judgements and estimates, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of preparation

Going concern basis of accounting

The consolidated financial statements are prepared on a going concern basis using accounting policies consistent with IFRS Standards as adopted by the EU.

In assessing the Group's going concern position as at 31 December 2022, the Directors have considered a number of factors. These include the current balance sheet and liquidity position, the level and composition of the Group's capital and solvency ratios, the Group's ability to service its long-term debt financing arrangements, the current performance against the Group's strategic and financial business plan, the Group's dividend distribution policy, and the current market environment, including consideration for climate change and the ongoing conflict in Ukraine. In addition, the ORSA report is a key document informing the going concern assessment that is submitted to the Board on a quarterly and annual basis.

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 assess the Group's going concern, the financial stability of the Group was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, among other analysis, a best estimate forecast as well as various scenarios. This incorporated different magnitudes of reserve releases and attritional, large and catastrophe loss events plus optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Group, additional 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 occurrence of a number of high severity loss events impacting the Group in 2023, alongside an investment shock and finally a reverse stress test scenario designed to render the business model unviable. The testing identified that even under the more severe but plausible stress scenarios, the Group had more than adequate liquidity and solvency headroom.

Based on the going concern assessment performed as at 31 December 2022, the Directors consider there to be no material uncertainties that may cast significant doubt over the Group's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future: a period of at least 12 months from the date of signing these consolidated financial statements.

Use of judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying financial statement disclosures. In the course of preparing the consolidated financial statements no key judgements have been made in the process of applying the Group's accounting policies that do not include a related element of estimation uncertainty.

The key assumptions and other sources of estimation uncertainty as at 31 December 2022, 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 140, within the risk disclosures section from page 145 and within note 13.

Less significant estimates are made in determining the fair value of certain financial instruments and judgement is applied in determining impairment charges. The estimation of the fair value, specifically for 'Level (iii)' investments, is discussed on page 141 and in note 11. In addition, a portion of gross premiums written is based on estimates of the ultimate premiums expected to be received (see the premium and acquisition costs accounting policy on page 140). Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received.

The consolidated balance sheet includes indefinite life intangible assets and internally generated intangible assets. Whilst not significant, estimates and assumptions made by management in performing annual impairment tests on these intangible assets are also subject to estimation uncertainty (see note 17).

Other basis of preparation

Where IFRS 4, Insurance Contracts is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

The consolidated balance sheet is presented in order of decreasing liquidity. All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

Changes in accounting standards

There were no new standards that became effective in the year ended 31 December 2022 that have had a material impact on the Group.

Future accounting changes

The Group will apply IFRS 17, Insurance Contracts and IFRS 9, Financial Instruments: Classification and Measurement for the first time on 1 January 2023.

Estimated financial impact of the adoption of IFRS 17 and IFRS 9

The cumulative after tax impact of adopting IFRS 17 will be a reduction to the Group's opening retained earnings and resulting shareholders' equity, as at 1 January 2022. The Group estimates this to be in the range of \$17 million to \$22 million.

IFRS 17 will create timing differences (see discussion below on onerous losses and discounting) in how insurance contracts are recognised over their lifetime. This may impact the financial reporting period in which profits are recognised but will not amend the overall profitability of the insurance contract. There is no change in the Group's underwriting strategy, fundamentals or risk appetite as a result of adopting IFRS 17.

The adoption of IFRS 9 will result in a \$2.9 million, net of tax reclassification adjustment between opening accumulated other comprehensive income and opening retained earnings, as at 1 January 2022. This reclassification adjustment does not impact opening shareholders' equity.

The estimated financial impact disclosed above is still preliminary and may change. IFRS 17 and IFRS 9 are principles based accounting standards. The assumptions, accounting policy choices, judgements and estimation techniques used to interpret these standards continue to be refined as the Group embeds the related new accounting systems, processes and internal controls. The actual financial impact of adopting IFRS 17 and IFRS 9 will first be reported in the Group's consolidated financial statements for the six months ending 30 June 2023.

IFRS 17, insurance contracts

IFRS 17, issued in May 2017, including amendments issued in June 2020, specifies the financial reporting for insurance contracts and supersedes IFRS 4, Insurance Contracts. IFRS 17 is effective for 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 IFRS 17 general measurement model requires insurance contract liabilities to be measured using:

- probability-weighted estimates of future cash flows;
- discounting;
- a risk adjustment for non-financial risk; and
- a contractual service margin representing the unearned profit that will be recognised over the coverage period.

IFRS 17 is a principles-based accounting standard and the valuation of insurance contract liabilities will continue to be the largest area of estimation uncertainty. This will, however, include additional elements such as the consideration of the cashflows within the contract boundary, discounting and the risk adjustment calculation. There are a number of accounting policy choices that are allowed under the standard and this will require the application of judgement and an increased use of estimation techniques. Management have applied judgement in interpreting the standard in areas such as determining the applicable measurement model, the approach to discounting and the level of aggregation.

The Group has performed an assessment and determined that it will be eligible to apply the simplified model (PAA) to its portfolios and groups of contracts as the measurement of the liability for remaining coverage is not expected to differ materially from that calculated under the general measurement model. For reinsurance contracts held, the Group will apply the PAA (adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued) to simplify the measurement of a group of reinsurance contracts held. The PAA principally simplifies the measurement of the liability for remaining coverage, replacing the fulfilment cashflow plus contractual service margin approach of the GMM with a measurement based on net of acquisition cost premiums received less those recognised through revenue. For reinsurance contracts held, the measurement of the carrying amount of the asset for remaining coverage is simplified instead of adjusting the contractual service margin.

For contracts measured under the PAA, acquisition cash flows can be recognised as an expense when incurred or included in the cash flows in the measurement of the liability for remaining coverage. The Group will include the cash flows in the measurement of the liability for remaining coverage.

The two largest valuation adjustments that the Group expects to see when adopting IFRS 17 include:

- establishing a directly attributable expense reserve. This is due to the IFRS 17 requirement that all future cash flows related to the fulfilment of insurance contracts be captured within portfolios and applied to groups of insurance contracts. This will replace, at an increased amount, the existing ULAE provision. After initial recognition this reserve should stabilise; and
- discounting the liability for incurred claims. As not all cash flows are expected to be paid or received in one year or less from the date claims are incurred, the Group is required to discount the estimate of future cash flows included in the liability for incurred claims. As current discount rates are applied, this is subject to a degree of volatility.

The Group anticipates applying the bottom-up approach when deriving its discount rates for discounting the liability for incurred claims. This approach requires the use of an appropriate (liquid) risk-free yield curve plus a specific illiquidity premium above the risk-free yield curve. The Group has elected to recognise changes in the effect of discounting as part of insurance finance income or expense in the consolidated income statement. Yield curve information will be sourced from a third-party service provider. The Group writes predominantly short tail business and has not identified any significant financing component in the liability for remaining coverage and has therefore applied judgement to determine that there is no requirement to discount these balances.

Financial Statements

Accounting policies continued

Other, smaller, individually immaterial, valuation adjustments on adoption of IFRS 17 will arise from:

- the requirement to revalue all component parts of insurance contract assets and liabilities at current foreign exchange rates. Under IFRS 4 unearned premium and deferred acquisition costs are considered non-monetary assets and are not currently retranslated at the balance sheet date;
- including expected premiums in the estimates of future cash flows. Under IFRS 4, for the majority of the Group's 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;
- the requirement to recognise immediately an onerous loss component and, if applicable reinsurance coverage is in place, a loss recovery component, on the initial recognition of an onerous group of contracts; and
- the requirement to include an element of non-performance risk in the cash flow assumptions when measuring reinsurance contracts held balances under IFRS 17. Under IFRS 4, the Group has not previously recognised a bad debt provision on losses recoverable from reinsurers.

Under IFRS 17, insurance contracts that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. Each portfolio of insurance contracts is then divided into a minimum of three groups:

- A group of contracts that are onerous at initial recognition;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous; and
- A group of the remaining contracts in the portfolio.

A group of contracts that are considered onerous at initial recognition will result in a loss being recognised immediately in the consolidated statement of comprehensive income. In the consolidated balance sheet, we would be required to recognise a loss component in the liability for remaining coverage. A loss recovery component will be recognised if there is appropriate reinsurance coverage in place.

A risk adjustment for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. The risk adjustment for non-financial risk under IFRS 17 is not expected to differ materially from the reserve margin under IFRS 4 as the fundamentals of our reserving will remain consistent. The risk adjustment for non-financial risk will be subject to discounting and the confidence level will be inferred.

IFRS 17 will result in a number of presentation differences compared to the existing IFRS 4 consolidated financial statements:

- The insurance service result will comprise insurance revenue, insurance service expense, net expenses from reinsurance contracts held and insurance finance income or expense;
- Reinsurance contracts held are required to be presented separately from insurance contracts issued;
- The reporting of gross premiums written is no longer applicable under IFRS 17 and insurance revenue will equate more closely to gross earned premium. Reinstatement premiums will be recognised against insurance service expense while commissions paid to cedants will be recognised as a deduction from insurance revenue. Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and expenses;
- A portion of operating expenses will be included in insurance service expense; and
- On the face of the balance sheet all re(insurance) related balances will be presented in either insurance liabilities/assets or reinsurance assets/liabilities.

IFRS 17 has been endorsed by the EU and UK. The Group anticipates applying the fully retrospective transition approach when adopting IFRS 17, which will result in a restatement of the Group's comparative information for insurance contracts in scope of IFRS 17.

IFRS 9, financial instruments: classification and measurement

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Group continues to qualify for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until the implementation date of IFRS 17 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. In addition, the Group elected, under the amendments of the initial application of IFRS 17 and IFRS 9 - Comparative Information - issued in December 2021, to apply the classification overlay to all financial assets. The Group aims to apply this narrow scope amendment using the classification and measurement categories on the initial application date of IFRS 9, being 1 January 2023 and has also elected to apply the impairment requirements of IFRS 9 for comparative periods.

The Group will therefore apply IFRS 9 retrospectively and restate comparative information for financial instruments in scope of IFRS 9, except for the determination of the business model within which a financial asset is held. This assessment will be made on the basis of the facts and circumstances that existed as at 1 January 2023.

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, 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 accumulated other comprehensive (loss) income to be reclassified and recorded within net investment income in profit or loss. The reclassification from AFS to FVTPL mandatory will not result in a change in the carrying value of the investments disclosed in note 11. The change in classification from AFS to FVTPL mandatory will result in balances within accumulated other comprehensive (loss) income being reclassified to retained earnings on the date of transition. The Group expects the impact of the expected credit loss model to be immaterial.

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 2022. 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

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which operations are conducted (the 'functional currency'). The consolidated financial statements are presented in U.S. dollars (the 'presentation currency').

Transactions and balances

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on revaluation are recorded in the consolidated statement of comprehensive income within net foreign exchange gains (losses). Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined.

Foreign operations

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate on the balance sheet date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting foreign exchange differences are recognised in other comprehensive income and as a separate component of shareholders' equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in profit or loss as part of the gain or loss on disposal.

Intangible assets

The Group's intangible assets comprise indefinite life intangible assets and internally generated intangible assets.

The Group's indefinite life intangible assets comprise syndicate participation rights and goodwill. The cost of syndicate participation rights and goodwill acquired in a business combination is their fair value as at the date of acquisition. Additional syndicate participation rights may be purchased from time to time and are recorded at the cost on the date of the syndicate capacity auction. Goodwill and syndicate participation rights are considered to have an indefinite useful life and are not amortised. They are carried at cost less any accumulated impairment losses. Intangible assets with an indefinite useful life are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the CGU and related intangible assets. The useful life of an indefinite life intangible asset is reviewed annually to determine if the assessment continues to be supportable.

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing a cloud based target operating model. An internally generated intangible asset is recognised if it can be demonstrated that there is an intent, available resource and technical feasibility to complete the intangible asset so that it is available for use and that it will generate probable future economic benefits. The costs must be capable of being measured reliably. They are carried at cost less any accumulated impairment losses. Intangible assets not yet available for use are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the CGU and related intangible assets.

Internally generated intangible assets available for use are considered to have a finite life. Applying the cost model, intangible assets with finite lives are amortised over their estimated useful economic life and assessed for impairment whenever there are indicators of impairment.

Financial Statements

Accounting policies continued

Insurance contracts

Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

Premiums and acquisition costs

Premiums are first recognised as written at the later of a contract's binding or inception date. The Group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned evenly over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are regularly reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

Outwards reinsurance

Outwards reinsurance premiums comprise the cost of reinsurance contracts held entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for the reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Losses

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses and ACR, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to profit or loss as they are incurred.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all insurance claims arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reported losses received from third parties. ACR are determined where management's best estimate of the reported loss is greater than that reported and are allocated with IBNR in the Group's financial reporting. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are estimated by management using various actuarial methods as well as a combination of the Group's own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

Liability adequacy tests

At each balance sheet date, the Group performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums for the period of unexpired risk by using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost and include cash in hand, deposits held on call with banks and other short-term, highly-liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

Investments

The Group's fixed maturity securities include quoted and unquoted investments that are classified as either AFS or at FVTPL and are carried at fair value. The classification of the Group's financial assets is determined at the time of initial purchase and depends on the nature of the investment. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis or if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Equity securities classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. Fixed maturity securities classified as AFS are those that are intended to be held for an indefinite period, however, these securities are also managed on a fair value basis. The composition, duration and allocation of these investments are reviewed by management on a regular basis in order to respond to needs for liquidity, changes in interest rates and other market conditions.

The Group has elected to designate certain fixed maturity securities, index linked securities, exchange traded funds and its private investment funds at FVTPL upon initial recognition. This category includes instruments in which the cash flows are linked to the performance of an underlying pool of securities. Presentation of these securities in the FVTPL category is consistent with how management monitors and evaluates the performance of these securities.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at fair value. Fair values are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager.

Regular way purchases and sales of investments are recognised at fair value including, in the case of investments not carried at FVTPL, transaction costs attributable to the acquisition of that investment on the trade date and are subsequently carried at fair value. The fair values of quoted and unquoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains and losses from changes in the fair value of AFS investments are included in accumulated other comprehensive income in shareholders' equity. Changes in fair value of investments classified at FVTPL are recognised in the consolidated statement of comprehensive 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 (loss) 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 fair value on the date a contract is entered into, the trade date, and are subsequently carried at fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of derivative instruments are recognised in the consolidated statement of comprehensive 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.

Financial Statements

Accounting policies continued

Other income

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties.

Nature of services

The table below shows the nature, specific performance obligation and significant payment terms for the services within the scope of IFRS 15, Revenue from Contracts with Customers.

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
LCM underwriting fees	The Group recognises underwriting fees over the underwriting cycle based on the underlying exposure of the covered contracts. Underwriting fees are received on 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.
LSL coverholder fee income	The Group recognises coverholder fee income in line with services provided. Coverholder fee income is received quarterly.

Long-term debt

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

Property, plant and equipment

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to profit or loss as incurred.

Leases

The Group assesses whether a contract is, or contains, a lease at the inception of a contract for all contracts that have been entered into or modified on or after 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group is not a lessor to any lease contracts.

The lease liability is initially measured at the present value of the future lease payments at the lease commencement date. Lease payments are discounted using the rate implicit in the lease, if readily determinable, or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; or
- Payments in respect of purchase options, lease termination options or lease extension options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability and the related right-of-use asset whenever:

- The lease term changes as a result of the Group changing its assessment of whether it will exercise a purchase, extension or termination option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

Both the right-of-use assets and lease liabilities are presented as separate financial statement line items on the consolidated balance sheet.

Employee benefits

Equity compensation plans

The Group currently operates a RSS under which nil-cost options have been granted. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as equity based compensation expense in the consolidated statement of comprehensive income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred within the components of other reserves in shareholders' equity.

Pensions

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive 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 2022

Risk disclosures: introduction

The Group is exposed to risks from several sources, classified into six primary risk categories. These are insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM framework is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses the modelled potential catastrophe losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

Emerging risks

Climate change

The Group is exposed to both climate-related risks and opportunities. The two major categories of risk being transition risk and physical risk.

Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). As a (re)insurance company, the Group is more significantly affected by physical risk through its exposure to acute and chronic climate change. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Group's strategic and risk management decisions around managing these risks. A risk radar has been prepared to illustrate the risks identified and the likelihood and magnitude of these risks; this diagram can be found on page 65. The risk assessment also considers the products currently offered by the Group and how these might change over time during the transition to a lower carbon economy. A table summarising potential opportunities, their timeframe, likelihood and magnitude is included on page 66. The Group's current assessment of risk in relation to climate change is discussed in more detail within the TCFD report of this Annual Report and Accounts on pages 67 to 69.

The Group's process in identifying, assessing and managing climate risk with respect to insurance risk, investment risk and business plan risk is discussed further below in our risk disclosures.

Ongoing conflict in Ukraine

We continue to closely monitor our exposure with regards to the ongoing conflict in Ukraine, which remains a complex and fluid situation. We believe that any potential losses would be within our risk tolerances.

Economic capital models

The Group maintains economic capital models at the LICI, LUK and syndicate levels. These models are primarily focused on insurance risks, however they are also used to model other risks including market, credit and operational risks. The syndicate models are vetted by Lloyd's as part of its own capital and solvency regulations.

The economic capital models produce data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.

A. Insurance risk

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Group considers insurance risk at an individual contract level, at a segment level, at a geographic level and at an aggregate portfolio level. This ensures that careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The 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 LICK 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.

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

We manage climate risk by using stochastic models from third-party vendors which have a long history of data quality governance. We adapt these models based upon our views of climate risk, as well as our clients' exposure data, to create aggregate loss scenarios. During 2022 we have increased our modelling capabilities to include additional secondary perils. Underwriting guidelines support the underwriting process and provide guidance to assist underwriters in their decision making. Performance against guidelines is monitored via the UMCC and related reporting. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs.

The Group accepts risks for periods primarily of one year, which mitigates the impact of climate risk. The Group has the ability to re-evaluate the portfolio on an annual basis and therefore reprice physical risk and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events.

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Risk disclosures continued

Catastrophe management

The Group actively monitors risk levels and manages catastrophe risk accumulations using reinsurance and PML based risk tolerances, which are monitored as part of our climate-related risks as outlined on page 68. 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 2022		100 year return period ² estimated net loss		250 year return period ² estimated net loss	
		\$m	% of tangible capital	\$m	% of tangible capital
Zones	Perils				
Gulf of Mexico ¹	Hurricane	301.2	19.5	348.0	22.6
California	Earthquake	248.0	16.1	291.9	18.9
Non-Gulf of Mexico – U.S.	Hurricane	217.2	14.1	362.5	23.5
Pan-European	Windstorm	181.2	11.8	218.4	14.2
Japan	Typhoon	144.5	9.4	180.3	11.7
Japan	Earthquake	121.6	7.9	172.1	11.2
Pacific North West	Earthquake	29.5	1.9	137.5	8.9

1. Landing hurricane from Florida to Texas.

2. Estimated net loss balances presented in the table are unaudited.

As at 31 December 2021		100 year return period ² estimated net loss		250 year return period ² estimated net loss	
		\$m	% of tangible capital	\$m	% of tangible capital
Zones	Perils				
Gulf of Mexico ¹	Hurricane	309.0	18.2	558.2	32.8
California	Earthquake	160.5	9.4	325.4	19.1
Non-Gulf of Mexico – U.S.	Hurricane	206.8	12.2	600.5	35.3
Pan-European	Windstorm	154.1	9.1	228.5	13.4
Japan	Typhoon	118.3	7.0	131.7	7.7
Japan	Earthquake	89.9	5.3	143.3	8.4
Pacific North West	Earthquake	26.8	1.6	139.0	8.2

1. Landing hurricane from Florida to Texas.

2. Estimated net loss balances presented in the table are unaudited.

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:

	2022		2021	
	\$m	%	\$m	%
U.S. and Canada	639.6	38.7	465.2	38.0
Worldwide – multi territory	616.1	37.3	424.8	34.7
Europe	140.5	8.5	138.8	11.3
Rest of world	256.1	15.5	196.4	16.0
Total gross premiums written	1,652.3	100.0	1,225.2	100.0

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

	2022		2021	
	\$m	%	\$m	%
Reinsurance	842.1	51.0	561.0	45.8
Insurance	810.2	49.0	664.2	54.2
Total gross premiums written	1,652.3	100.0	1,225.2	100.0

Comparative figures for the year ended 31 December 2021 have been re-presented in conformity with the current year view.

I. Reinsurance segment

The Group's reinsurance segment comprises the following management groups:

Property reinsurance

Property catastrophe treaty covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Property risk excess of loss is written on an excess of loss basis through UNL treaty arrangements, predominantly covering fire and allied perils in addition to natural catastrophe exposure. The portfolio is written on a worldwide basis, with particular focus on the U.S. market.

Other property treaty business includes property proportional which is written predominantly within the U.S. on a quota share basis.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming property catastrophe excess of loss 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.

Casualty reinsurance

The casualty treaty book is written predominantly on a quota share basis with a limited amount of excess of loss sold. The book is made up of predominantly U.S. exposure in general casualty and professional lines with some smaller specialty casualty deals and excess casualty.

Financial lines treaty encompasses our mortgage book as well as a small amount of non-mortgage credit. The mortgage book is split between quota share and excess of loss structures. It is made up of predominantly U.S. exposure on GSE and PMI reinsurance with a small amount in Australia.

The vast majority of the Accident and Health treaty reinsurance business is excess of loss, either facultative or treaty. The distribution is global but with a focus on the U.S., Canada, UK and EU. There is very little exposure in Asia, Australasia, Africa or South America. Typical coverage offered is death & disablement, medical expenses, evacuation and repatriation, and other limited ancillary expenses.

Specialty reinsurance

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on a UNL basis warranted on an overall industry loss, as measured by third party index providers, known as ILW coverage.

The energy and marine treaty book is written predominantly on an excess of loss basis and comprises similar exposures to those underwritten out of our insurance operation with a focus on 'Blue Chip' clients.

Aviation treaty 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.

For property treaty and specialty reinsurance, outwards 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. Insurance segment

The Group's insurance segment comprises the following management groups:

Aviation insurance

Aviation airline comprises aviation deductible and aviation hull and liability. 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 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 and AV52 business.

Casualty insurance

Accident & health is a combination of open-market placements, some binding authorities and broker lineslips, with the focus being Group and commercial personal accident and disability. The distribution is global but with a focus on the U.S., Canada, UK and EU. There is very little exposure in Asia, Australasia, Africa or South America. Typical coverage offered is death & disablement, medical expenses, evacuation and repatriation, and other limited ancillary expenses.

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Risk disclosures continued

The casualty insurance book is currently made up of a small number of consortia opportunities, where established Lloyd's leads write on our behalf. The exposure is currently worldwide and includes both primary and excess exposures for a broad range of middle market risks.

Energy and marine insurance

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.

Energy upstream comprises upstream energy and energy construction policies which 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. 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.

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 comprises power, energy downstream renewables and energy nuclear. Power business can be written either ground-up or on a primary or excess basis. The core composition of the portfolio is operational conventional thermal power generation, renewable energy and associated transmission and distribution assets. Within the various energy sub-classes are also elements of energy renewables business written, which can cover the construction and subsequent operational phases of various renewable energy types. These cover a broad spectrum of power generation across the offshore and onshore renewable industry, including wind (offshore and onshore), solar, hydropower, geothermal and biomass. Nuclear in this context is written via a binding authority of a large multi-national nuclear pool. A limited amount of reinsurance contracts are also written covering nuclear insurance pools.

The Group writes energy liability business on a stand-alone basis, across the energy sector. Asset types span the full spectrum of energy risks from upstream, midstream, to downstream and power, including renewable energy both on and offshore. Unlike the liability contained within the energy packages policies, stand-alone energy liability is written on a layered, excess of loss basis and can be written on a primary or excess basis. Coverage is worldwide and provides for variety of damages and loss to third parties, arising from elemental and non-elemental events. Our portfolio is focused on the upstream operating sector but will include all phases of upstream risk from exploration, construction, operating through to decommissioning along with the many contractors and subcontractors that service the upstream sector. Midstream, Downstream and Power coverage will remain focused on the operation of physical assets rather than construction, servicing, or demolition. Renewables are most commonly wind or solar and our underwriting focus remains on the operators of these assets rather than construction, installation or servicing.

Cargo and specie is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

Marine liability is split into two main sections. The first is the general marine liability portfolio which encompasses a broad a spectrum of third-party risks emanating from global maritime industry and trade. The second area concerns Protection and Indemnity and is dominated by the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities arising from their members' activities.

Marine hull and war comprises marine hull, marine builders risk and marine war. Marine hull is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Most policies are written on a ground-up basis. Marine builders' risk covers the building of ocean-going vessels in specialised yards worldwide and their testing and commissioning. Marine 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 protect a portion of loss from elemental and non-elemental energy and marine 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.

Property insurance

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium-sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Construction is a worldwide book targeted on SME construction risks, with limited appetite for the larger civil engineering project. It is written in the open market and under delegated authorities and whilst not exclusively so, the territorial focus is on North America and Australia. As with Property direct and facultative, policies are exposed to both non-elemental and elemental perils. Coverage includes Contractors/Erection All Risks, Frame, Plant & Equipment, Machinery Breakdown and associated third party liability.

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.

Specialty insurance

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts is often multi-year reflecting the term of the underlying exposures. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground-up or on an excess of loss basis. Coverage that the Group provides in the political risk book is split between confiscation perils coverage and sovereign obligor coverage. Confiscation perils coverage protects against CEND and may be extended to include other perils. 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. We have introduced a capability to selectively write Credit Insurance as a complementary product to our core Political Risk and Public Obligor portfolio. This is focused on a limited number of established client relationships and would target business in geographies that add diversification to the existing portfolio.

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.

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.

Loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Group's reserves are reported on an undiscounted basis.

Losses and loss adjustment expenses are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate an actuarial best estimate for the ultimate losses, along with a reserve margin, are utilised. This represents the management best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual independent review by external actuaries. The results of the independent review are presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent to which the reserving process relies on management's judgement is dependent on a number of factors including whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or pro-rata basis.

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Risk disclosures continued

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, including inflation often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

The breakdown of losses and loss adjustment expenses between notified outstanding losses, ACR and IBNR is shown in note 13. The majority of the IBNR estimate relates to catastrophe events from 2017-2022, in addition to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Group was not made aware by the balance sheet date.

B. Market risk

The Group is at risk of loss due to movements in market factors. The main risks include:

- i. Insurance market risk;
- ii. Investment risk;
- iii. Debt risk; and
- iv. Currency risk.

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

I. Insurance Market Risk

The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;

- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting call for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for LSL;
- reviews outputs from the economic capital models to assess up-to-date profitability of classes and sectors;
- holds a fortnightly RRC meeting to discuss risk and reinsurance;
- holds a quarterly UURC meeting to review underwriting strategy; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. Investment risk

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio.

Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. 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. In addition, the Group's investment guidelines restricts investments in companies which rely on thermal coal for power generation or derive revenues from oil sands or Arctic oil/gas, as well as investments in fixed maturity securities with high carbon intensity ratings. A Climate VaR is monitored versus the MSCI benchmark quarterly through analysis of the underlying securities as measured by MSCI for the Group's Level (i) and Level (ii) securities. 93.9% of the Group's externally managed portfolio are managed by signatories of the UNPRI.

The Group's fixed maturity portfolios are managed by five external investment managers. The Group also has credit funds, principal protected funds, private investment funds and a diversified low volatility multi-strategy portfolio of hedge funds. The performance of the managers is monitored on an ongoing basis.

Within the Group's investment guidelines are subsets of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. These guidelines add a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the core and core plus portfolios and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core and core plus portfolios are invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The combined core and core plus portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core and core plus portfolios are typically held in the surplus portfolio. The surplus portfolio is invested in fixed maturity securities, principal protected products, derivative instruments, cash and cash equivalents, private investment funds, hedge funds and index linked securities. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolios.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform similarly in risk-on and risk-off environments. The Group endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The Investment Committee performs a strategic asset allocation study on a bi-annual basis, which assesses the Group's overall strategy and to determine alternative asset allocations to achieve the best risk-adjusted return within our risk tolerances. Additionally, the Investment Committee

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meets quarterly to monitor the management of the investments of the Group against the asset allocations, risk tolerance and risk preference levels, and the approved investment guidelines. As part of this the Investment Committee receives information on ESG and carbon intensity scores for the fixed income portfolio and the Climate VaR versus the MSCI benchmark at the 1.5°C, 2°C and 3°C Paris Accord level. 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 is as follows:

As at 31 December 2022	Core \$m	Core plus \$m	Surplus \$m	Total \$m
• Short-term investments	14.3	6.5	0.7	21.5
• Fixed maturity funds	29.4	–	–	29.4
• U.S. treasuries	251.3	350.0	48.9	650.2
• Other government bonds	13.2	–	25.7	38.9
• U.S. municipal bonds	3.8	15.3	3.5	22.6
• U.S. government agency debt	2.8	22.9	33.3	59.0
• Asset backed securities	29.6	68.3	63.0	160.9
• U.S. government agency mortgage backed securities	11.2	13.9	15.9	41.0
• Non-agency mortgage backed securities	–	1.0	13.0	14.0
• Non-agency commercial mortgage backed securities	–	–	24.2	24.2
• Bank loans	–	–	128.9	128.9
• Corporate bonds	264.7	390.9	96.7	752.3
Total fixed maturity securities – AFS	620.3	868.8	453.8	1,942.9
Fixed maturity securities – at FVTPL	–	–	22.0	22.0
Private investment funds – at FVTPL	–	–	108.1	108.1
Hedge funds – at FVTPL	–	–	103.9	103.9
Index linked securities – at FVTPL	–	–	28.2	28.2
Other investments	–	–	(0.2)	(0.2)
Total investments	620.3	868.8	715.8	2,204.9

As at 31 December 2021	Core \$m	Core plus \$m	Surplus \$m	Total \$m
• Short-term investments	23.3	21.2	–	44.5
• Fixed maturity funds	17.6	–	–	17.6
• U.S. treasuries	223.5	289.0	51.7	564.2
• Other government bonds	11.7	–	47.1	58.8
• U.S. municipal bonds	4.1	14.8	5.4	24.3
• U.S. government agency debt	4.2	29.9	21.1	55.2
• Asset backed securities	9.3	19.5	75.3	104.1
• U.S. government agency mortgage backed securities	10.3	8.6	66.6	85.5
• Non-agency mortgage backed securities	–	4.6	28.6	33.2
• Agency commercial mortgage backed securities	–	–	0.1	0.1
• Non-agency commercial mortgage backed securities	–	–	20.1	20.1
• Bank loans	–	–	110.2	110.2
• Corporate bonds	244.2	327.0	91.2	662.4
Total fixed maturity securities – AFS	548.2	714.6	517.4	1,780.2
Fixed maturity securities – at FVTPL	–	–	28.9	28.9
Private investment funds – at FVTPL	–	–	105.7	105.7
Hedge funds – at FVTPL	–	–	102.9	102.9
Index linked securities – at FVTPL	–	–	30.5	30.5
Other investments	–	–	(0.1)	(0.1)
Total investments	548.2	714.6	785.3	2,048.1

The concentration of the Group's fixed maturity securities by country and sector is as follows:

As at 31 December 2022	Financials \$m	Industrial \$m	Utility \$m	Government & Government Agencies \$m	Structured ¹ \$m	Other ² \$m	Total \$m
United States	211.3	426.9	18.8	772.6	118.3	20.8	1,568.7
United Kingdom	39.1	11.8	–	1.5	0.7	–	53.1
Cayman Islands	–	–	–	–	47.4	–	47.4
Canada	21.5	14.3	0.5	10.5	–	–	46.8
Jersey	–	–	–	–	25.8	–	25.8
Japan	11.0	9.8	–	–	–	–	23.8
Netherlands	9.3	7.7	3.6	–	–	–	20.6
France	13.9	2.5	–	0.6	2.1	–	19.1
Spain	10.7	–	–	–	–	–	10.7
Switzerland	10.0	0.6	–	–	–	–	10.6
Sweden	8.9	–	–	0.6	–	–	9.5
Mexico	2.8	4.2	0.5	2.0	–	–	9.5
Finland	8.1	–	–	–	–	–	8.1
Qatar	1.6	–	–	5.2	–	–	6.8
Germany	3.6	2.8	–	–	–	–	6.4
Other	19.3	23.6	1.5	18.8	4.7	30.1	98.0
Total	374.1	504.2	24.9	811.8	199.0	50.9	1,964.9

1. Structured products excludes any Government structured products.

2. Other includes overseas deposits and short-term investments.

As at 31 December 2021	Financials \$m	Industrial \$m	Utility \$m	Government & Government Agencies \$m	Structured ¹ \$m	Other ² \$m	Total \$m
United States	206.3	359.8	27.4	719.3	113.9	33.9	1,460.6
United Kingdom	29.5	12.0	–	5.0	10.5	2.3	59.3
Canada	15.8	12.7	0.4	20.8	5.2	–	54.9
France	5.2	4.5	–	1.1	12.0	8.3	31.1
Japan	15.5	8.6	–	1.1	0.7	–	25.9
Netherlands	4.7	5.7	–	1.1	0.8	–	12.3
Sweden	9.6	–	–	0.6	1.0	–	11.2
Australia	6.2	0.7	–	2.6	1.3	–	10.8
Switzerland	5.5	2.8	–	–	2.0	–	10.3
Cayman Islands	0.9	–	–	0.3	8.2	–	9.4
Germany	5.9	1.5	–	–	1.9	–	9.3
Mexico	3.3	4.0	0.2	1.5	–	–	9.0
Qatar	1.7	–	–	6.2	–	–	7.9
United Arab Emirates	5.3	0.9	–	–	–	–	6.2
India	–	4.0	0.7	1.5	–	–	6.2
Other	22.5	16.0	1.6	27.0	–	17.6	84.7
Total	337.9	433.2	30.3	788.1	157.5	62.1	1,809.1

1. Structured products excludes any Government structured products.

2. Other includes overseas deposits and short-term investments.

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.

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Interest rate risk

The Group's investment portfolio is mainly comprised of fixed maturity securities and cash and cash equivalents. Fixed maturity funds are overseas deposits held by the syndicates in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed maturity securities. The Group also has a hedge fund portfolio as well as principal protected notes and has invested in private investment funds. The estimated fair value of the Group's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

As at 31 December	2022		2021	
	\$m	%	\$m	%
Immediate shift in yield (basis points)				
100	(34.1)	(1.7)	(36.6)	(2.0)
75	(25.6)	(1.3)	(27.4)	(1.5)
50	(17.1)	(0.9)	(18.3)	(1.0)
25	(8.5)	(0.4)	(9.1)	(0.5)
(25)	9.4	0.5	9.2	0.5
(50)	18.8	1.0	18.4	1.0
(75)	28.2	1.4	27.7	1.5
(100)	37.6	1.9	36.9	2.0

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. The duration of the core portfolio is matched to the modelled duration of the insurance reserves, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years and for the surplus portfolio is between one and five years.

The overall duration for fixed maturities, managed cash and cash equivalents and certain derivatives is 1.6 years (31 December 2021 – 1.8 years).

In addition to duration management, the Group monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option-adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the Investment Committee on behalf of the Board of Directors on an annual basis.

The Group's annual VaR calculations are as follows:

As at 31 December	2022		2021	
	\$m	% of shareholders' equity	\$m	% of shareholders' equity
99th percentile confidence level ¹	111.6	8.8	50.4	3.6

1. Including the impact of internal foreign exchange hedges.

The calculation methodology places emphasis on recent securities price volatility to determine VaR figures. Given interest rate volatility contributes to the majority of VaR factors, the significant moves in interest rates during the year ended 31 December 2022 and more importantly the most recent volatility, the calculated VaR has increased meaningfully during the year. In addition, the investment portfolio has increased in size relative to Shareholders' equity which has also contributed to the increase in VaR. Despite the increase, the total VaR is still considered within acceptable limits.

Price risk

Price risk is the risk that the fair value of our investment portfolio will fluctuate because of changes in market prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual investment or other market factors.

The Group's price risk exposure relates to our hedge funds, private investment funds and index linked securities. Listed investments that are quoted in an active market are recognised at quoted bid price, which is deemed to be the approximate exit price. If the market for the investment is not considered to be active, then the Group establishes fair value using valuation techniques (refer to note 11). This includes comparison to orderly transactions between market participants, reference to benchmarks or other indices to assess reasonableness and other valuation techniques that are commonly used by market participants.

A 10% downward correction at 31 December 2022 would reduce our hedge funds, private investment funds and index linked securities by approximately \$24.0 million (31 December 2021 – \$23.9 million).

Derivative financial instruments

The Group uses derivative financial instruments primarily to mitigate exposure to foreign currency risk, interest rate risk and credit risk. The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts.

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

	Net realised (losses) gains \$m	Net foreign exchange (losses) gains \$m	Financing (losses) \$m
As at 31 December 2022			
Interest rate futures	0.1	—	—
Forward foreign currency contracts	—	(3.0)	—
Interest rate swaps	(2.4)	0.2	—
Total	(2.3)	(2.8)	—
As at 31 December 2021			
Interest rate futures	(0.5)	—	—
Forward foreign currency contracts	—	(0.6)	—
Interest rate swaps	0.3	—	(3.4)
Total	(0.2)	(0.6)	(3.4)

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

	2022			2021		
As at 31 December	Other investments \$m	Other receivables \$m	Other payables \$m	Other investments \$m	Other receivables \$m	Other payables \$m
Forward foreign currency contracts	(0.2)	2.5	(0.4)	(0.3)	0.6	(0.6)
Interest rate swaps	—	—	—	(0.3)	—	—
Credit default swaps	—	—	—	0.5	—	—
Total	(0.2)	2.5	(0.4)	(0.1)	0.6	(0.6)

A. Futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This allows efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed maturity and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

The Group's exposure to interest rate futures is as follows:

	2022			2021		
As at 31 December	Notional long \$m	Notional short \$m	Net notional long (short) \$m	Notional long \$m	Notional short \$m	Net notional long (short) \$m
Interest rate futures	—	—	—	44.1	36.8	7.3

B. Options

Exchange-traded options on U.S. treasury futures and Euro dollar futures are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is \$nil as at 31 December 2022 and 2021.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

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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	2022			2021		
	Notional long \$m	Notional short \$m	Net notional long (short) \$m	Notional long \$m	Notional short \$m	Net notional long (short) \$m
Canadian Dollar	–	22.8	(22.8)	–	36.2	(36.2)
Euro	42.7	3.8	38.9	19.2	21.0	(1.8)
Australian Dollar	–	13.8	(13.8)	–	9.3	(9.3)
Japanese Yen	5.2	–	5.2	–	–	–
Danish Krone	–	0.2	(0.2)	–	3.9	(3.9)
Sterling	93.5	0.8	92.7	45.2	7.6	37.6
Total	141.4	41.4	100.0	64.4	78.0	(13.6)

D. Swaps

Interest rate swaps, traded primarily OTC, are used to manage interest rate exposure, portfolio duration or to capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio was \$nil as at 31 December 2022 (31 December 2021 – \$1.3 million). The notional amount of interest rate swaps held for hedging purposes was \$nil as at 31 December 2022 and 2021.

The Group may utilise credit default swaps to add or reduce credit risk to an individual issuer, or a basket of issuers, without investing directly in their securities. The Group held credit default swaps of \$nil as at 31 December 2022 (31 December 2021 – \$13.4 million).

During the year ended 31 December 2021, the Group entered into an interest rate swap, in the form of a 'Treasury lock'. This was in order to hedge the 10-year treasury rate on the issuance of the \$450.0 million fixed-rate reset junior subordinated Notes (see note 18), between the date that the Group announced the issuance of the Notes, and the finalisation of the transaction on 11 March 2021. The 10-year treasury reference rate reduced over the relevant period and a net payment was made of \$3.4 million.

III. Debt risk

During the year ended 31 December 2021, the Group issued \$450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041 (see note 18). The fixed interest rate will reset on 18 September 2031 at a rate per annum equal to the prevailing five year treasury rate plus a credit spread of 4.08% and a relevant 100 basis point step up.

The Group is exposed to interest rate risk in the future if prevailing rates at the time of reset are materially different from the existing rates on the debt issue.

IV. Currency risk

The Group underwrites from multiple locations and risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. Exchange gains and losses can impact profit or loss.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable and dividends payable. The Group uses forward foreign currency contracts for the purposes of managing currency exposures.

The Group's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	Other \$m	Total \$m
Cash and cash equivalents	434.6	23.5	35.6	10.3	44.8	548.8
Accrued interest receivable	11.2	–	–	–	0.1	11.3
Investments	2,160.8	3.0	(0.3)	–	41.4	2,204.9
Inwards premiums receivable from insureds and cedants	544.8	49.8	46.5	7.5	39.7	688.3
Reinsurance assets	748.4	19.6	55.5	2.1	4.7	830.3
Other receivables	11.2	17.8	–	–	1.1	30.1
Corporation tax receivable	0.1	1.3	–	–	(0.3)	1.1
Investment in associate	57.2	–	–	–	–	57.2
Property, plant and equipment	0.5	0.6	–	–	–	1.1
Right-of-use assets	0.9	19.2	–	–	0.2	20.3
Deferred acquisition costs	138.7	11.8	12.9	1.6	15.8	180.8
Intangible assets	153.8	18.6	–	–	–	172.4
Total assets as at 31 December 2022	4,262.2	165.2	150.2	21.5	147.5	4,746.6

Liabilities	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	Other \$m	Total \$m
Losses and loss adjustment expenses	1,463.5	91.3	148.2	22.4	55.4	1,780.8
Unearned premiums	651.9	48.9	57.7	11.7	50.9	821.1
Insurance contracts – other payables	26.0	5.2	0.5	(0.1)	21.3	52.9
Amounts payable to reinsurers	241.2	1.8	19.1	2.1	4.0	268.2
Deferred acquisition costs ceded	26.2	0.8	4.6	0.4	0.9	32.9
Other payables	11.5	25.8	–	–	6.8	44.1
Deferred tax liability	12.5	(3.2)	–	–	–	9.3
Lease liabilities	1.0	22.1	–	–	0.2	23.3
Long-term debt	446.1	–	–	–	–	446.1
Total liabilities as at 31 December 2022	2,879.9	192.7	230.1	36.5	139.5	3,478.7

Assets	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	Other \$m	Total \$m
Cash and cash equivalents	419.7	27.7	23.1	4.0	43.2	517.7
Accrued interest receivable	6.9	–	0.1	–	0.1	7.1
Investments	2,015.6	3.6	(0.6)	–	29.5	2,048.1
Inwards premiums receivable from insureds and cedants	377.9	53.2	39.0	7.1	13.4	490.6
Reinsurance assets	480.2	38.2	51.3	2.8	2.3	574.8
Other receivables	8.6	10.2	–	–	–	18.8
Investment in associate	118.7	–	–	–	–	118.7
Property, plant and equipment	0.7	0.1	–	–	–	0.8
Right-of-use assets	1.8	11.6	–	–	–	13.4
Deferred acquisition costs	88.4	7.3	18.4	1.7	5.8	121.6
Intangible assets	153.8	4.1	–	–	–	157.9
Total assets as at 31 December 2021	3,672.3	156.0	131.3	15.6	94.3	4,069.5

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Risk disclosures continued

Liabilities	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	Other \$m	Total \$m
Losses and loss adjustment expenses	1,025.3	77.2	93.1	26.2	69.3	1,291.1
Unearned premiums	448.7	35.1	72.6	15.1	26.4	597.9
Insurance contracts – other payables	15.3	3.5	1.0	–	0.5	20.3
Amounts payable to reinsurers	154.8	27.2	17.3	2.8	3.5	205.6
Deferred acquisition costs ceded	19.7	0.4	6.3	0.4	0.2	27.0
Other payables	16.2	20.8	–	–	0.4	37.4
Corporation tax payable	–	1.6	–	–	–	1.6
Deferred tax liability	12.5	(0.3)	–	–	–	12.2
Lease liabilities	2.0	15.9	–	–	–	17.9
Long-term debt	445.7	–	–	–	–	445.7
Total liabilities as at 31 December 2021	2,110.2	181.4	190.3	41.5	100.3	2,656.7

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 \$4.5 million (2021 – \$3.9 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 2022	Core \$m	Core plus \$m	Surplus \$m	Total \$m
Less than one year	159.5	212.1	20.9	392.5
Between one and two years	175.2	245.2	25.2	445.6
Between two and three years	113.9	155.3	69.4	338.6
Between three and four years	73.2	80.6	50.8	204.6
Between four and five years	21.1	28.2	48.2	97.5
Over five years	36.6	64.2	145.2	246.0
Asset backed and mortgage backed securities	40.8	83.2	116.1	240.1
Total fixed maturity securities	620.3	868.8	475.8	1,964.9

As at 31 December 2021	Core \$m	Core plus \$m	Surplus \$m	Total \$m
Less than one year	119.0	144.7	18.5	282.2
Between one and two years	198.1	255.4	25.4	478.9
Between two and three years	102.3	133.3	38.6	274.2
Between three and four years	61.9	89.6	40.8	192.3
Between four and five years	30.2	33.6	55.1	118.9
Over five years	17.1	25.3	177.2	219.6
Asset backed and mortgage backed securities	19.6	32.7	190.7	243.0
Total fixed maturity securities	548.2	714.6	546.3	1,809.1

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

As at 31 December 2022	Years until liability becomes due – undiscounted values					Total \$m
	Balance sheet \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
Losses and loss adjustment expenses	1,780.8	879.7	595.1	184.2	121.8	1,780.8
Insurance contracts – other payables	52.9	38.7	13.3	0.9	–	52.9
Amounts payable to reinsurers	268.2	268.2	–	–	–	268.2
Other payables	44.1	44.1	–	–	–	44.1
Lease liabilities	23.3	3.6	6.6	6.8	12.3	29.3
Long-term debt ¹	446.1	25.3	50.6	50.6	551.3	677.8
Total	2,615.4	1,259.6	665.6	242.5	685.4	2,853.1

1. The maturity profile of long-term debt includes interest.

As at 31 December 2021	Years until liability becomes due – undiscounted values					Total \$m
	Balance sheet \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
Losses and loss adjustment expenses	1,291.1	676.6	425.1	114.3	75.1	1,291.1
Insurance contracts – other payables	20.3	13.7	6.6	–	–	20.3
Amounts payable to reinsurers	205.6	205.6	–	–	–	205.6
Other payables	37.4	37.4	–	–	–	37.4
Lease liabilities	17.9	3.7	6.4	5.1	6.1	21.3
Long-term debt ¹	445.7	25.3	50.6	50.6	576.6	703.1
Total	2,018.0	962.3	488.7	170.0	657.8	2,278.8

1. The maturity profile of long-term debt includes interest.

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 2022, cash and cash equivalents were \$548.8 million (31 December 2021 – \$517.7 million). The Group manages its liquidity risks via its investment strategy to hold high-quality, liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core and core plus portfolios with their subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlook and reallocates assets as it deems necessary.

As at 31 December 2022, the Group considers that it has more than adequate liquidity to pay its obligations as they fall due.

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Risk disclosures continued

D. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed maturity portfolio is mitigated through the Group's policy to invest in instruments of high-credit-quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 15.0% of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt, should exceed 5.0% of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies and other highly-rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and settling of unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral amounts exceeding predetermined thresholds to be posted for positions which have accrued gains.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2022	Cash and fixed maturity securities \$m	Inwards premiums receivable and other receivables \$m	Reinsurance recoveries \$m
AAA	572.0	—	—
AA+, AA, AA-	905.9	0.5	4.6
A+, A, A-	622.4	93.3	533.4
BBB+, BBB, BBB-	284.4	1.0	2.1
Other ¹	129.0	720.4	52.0
Total	2,513.7	815.2	592.1

¹ Reinsurance recoveries classified as 'other' include \$42.0 million of reserves that are fully collateralised.

As at 31 December 2021	Cash and fixed maturity securities \$m	Inwards premiums receivable and other receivables \$m	Reinsurance recoveries \$m
AAA	355.6	—	—
AA+, AA, AA-	816.0	—	2.8
A+, A, A-	754.4	28.2	369.2
BBB+, BBB, BBB-	280.4	2.1	2.2
Other ¹	120.4	517.3	44.6
Total	2,326.8	547.6	418.8

¹ Reinsurance recoveries classified as 'other' include \$38.2 million of reserves that are fully collateralised.

As at 31 December 2022, the average credit quality of the fixed maturity portfolio was A+ (31 December 2021 – A+).

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

	2022 \$m	2021 \$m
Less than 90 days past due	71.2	59.1
Between 91 and 180 days past due	10.3	13.7
Over 180 days past due	14.5	8.2
Total	96.0	81.0

As at 31 December 2022 there has been no change in our counterparty credit risk exposure, however, it is an area we continue to monitor given the ongoing conflict in Ukraine. Provisions of \$8.7 million (31 December 2021 – \$7.0 million) have been made for impaired or irrecoverable balances and \$4.1 million (2021 – \$1.4 million) was charged to the consolidated statement of comprehensive income in respect of the provision for bad debts of which \$2.4 million (2021 – \$nil) has been written off.

E. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems or external events. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modelled within the subsidiaries' capital models. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the Group CRO's quarterly ORSA report to the LHL Board and entity boards and in the LSL RCCC reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. Key risk indicators have been established and are monitored on a regular basis and a formal loss event and near-miss reporting process has been implemented. The Group's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration for audit for all other areas varies from quarterly at the most frequent to a minimum of once every four years, on a rotational basis.

The operational cyber risk that comes with employees working from home is managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans, and our cyber security incident response plan.

F. Strategic risk

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of failing to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required;
- the risks of succession planning, staff retention and key man risks; and
- the risks of organisational stretch as the Group grows, in terms of volume of business written and number of employees, as well as from transformation programmes to ensure the Group has appropriate systems and infrastructure and data in place to support the business.

I. Business plan risk

The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- evaluation of climate change and the potential short, medium and long-term implications/considerations for the business.

The forward-looking business planning process covers a three-year period from 2023 to 2025 and applies a number of sensitivity, stress and scenario tests. These tests include consideration of climate change risks. The sensitivity and stress testing identified that even under the more extreme stress scenarios the Group had more than adequate liquidity and solvency headroom.

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Risk disclosures continued

II. Capital management risk

The total capital of the Group is as follows:

As at 31 December	2022 \$m	2021 \$m
Shareholders' equity	1,267.9	1,412.3
Long-term debt	446.1	445.7
Total capital	1,714.0	1,858.0
Intangible assets	(172.4)	(157.9)
Total tangible capital	1,541.6	1,700.1

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 Group's long-term debt held as at 31 December 2022 and 31 December 2021 is approved as 'Tier 2 Ancillary Capital' by the Bermuda Monetary Authority.

The Group's aim is to maximise risk-adjusted returns for its shareholders across the cycle through a purposeful and sustainable business culture. The return is measured by management in terms of the Change in FCBVS in the period (see APM on page 198). This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclical and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs by adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

The primary source of capital used by the Group is equity shareholders' funds and borrowings (note 18). As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

Both the Group and LICL are regulated by the BMA and are required to monitor their enhanced capital requirement under the BMA's regulatory framework, which has been assessed as equivalent to the Solvency II regime. The Group and LICL's capital requirement are calculated using the BSCR standard formula model. For the years ended 31 December 2022 and 2021, both the Group and LICL were more than adequately capitalised under the BMA's regulatory regime.

The Group's UK regulated insurance companies are required to comply with the Solvency II regime and are regulated by the PRA and FCA. LSL is also regulated by Lloyd's. Under Solvency II, the basis for assessing capital and solvency comprises a market-consistent economic balance sheet and an SCR, determined using either an internal model or the standard formula.

LUK calculates its SCR using the standard formula. LUK's Solvency II own funds are primarily comprised of Tier 1 items for the years ended 31 December 2022 and 2021. 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 2022 and 2021, 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. A number of material changes were contained within the consultation published by the PRA in November 2022. The consultation is open until May 2023 with a view to implementing new requirements from December 2024. Whilst 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 there will be a change in the reporting requirements.

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 2023 calendar year the Group's corporate member's FAL requirement was set at 83.5% (2022 – 74.0%) 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 a FAL requirement of £544.5 million as at 31 December 2022 (31 December 2021 – £344.0 million).

For the years ended 31 December 2022 and 2021 the capital requirements of all the Group's regulatory jurisdictions were met.

III. Retention risk

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts;
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon; and
- training schemes.

Notes to the accounts

1. General information

The Group is a provider of global specialty insurance and reinsurance products with operations in London, Bermuda and Australia. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL (registered number 37415) 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 2022 include the Company's subsidiary companies, the Company's investment in associate, and the Group's share of the syndicates' assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 23.

2. Segmental reporting

Management and the Board of Directors review the Group's business primarily by its two principal segments: reinsurance and insurance. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

The Group's operating segments for the purpose of segmental reporting have been revised in the current year. The revenue and expenses previously reported in the property and casualty reinsurance, property and casualty insurance, aviation, energy and marine segments are now reported within reinsurance and insurance segments. This reflects an internal management restructuring that occurred in the second half of 2022 and is in place as at 31 December 2022. Lines of business, written primarily, but not exclusively, on a reinsurance or insurance basis, are now reported under a Head of Reinsurance and Head of Insurance based on the products that they manage. Comparative figures for the year ended 31 December 2021 have been re-presented in conformity with the current year view.

Revenue and expense by operating segment

	Reinsurance segment \$m	Insurance segment \$m	Total \$m
For the year ended 31 December 2022			
Gross premiums written by geographic area			
U.S. and Canada	385.3	254.3	639.6
Worldwide – multi territory	347.2	268.9	616.1
Europe	50.0	90.5	140.5
Rest of world	59.6	196.5	256.1
Total	842.1	810.2	1,652.3
Outwards reinsurance premiums	(213.3)	(251.0)	(464.3)
Change in unearned premiums	(149.2)	(74.0)	(223.2)
Change in unearned premiums on premiums ceded	15.9	7.7	23.6
Net premiums earned	495.5	492.9	988.4
Insurance losses and loss adjustment expenses	(546.7)	(376.0)	(922.7)
Insurance losses and loss adjustment expenses recoverable	194.7	151.6	346.3
Insurance acquisition expenses	(136.0)	(162.8)	(298.8)
Insurance acquisition expenses ceded	5.0	32.6	37.6
Net underwriting profit	12.5	138.3	150.8
Net unallocated income and expenses			(153.6)
Loss before tax			(2.8)
Net loss ratio	71.0%	45.5%	58.3%
Net acquisition cost ratio	26.4%	26.4%	26.4%
Expense ratio	–	–	13.0%
Combined ratio	97.4%	71.9%	97.7%

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Notes to the accounts continued

2. Segmental reporting continued

Revenue and expense by operating segment

For the year ended 31 December 2021	Reinsurance segment \$m	Insurance segment \$m	Total \$m
Gross premiums written by geographic area			
U.S. and Canada	274.9	190.3	465.2
Worldwide – multi territory	174.2	250.6	424.8
Europe	48.7	90.1	138.8
Rest of world	63.2	133.2	196.4
Total	561.0	664.2	1,225.2
Outwards reinsurance premiums	(175.6)	(233.5)	(409.1)
Change in unearned premiums	(81.1)	(58.9)	(140.0)
Change in unearned premiums on premiums ceded	(2.2)	22.6	20.4
Net premiums earned	302.1	391.4	696.5
Insurance losses and loss adjustment expenses	(434.0)	(233.6)	(667.6)
Insurance losses and loss adjustment expenses recoverable	160.2	36.9	197.1
Insurance acquisition expenses	(64.5)	(124.1)	(188.6)
Insurance acquisition expenses ceded	8.2	23.4	31.6
Net underwriting (loss) profit	(28.0)	97.0	69.0
Net unallocated income and expenses			(125.8)
Loss before tax			(56.8)
Net loss ratio	90.6%	49.9%	67.6%
Net acquisition cost ratio	18.6%	25.5%	22.5%
Expense ratio	–	–	17.2%
Combined ratio	109.2%	75.4%	107.3%

3. Investment return

The total investment return for the Group is as follows:

	Net investment income and net other investment (loss) income ¹ \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised losses on AFS ² \$m	Total investment return \$m
For the year ended 31 December 2022				
Fixed maturity securities – AFS	38.9	(19.3)	(93.2)	(73.6)
Fixed maturity securities – at FVTPL	(0.3)	–	–	(0.3)
Index linked securities – at FVTPL	(2.3)	–	–	(2.3)
Hedge funds – at FVTPL	(1.5)	(1.1)	–	(2.6)
Private investment funds – at FVTPL	(0.6)	–	–	(0.6)
Other investments	0.2	(2.3)	–	(2.1)
Cash and cash equivalents	4.8	–	–	4.8
Total investment return	39.2	(22.7)	(93.2)	(76.7)

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 and net other investment (loss) income ¹ \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised losses on AFS ² \$m	Total investment return \$m
For the year ended 31 December 2021				
Fixed maturity securities – AFS	22.9	2.7	(31.6)	(6.0)
Fixed maturity securities – at FVTPL	1.7	(0.1)	–	1.6
Index linked securities – at FVTPL	0.5	–	–	0.5
Hedge funds – at FVTPL	(0.6)	3.7	–	3.1
Private investment funds – at FVTPL	2.3	–	–	2.3
Other investments	(0.1)	(0.2)	–	(0.3)
Cash and cash equivalents	0.1	–	–	0.1
Total investment return	26.8	6.1	(31.6)	1.3

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 \$46.1 million (2021 – \$34.1 million) of interest income on our AFS investment portfolio and cash and cash equivalents. Net realised (losses) gains and impairments includes impairment losses of \$2.5 million (2021 – \$nil) recognised on fixed maturity securities.

Refer to pages 155 to 156 in the risk disclosures section for the fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised (losses) gains and impairments.

Included in net investment income and net other investment (loss) income is \$4.7 million (2021 – \$4.8 million) of investment management, accounting and custodian fees.

4. Net insurance acquisition expenses

	2022 \$m	2021 \$m
For the year ended 31 December		
Insurance acquisition expenses	358.0	221.2
Changes in deferred insurance acquisition expenses	(59.2)	(32.6)
Insurance acquisition expenses ceded	(43.5)	(39.0)
Changes in deferred insurance acquisition expenses ceded	5.9	7.4
Total net insurance acquisition expenses	261.2	157.0

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Notes to the accounts continued

5. Other income

For the year ended 31 December	2022 \$m	2021 \$m
Lancashire Capital Management		
• underwriting fees	3.1	10.6
• profit commission	0.9	5.2
Lancashire Syndicates		
• managing agency fees	1.1	1.1
• consortium fees	1.1	0.6
• consortium profit commission	0.1	0.7
• coverholder commission income	0.2	–
Total other income	6.5	18.2

As at 31 December 2022, contract assets in relation to other income amounted to \$1.3 million (31 December 2021 – \$0.7 million).

6. Results of operating activities

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

For the year ended 31 December	2022 \$m	2021 \$m
Depreciation on owned assets	0.4	0.6
Auditor's remuneration		
• Group audit fees	4.1	2.1
• Other services	0.4	0.4
Total	4.9	3.1

During 2022 and 2021, KPMG LLP provided non-audit services in relation to the Group's half-year reporting review, Solvency II reporting and Lloyd's reporting. In addition non-audit services in relation to the long-term debt refinancing was provided in the prior year. Fees for non-audit services provided in 2022 totalled \$0.4 million (2021 – \$0.4 million).

7. Employee benefits

For the year ended 31 December	2022 \$m	2021 \$m
Wages and salaries	54.6	49.2
Pension costs	4.2	4.3
Bonus and other benefits	15.2	15.0
Total cash compensation	74.0	68.5
RSS – performance	0.5	3.7
RSS – ordinary	7.4	6.0
RSS – bonus deferral	0.7	1.4
Total equity based compensation	8.6	11.1
Total employee benefits	82.6	79.6

Equity based compensation

The Group's equity based compensation scheme is its RSS. All outstanding and future RSS grants have an exercise period of ten years from the grant date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2022 and 2021:

Assumptions	2022	2021
Dividend yield	–	–
Expected volatility ¹	28.1%	28.0%
Risk-free interest rate ²	1.3%	0.1%
Expected average life of options	3.0 years	3.0 years
Share price	\$6.72	\$8.92

1. The expected volatility of the LHL share price is calculated based on the movement in the share price over a period prior to the grant date, equal in length to the expected life of the award.

2. The risk-free interest rate is consistent with three-year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – Performance

The performance RSS options vest three years from the date of grant and are dependent on certain performance criteria. A maximum of 85.0% (2021 – 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% (2021 – 15.0%) of the performance RSS options will vest only on the achievement of an absolute TSR in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Total number of restricted shares
Outstanding as at 31 December 2020	2,749,396
Granted	1,386,635
Exercised	(377,522)
Forfeited	(14,615)
Lapsed	(480,182)
Outstanding as at 31 December 2021	3,263,712
Granted	1,166,257
Exercised	(387,722)
Forfeited	(186,988)
Lapsed	(457,700)
Outstanding as at 31 December 2022	3,397,559
Exercisable as at 31 December 2021	104,346
Exercisable as at 31 December 2022	140,323

	2022 Total restricted shares	2021 Total restricted shares
Weighted average remaining contractual life	8.1 years	9.0 years
Weighted average fair value at date of grant during the year	\$5.59	\$7.99
Weighted average share price at date of exercise during the year	\$6.59	\$9.12

RSS – Ordinary

The ordinary RSS options vest three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted shares
Outstanding as at 31 December 2020	2,619,125
Granted	1,035,202
Exercised	(561,366)
Forfeited	(208,990)
Outstanding as at 31 December 2021	2,883,971
Granted	1,994,874
Exercised	(548,748)
Forfeited	(153,132)
Outstanding as at 31 December 2022	4,176,965
Exercisable as at 31 December 2021	520,249
Exercisable as at 31 December 2022	634,373

7. Employee benefits continued

	2022 Total restricted shares	2021 Total restricted shares
Weighted average remaining contractual life	8.0 years	8.4 years
Weighted average fair value at date of grant during the year	\$6.69	\$8.92
Weighted average share price at date of exercise during the year	\$6.02	\$9.35

RSS – Bonus deferral

The vesting periods of the bonus deferral RSS options range from one to three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted shares
Outstanding as at 31 December 2020	250,605
Granted	183,185
Exercised	(83,638)
Outstanding as at 31 December 2021	350,152
Granted	46,648
Exercised	(114,196)
Forfeited	(14,056)
Outstanding as at 31 December 2022	268,548
Exercisable as at 31 December 2021	59,329
Exercisable as at 31 December 2022	63,247

	2022 Total restricted shares	2021 Total restricted shares
Weighted average remaining contractual life	7.2 years	8.9 years
Weighted average fair value at date of grant during the year	\$6.04	\$8.92
Weighted average share price at date of exercise during the year	\$6.45	\$8.84

RSS – Lancashire syndicates limited acquisition

The vesting periods of the LSL acquisition RSS options ranged from three to five years and were dependent on certain performance criteria. These options vested in full on 31 December 2018. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vested.

	Total number of restricted shares
Outstanding as at 31 December 2021 and 2020	64,742
Exercised	(33,387)
Outstanding as at 31 December 2022	31,355
Exercisable as at 31 December 2021	64,742
Exercisable as at 31 December 2022	31,355

	2022 Total restricted shares	2021 Total restricted shares
Weighted average remaining contractual life	0.9 years	1.9 years
Weighted average fair value at date of grant	\$13.01	\$13.01
Weighted average share price at date of exercise during the year	\$5.59	–

8. Financing costs

For the year ended 31 December	2022 \$m	2021 \$m
Interest expense on long-term debt	25.8	25.8
Redemption cost on senior and subordinated loan notes	—	12.8
Interest rate swap	—	3.4
Interest expense on lease liabilities	0.8	1.1
Other financing costs	2.6	2.7
Total	29.2	45.8

The increased financing cost during the prior year ended 31 December 2021 was driven by \$18.7 million of one-off costs associated with the refinancing of the long-term debt.

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

9. Tax

Bermuda

LHL, LICL and LCM have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

United Kingdom

The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

For the year ended 31 December	2022 \$m	2021 \$m
Corporation tax charge for the period	1.7	2.9
Adjustments in respect of prior period corporation tax	(0.6)	0.2
Deferred tax credit for the period	(1.7)	(2.5)
Adjustment in respect of prior period deferred tax	1.1	0.8
Tax rate change adjustment	—	3.4
Total tax charge	0.5	4.8

Tax reconciliation ¹	2022 \$m	2021 \$m
Loss before tax	(2.8)	(56.8)
Tax calculated at the standard corporation tax rate applicable in Bermuda 0%	—	—
Effect of income taxed at a higher rate	3.0	0.8
Adjustments in respect of prior period	0.5	1.0
Differences related to equity based compensation	(0.4)	1.0
Other expense permanent differences	(2.6)	(1.4)
Tax rate change adjustment	—	3.4
Total tax charge	0.5	4.8

1. All tax reconciling balances have been classified as recurring items.

The current tax charge as a percentage of the Group's profit before tax is negative 17.9% (2021 – negative 8.5%). The Group has non-taxable income in relation to profits of companies within the Group that are non-tax resident in the UK and the share of loss of associate.

Refer to note 11 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive (loss) income within shareholders' equity.

Global minimum tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15%. In December 2021 the OECD released a draft legislative framework, followed by detailed guidance in March 2022, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. Once changes to the laws in any jurisdiction in which the Group operates are enacted or substantively enacted, the Group may be subject to a top-up tax. At the date when the financial statements were signed none of the jurisdictions in which the Group operates had enacted or substantively enacted the tax legislation related to a top-up tax. The Group may potentially be subject to a top-up tax because LHL and some of its subsidiaries are domiciled in Bermuda and are currently exempt from corporate income taxes until 31 March 2035. Management are closely monitoring the progress of the legislative process in the jurisdictions in which it operates.

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Notes to the accounts continued

10. Cash and cash equivalents

As at 31 December	2022 \$m	2021 \$m
Cash at bank and in hand	191.6	275.8
Cash equivalents	357.2	241.9
Total cash and cash equivalents	548.8	517.7

The carrying amount of cash and cash equivalents approximates fair value. Refer to note 18 for the cash and cash equivalent balances on deposit as collateral. Cash and cash equivalents include managed cash of \$260.8 million (31 December 2021 – \$260.7 million), which are managed by our external investment managers and non-operating cash managed internally.

11. Investments

As at 31 December 2022	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value ¹ \$m
Fixed maturity securities – AFS				
• Short-term investments	21.5	–	–	21.5
• Fixed maturity funds	29.4	–	–	29.4
• U.S. treasuries	683.0	0.1	(32.9)	650.2
• Other government bonds	42.3	–	(3.4)	38.9
• U.S. municipal bonds	23.8	–	(1.2)	22.6
• U.S. government agency debt	61.0	–	(2.0)	59.0
• Asset backed securities	167.0	0.2	(6.3)	160.9
• U.S. government agency mortgage backed securities	45.5	–	(4.5)	41.0
• Non-agency mortgage backed securities	16.4	–	(2.4)	14.0
• Non-agency commercial mortgage backed securities	25.5	–	(1.3)	24.2
• Bank loans	131.8	0.5	(3.4)	128.9
• Corporate bonds	786.2	1.0	(34.9)	752.3
Total fixed maturity securities – AFS	2,033.4	1.8	(92.3)	1,942.9
Fixed maturity securities – at FVTPL	19.7	4.6	(2.3)	22.0
Private investment funds – at FVTPL	116.0	1.5	(9.4)	108.1
Hedge funds – at FVTPL	95.0	13.4	(4.5)	103.9
Index linked securities – at FVTPL	30.0	–	(1.8)	28.2
Other investments	–	0.2	(0.4)	(0.2)
Total investments	2,294.1	21.5	(110.7)	2,204.9

1. When IFRS 9, Financial Instruments: Classification and Measurement, is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

As at 31 December 2021	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value ¹ \$m
Fixed maturity securities – AFS				
• Short-term investments	44.5	–	–	44.5
• Fixed maturity funds	17.6	–	–	17.6
• U.S. treasuries	566.9	0.6	(3.3)	564.2
• Other government bonds	59.5	0.3	(1.0)	58.8
• U.S. municipal bonds	24.0	0.4	(0.1)	24.3
• U.S. government agency debt	54.2	1.1	(0.1)	55.2
• Asset backed securities	104.8	0.3	(1.0)	104.1
• U.S. government agency mortgage backed securities	85.5	1.1	(1.1)	85.5
• Non-agency mortgage backed securities	33.1	0.3	(0.2)	33.2
• Agency commercial mortgage backed securities	0.2	–	(0.1)	0.1
• Non-agency commercial mortgage backed securities	20.2	–	(0.1)	20.1
• Bank loans	110.1	0.7	(0.6)	110.2
• Corporate bonds	657.4	8.6	(3.6)	662.4
Total fixed maturity securities – AFS	1,778.0	13.4	(11.2)	1,780.2
Fixed maturity securities – at FVTPL	24.8	5.5	(1.4)	28.9
Private investment funds – at FVTPL	106.0	1.1	(1.4)	105.7
Hedge funds – at FVTPL	93.3	14.8	(5.2)	102.9
Index linked securities – at FVTPL	30.0	0.5	–	30.5
Other investments	0.3	0.1	(0.5)	(0.1)
Total investments	2,032.4	35.4	(19.7)	2,048.1

1. When IFRS 9, Financial Instruments: Classification and Measurement, is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

Accumulated other comprehensive (loss) income in relation to the Group's AFS fixed maturity is as follows:

As at 31 December	2022 \$m	2021 \$m
Unrealised gains	1.8	13.4
Unrealised losses	(92.3)	(11.2)
Net unrealised foreign exchange losses on fixed maturity securities – AFS	0.6	1.1
Tax provision	3.5	(0.4)
Accumulated other comprehensive (loss) income	(86.4)	2.9

The Group determines the fair value of each individual security utilising the highest-level inputs available. Prices for the Group's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used, including pricing vendors and broker-dealers. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

Level (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry-accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, interest rates, prepayment speeds and default rates.

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11. Investments continued

Level (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement. The Group determines securities classified as Level (iii) to include hedge funds, private investment funds and loans to the Lloyd's central fund.

The fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The fair value of the Group's private investment funds are determined using statements received from each fund's investment managers on either a monthly or quarterly in arrears basis. In addition these valuations will be compared with benchmarks or other indices to assess the reasonableness of the estimated fair value of each fund. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between statements and the final NAVs reported by the investment managers.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to \$124.7 million and transfers from Level (ii) to (i) securities amounted to \$89.2 million during the year ended 31 December 2022.

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

As at 31 December 2022	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities – AFS				
• Short-term investments	18.5	3.0	–	21.5
• Fixed maturity funds	–	29.4	–	29.4
• U.S. treasuries	650.2	–	–	650.2
• Other government bonds	5.5	33.4	–	38.9
• U.S. municipal bonds	–	22.6	–	22.6
• U.S. government agency debt	38.0	21.0	–	59.0
• Asset backed securities	–	160.9	–	160.9
• U.S. government agency mortgage backed securities	–	41.0	–	41.0
• Non-agency mortgage backed securities	–	14.0	–	14.0
• Non-agency commercial mortgage backed securities	–	24.2	–	24.2
• Bank loans	22.7	106.2	–	128.9
• Corporate bonds	235.0	517.3	–	752.3
Total fixed maturity securities – AFS	969.9	973.0	–	1,942.9
Fixed maturity securities – at FVTPL	–	18.9	3.1	22.0
Private investment funds – at FVTPL	–	–	108.1	108.1
Hedge funds – at FVTPL	–	–	103.9	103.9
Index linked securities – at FVTPL	–	28.2	–	28.2
Other investments	–	(0.2)	–	(0.2)
Total investments	969.9	1,019.9	215.1	2,204.9

As at 31 December 2021	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities – AFS				
• Short-term investments	42.2	2.3	–	44.5
• Fixed maturity funds	–	17.6	–	17.6
• U.S. treasuries	564.2	–	–	564.2
• Other government bonds	31.5	27.3	–	58.8
• U.S. municipal bonds	–	24.3	–	24.3
• U.S. government agency debt	33.5	21.7	–	55.2
• Asset backed securities	–	104.1	–	104.1
• U.S. government agency mortgage backed securities	–	85.5	–	85.5
• Non-agency mortgage backed securities	–	33.2	–	33.2
• Agency commercial mortgage backed securities	–	0.1	–	0.1
• Non-agency commercial mortgage backed securities	–	20.1	–	20.1
• Bank loans	5.0	105.2	–	110.2
• Corporate bonds	197.7	464.7	–	662.4
Total fixed maturity securities – AFS	874.1	906.1	–	1,780.2
Fixed maturity securities – at FVTPL	–	25.0	3.9	28.9
Private investment funds – at FVTPL	–	–	105.7	105.7
Hedge funds – at FVTPL	–	–	102.9	102.9
Index linked securities – at FVTPL	–	30.5	–	30.5
Other investments	–	(0.1)	–	(0.1)
Total investments	874.1	961.5	212.5	2,048.1

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

	Private investment funds \$m	Hedge funds \$m	Fixed maturity securities ¹ \$m	Total \$m
As at 31 December 2020	96.1	82.0	–	178.1
Purchases	17.1	39.9	5.3	62.3
Sales	(2.8)	(23.0)	–	(25.8)
Net realised gains recognised in profit or loss	–	3.7	–	3.7
Net unrealised (losses) gains in profit or loss	(4.7)	0.3	(1.4)	(5.8)
As at 31 December 2021	105.7	102.9	3.9	212.5
Purchases	17.6	13.3	–	30.9
Sales	(7.6)	(10.5)	–	(18.1)
Net realised losses recognised in profit or loss	–	(1.1)	–	(1.1)
Net unrealised (losses) gains in profit or loss	(7.6)	(0.7)	(0.8)	(9.1)
As at 31 December 2022	108.1	103.9	3.1	215.1

1. Included within fixed maturity securities are central fund loans classified at Level (iii) within the fair value hierarchy.

12. Interests in structured entities

Consolidated Structured Entities

- The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT (see note 23).
- As at 31 December 2022, the company held \$2.5 million of private investment funds through Lancashire Blocker (Cayman) Limited a wholly owned subsidiary of LCL.

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.

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12. Interests in structured entities continued

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

As at 31 December 2022	Investments \$m	Interest in associate \$m	Total \$m
Fixed maturity securities			
• Asset backed securities	160.9	–	160.9
• U.S. government agency mortgage backed securities	41.0	–	41.0
• Non-agency mortgage backed securities	14.0	–	14.0
• Agency commercial mortgage backed securities	24.2	–	24.2
Total fixed maturity securities	240.1	–	240.1
Investment funds			
• Private investment funds	105.6	–	105.6
• Hedge funds	103.9	–	103.9
Total investment funds	209.5	–	209.5
Specialised investment vehicles			
• KHL (note 16)	–	57.2	57.2
Total	449.6	57.2	506.8

As at 31 December 2021	Investments \$m	Interest in associate \$m	Total \$m
Fixed maturity securities			
• Asset backed securities	104.1	–	104.1
• U.S. government agency mortgage backed securities	85.5	–	85.5
• Non-agency mortgage backed securities	33.2	–	33.2
• Agency commercial mortgage backed securities	0.1	–	0.1
• Non-agency commercial mortgage backed securities	20.1	–	20.1
Total fixed maturity securities	243.0	–	243.0
Investment funds			
• Private investment funds	105.7	–	105.7
• Hedge funds	102.9	–	102.9
Total investment funds	208.6	–	208.6
Specialised investment vehicles			
• KHL (note 16)	–	118.7	118.7
Total	451.6	118.7	570.3

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 151 to 160. 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 2022 and 31 December 2021. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss on maturity 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 2022, the Group has a commitment of \$50.0 million (31 December 2021 – \$100.0 million) in respect of one credit facility fund. The Group, via the fund, 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 fund as at 31 December 2022 is \$19.9 million (31 December 2021 – \$39.7 million), which currently remains unfunded. The maximum exposure to the credit facility fund is \$50.0 million and as at 31 December 2022 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 2020	952.8	(338.7)	614.1
Net incurred losses for:			
Prior years	(118.8)	32.3	(86.5)
Current year	786.4	(229.4)	557.0
Exchange adjustments	(17.2)	1.5	(15.7)
Incurred losses and loss adjustment expenses	650.4	(195.6)	454.8
Net paid losses for:			
Prior years	192.5	(106.7)	85.8
Current year	119.6	(8.8)	110.8
Paid losses and loss adjustment expenses	312.1	(115.5)	196.6
As at 31 December 2021	1,291.1	(418.8)	872.3
Net incurred losses for:			
Prior years	(166.0)	65.5	(100.5)
Current year	1,088.7	(411.8)	676.9
Other ¹	(20.3)	1.8	(18.5)
Incurred losses and loss adjustment expenses	902.4	(344.5)	557.9
Net paid losses for:			
Prior years	304.4	(81.7)	222.7
Current year	108.3	(89.5)	18.8
Paid losses and loss adjustment expenses	412.7	(171.2)	241.5
As at 31 December 2022	1,780.8	(592.1)	1,188.7

1. Other movements include primarily foreign exchange adjustments and the effect of prior year of accounts losses and loss adjustment expenses and reinsurance recoveries being reinsured to close into the 2020 year of account, to the extent where the Group's syndicate participation has changed between those years of account.

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 145. 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 \$356.2 million (31 December 2021 – \$258.2 million) increase in gross loss reserves and a \$237.7 million (31 December 2021 – \$174.5 million) increase in net loss reserves.

The breakdown of net losses and loss adjustment expenses between notified outstanding losses, ACR and IBNR is shown below:

	Losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
Outstanding losses	402.6	(86.9)	315.7
Additional case reserves	224.3	(31.8)	192.5
Losses incurred but not reported	664.2	(300.1)	364.1
As at 31 December 2021	1,291.1	(418.8)	872.3
Outstanding losses	545.2	(101.3)	443.9
Additional case reserves	165.8	(30.9)	134.9
Losses incurred but not reported	1,069.8	(459.9)	609.9
As at 31 December 2022	1,780.8	(592.1)	1,188.7

The Group's losses and loss expenses as at 31 December 2022 and 2021 had an estimated duration of approximately two years.

13. Losses and loss adjustment expenses continued

Claims development

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of LSL in 2013, the Group assumed additional loss reserves relating to 2001 and subsequent years.

Accident year	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total \$m
Gross Group losses												
Estimate of ultimate liability ¹												
At end of accident year	1,338.2	280.0	274.8	276.0	298.5	580.1	429.7	332.4	432.1	777.6	1,080.6	
One year later	1,626.1	259.8	226.7	214.6	310.7	517.1	462.0	328.7	392.6	717.0		
Two years later	1,597.6	224.0	206.0	196.2	274.4	511.3	431.1	294.8	351.5			
Three years later	1,587.9	224.4	196.5	189.6	235.0	493.1	413.1	283.5				
Four years later	1,579.5	222.1	193.4	184.1	232.3	473.1	385.7					
Five years later	1,574.2	218.4	192.4	182.6	223.5	444.7						
Six years later	1,527.4	213.7	190.1	181.5	223.4							
Seven years later	1,518.9	215.7	187.8	180.9								
Eight years later	1,519.6	218.3	186.4									
Nine years later	1,513.5	217.4										
Ten years later	1,507.1											
Current estimate of cumulative liability	1,507.1	217.4	186.4	180.9	223.4	444.7	385.7	283.5	351.5	717.0	1,080.6	5,578.2
Paid	(1,452.6)	(207.9)	(179.2)	(168.4)	(217.7)	(405.0)	(331.7)	(206.1)	(206.6)	(313.9)	(108.3)	(3,797.4)
Total Group gross liability	54.5	9.5	7.2	12.5	5.7	39.7	54.0	77.4	144.9	403.1	972.3	1,780.8

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2022.

Accident year	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total \$m
Reinsurance												
Estimate of ultimate recovery ¹												
At end of accident year	167.5	9.9	17.8	15.3	73.1	177.6	139.3	114.6	93.0	228.4	411.4	
One year later	327.5	8.9	14.1	12.2	98.5	185.0	189.9	115.0	90.4	198.8		
Two years later	321.3	8.8	13.1	12.6	96.7	179.7	181.9	97.1	79.0			
Three years later	330.8	8.0	11.5	13.0	76.5	181.2	172.3	99.6				
Four years later	330.9	8.0	11.9	13.0	73.9	178.6	160.1					
Five years later	332.4	8.0	9.6	13.0	73.7	165.6						
Six years later	328.1	7.4	9.6	13.4	73.1							
Seven years later	327.8	7.2	9.0	13.1								
Eight years later	324.8	7.3	8.8									
Nine years later	325.1	7.2										
Ten years later	323.1											
Current estimate of cumulative recovery	323.1	7.2	8.8	13.1	73.1	165.6	160.1	99.6	79.0	198.8	411.4	1,539.8
Paid	(311.2)	(7.2)	(8.7)	(12.9)	(72.7)	(158.0)	(135.6)	(54.2)	(48.1)	(49.6)	(89.5)	(947.7)
Total Group gross recovery	11.9	-	0.1	0.2	0.4	7.6	24.5	45.4	30.9	149.2	321.9	592.1

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2022.

Accident year	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total \$m
Net Group losses												
Estimate of ultimate liability ¹												
At end of accident year	1,170.7	270.1	257.0	260.7	225.4	402.5	290.4	217.8	339.1	549.2	669.2	
One year later	1,298.6	250.9	212.6	202.4	212.2	362.1	272.1	213.7	302.2	518.2		
Two years later	1,276.3	215.2	192.9	183.6	177.7	331.6	249.2	197.7	272.5			
Three years later	1,257.1	216.4	185.0	176.6	158.5	311.9	240.8	183.9				
Four years later	1,248.6	214.1	181.5	171.1	158.4	294.5	225.6					
Five years later	1,241.8	210.4	182.8	169.6	149.8	279.1						
Six years later	1,199.3	206.3	180.5	168.1	150.3							
Seven years later	1,191.1	208.5	178.8	167.8								
Eight years later	1,194.8	211.0	177.6									
Nine years later	1,188.4	210.2										
Ten years later	1,184.0											
Current estimate of cumulative liability	1,184.0	210.2	177.6	167.8	150.3	279.1	225.6	183.9	272.5	518.2	669.2	4,038.4
Paid	(1,141.4)	(200.7)	(170.5)	(155.5)	(145.0)	(247.0)	(196.1)	(151.9)	(158.5)	(264.3)	(18.8)	(2,849.7)
Total Group net liability	42.6	9.5	7.1	12.3	5.3	32.1	29.5	32.0	114.0	253.9	650.4	1,188.7

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2022

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	2022 \$m	2021 \$m
2017 accident year and prior	19.9	36.1
2018 accident year	13.6	7.1
2019 accident year	13.7	8.8
2020 accident year	27.5	34.5
2021 accident year	25.8	-
Total favourable development	100.5	86.5

The favourable development in 2022 was primarily due to general IBNR releases on the 2021 and 2020 accident years and across most lines of business due to a lack of reported claims. There was favourable development on natural catastrophe loss events from the 2019 and 2018 accident years as well as beneficial claims settlements on risk losses in the 2017 accident year.

In the prior year, the Group benefited from general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. The prior year also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property and casualty reinsurance segment, as well as some beneficial claims settlements from earlier accident years.

During 2022, we experienced net losses from catastrophe, weather and large loss events of \$308.8 million, excluding the impacts of reinstatement premiums. Within this, catastrophe and weather related losses for the year ended 31 December 2022, excluding the impacts of reinstatement premiums, were \$218.4 million. This includes \$163.3 million from hurricane Ian. Large claims for the year amounted to \$90.4 million. This includes \$65.8 million related to the ongoing conflict in Ukraine and incorporates a management margin for any potential indirect claims related to the conflict across a number of classes of business. Given the nature of the Ukraine conflict, the ultimate claims relating to the event are subject to a high level of uncertainty. In addition, the Group has \$24.6 million from an accumulation of four large losses in the energy upstream and power generation lines of business.

In the prior year, the Group was impacted by winter storm Uri, the European floods and hurricane Ida. Our net losses in relation to these combined natural catastrophe events, excluding the impacts of reinstatement premiums, were \$213.3 million. Large risk losses for the year amounted to \$68.8 million, and were principally related to the unrest in South Africa in July 2021.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

There were no other individually significant net loss events for the years ended 31 December 2022 and 2021.

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14. Insurance, reinsurance and other receivables

All receivables are considered current other than \$88.9 million (31 December 2021 – \$29.2 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	2022 \$m	2021 \$m
Equity based compensation	(5.0)	(4.2)
Syndicate underwriting profits	(1.3)	(0.7)
Syndicate participation rights	18.8	18.8
Other temporary differences	(2.9)	(1.7)
Tax losses carried forward	(0.3)	–
Net deferred tax liability	9.3	12.2

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2023 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the years ended 31 December 2022 and 2021, the Group had no uncertain tax positions.

During 2021, changes to the UK main rate of corporation tax were enacted under the Finance Act 2021, increasing the tax rate to 25% from 19%, effective 1 April 2023. As at 31 December 2022, this has resulted in the recognition of deferred tax assets and liabilities at 25% on items where the tax reversal is expected to take effect on or after 1 April 2023, with a related tax charge of \$nil (31 December 2021 – charge of \$3.4 million).

The table below reconciles the movements within the net deferred tax liability.

As at 31 December	2022 \$m	2021 \$m
Opening liability	12.2	10.9
Deferred tax credit for the period	(1.7)	(2.5)
Adjustment in respect of prior period deferred tax	1.1	0.8
Tax rate change adjustment	–	3.4
Deferred tax in equity	(0.1)	0.5
Deferred tax in other comprehensive income	(2.2)	(0.9)
Closing liability	9.3	12.2

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

16. Investment in associate

The Group holds an interest in the preference shares of each segregated account of KHL. KHL is a company incorporated in Bermuda and its operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2022, the carrying value of the Group's investment in KHL was \$57.2 million (31 December 2021 – \$118.7 million). The Group's share of comprehensive loss for KHL for the period was a loss of \$6.5 million (2021 – \$3.9 million loss). Key financial information for KHL is as follows:

	2022 \$m	2021 \$m
Assets	532.7	887.6
Liabilities	302.0	273.6
Shareholders' equity	230.7	613.9
Gross premium earned	40.5	137.3
Comprehensive loss	(28.4)	(57.9)

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 17, Insurance contracts is implemented, adjustments will be made to associate accounting policies, where necessary, in order to be consistent with the Group's insurance accounting policies. 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 financial assets disclosed in the table above.

Refer to note 23 for details of transactions between the Group and its associate.

17. Intangible assets

	Syndicate participation rights \$m	Goodwill \$m	Internally generated intangible assets \$m	Total \$m
Net book value as at 31 December 2020	83.3	71.2	–	154.5
Additions	0.2	–	3.2	3.4
Net book value as at 31 December 2021	83.5	71.2	3.2	157.9
Additions	4.2	–	10.3	14.5
Net book value as at 31 December 2022	87.7	71.2	13.5	172.4

Syndicate participation rights and goodwill

In the year ended 31 December 2022, the Group's corporate member acquired additional participation rights in Syndicate 2010, which took the Group's share on the 2023 year of account to 69.3% (2021 – 62.3%).

Indefinite life intangible assets are tested annually for impairment. For the purpose of impairment testing, the syndicate participation rights and goodwill have been allocated to the LSL's CGU.

The recoverable amount of the LSL's CGU is determined based on its value in use. Value in use is calculated using projected cash flows of the LSL's CGU. These are approved by management and cover a three-year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, business plans approved by Lloyd's, expected future market conditions, premium growth rates, outwards reinsurance expenditure, projected loss ratios, investment returns, the ongoing conflict in Ukraine and climate change. To mitigate the impact of climate risk the Group accepts insurance risk for periods primarily of one year which provides the Group the ability to re-evaluate the portfolio on an annual basis and therefore reprice physical risk and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events.

A pre-tax discount rate of 9.9% (2021 – 8.6%) has been used to discount the projected cash flows, which reflects a combination of factors including the Group's expected weighted average cost of equity and cost of borrowing. This has been calculated using independent measures of the risk-free rate of return and is indicative of the Group's risk profile relative to the market. The higher pre-tax discount rate is primarily due to an overall increase in the cost of equity included in the Group's weighted average cost of capital calculation. This was driven by an increase in both the beta value and the risk free rate input assumptions. The growth rate used to extrapolate the cash flows is 2.5% (2021 – 3.0%) based on historical growth rates and management's best estimate of future growth rates taking into account current economic market conditions.

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 (14% reduction in headroom), the growth rate has been flexed to 100 basis points below the central assumption (13% reduction in headroom) and the pre-tax projected cash flows have been flexed 500 basis points below the central assumption (6% reduction in headroom). Within these ranges, the recoverable amount remains supportable.

No impairment loss has been recognised for the years ending 31 December 2022 and 2021.

Internally generated intangible assets

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing a cloud-based target operating model. As at 31 December 2022, the internally generated intangible assets are not yet in use. During the year ending 31 December 2022 \$7.5 million (2021 - \$5.5 million) of project costs have been expensed and no impairment loss has been recognised.

18. Long-term debt and financing arrangements

Long-term debt

During the year ended 31 December 2021, the Company issued \$450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with \$400.0 million issued on 18 March 2021 and \$50.0 million issued on 31 March 2021. Interest is payable semi-annually in arrears on 18 March and 18 September of each year, from 18 September 2021. The fixed interest rate will reset on 18 September 2031, and each reset date thereafter, at a rate per annum equal to the prevailing five year treasury rate plus a credit spread of 4.08% and a 100 basis point step up.

The carrying value of the Company's issued \$450.0 million subordinated notes are shown below:

As at 31 December	2022 \$m	2021 \$m
Junior subordinated notes		
\$450.0 million 5.625% fixed-rate reset notes issued March 2021, due September 2041	446.1	445.7
Carrying value	446.1	445.7

The fair value of the long-term debt is \$352.0 million (31 December 2021 – \$482.1 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy and is based on observable data. The fair value of the long-term debt has decreased from 2021, however, given the duration of the long-term debt combined with the increase in treasury rates and the widening of spreads in that credit range, the decrease is within expectations.

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18. Long-term debt and financing arrangements continued

The interest accrued on the long-term debt was \$7.2 million (31 December 2021 – \$7.2 million) at the balance sheet date and is included in other payables. Refer to note 8 for details of the interest expense for the year included in financing costs.

The Company has the option to redeem some or all of the junior subordinated notes, in whole or in part, prior to the maturity date. There are no negative or financial covenants attached to the issued junior subordinated notes.

The table below outlines the cash and non-cash changes from our long-term debt restructuring arising from financing activities during the year ended 31 December 2021. During the year ended 31 December 2022, there were no long-term debt re-financing activities.

	2021 \$m
As at 31 December 2020	327.5
Fair value, net of transaction costs on issuance of \$450.0 million reset junior subordinated notes	445.4
Early redemption costs on senior and subordinated loan notes	12.8
Amortisation of \$450.0 million reset junior subordinated notes	(0.4)
Redemption of senior and subordinated loan notes	(339.6)
As at 31 December 2021	445.7

Letters of credit

As both LUK and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral.

LHL and LUK have a \$250.0 million syndicated collateralised credit facility with a \$50.0 million loan sub-limit that has been in place since 20 March 2020 and will expire on 20 March 2025. There was no outstanding debt under this facility as at 31 December 2022 and 2021.

The facility is available for the issue of LOCs to ceding companies. The facility is also available for LUK to issue LOCs to LUK to collateralise certain insurance balances.

The following LOCs have been issued:

	2022 \$m	2021 \$m
As at 31 December		
Issued to third parties	27.3	27.1

These LOCs are required to be fully collateralised.

The terms of the \$250.0 million syndicated collateralised credit facility include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation;
- a maximum subordinated unsecured indebtedness of \$350.0 million; and
- a maximum aggregated indebtedness (i) under any syndicate arrangement entered into by Lancashire Syndicates in connection with the underwriting business carried on by all such members of the syndicates and (ii) incurred by CCL 1998, LHL or LUK in the ordinary course of business in connection with coming into line requirements, of \$200.0 million.

On 3 March 2021 and 20 October 2022, LHL and LUK obtained waivers from their lenders in relation to the limits on debt incurrence under the \$250.0 million syndicated collateralised credit facility, which allowed (i) LHL to issue its \$450.0 million 5.625% fixed-rate reset junior subordinated notes due in 2041, and (ii) LUK to increase its uncollateralised facility to \$181.5 million and Syndicate 2010 to renew its \$60.0 million LOC catastrophe facility, respectively.

An uncollateralised facility has been in place since 30 July 2019, for an original amount of \$31.0 million. The facility was most recently increased to \$181.5 million on 25 October 2022 (from \$115.5 million effective 29 October 2021). It is available for utilisation by LUK and guaranteed by LHL for FAL purposes. As at 31 December 2022, \$181.5 million of LOC were issued under this facility and are due to expire on 28 October 2026.

The terms of the \$181.5 million uncollateralised facility includes standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation; and
- maintenance of a minimum net worth requirement.

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

Syndicate bank facilities

As at 31 December 2022 and 2021, Syndicate 2010 had in place a \$60.0 million LOC catastrophe facility. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. A separate uncommitted overdraft facility of \$20.0 million is also available to Syndicate 2010.

There were no balances outstanding under the Syndicate LOC catastrophe facility as at 31 December 2022 or 2021. The Syndicate LOC catastrophe facility is not available to the Group other than through its participation on Syndicate 2010.

Trusts and restricted balances

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL established a MBRT to collateralise certain reinsurance liabilities associated with U.S. domiciled clients. As at, and for the years ended, 31 December 2022 and 2021, LICL had been granted accredited or trustee 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 2022 and 2021, the Group was in compliance with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacities of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See page 163 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 163 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:

	2022			2021		
	Cash and cash equivalents \$m	Fixed maturity securities \$m	Total \$m	Cash and cash equivalents \$m	Fixed maturity securities \$m	Total \$m
As at 31 December						
FAL	2.5	398.4	400.9	108.1	227.3	335.4
MBRT accounts	3.1	251.9	255.0	0.3	259.9	260.2
Syndicate accounts	127.4	240.2	367.6	90.9	164.3	255.2
In trust accounts for policyholders	69.1	24.3	93.4	16.2	19.3	35.5
In favour of LOCs	2.3	30.8	33.1	2.1	32.3	34.4
Loan to Lloyd's Central Fund	–	3.1	3.1	–	3.9	3.9
In favour of derivative contracts	–	–	–	1.4	1.9	3.3
Total	204.4	948.7	1,153.1	219.0	708.9	927.9

19. Share capital and other reserves

Authorised common shares of \$0.50 each	Number	\$m
As at 31 December 2022 and 2021	3,000,000,000	1,500.0

Allocated, called up and fully paid	Number	\$m
As at 31 December 2022 and 2021	244,010,007	122.0

During the year ended 31 December 2022 and 31 December 2021 no new shares were issued by the Group.

Own shares	Number held in treasury	\$m	Number held in Trust	\$m	Total number of own shares	\$m
As at 31 December 2020	–	–	2,198,099	21.2	2,198,099	21.2
Shares distributed	–	–	(1,027,201)	(9.9)	(1,027,201)	(9.9)
Shares repurchased	1,000,000	6.9	–	–	1,000,000	6.9
Shares donated to trust	(1,000,000)	(6.9)	1,000,000	6.8	–	(0.1)
As at 31 December 2021	–	–	2,170,898	18.1	2,170,898	18.1
Shares distributed	–	–	(1,084,053)	(8.1)	(1,084,053)	(8.1)
Shares repurchased	4,589,592	23.3	–	–	4,589,592	23.3
Shares donated to trust	(4,589,592)	(23.3)	4,589,592	24.0	–	0.7
As at 31 December 2022	–	–	5,676,437	34.0	5,676,437	34.0

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2022 was 244,010,007 (31 December 2021 – 244,010,007).

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19. Share capital and other reserves continued

Share repurchases

At the AGM held on 27 April 2022, LHL's shareholders approved a renewal of the Company's Repurchase Programme authorising the repurchase of a maximum of 24,401,000 common shares, with such authority to expire on the conclusion of the 2023 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed. Under the Repurchase Programme, the Board authorised management to repurchase up to:

- 3,000,000 common shares during the period commencing 16 May 2022 and ending no later than 27 July 2022.
- 3,000,000 common shares during the period commencing 8 August 2022 and ending no later than 30 September 2022.
- 3,000,000 common shares during the period commencing 14 November 2022 and ending no later than 30 December 2022.

During the year ended 31 December 2022, 4,589,592 common shares were repurchased by the Company under its Repurchase Programme, at a weighted average share price of £4.23. As at 31 December 2022, the Company's current Repurchase Programme has 19,811,408 common shares remaining. During the year ended 31 December 2021, 1,000,000 common shares were repurchased by the Company under its Repurchase Programme, at a weighted average share price of £5.11.

Dividends

The Board of Directors has authorised the following dividends:

Type	Per share amount	Record date	Payment date	\$m
Final	\$0.10	7 May 2021	4 June 2021	24.3
Interim	\$0.05	6 Aug 2021	3 Sep 2021	12.1
Final	\$0.10	13 May 2022	10 June 2022	24.3
Interim	\$0.05	5 Aug 2022	2 Sep 2022	11.9

Other reserves

The Group's other reserves of \$1,221.9 million (31 December 2021 – \$1,221.6 million) comprises contributed surplus and an equity based compensation reserve. The equity based compensation reserve comprises \$33.3 million (31 December 2021 – \$34.3 million) of this balance and relates to the Group's equity compensation plans (see note 7).

20. Leases

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

Right-of-use assets

The Group had the following right-of-use assets in relation to leases entered into.

	Property \$m	Equipment \$m	Total \$m
As at 31 December 2020	15.8	0.3	16.1
Depreciation charge	(2.6)	(0.1)	(2.7)
As at 31 December 2021	13.2	0.2	13.4
Additions	6.3	0.1	6.4
Modification	3.2	–	3.2
Depreciation charge	(2.6)	(0.1)	(2.7)
As at 31 December 2022	20.1	0.2	20.3

During the year ended 31 December 2022, the Group entered into two new lease agreements for additional office space in London and Australia and also modified the lease term on its existing London office lease agreement.

Lease liabilities

	2022 \$m	2021 \$m
As at 31 December		
Due in less than one year	3.6	3.7
Due between one and five years	13.4	11.5
Due in more than five years	12.3	6.1
Total undiscounted lease liabilities	29.3	21.3
Total discounted lease liabilities	23.3	17.9
Current	2.2	2.8
Non-current	21.1	15.1

The Group does not face a significant liquidity risk with regards to its lease liabilities.

Amounts recognised in profit or loss

For the year ended 31 December	2022 \$m	2021 \$m
Depreciation of right-of-use assets	2.7	2.7
Interest expense on lease liabilities	0.8	1.1
Expenses relating to short-term leases, low value leases and variable leases	0.9	1.0
Total	4.4	4.8

For the year ended 31 December 2022, the total lease payments included in the consolidated cash flow statement amounted to \$3.6 million (31 December 2021 – \$4.0 million).

21. Commitments and contingencies

Credit facility fund

As at 31 December 2022, the Group has a commitment of \$50.0 million (31 December 2021 – \$100.0 million) relating to one credit facility fund (refer to note 12).

Private investment funds

The table below shows the dates on which the Group committed to invest in four different private investment funds and the amount of the total commitment that remains undrawn as at 31 December 2022.

Date of commitment to invest in private investment fund	Total commitment \$m	Undrawn commitment \$m
18 October 2022	10.0	7.5
28 July 2021	34.0	18.7
9 December 2020	25.0	4.7
5 November 2019	25.0	1.0
Total	94.0	31.9

Legal proceedings and regulations

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

22. Earnings per share

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

For the year ended 31 December	2022 \$m	2021 \$m
Loss for the year attributable to equity shareholders of LHL	(3.3)	(62.2)

	2022 Number of shares	2021 Number of shares
Basic weighted average number of shares	240,328,201	242,447,761
Dilutive effect of RSS	3,017,193	3,151,016
Diluted weighted average number of shares	243,345,394	245,598,777

Loss per share	2022	2021
Basic	(\$0.01)	(\$0.26)
Diluted ¹	(\$0.01)	(\$0.26)

1. Diluted EPS excludes dilutive effect of RSS when in a loss making position.

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.

Financial Statements

Notes to the accounts continued

23. Related party disclosures

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries¹		
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998 ²	Lloyd's corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CUL	Non trading	United Kingdom
LAPL	Non trading	Australia
LBCL	Holding company	Cayman Islands
LCM	Insurance agent services	Bermuda
LCMMSL	Support services	United Kingdom
LICL	General insurance business	Bermuda
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LHAPL	Holding company	Australia
LMSCI	Support services	Canada
LSL	Lloyd's managing agent	United Kingdom
LUAPL	Lloyd's service company	Australia
LUK	General insurance business	United Kingdom
Associate		
KHL ³	Holding company	Bermuda
Other controlled entities		
EBT	Trust	Jersey

1. Unless otherwise stated, the Group owns 100% of the ordinary share capital and voting rights in its subsidiaries listed.

2. 62.3% participation on the 2022 year of account and 69.3% participation on the 2023 year of account for Syndicate 2010.

3. The Group has an 16.7% holding through its interest in the preference shares of each segregated account of KHL

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 JTC PLC, 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 2022, the Group had made advances of \$0.5 million (31 December 2021 – \$1.0 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2022, LHL donated 4,589,592 common shares (repurchased under its Repurchase Programmes) to the EBT for a total market value of \$23.3 million at the prevailing rate. During the year ended 31 December 2021, LHL donated 1,000,000 common shares (repurchased under its Repurchase Programme) to the EBT for a total market value of \$6.8 million at the prevailing rate. LHL did not issue any common shares to the EBT during either the year ended 31 December 2022 and 31 December 2021.

LICL holds \$203.8 million (31 December 2021 – \$211.8 million) of cash and cash equivalents, fixed maturity securities and accrued interest in trust for the benefit of LUK relating to intra-group reinsurance agreements. In addition, LICL is required to provide 100% of the required FAL to support the underwriting activities of Syndicate 2010 and 3010 and in relation to intra-group reinsurance agreements. LICL holds \$400.9 million (31 December 2021 – \$335.4 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).

In September 2022, the senior management team sold their 6.5% shares in LCM to LHL for an amount of \$11 million. LHL now owns 100% of the ordinary share capital of LCM (31 December 2021 – 93.5%). During the year ended 31 December 2022, dividends of \$nil (31 December 2021 – \$0.5 million) were paid to minority interest holders in LCM.

In September 2022, Mr Maloney, a Director of LHL, sold his 1.2% share in LCM to LHL for an amount of \$0.2 million. During the year ended 31 December 2021, Mr Maloney held a 1.2% share 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 2023 year of account (2022 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	2022 \$m	2021 \$m
Short-term compensation	2.7	2.0
Equity based compensation	0.8	1.8
Directors' fees and expenses	2.3	2.4
Total	5.8	6.2

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 2022, the Group recognised \$4.0 million (2021 – \$15.8 million) of service fees and profit commissions in other income (refer to note 5) in relation to this agreement.

During 2022, the Group committed an additional \$nil (31 December 2021 – \$60.8 million) of capital to KHL. During 2022, KHL returned \$55.0 million (31 December 2021 – \$65.4 million) of capital to the Group.

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

During 2021, the Group entered into reinsurance agreements with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated balance sheet	2022 \$m	2021 \$m
Unearned premiums on premiums ceded	–	3.1
Reinsurance recoveries	21.0	25.0
Amounts payable to reinsurers	–	2.8
Deferred acquisition cost ceded	–	0.4

23. Related party disclosures continued

Consolidated statement of comprehensive income	2022 \$m	2021 \$m
Outwards reinsurance premiums	—	(13.9)
Change in unearned premiums on premiums ceded	(3.1)	(0.3)
Insurance losses and loss adjustment expenses recoverable	(4.0)	25.0
Insurance acquisition expenses ceded	0.4	0.9

24. Subsequent events**Dividend**

On 9 February 2023, 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 26 April 2023, which will result in an aggregate payment of approximately \$23.8 million. On the basis that the final dividend is so approved by the shareholders at the AGM, then the dividend will be paid on 2 June 2023 to shareholders of record on 5 May 2023. 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.

Shareholder Information

Annual General Meeting

The Company's AGM is scheduled for 26 April 2023 and is to be held at the Company's registered and head office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Notice of this year's AGM and forms of proxy and direction shall be delivered to shareholders by electronic means. If you have any queries regarding the notice or AGM voting requirements please contact Chris Head, Company Secretary, using Tel: +44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Further information about the Group including this Annual Report and Accounts, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements containing the words 'believes', 'anticipates', 'aims', 'plans', 'projects', 'forecasts', 'guidance', 'intends', 'expects', 'estimates', 'predicts', 'may', 'can', 'likely', 'will', 'seeks', 'should' or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: the impact of the ongoing conflict in Ukraine, including any escalation or expansion thereof, on the Group's clients, reserves, the continued uncertainty of the situation in Russia, including issues relating to coverage and the impact of sanctions, the securities in our investment portfolio and on global financial markets generally, as well as any governmental or regulatory change arising therefrom; and a continuation in financial market volatility and other adverse market conditions generally; the actual development of losses and expenses impacting estimates for claims which arise as a result of the hurricane Ian, which occurred in the third quarter of 2022, COVID-19 pandemic, the Kentucky tornadoes, hurricane Ida and the European storms which occurred in the second half of 2021, winter storm Uri which occurred during the first quarter of 2021, hurricanes Laura and Sally, the Midwest Derecho storm and the wildfires in California which occurred in 2020, the 2020 and 2021 large loss events across the Group's specialty business lines, typhoon Hagibis in the fourth quarter of 2019, hurricane Dorian and typhoon Faxai in the third quarter of 2019,

the Californian wildfires and hurricane Michael which occurred in the fourth quarter of 2018, hurricane Florence, the typhoons and marine losses that occurred in the third quarter of 2018, hurricanes Harvey, Irma and Maria and the earthquakes in Mexico, that occurred in the third quarter of 2017 and the wildfires which impacted parts of California during 2017; the impact of complex and unique causation and coverage issues associated with attribution of losses to wind or flood damage or other perils such as fire or business interruption relating to such events; potential uncertainties relating to reinsurance recoveries, reinstatement premiums and other factors inherent in loss estimations; the Group's ability to integrate its business and personnel; the successful retention and motivation of the Group's key management; the increased regulatory burden facing the Group; the number and type of insurance and reinsurance contracts that the Group writes or may write; the Group's ability to successfully implement its business strategy during 'soft' as well as 'hard' markets; the premium rates which may be available at the time of such renewals within its targeted business lines; potentially unusual loss frequency; the impact that the Group's future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than the Group's underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; increased competition from existing alternative capital providers and insurance-linked funds and collateralised special purpose insurers, and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in the Group's operating subsidiaries' ratings with A.M. Best, S&P Global Ratings, Moody's or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed maturity investments; the impact of swings in market interest rates, currency exchange rates and securities prices; changes by central banks regarding the level of interest rates; the impact of inflation or deflation in relevant economies in which the Group operates; the effect, timing and other uncertainties surrounding future business combinations within the insurance and reinsurance industries; the impact of terrorist activity in the countries in which the Group writes risks; a rating downgrade of, or a market decline in, securities in its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its Bermudian subsidiaries becoming subject to income taxes in the United States or in the United Kingdom; the impact of the change in tax residence on stakeholders of the Group; and the impact of the expiration of the transition period on 31 December 2020 following the United Kingdom's withdrawal from the European Union on the Group's business, regulatory relationships, underwriting platforms or the industry generally, the focus and scrutiny on ESG-related matters regarding the insurance industry from key stakeholders of the Group, and any adverse asset, credit, financing or debt or capital market conditions generally which may affect the ability of the Group to manage its liquidity.

Shareholder Information *continued*

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.

Glossary

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

A.M. Best Company (A.M. Best)

A.M. Best is a full-service credit rating organisation dedicated to serving the financial services industry, focusing on the insurance sector

APMs

Alternative performance measures

BCP

Business Continuity Plan

BMA

Bermuda Monetary Authority

Board of Directors; Board

Unless otherwise stated refers to the LHL Board of Directors

BREEAM

Building Research Establishment Environmental Assessment Method

BSCR

Bermuda Solvency Capital Requirement

BSX

Bermuda Stock Exchange

CCHL

Cathedral Capital Holdings Limited

CCL

Cathedral Capital Limited

CCL 1998

Cathedral Capital (1998) Limited

CCL 1999

Cathedral Capital (1999) Limited

CCWG

Climate Change Working Group

CDP

Carbon Disclosure Project

Ceded

To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEND

Confiscation, Expropriation, Nationalisation and Deprivation

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CGU

Cash generating unit

Change in FCBVS

The IRR of the change in FCBVS in the period plus accrued dividends

CIO

Chief Investment Officer

The Code

UK Corporate Governance Code published by the UK FRC (www.frc.org.uk)

Combined ratio

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

Compound Annual Change in FCBVS adjusted for dividends

The calculation is the internal rate of return on the movement in Fully Converted Book Value since inception on an annualised basis plus dividends accrued

Glossary *continued*

Consolidated financial statements

Includes the independent auditor's report, consolidated primary statements, accounting policies, risk disclosures and related notes

Consolidated primary statements

Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

COO

Chief Operating Officer

CRO

Chief Risk Officer

CUL

Cathedral Underwriting Limited

CUO

Chief Underwriting Officer

D&F

Direct and facultative (re)insurance

DE&I

Diversity, equity and inclusion

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 into 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

ERM

Enterprise Risk Management

ESG

Environmental, Social and Governance

EU

European Union

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 (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF₃) and sulphur hexafluoride (SF₆)

The Group or the Lancashire Group

LHL and its subsidiaries

GMM

General Measurement Model

GSE

Government-Sponsored Enterprise

GWP

Gross premiums written. Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

ICM

International Care Ministries

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)

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

Glossary continued

KPI	Lloyd's
Key performance indicator	The Society of Lloyd's
KRI	LMSC
Key risk indicator	Lancashire Management Services (Canada) Limited
KRL (Kinesis Re)	LOC
Kinesis Reinsurance I Limited	Letter of credit
Lancashire Foundation or Foundation	Losses
The Lancashire Foundation is a charity registered in England and Wales	Demand by an insured for indemnity under an insurance contract
Lancashire Insurance Companies	LSE
LICL and LUK	London Stock Exchange
LAPL	LSL or Lancashire Syndicates
Lancashire Australia Pty Ltd	Lancashire Syndicates Limited. The managing agent of the syndicates
LBCL	LUAPL
Lancashire Blocker (Cayman) Limited	Lancashire Underwriting Australia Pty Ltd
LCM	LUK or Lancashire UK
Lancashire Capital Management Limited.	Lancashire Insurance Company (UK) Limited
LCMMSL	Managed cash
LCM Marketing Services Limited. Formerly KCM Marketing Services Limited	Managed cash includes both cash managed by external investment managers and non-operating cash managed internally
LHAPL	MBRT
Lancashire Holdings Australia Pty Limited	Multi-beneficiary reinsurance trust
LHL (The Company)	Moody's Investors Service (Moody's)
Lancashire Holdings Limited	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
LICL	MSCI
Lancashire Insurance Company Limited	A provider of tools and services for the global investment community
LIHL	Nameco
Lancashire Insurance Holdings (UK) Limited	Nameco (No. 801) Ltd
LJMSL	NAV
Lancashire Insurance Marketing Services Limited	Net asset value
LISL	Net acquisition cost ratio
Lancashire Insurance Services Limited	Ratio, in per cent, of net insurance acquisition expenses to net premiums earned
Listing Rules	
The listing rules made by the FCA under part VI of FSMA (as amended from time to time)	

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

PAA

Premium Allocation Approach

PIPA

Personal Information Protection Act

PMI

Private Mortgage Insurance

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

RDS

Realistic Disaster Scenarios

Renewal Price Index (RPI)

The RPI is an internal methodology that management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI written in the respective segments is calculated on a per-contract basis

and reflects management's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The RPI does not include new business, to offer a consistent basis for analysis. The calculation involves a degree of judgement in relation to comparability of contracts and assessment noted above. To enhance the RPI methodology, management may revise the methodology assumptions underlying the RPI, so that the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in the portfolio of contracts. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates. RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in the corresponding year.

Retrocession

The insurance of a reinsurance account

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

Risk Free Rate of Return (RFRoR)

Being the 13-week U.S. Treasury bill rate, unless otherwise stated

RMF

Risk Management Framework

RMS

Risk Management Solutions

RRC

Risk and Return Committee

RSC

Reinsurance Security Committee

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as a benchmark for assessing the financial strength of insurance-related organisations

SCR

Solvency Capital Requirement

SECR

Streamlined Energy and Carbon Reporting

SGT

St Giles Trust

Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL. The Group provides capital to support 69.2% of the stamp for the 2023 underwriting year

Glossary *continued*

Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL. The Group provides capital to support 100.0% of the stamp for the 2023 underwriting year

TCFD

Task Force on Climate-related Financial Disclosures

The syndicates

Syndicates 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

ULAE

Unallocated loss adjustment expense

UMCC

Underwriting Marketing Conference Call

Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

UNEP FI

The United Nations Environment Programme Finance Initiative

UNL

Ultimate net loss

UNPRI

UN-supported Principles for Responsible Investment

uSCR

Ultimate solvency capital requirement

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

U.S.T

U.S. Treasury Bills

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

Alternative Performance Measures ('APMs')

As is customary in the insurance industry, the Group utilises certain non-GAAP measures in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. Management believes that the APMs included in the Annual Report and Accounts are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly labelled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

In compliance with the Guidelines on APMs of the European Securities and Markets Authority and as suggested by the FRC, as applied by the FCA, information on APMs which the Group uses is described below. This information has not been audited.

All amounts, excluding share data, percentages or where otherwise stated, are in millions of U.S. dollars.

Net loss ratio: Ratio, in per cent, of net insurance losses to net premiums earned. This ratio gives an indication of the amount of claims expected to be paid out per \$1.00 of net premium earned in the financial year. The net loss ratio may also be presented with net insurance losses absent catastrophe and other large losses.

	31 December 2022	31 December 2021
Net insurance losses	576.4	470.5
Divided by net premiums earned	988.4	696.5
Net loss ratio	58.3%	67.6%

Net acquisition cost ratio: Ratio, in per cent, of net insurance acquisition expenses to net premiums earned. This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per \$1.00 of net premium earned in the financial year.

	31 December 2022	31 December 2021
Net acquisition expenses	261.2	157.0
Divided by net premiums earned	988.4	696.5
Net acquisition cost ratio	26.4%	22.5%

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 2022	31 December 2021
Other operating expenses	128.7	119.6
Divided by net premiums earned	988.4	696.5
Net expense ratio	13.0%	17.2%

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 2022	31 December 2021
Net loss ratio	58.3%	67.6%
Net acquisition cost ratio	26.4%	22.5%
Net expense ratio	13.0%	17.2%
Combined ratio	97.7%	107.3%

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 2022	31 December 2021
Current accident year ultimate liability	676.9	557.0
Divided by net premiums earned*	968.6	687.9
Accident year loss ratio	69.9%	81.0%

* 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 2022	31 December 2021
Shareholders' equity attributable to the Group	1,267,882,107	1,412,308,553
Common voting shares outstanding*	238,333,570	241,839,109
Shares relating to dilutive restricted stock	3,700,547	2,805,365
Fully converted book value denominator	242,034,117	244,644,474
Fully converted book value per share	\$5.24	\$5.77

* Common voting shares outstanding comprise issued share capital less amounts held in trust (see note 19).

Alternative Performance Measures *continued*

Change in FCBVS (KPI): The internal rate of return of the Change in FCBVS in the period plus accrued dividends. Sometimes referred to as ROE. The Group's aim is to maximise risk-adjusted returns for shareholders across the cycle through a purposeful and sustainable business culture.

	31 December 2022	31 December 2021
Opening FCBVS	(\$5.77)	(\$6.28)
Q1 dividend per share	–	–
Q2 dividend per share	\$0.10	\$0.10
Q3 dividend per share	\$0.05	\$0.05
Q4 dividend per share + closing		
FCBVS	\$5.24	\$5.77
Change in FCBVS*	(6.7%)	(5.8%)

* Calculated using the internal rate of return.

Total investment return (KPI): Total investment return, in percentage terms, is calculated by dividing the total investment return excluding foreign exchange by the investment portfolio net asset value, including managed cash on a daily basis. These daily returns are then annualised through geometric linking of daily returns. The return can be approximated by dividing the total investment return, excluding foreign exchange, by the average portfolio net asset value, including managed cash. The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

	31 December 2022	31 December 2021
Total investment return	(76.7)	1.3
Average invested assets*	2,387.0	2,167.5
Approximate total investment return	(3.2%)	0.1%
Reported total investment return	(3.5%)	0.1%

* 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 2022	31 December 2021
Opening share price	(\$7.17)	(\$9.88)
Q1 dividend per share	–	–
Q2 dividend per share	\$0.10	\$0.10
Q3 dividend per share	\$0.05	\$0.05
Q4 dividend per share + closing		
share price	\$7.86	\$7.17
Total shareholder return	11.7%	(25.8%)

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 2022	31 December 2021
Capital returned	59.5	43.3
Comprehensive income attributable to the Group	(92.6)	(92.9)
Comprehensive income returned to shareholders	n/a*	n/a*

* The % comprehensive income returned to shareholders is n/a when reporting a comprehensive loss for the period.

Gross premiums written under management (KPI): The gross premiums written under management equals the total of the Group's consolidated gross premiums written plus the external Names' portion of the gross premiums written in Syndicate 2010 plus the gross premiums written in LCM on behalf of KRL. The Group aims to operate nimbly through the cycle. We will grow in existing and new classes where favourable and improving market conditions exist, whilst monitoring and managing our risk exposures and not seek top-line growth for the sake of it in markets where we do not believe the right opportunities exist.

	31 December 2022	31 December 2021
Gross premiums written by the Group	1,652.3	1,225.2
LSL Syndicate 2010 – external Names' portion of gross premiums written (unconsolidated)	160.0	142.3
LCM gross premiums written (unconsolidated)	38.4	135.9
Total gross premiums written under management	1,850.7	1,503.4

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