

Lancashire Holdings Limited

("we/our", Lancashire" or the "Company")

26 October 2021
Hamilton, Bermuda

Lancashire post AGM Remuneration Consultation Update

This update to our shareholders has been prepared by Simon Fraser, the Chair of Lancashire's Remuneration Committee to report on the committee's work following the recent consultation exercise with shareholders. The update also meets the Company's obligations under Provision 4 of the Financial Reporting Council's UK Corporate Governance Code.

All resolutions were passed at Lancashire's 2021 AGM held on 28 April 2021. Resolution 2, being the resolution to approve the Annual Report on Remuneration, was passed with slightly over 67% support. The vote of over 30% against the resolution was a disappointing outcome. In this report we summarise those actions which we have taken to consult with shareholders and other stakeholders to understand the reasons behind the result, the key concerns and the related actions planned by the Company.

As the Chair of the Remuneration Committee, I wrote to most of the Company's top 30 shareholders following the 2021 AGM to ensure that the reasons for the level of support had been fully understood and that when the Remuneration Committee considers implementing its remuneration policy in the future it has a full understanding of the views of Lancashire's shareholders. This process also followed a period of shareholder consultation which we had conducted prior to the AGM. Over this period I held meetings with, and received feedback from, a number of Lancashire's principal shareholders. The Company also engaged with a number of the principal proxy voting agencies before and after the AGM.

On behalf of the Company I would like to thank all those who took the time to participate in both engagements.

It was clear from the consultation that the main reason for the lack of support at the AGM was the impact of the Company's June 2020 equity placing on the 2020 annual bonus targets which were aligned to growth in Fully Converted Book Value Per Share ("FCBVS"). The Remuneration Committee acknowledges that in instances where remuneration outcomes for executive directors are enhanced by the capital actions of the business it is appropriate for the Remuneration Committee and Board to consider whether such outcomes are warranted and aligned with the implementation of strategy and the interests of shareholders. I am satisfied that both the Remuneration Committee and the Board gave such considerations to the 2020 remuneration outcomes. The Remuneration Committee and Board also note that Lancashire's strategic commitment to active capital management across the insurance cycle through a combination of dividends, share repurchases, third party reinsurance capital and equity placings is understood and supported by Lancashire's shareholders.

However, having listened to our shareholders the Board and the Remuneration Committee intend to take the following specific actions to ensure that any future capital raise does not raise similar concerns with shareholders:

- **Improved disclosure of the impact of capital actions** – the Company acknowledges that in those years where there are capital actions which materially improve growth in FCBVS (or other future financial performance metric) it would be helpful for shareholders to receive greater detail of the impact of such capital actions within the remuneration report and therefore we will ensure that this happens.

- **Deferral of a greater percentage of annual bonus into time deferred long-term incentive awards** – in the light of the concern that the positive benefit of capital actions on growth in FCBVS and the linkage to remuneration outcomes may tend to reward such capital actions before the strategic advantages have “worked through” to shareholders in the form of underwriting returns, the Committee and Board will in future years, where capital raising actions have delivered a material benefit to FCBVS (or other future financial performance metric) thereby boosting remuneration outcomes, consider whether a deferral of a greater proportion of annual bonus for executive directors into longer term vesting incentive awards may help better align executive bonuses with shareholders’ returns.
- **Consideration of limitation of the impacts of capital actions on FCBVS** – the Remuneration Committee will remain alive to the option of limiting or removing the impact of capital actions on remuneration outcomes or to exercise a downwards discretion, which is a discretion afforded by the existing remuneration policy. However, the Remuneration Committee also notes that the instances of the Company raising equity capital have been rare and the Company’s strategic approach to active capital management is valued by most shareholders.

In our meetings a small number of shareholders also expressed a concern regarding the Company’s use of growth in FCBVS in both the annual bonus for executive directors and the Company’s longer term RSS awards. The Remuneration Committee has considered the potential use and relative merits of other financial metrics in the executive director annual bonus and the longer term RSS awards and will continue to consider this in the future. The Committee continues to believe that growth in FCBVS is the Group’s principal key performance indicator and, on balance, that it is an appropriate and comprehensive performance metric for both bonus and longer term schemes. It is relatively straightforward and understood by investors and it prioritises the right strategic and risk management priorities for our management team. We also consider that in light of the introduction of IFRS 17 at the beginning of 2023, which we expect to result in far reaching insurance accounting changes, it is in the interests of all stakeholders to have a degree of continuity during what will be a period of transition. Accordingly, except as set out above, we do not plan to make changes to our longstanding and effective performance remuneration metrics through this period of implementation and embedding across the industry. As always, the Committee and Board intends 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.

Simon Fraser

Chair of the Remuneration Committee

Lancashire Holdings Limited