Promoting an open, accountable and engaged culture

Peter Clarke
Non-Executive Chairman

We value a nimble governance culture which promotes clear and open communication and constructive engagement with our people, our stakeholders and in society.

In my opening statement, I discussed the Board's oversight of performance, strategy, risk and capital management during 2019. The following section focuses on the work carried out by the Board and each of its Committees in providing challenge and support to the management team and in engaging with the wider business to oversee the development and delivery of an effective strategy.

How does the Board manage and implement environmental, social and governance arrangements for the Group?

Lancashire is a premium-listed company on the LSE, which measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis through the work of our Nomination and Corporate Governance Committee (see page 64 for the Committee report).

In this corporate governance section and throughout the Annual Report and Accounts for the 2019 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under Bermuda law and regulations, having re-established Group supervisory and tax domicile in Bermuda with effect from 1 January 2019. This has not affected the regulation of the Group's UK insurance entities, which continue to be regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

As we reported last year, in 2018 the FRC published a revised UK Corporate Governance Code. During 2019, our Nomination and Corporate Governance Committee systematically tracked and implemented the requirements of the revised Code. The Code has increased its focus on the sustainability of businesses, not only with regard to the operation of formal governance arrangements, but increasingly with regard to social and environmental impacts. The Code specifically stresses the importance of the Section 172 responsibilities of boards under the UK Companies Act 2006, and whilst the Company is incorporated in Bermuda and not formally subject to Section 172 as a matter of law, our Board has for many years operated a strong culture of proactive and constructive stakeholder engagement. Consequently, many of the changes in emphasis in the revised Code had already been focus areas for the Board. For example, workforce and stakeholder engagement and the oversight of a healthy business culture had already been topics of Board focus for many years and the latest Code changes did not require significant change to our existing practices.

On pages 52 to 54 of this report we have included a summary of those matters touching on sustainability, which are areas of focus under the 'Principles for Sustainable Insurance' promoted by the United Nations Environment Programme Finance Initiative. This is the first year for which the Board and business have become signatories to the UN Principles. Readers will also note our account of the way in which the Company engages with its stakeholders in the engagement and sustainability section of this report on pages 40 to 47. This includes the Board's statement in respect of matters covered by Section 172 which can be found on page 40.

Once again, I am pleased to report that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2019. The Board and business continue to use the formal consideration of governance and regulatory requirements as practical working tools to create the dynamic and successful business culture which are a mark of the Group's success.

How does the Board engage with the workforce and create a healthy business culture?

The Board has for many years had a strong culture of 'workforce' engagement in part due to the great advantage of having an employee headcount of a little over 200 people, so all our employees are known personally by our Group CEO or the other members of the Group's executive management team. Most of our Non-Executive Directors have regular opportunities to meet members of staff both as part of the formal business of the Board and informally outside Board meetings. During 2019, the Board addressed the expectations of the revised UK Code in this regard by providing for the direct involvement of one of our Non-Executive Directors, on a rotating basis, in the 'town hall' staff meetings which, for a number of years, Alex Maloney has led on a quarterly basis with all our staff in face to face meetings conducted in both our UK and Bermuda offices. The Board has also held a number of informal buffet lunches where staff members have the opportunity to meet the Directors. Other initiatives during the year have been the introduction within the rolling internal audit programme of a focus upon business culture at a business unit level, which affords the Audit Committee another tool to help monitor the health of the Group's business culture. The Board and business continue to support the work of the Lancashire Foundation, which continues its strong tradition of staff engagement and activism. The business also appointed an employee working group to help review and revise the 'Lancashire values', which form an important part in setting the cultural 'tone' of our business and are used in the year-end employee appraisal process.

In short, the Board engages with the workforce and monitors the Group's business culture through several channels. At our November 2019 meeting we received feedback from a staff engagement survey, conducted on an anonymised basis, which demonstrates that the majority of the staff within the Group are engaged with the business and the successful implementation of our strategy. Whilst there will always be areas for improvement and innovation and the need for ongoing vigilance, the Board is pleased that we operate an open, respectful and successful business culture and that we have the practical tools to ensure strong and effective two way engagement between the workforce and our Board. The Board considers these methods of both formal and informal workforce engagement to be the most effective for our business. For further discussion of the work of the business, the Board and its Committees in the areas of culture and engagement please refer to the engagement and sustainability report (pages 40 to 47), the report from the Audit Committee (pages 59 to 63) and the report from the Nomination and Corporate Governance Committee (pages 64 to 67).

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

As we noted in last year's Annual Report and Accounts, Sally Williams joined our Board in January 2019. We have had a year during which the composition of the Board has not changed, although, as Alex mentions in his introductory remarks, Elaine Whelan announced her intention to retire during May 2019 and will step down both as our Group CFO and as a Director, at the end of February 2020. Over the summer of 2019, the Board engaged the firm of Sainty Hird to conduct a search, which enabled us to engage with several external and internal candidates. As we announced in December 2019, Natalie Kershaw has been appointed to the role of Group CFO and as an Executive Director of LHL. I look forward to welcoming Natalie to our Board and to the fresh insights which she will bring to her role.

Over many years Elaine brought to her CFO role a rigorous attention to detail and a profound understanding of the workings of the Group's business. She has also been widely liked and respected in her role as the CEO of LICL in Bermuda. On behalf of the whole Board I would like to thank Elaine for her outstanding contribution to our business and we wish her well for the future.

Are the Board and its Committees operating effectively?

Following the Board performance evaluation which was facilitated by Lintstock Ltd at the end of 2018, we tracked several actions and enhancements during the course of 2019. During 2019, our Board once again carried out a review of its effectiveness, which was facilitated internally by Chris Head, our Group Company Secretary. A summary report was discussed by the full Board and the exercise has again helped us identify certain topics for training or specific focus during the coming year, as well as other enhancements to our Board and Committee reporting and operational processes. Throughout 2019 I have continued to meet regularly with the chairs of each of our principal subsidiary boards and our performance evaluation concluded that the relationship between the main Lancashire Board and the subsidiary boards continues to operate effectively. We concluded that the Board, its members and each of its Committees have a balance of experience and talents that serve the Group well and have the competencies and operational culture necessary to meet the strategic challenges of the business effectively (see page 56 for further details).

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

Peter Clarke
Non-Executive Chairman

A balanced Board

Peter Clarke B I N R
Non-Executive Chairman

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 Chairman of the National Teaching Awards Trust. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

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

Alex Maloney B U
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 20 years' underwriting experience and has also worked in the New York and Bermuda markets.

Elaine Whelan B I
Group Chief Financial Officer

Date of appointment to the Board:
1 January 2013

Board meeting attendance: 4/4

Skills, experience and qualifications:
Elaine Whelan joined Lancashire in March 2006 and leads both the Group finance function and the Bermuda subsidiary, reporting to the Group Chief Executive Officer. Ms Whelan was previously Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. Prior to joining Zurich, Ms Whelan was an Audit Manager at PricewaterhouseCoopers, Bermuda, where she managed a portfolio of predominantly (re)insurance and captive insurance clients. Ms Whelan graduated from the University of Strathclyde in 1994 with a BA in Accounting and Economics and gained her Chartered Accountancy qualification from the Institute of Chartered Accountants of Scotland in 1997.

Michael Dawson B N R U
Non-Executive Director

Date of appointment to the Board:
3 November 2016

Board meeting attendance: 4/4

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

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

Board and Committee membership key

Chair | B Board of Directors | A Audit Committee | I Investment Committee | N Nomination and Corporate Governance Committee | R Remuneration Committee | U Underwriting and Underwriting Risk Committee

Simon Fraser B A R

Senior Independent Non-Executive Director

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

Samantha Hoe-Richardson B A N

Non-Executive Director

Date of appointment to the Board: 20 February 2013

Board meeting attendance: 4/4

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

External appointments/ Other roles:
Ms Hoe-Richardson is a Non-Executive Director of Unum Ltd and Unum European Holding Company Ltd. She also chairs their Audit Committees. Ms Hoe-Richardson is also a Non-Executive Director for 3i Infrastructure plc and a Non-Executive Director of LUK.

Robert Lusardi B A I R

Non-Executive Director

Date of appointment to the Board: 8 July 2016

Board meeting attendance: 4/4

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

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

Sally Williams B A N

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 PricewaterhouseCoopers, where she was a director specialising in financial services risk management and regulatory relationships. She also undertook a two-year secondment from PwC to the Supervision and Surveillance Department at the Bank of England.

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

Christopher Head

Company Secretary

Board meeting attendance: N/A

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

Principles for Sustainable Insurance

Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance ('the Principles') serve as a global framework for the insurance industry to address ESG risks and opportunities.

The purpose of the Principles for Sustainable Insurance Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.

The Board has opted to report against the Principles and this table directs readers to where the relevant activities of the Board and business are discussed in more detail within this report. This is Lancashire's first report with reference to the Principles. The business will continue to monitor and embed the Principles in the delivery of its strategy.

Principle 1 We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.	For more information please see:
Company strategy We embed ESG issues within our Board and management's strategic and business planning processes to foster a strong, purposeful and profitable culture of sustainable governance. The business is led by a strong management team accountable to an independent, diverse and effective Board and Committee structure.	Purpose statement (inside cover) Engagement and sustainability – section 172 (page 40) Governance report (pages 48 to 100)
Our principal strategic purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events, including those influenced by the effects of climate change. We are committed to monitoring and offsetting the Group's own carbon emissions.	Purpose statement (inside cover) Chief Executive's review (page 13) Underwriting review (pages 20 to 23) Environmental impacts and offsetting (pages 44 to 45)
Management and the Board actively support the work of the Lancashire Foundation, which promotes engagement of our staff with a range of charitable and social projects, including a record of assistance to disadvantaged communities blighted by catastrophic events.	Communities, including the Lancashire Foundation (pages 45 to 47)
We value our people and the strategic benefits of a healthy business culture. Our management team and Board promote an active programme of engagement and we operate a robust, yet flexible, programme of staff training and opportunities for career development. We offer attractive remuneration and employee benefits packages and have a planned approach to succession, staff retention and employee satisfaction.	Succession planning (pages 13, 49 and 65) Engagement and People (pages 41 to 42) Workforce engagement and culture (page 49) Employees/Health and Safety (page 98)
There is regular engagement with our shareholders and other stakeholders by both management, the Board and the business, touching upon a range of strategic and business issues, including the Group's approach to a range of ESG matters.	Purpose statement (inside cover) Strategic report (pages 1 to 47) Chairman's introduction – ESG implementation (page 48) Governance report (pages 48 to 100)

Principle 1 continued We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.	For more information please see:
Risk management and underwriting There is a strong culture of underwriting discipline and risk management within the Group, which values professionalism and embeds risk monitoring and control processes in our underwriting activities. Environmental risk exposures, including assumptions related to climate change, are embedded into our risk management, underwriting processes and capital management.	Chief Executive's review (page 13) Enterprise risk management and principal risks (pages 30 to 39) Risk disclosures (pages 118 to 142)
Management and the Board agree and monitor performance against formal risk tolerances, in particular with regard to the Group's exposures to natural catastrophe loss events, including weather events impacted by climate change.	Risk disclosures – peak zone elemental loss exposures (page 120)
Product and service development Our (re)insurance products and services help our clients manage the threats they face from unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes.	Purpose statement (inside cover) Underwriting review (pages 20 to 23)
The Board and management foster a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world. Included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.	Chief Executive's review (page 13)
Claims management Our experienced teams of claims specialists are well-equipped with specific knowledge of our diverse product lines. We have high levels of expertise that allow us to effectively manage and thoroughly investigate any loss our clients may sustain. Our goal is to ensure timely and equitable claims resolution for our clients.	Business review – losses (pages 25 to 26) Engagement and sustainability – our policyholders (page 43)
Sales and marketing We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as with independent brokers, who distribute our products. We seek to engage with our clients and their brokers to provide relevant and targeted risk solutions based on a sustainable strategy and business model.	Purpose statement (inside cover) Engagement and sustainability – brokers (page 43)
Investment management We actively manage our climate change transitional risk, with sensitivity to, and promotion of, ESG responsible investment. Our principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment'.	Principal risks – investment risk management (pages 36 to 37) Investment Committee report (pages 68 to 69)

Principle 2 **We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.**	**For more information please see:**
Clients and suppliers We engage constructively with our clients, brokers and other suppliers to address environmental, social and governance issues relevant to the operation of our business and to address our clients' needs for risk management solutions across a range of specialty and property lines.	Purpose statement (inside cover) Chief Executive's review (page 13) Underwriting review (pages 20 to 23) Chairman's introduction (page 48)
Insurers, reinsurers and intermediaries We engage with industry bodies to develop and promote awareness of market issues (including environmental factors).	Chief Executive's review / comments on climate change impacts and actions (page 13) Engagement and sustainability – (page 43) Chairman's introduction (page 48)

Principle 3 **We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.**	**For more information please see:**
Governments, regulators and other policymakers Our Board and business operate constructively within a highly regulated insurance and financial services environment in the UK, Bermuda and internationally. As a listed company, LHL systematically monitors, records and reports its compliance with the FRC's UK Corporate Governance Code.	Chairman's introduction – covering governance and regulation (pages 48 to 49)
The Board and business monitor and comply with relevant law and regulation. Examples include the Board's clearly articulated position regarding slavery and human trafficking, pursuant to the provisions and requirements of the UK Modern Slavery Act 2015. Our Board has also engaged with both the Hampton-Alexander and the Parker Reviews regarding our gender and ethnic diversity.	Nomination and Corporate Governance Committee report (pages 64 to 67)
The Board oversees the Company's annual submission to the Carbon Disclosure Project. The information which is requested as part of this reporting process is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.	Enterprise risk management – emerging risk (page 32) See also: LHL's responses on the Carbon Disclosure Project website

Principle 4 **We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.**	**For more information please see:**
We offer clear and transparent ESG reporting through multiple channels, including our Annual Report and Accounts, our website and our work with the Carbon Disclosure Project.	www.lancashiregroup.com See also: LHL's responses on the Carbon Disclosure Project website.
Our decision to report against the Principles in itself demonstrates our commitment to being both transparent and accountable, by publicly disclosing the business's implementation of them.	Chairman's introduction (pages 48 to 49) Chief Executive's review (page 13)

Board Committees

Board and Committee administration

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

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

The Board and its Committees meet on at least a quarterly basis. At the regular quarterly Board meetings, the Directors review all areas of the Group's business, strategy and risk management and receive reports from management on underwriting, reserving, finance, investments, capital management, internal audit, risk, legal and regulatory developments, compliance 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. Time dedicated to the Board's strategic planning was set aside around the 2019 Q1 Board meetings on 30 April and 1 May 2019.

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

The Directors

Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board considers all of the Non-Executive Directors to be independent within the meaning of the Code.

Michael Dawson, Simon Fraser, Samantha Hoe-Richardson, Robert Lusardi and Sally Williams are independent, as each is independent in character and judgement and has no relationship or circumstance likely to affect his or her independence. Peter Clarke was independent upon his appointment as Chairman on 4 May 2016.

During 2019, Samantha Hoe-Richardson and Sally Williams respectively accepted appointments to the boards of 3i Infrastructure plc and Close Brothers Group plc, these being UK listed entities. In accordance with their LHL letters of appointment, the proposed appointments were discussed with the Board Chairman, including an indication of the time involved and any possible conflicts arising, prior to acceptance.

At the Board meeting held on 12 February 2020, further to a recommendation by the Nomination and Corporate Governance Committee, the Board affirmed its judgement that five of the eight members of the Board are independent Non-Executive Directors. Therefore, in the Board's judgement, the Board's composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

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

Information and training

On appointment, the Directors receive written information regarding their responsibilities as Directors and information about the Group. An induction process is tailored for each new Director in the light of his or her existing skill set and knowledge of the Group and includes meetings with senior management and visiting the Group's operations. Information and advice regarding the Company's official listing, legal and regulatory obligations and on the Group's compliance with the requirements of the Code is also provided on a regular basis. An analysis of the Group's compliance with the Code is collated and summarised in quarterly reports together with a more general summary of corporate governance developments, which are prepared by the Group's legal and compliance department for consideration by the Nomination and Corporate Governance Committee. The Directors have access to the Company Secretary who is responsible for advising the Board on all legal and governance matters. The Directors also have access to the Group General Counsel and independent professional advice as required. Regular sessions are held between the Board and management as part of the Company's quarterly Board meetings, during which in-depth presentations covering areas of the Group's business are made. During these presentations the Directors have the opportunity to consider, challenge and help shape the Group's commercial strategy. The Directors are also encouraged to seek supplementary know-how training suitable to their roles offered by the many external providers of training pertinent to governance, in particular the roles of Non-Executive Directors, and to consider their training needs and priorities as part of the year-end performance evaluation for the Board and its Committees.

Board performance evaluation

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

The 2019 evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other Committee members and members of senior management completing a questionnaire designed by the Chairman and the Company Secretary, with input from the Chairs of each of the relevant Committees. Responses to the completed questionnaires were collated and emerging themes explored. A suite of anonymised summary reports was prepared and these were discussed in draft with the Board Chairman and Committee Chairs before being distributed to each of the Directors.

In February 2020, the performance evaluation reports were discussed at meetings of the Nomination and Corporate Governance Committee and the Board, and each of the other Committees discussed the report pertinent to its own operation and performance. The Board discussions were led by the Chairman and focused on such matters as strategic oversight, succession planning, Board composition and training and priorities for 2020.

In summary, in its consideration of the 2019 performance evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The Group CEO and the Group CFO, the Company's Executive Directors, were also found to be operating effectively.

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

It was noted in the evaluation process that the Board and Committee oversight of underwriting strategy and risk tolerances had operated effectively and within expectations. Engagement between the Board and the wider body of staff is considered to be generally strong and beneficial to the operation of the business. In this regard, it was noted that workforce engagement, in accordance with the expectations of the revised UK Code, had been enhanced during the course of the year. For further information on workforce engagement, please see Peter Clarke's introduction to the Governance report on page 48 and the report from the Nomination and Corporate Governance Committee on page 64. The strategic priorities identified for the year ahead included ensuring that the Group holds sufficient capital and effectively utilises capital tools, and to position the business as a leading (re)insurance market. In particular, the Board plans to keep under review the Group's capital structures. The Board is also committed to underwriting those specialty insurance lines in which the business has expertise and to support management in the identification of new and complementary underwriting classes with a view to achieving controlled organic premium growth where this makes sense.

The reports also highlighted a number of themes which will inform the business of the Board during 2020 including:

- challenges to the investment portfolio posed by the low interest rate environment;
- the importance of maintaining a positive culture which attracts and retains talented people; and
- positioning the business to develop opportunities to grow premium income in an improved underwriting environment.

As part of the evaluation exercise, the Board identified a number of areas for training or specific themes over the coming year including the following:

- the new IFRS 17 accounting requirements;
- ESG developments and investor expectations;
- 'deeper dive' presentations from underwriters on the Group's business classes; and
- a systematic presentation on the Group's IT systems, requirements and risks.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2020.

The Chairman's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2019. The discussion and feedback were positive regarding the Chairman's performance. Particular reference was made to the Chairman's work in facilitating open communication across the business and in encouraging a strong culture, which appropriately balances challenge and insightful support for management and the business.

Following the year end, the Chairman met with the Group CEO, and the Group CEO met with the Group CFO and the incoming Group CFO designate, to conduct a performance appraisal in respect of 2019 and to set targets for 2020. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 74.

Relations with shareholders

During 2019, the Group's Head of Investor Relations, usually accompanied by one or more of the Group CEO, the Group CUO, the Group CFO, the Chairman 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.

The Chairman of the Remuneration Committee conducted a consultation with the Company's significant shareholders concerning planned changes to the shareholder-approved Directors' Remuneration Policy, which is to be submitted for consideration and approval by shareholders at the 2020 AGM. See the Remuneration Committee report on page 72 and the Directors' Remuneration Report on page 74 for further details.

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 Chairman, 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 with shareholders at the Company's 2020 AGM.

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

Enterprise risk management

The Board is responsible for setting the Group's risk appetites, defining its risk tolerances, and setting and monitoring the Company's risk management and internal control systems, including compliance with risk tolerances. During 2019, the Board carried out a robust assessment of the emerging and principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the emerging and principal risks affecting the Group, as well as the procedures in place to identify and manage them, can be found in the ERM section of this report on pages 30 to 39 and in the risk disclosures section on pages 118 to 142.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from pages 59 to 73 for further detail). The Group CRO reports directly to the Group and subsidiary boards and facilitates the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, any lessons learned from risk events and assurance provided over key risks. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review. In this regard please see the Audit Committee report on pages 59 to 63.

Committees

The Board has established Audit, Investment, Nomination and Corporate Governance, 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 2019 and were 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 2019 Board meetings is set out on pages 50 to 51. A report from each of the Committees, which covers Committee attendance, is set out from page 59 to page 73.

Audit Committee

Samantha Hoe-Richardson
Chairman of the Audit Committee

During 2019, one of the areas of heightened focus for the Committee has been the strengthening of its oversight of corporate culture through the reporting of the internal audit function. The Committee has also maintained its focus on the adequacy of loss reserves; the effectiveness of the business's control environment; the integrity of external financial reporting; and the progress of the Group's implementation plans for the IFRS 9 ('Financial Instruments') and IFRS 17 ('Insurance Contracts') accounting standards.

Committee membership

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

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

Principal responsibilities of the Committee

- Financial reporting: monitors the integrity of the consolidated financial statements of the Group and any other formal statements relating to its financial performance, including public reporting requirements arising under applicable supervisory rules. Reviews and reports to the Board on significant financial reporting issues and judgements which those statements contain. Reviews the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable;
- External audit: oversees the relationship with the external auditors and is responsible for the annual assessment of their independence and objectivity. Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, for the appointment of the Company's external auditors;
- Internal audit: monitors and reviews the effectiveness of the Group's internal audit function, ensuring it has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards; and
- Internal controls and risk management systems: oversight of internal controls and risk management systems. Reviews the Group's 'whistleblowing' arrangements and other systems and controls for the prevention of fraud, bribery and money laundering.

How the Committee discharged its responsibilities

Financial 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 and any other formal statements relating to the Group's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the consolidated financial statements.	At each quarterly meeting the Committee reviews the Group's quarterly consolidated financial statements for the purposes of recommending their approval by the Board. The Group's annual Solvency II Pillar 3 reports were reviewed at the April 2019 Audit Committee meeting prior to the recommendation of their approval at the May 2019 Board meeting. Following the change in Group regulatory supervision to the BMA effective from 1 January 2019, the Group's regulatory reporting for the 2019 year end and onwards will be prepared in accordance with the BMA's requirements. The Committee also monitors the activities of the Group's Disclosure Committee and reviews the Group's financial press releases (prepared in respect of the second and fourth quarters) and trading statements (prepared in respect of the first and third quarters), which it recommends to the Board for approval. The Committee receives regular reports from management on: • loss reserving (see page 114 for further details); • developments in accounting and financial reporting requirements; • any new and/or significant accounting treatments/transactions in the quarter; • the assessment of the Group's ability to continue as a going concern (see page 99 for further details); • the progress of the Group's IFRS 9 and IFRS 17 implementation project and the related enhancements to the Group's finance IT framework and move to a common Group general ledger; • the activities of LHL's subsidiary companies, including consideration of any risk issues; and • the Committee also receives quarterly reports on the consolidated financial statements from the external auditors, including an interim review report and a year-end audit results report. These reports are discussed with the external auditors at the Committee meetings. **Judgements and estimation in the consolidated financial statements** 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. Of these, the most significant area of judgement and estimation considered by the Committee during 2019 was the valuation of ultimate loss reserves. The Audit Committee's quarterly review of the adequacy of the loss reserves is explained in detail on page 63. Less significant areas of judgement and estimation are in relation to the Group's two indefinite life assets and determining the fair value of certain financial instruments, specifically Level (iii) investments (see accounting policies pages 113 to 114 for the details of these areas.) KPMG's 2019 year-end audit report identifies revenue recognition through the estimation of premium revenues as a key audit matter. The Audit Committee considered this and concluded that, whilst some premiums are subject to estimation, revenues are unlikely to be materially different from initial estimates, particularly on a consolidated Group basis.
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 position and performance, business model and strategy.	The Chairman of the Committee reviewed the early drafts of the 2019 Annual Report and Accounts in order to keep apprised of its key themes and messages. The Committee reviewed the final draft of the 2019 Annual Report and Accounts at the February 2020 Audit Committee meeting, together with the external auditor's report. The Committee advised the Board that, in its view, the 2019 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.

External audit

Committee responsibility	Committee activities
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	The Committee approves the annual external audit plan and receives reports from the external auditors at each quarterly Committee meeting, including an ongoing assessment of the effective performance of the audit compared to the plan. Following the year-end audit, the Committee performs an assessment of the effectiveness of the external audit process. This assessment was last conducted at the April 2019 Audit Committee meeting and it was concluded that the external audit process was operating effectively, both with respect to the service provided by KPMG and management's support of the audit process. The Committee also formally reviews the independence of the external auditors, in particular at the half-year and year-end meetings, taking into account any non-audit services provided. The Committee considers that KPMG remain independent. The Committee Chairman conducts informal meetings with the external auditors and the Group CFO prior to, during, and after the review of the quarterly results. The Committee meets quarterly in executive session with the external auditors to discuss any issues arising from the audit, and with management to obtain feedback on the audit process.
The development and implementation of a formal policy on the provision of non-audit services by the external auditors, taking into consideration any threats to the independence and objectivity of the external auditors.	The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis. The policy was last reviewed and discussed by the Group CFO and Committee Chairman in October 2019, and it was considered fit for purpose. Given the changes to the Ethical Standard announced by the FRC in December 2019, the policy will be revised in 2020. The policy, which stipulates the approvals required for various types of non-audit services that may be provided by the external auditors, is on the Group's website. During 2019, KPMG provided $0.4 million of non-audit services to the Group relating to the audit of Solvency II and Lloyd's regulatory returns.
Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Group's external auditors.	Following a competitive external audit tender process undertaken during 2016, the appointment of KPMG as external auditors was first approved by shareholders at the 2017 AGM. Following KPMG's re-appointment at the 2019 AGM, further to a recommendation from the Committee and the full Board, the 2019 financial year was the third financial year in which KPMG acted as the Group's external auditors. The lead audit partner is Rees Aronson. The Committee and the Board are recommending the re-appointment of KPMG as external auditors at the 2020 AGM. The Committee continues to monitor the developments and recommendations arising from the Independent Review of the FRC, led by Sir John Kingman, the final report published by UK Competition and Markets Authority on the statutory audit services market, and Sir Donald Brydon's report setting out his views on the quality and effectiveness of audit.

Internal audit

Committee responsibility	Committee activities
Monitors and assesses the role and effectiveness of the Group's internal audit function in the overall context of the Group's risk management system.	The Group's internal audit function reports directly to the Committee. Each year, the Group Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are considered for audit annually, whilst less critical risks are audited periodically as part of a flexible multi-year programme. The findings of each internal audit are reported to the Committee at the quarterly meetings and the Committee reviews the actions taken by management to implement the recommendations of internal audit. Consideration is also given to the assessment of the Group's culture for each audit undertaken and an overall summary of observations identified in respect of the Group's culture is presented to the Committee on a quarterly basis. The Committee meets in executive session with the Group Head of Internal Audit usually on a quarterly basis. During 2019, the Committee reviewed and approved the Internal Audit Charter. This can be viewed on the Group's website. An external assessment of the effectiveness of the internal audit function was commissioned by the Committee and conducted by Mazars LLP (Mazars), with a report issued to the Committee. The Committee discussed the report and its findings with Mazars and the Group Head of Internal Audit and noted that no significant issues were raised. The Committee concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system. Following a selection process run in 2018, Samantha Churchill joined the Group as the new Group Head of Internal Audit in January 2019.

Internal controls and risk management systems

Committee responsibility	Committee activities
Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management and the viability statement.	The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee receives from the Group CRO periodic reports detailing results of the quarterly risk and control affirmation review. The Committee receives from the Group Head of Internal Audit an annual assessment of the Group's governance, risk and control framework, together with an analysis of themes and trends from the internal audit work and their impact on the Group's risk profile. In 2019, the Committee and Board were satisfied that the governance, risk and control framework continue to remain both effective and appropriate for the Lancashire Group.
Reviews for adequacy and security the Group's compliance, 'whistleblowing' and fraud controls.	During 2019, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls and recommended the adoption by the Board of updated policies and procedures in respect of anti-money laundering, bribery and financial crime (including fraud), conflicts of interest and whistleblowing. There were no suspicious transactions or whistleblowing reports made during the year (whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or impropriety). The Committee also keeps under review the adequacy and effectiveness of the Group's legal and compliance function and requires regular updates on compliance training delivered across the Group (see page 42 for further details).

Significant area of judgement and estimation

The valuation of loss reserves and expenses

As detailed on pages 125 to 126 of the consolidated financial statements, the valuation of ultimate loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Chief Actuary. KPMG conduct a detailed reprojection of the Group's loss reserves as part of the half-year review and full-year audit. The Committee also receives independent estimates of the Group's loss reserves from an external actuary and compares these third-party estimates to those of the Group at its second and fourth quarter Audit Committee meetings. During 2019, the Committee focused its discussions around the Group's loss reserves on: the range of reasonable actuarial estimates and the difference between the Group's 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 actuarial range); current and prior year loss development, including 'back-testing' of the Group's prior year reserves; and reserving for each insurance operating subsidiary. Having reviewed and challenged these areas, the Committee concurred with management's valuation of the Group's loss reserves and the relevant disclosures around loss reserving in the Group's consolidated financial statements.

Systems changes relating to the implementation of IFRS 9 and IFRS 17

During 2019, the Committee monitored on a quarterly basis the preparation by the Group for the implementation of IFRS 9 and IFRS 17. This project encompasses changes to the Group's finance IT framework and general ledger, as well as the presentation of the Group's consolidated financial statements on an IFRS 9 and IFRS 17 basis. The project management and governance of this project were covered by an internal audit review during 2019, with no significant issues highlighted to the Audit Committee. The prospective deferral of the implementation date for the standard has not had a significant impact on the Group's implementation project timetable.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To ensure the continued effectiveness of the Group's control environment, the operation of the business's financial reporting systems and the integrity of external financial reporting;
- To continue to monitor the preparation by the Group for the implementation of IFRS 9 and IFRS 17;
- To ensure the ongoing constructive engagement of the Committee with the new Group CFO and the maintenance of high standards of financial controls and 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;
- To continue to monitor developments and recommendations with regard to audit practice, including areas of potential change and reform; and
- To review the Group's segmental reporting in the light of recent systems enhancements.

Nomination and Corporate Governance Committee

Peter Clarke
Chairman of the Nomination and Corporate Governance Committee

Following the revisions to the UK Corporate Governance Code in 2018 the Committee oversaw a programme for the quarterly monitoring of the requirements of the revised Code. The Company systematically developed its governance practices during 2019, including enhanced measures for engagement between the Board and the workforce which included the attendance of Non-Executive Directors at the quarterly staff 'town hall' meetings and the use of a Group-wide workforce feedback questionnaire.

Committee membership

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

	Meetings attended
Peter Clarke (Chairman)	4/4
Michael Dawson	4/4
Samantha Hoe-Richardson	4/4
Sally Williams	4/4

Principal responsibilities of the Committee

- Reviews the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board;
- Considers succession planning for 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; and
- Makes recommendations to the Board concerning the charitable and corporate social responsibility activities of the Company and donations to the Lancashire Foundation.

How the Committee discharged its responsibilities

Corporate governance

Board composition and effectiveness	In accordance with the provisions of the Code, all of the Directors are subject to annual (re)election by shareholders. All of the Directors were elected or re-elected by shareholders at the 2019 AGM. The Committee also reviewed the composition of the Board at its November 2019 meeting and it was agreed that the balance of skills, knowledge, independence, experience and diversity continues to be appropriate for the Group's business to meet its strategic objectives. The Committee also regularly discussed in its meetings whether any additional skills and experience were needed to complement those already on the Board. In July 2019, the Committee carried out a review and revision of the document describing the division of responsibilities between the Group CEO and the LHL Chairman, in particular articulating the respective responsibilities for the oversight and implementation of a healthy corporate culture for the Group. The Committee oversaw the process for the year-end review of the effectiveness of the Board, the Committees and each of the Directors, which was internally facilitated by the Company Secretary. The Committee and the Board were satisfied that the Board and each of its Committees were operating effectively. Further details of the performance evaluation process can be found on page 56.
UK Code compliance	The Committee keeps under review the Company's corporate governance arrangements, particularly the Company's compliance with the FRC's UK Corporate Governance Code ('the Code'). The Committee introduced its monitoring of the revised Code from the beginning of 2019 and reviewed the Company Secretariat's checklist record of the Company's compliance with the Code on a quarterly basis – with a particular view to ensuring that the Board and business were meeting any new governance requirements under the revised Code.
Appointments and succession planning	The Committee reviewed and recommended the approval and adoption by the Board of the Company's succession plan and talent management and development programme for the 2019/2020 year. This is with the objective of fostering a diverse workforce and pipeline 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. The Committee reviewed a number of senior appointments across the Group including those of Emma Woolley as the CEO of LSL, John Cadman as the CEO of LUK, Hayley Johnston as the CEO of LICL (to take effect in early 2020) and James Flude as the CUO of LUK (also to take effect in early 2020), subject to regulatory approval. Due to the upcoming retirement of the Group's CFO, Elaine Whelan, the Committee oversaw the appointment of her successor and approved the appointment of Sainty Hird, an independent recruitment agency. The Committee approved a search brief and oversaw the creation of a detailed list of potential external and internal candidates. Following a series of informal and formal meetings with both members of management and the Board, the Committee constituted a CFO Appointment Panel and empowered the Group CEO and Chairman to agree to the formal terms of appointment for the recommended candidate. Natalie Kershaw was appointed to the role of Group CFO in December 2019; she joins the Board on 1 March 2020 (see page 49 for further details).
Workforce engagement	During 2019, the Company continued the practice of the Group CEO holding 'town hall' meetings with employees following the announcement of the Company's quarterly results. In order to further enhance arrangements for engagement between the Directors and members of the workforce, the Committee arranged for these 'town hall' meetings to be periodically attended by the Chairman of the Board or another Non-Executive Director. Peter Clarke and Alex Maloney attended the 'town hall' meeting in Bermuda in July 2019, Samantha Hoe-Richardson attended the 'town hall' meeting in London in August 2019 and Sally Williams attended the same in November 2019. Staff feedback from these 'town hall' meetings and from other avenues was subsequently shared with the relevant Committees and the Board. The Committee and Board intend for these arrangements to continue in 2020.
Audit reform	The Committee has monitored developments in the area of audit market reform, regulation and practice during 2019, including the Kingman Review, the Brydon report and the recommendations of the UK Competition and Markets Authority.

Brexit	The Committee has considered the impact of Brexit on both the Company and its business, for more detail please see page 38.
Subsidiary boards	The Committee monitored the composition of subsidiary boards during 2019 and recommended appointments to the boards of LUK, LSL and LICL.
ESG reporting	The Committee and Board have also approved the use in this Annual Report of the UN sponsored Principles for Sustainable Insurance as a framework for our ESG reporting. Please see pages 52 to 54 for further details.

Environment

	The Committee also periodically reviews developments in the areas of the environment and climate change and the management of related risks and opportunities within the context of sustainability and social responsibility. For more information on these issues, please see the Chief Executive's review on page 13 and the principal risks report on pages 34 to 39.

Social responsibility

Diversity	The Committee considered statistics relevant to the gender composition of the Board, Group management excluding LHL Non-Executive Directors, and overall Group employees. These statistics are shown opposite and illustrate the progress made in relation to the obtainment of the Company's stated goals with regard to diversity. The Committee also reviewed 2019 comparative pay data by gender within the Lancashire Group. The Committee recommended approval by the Board of an updated diversity policy, which is posted on the Company's website. The Board remains of the view that the skills and experience needed to take the business of the Company forward are of paramount importance in selecting Board members and employees. Lancashire's approach to recruitment and ensuring the benefits of a broad diversity throughout the business is discussed further on page 42 in the discussion of the workplace culture.
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 2019, the Committee received a report on the Foundation, including its objectives, governance, approach to funding for 2020 and beyond, investment strategy, donations policy and charitable activities, and considered the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that the Company make a donation to the Foundation of 0.75% of full year Group profits (subject to a cap of $750,000 and a $250,000 collar).
UK Modern Slavery Act 2015	During 2019, 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 2020

The Committee's key priorities for 2020 are:

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

Gender diversity

LHL Board members

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

Group management excluding LHL Non-Executive Directors

- Male: 13 (61.9%)
- Female: 8 (38.1%)

Overall Group employees

- Male: 134 (61.5%)
- Female: 84 (38.5%)

Senior management

- Male: 13 (61.9%)
- Female: 8 (38.1%)

Direct reports to senior management

- Male: 49 (62.0%)
- Female: 30 (38.0%)

All gender composition data is shown as at 31 December 2019.

Investment Committee

Robert Lusardi
Chairman of the
Investment Committee

The Committee was pleased with the investment returns for the year, which made a meaningful contribution to the Group's RoE.

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

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

How did investment returns contribute to the Group's performance in 2019?

Lancashire experienced a very good performance in 2019 with the investment portfolio returning 4.9%, notwithstanding a conservative asset allocation strategy. Put differently, the investment portfolio generated over half of the Company's 14.1% RoE, highlighting the importance of the investment function to shareholder returns. Our duration remained under two years and VaR was only 2.7% of shareholders' equity at year end. More details of the Group's investment performance can be found on page 27.

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

In 2020, we will complete a biennial strategic asset allocation study which will factor in risk/return expectations of our various asset classes, current underwriting strategy and market conditions including related capital requirements, and potential liquidity and claims needs. With the improvement in underwriting conditions we will likely increase our overall investment risk appetite slightly while remaining relatively conservative. At the same time, we will be reallocating a significant portion of our hedge fund portfolio into other risk assets where we believe we can earn slightly better risk adjusted returns. Since the majority of our policies and claims are U.S. dollar denominated, the bulk of our investment portfolio is invested in U.S. dollar fixed income instruments. The U.S. Federal Reserve has signalled that it is less willing to lower rates in 2020; accordingly we are not anticipating a significant shift in our overall investment philosophy, although we could be increasing our portfolio duration slightly.

Committee membership

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

The Investment Committee comprises one independent Non-Executive Director, the Chairman of the Board, one Executive Director (the Group CFO) and the Group CIO (who is not a Director).

	Meetings attended
Robert Lusardi (Chairman)	4/4
Peter Clarke	4/4
Denise O'Donoghue	4/4
Elaine Whelan	4/4

Principal responsibilities of the Committee

- Recommends investment strategies, guidelines and policies to the Board and other members of the Group to approve annually;
- Recommends and sets risk asset definitions and 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 relating to the custody of investments and the related internal controls.

How the Committee discharged its responsibilities

The Committee focused on the consequences of U.S.-China trade friction and related developments in the U.S. Federal Reserve's interest rate policy and the implications of Brexit developments within the UK, with a particular focus on resultant exchange rate volatility. The Committee regularly reviewed these and other macro-economic, capital markets and global political developments during the year, often in discussion with our professional investment managers. The Committee received two presentations: the first from Payden & Rygel regarding specific U.S. economic data, emerging market growth, emerging market debt growth and the implications of a no-deal Brexit; and the second from Pinebridge Investments on a market overview of the fixed income and loan market, with a particular focus on the Collateralised Loan Obligations (CLO) market.

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

The Committee works to articulate and support the Board's investment philosophy, which continues to be conservative in nature, and is intended to help support the Group's underwriting strategy and to provide appropriate liquidity to match the Group's risk exposures. The Committee establishes and monitors a number of investment risk metrics, including certain 'Black Swan' scenarios, which might impair the Group's investment portfolio. The Committee is also mindful of the potential impact of climate change transitional risk to certain asset classes, although it considers that the current portfolio has only very limited exposure in this regard. The Committee considers the Group's responsibility to act as a responsible investor. To that end the Group's principal investment managers (with the exception of some of the Group's hedge fund managers) are signatories to the Principles for Responsible Investment, with a commitment to incorporate ESG issues into investment analysis and decision-making processes.

Following the Company's move of Group insurance regulatory supervision and tax residence to Bermuda at the beginning of 2019, the Committee considered potential adjustments to the investment strategy and asset allocation in light of the transition from the UK's Solvency II Group supervision regime.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To maintain a continued focus on a diversified and sustainable portfolio, the preservation of capital, the maintenance of liquidity and the management of interest rate and other investment risks;
- To focus on the implication of macro-economic trends, in particular the U.S. domestic and international political environment and Brexit developments in the UK; and
- To conduct a biennial asset allocation review.

Underwriting and Underwriting Risk Committee

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

The Committee's focus is on the Group's underwriting, which is central to our purpose as a business. The Committee's role is to oversee the development and implementation of underwriting strategy, including areas of opportunity and the prudent management of the Group's underwriting risk exposures.

Committee membership

During 2019, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and one Non-Executive Director, together with the Group CUO, the CUO of LICL, the CUO of LUK, the Active Underwriters for Syndicates 2010 and 3010 and the Group Chief Actuary (who are not Directors).

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

The Committee has been actively engaged during 2019 in the development and implementation of the Group's underwriting strategy. It considers the articulation of and adherence to formal underwriting risk tolerances, which are approved and monitored by the Committee and the Board. Underwriting risk is the key risk faced by the business. Specifically, the Committee receives quarterly risk data, tracking movements in the Group's exposures to modelled PMLs and RDSs.

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

Another equally important underwriting risk management tool is the programme of reinsurance protections purchased across the Group. In this regard, the Committee reviewed the structure, pricing and operation of the outwards reinsurance programmes and regularly discussed management reports covering outwards reinsurance developments.

Within the context of climate change risk, the Committee discussed the Group's exposures to California wildfire risk and the articulation of an appropriate underwriting and risk management strategy and management preference for wildfire exposures. The Committee considered developing trends in the frequency and severity of weather-related events and was satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk relating to these factors. For more detail, please see the ERM report on page 30 and the Group's PML exposures on page 120.

Regarding business development opportunities, the Committee:

- Reviewed management plans for the expansion of the Group's property risk exposures in the Florida market;
- Monitored the development of risk and opportunity in the marine, war and onshore energy markets;
- Reviewed management plans for the re-establishment of a property direct and facultative underwriting capacity at LUK; and
- Received management reports on the progress and approval by Lloyd's of the business plans for Syndicates 2010 and 3010.

The Committee reviewed developments in the third-party reinsurance capital markets and the progress of the Kinesis facility, which is underwritten by LCM, which underwrote reinsured limits in excess of $500 million during 2019. The Committee also monitored the operation of the Group's reinsurance fronting protocol between LICL and the Kinesis facility.

During 2019, the Committee meetings were open to attendance by all Board members. The Committee and Board seek to match the Company's capital to the underwriting requirements of the business in all parts of the underwriting cycle.

A more detailed analysis of the Group's underwriting performance appears in the business review section of this Annual Report and Accounts on pages 24 to 26.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To continue to monitor the development and implementation of a forward-looking and disciplined underwriting strategy appropriate for the Group's underwriting platforms, within a framework of appropriate risk tolerances;
- To work actively with management in the identification, analysis and consideration of new underwriting opportunities, including potential new lines of business and opportunities for the managed 'organic' growth in the Group's specialty and catastrophe lines; 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

Simon Fraser
Chairman of the Remuneration Committee

Our remuneration structures are designed to incentivise, reward and retain talented people across the business, within an appropriate framework of risk management. The Remuneration Policy and its implementation are proportional, predictable and straightforward. Remuneration structures and outcomes are aligned to the objective of embedding a healthy and sustainable corporate culture which is consistent with the Group's purpose, values and strategy.

Committee membership

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

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

During 2019, the Committee reviewed the Group 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 structure for Executive Directors to ensure that the performance metrics continue to align the interests of the Company with its investors and management. The Committee considered the salary and bonus awards for the Executive Directors, as well as other designated senior executives, and in this context had regard to remuneration levels and practices across the workforce. The Committee also approved the grant of awards under the Company's RSS.

The Committee reviewed the Directors' Remuneration Policy, which has a three-year life following its approval by shareholders at the 2017 AGM. The Committee held discussions throughout the year on areas of developing best practice, regulation and investor expectation. Towards the end of 2019, the Committee requested a shareholder consultation with the Group's principal shareholders, as well as several of the leading shareholder advisory groups, in relation to the areas for potential change in the shareholder-approved Policy. The consultation was led by Simon Fraser (as the Chair of the Committee) who sent a consultation letter and held a number of follow-up meetings. The Committee consulted in certain areas where there were considered to be opportunities to amend and further enhance policy, in particular:

- the development of malus and clawback triggers to cover instances of corporate failure or material damage to the business or its reputation;
- the introduction of post-cessation shareholding requirements for Executive Directors, to supplement the in-post shareholding guidelines currently operated by the Group;
- the introduction within the Group RSS rules, which govern the use of equity-based incentivisation for Executive Directors and across the Group, of a downward discretion which may be exercised by the Committee, which is intended to be limited to use in exceptional circumstances; and
- the clarification of policy in the area of the alignment of Executive Director pension entitlements with practice across the wider workforce.

The revised 2020 Remuneration Policy for Executive Directors is set out in the Directors' Remuneration Report between pages 74 and 95 and will be put to shareholders for approval at the 2020 AGM.

During 2019, the Committee reviewed Executive Directors' shareholdings in the context of the Company's share ownership guidelines for senior/key executives.

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

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 74 to 95. The Annual Report on Remuneration highlights those areas of debate and focus within the Committee and the Board on the alignment of remuneration and Group performance, both in the current year and over a longer timeframe. The Committee considers the remuneration practices across the Group and the internal and external measures used to be appropriate and aligned with Group strategy and risk management. In particular, the Committee considers that the Group's remuneration practices as set out in the Annual Report on Remuneration are clear and transparent, and appropriately simple in their structure and operation.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, risk profile, objectives, risk management practices and long-term interests;
- To ensure that remuneration across the wider Group meets the staffing needs and staff retention requirements of the business;
- To seek shareholder support for the revised 2020 Directors' Remuneration Policy at the 2020 AGM; and
- To work with the Group's independent remuneration advisers to keep abreast of compensation levels amongst the Group's London, Bermudian and other peers, and the latest remuneration-related regulation, guidance and market practices.

Annual statement

Dear Shareholder,

I am pleased to present the 2019 Directors' Remuneration Report to shareholders.

Shareholder engagement and Remuneration Policy review and proposals

Lancashire's Directors' Remuneration Policy was last approved by shareholders at the May 2017 AGM. There were no changes to the Policy proposed last year and at the 2019 AGM we received support from 89% of shareholders that voted for our Annual Report on Remuneration. Given the three year shareholder-approval cycle for the Directors' Remuneration Policy under the UK rules, during 2019 the Committee considered options for updating the Policy in the light of changes to the Code and other best practice recommendations. The Committee identified a number of areas for potential change, and in November 2019 I wrote to our major shareholders and certain of the leading shareholder governance advisory services setting out our proposals for changes.

In summary, the Committee and Board have proposed changes to the Directors' Remuneration Policy for approval at the 2020 AGM including the following:

- **Malus and clawback triggers** – the Committee has introduced two additional triggers for both the annual bonus and the LTI awards made under the RSS to cover corporate failure and material damage to the Group's business or reputation;
- **Executive Directors' shareholding guidelines and requirements** – for new RSS awards made during 2020, the Committee proposes that the shareholding requirement for Executive Directors should be contractually enforceable under the terms of the awards and that for departing Executive Directors there should be a requirement to maintain a qualifying holding for a period of 24 months following cessation of employment;
- **Discretionary override of formulaic outcomes** – the proposed Policy now states that the Committee may, in exceptional circumstances, use discretion to scale back RSS vesting outcomes;
- **Directors' pension alignment** – the proposed Policy has been clarified to provide that the maximum 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. All Executive Directors have a 10% pension contribution which is aligned with the standard practice for the Group workforce.

The full 2020 Directors' Remuneration Policy is set out on pages 76 to 80 and includes the detail of where the 2020 Policy has introduced changes to the 2017 Policy.

Remuneration and strategy

The Committee has once again debated the appropriate remuneration structures to be used in 2020 in some detail and (as I set out below) we have decided to follow the same structure for the remuneration of our Executive Directors as was used in 2019.

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

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

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

Performance outcomes for 2019 – generating an attractive return

After two years of well above average industry losses in 2017 and 2018, with the resulting impact on the Company's financial performance and therefore executive compensation, we are pleased that 2019 has been a much stronger year for Lancashire, and can report that our total Group CEO and the retiring Group CFO remuneration has increased by 114% and 87% respectively (see the comparison table for single figure remuneration on page 86). The Group has produced a strong RoE of 14.1% in an environment which has seen some modest improvement in the (re)insurance pricing environment whilst once again being impacted by a number of natural catastrophe losses, in particular in Japan and the Caribbean (see the strategy and performance reviews of this Annual Report and Accounts on pages 14 to 19).

The Board and Committee were satisfied that, in light of the 2019 market environment, this performance represents a strong outcome for the year and a return to a more attractive level of profitability following the severely market loss impacted results of 2017 and 2018. This has been a year in which catastrophe loss activity has been markedly lower than the previous two years. The business is well-positioned to compete in the market as we enter 2020 in what we hope to be an improving pricing environment.

Our business will continue to explore opportunities for organic growth, where this makes sense, whilst ensuring a rigorous focus on the balanced management of risk and reward.

The Executive Directors' annual bonus performance targets set at the beginning of 2019 for personal and financial performance were stretching. The financial element which made up 75% of the annual bonus opportunity resulted in a bonus at 162.4% of target for that element given the Company's strong return in 2019. The Board also considered that both the Executive Directors had performed strongly in managing risk within the business, in driving profitability, in further integrating the Group's business platforms during the year and in positioning the Group well for the underwriting opportunity which we expect to develop during 2020, and a bonus at 150% of target was awarded for the personal component in respect of 2019 performance. In summary, annual bonuses for our Executive Directors were achieved above target level at 80% of maximum bonus for both the Group CEO and the retiring Group CFO (see pages 86 to 88 for further details).

In relation to long-term incentives for Executive Directors and other senior management, the 2017 Performance RSS awards were 75% based on absolute RoE targets and 25% on relative TSR against specified peer group companies over the three-year period to 31 December 2019. Our TSR performance (in U.S. dollars) over this period ranked the Company below the median of the designated peer group of companies, resulting in 0% vesting for the TSR component.

Our average RoE performance over this three-year performance period was 3.5% against a threshold target of the 13-week Treasury bill rate plus 6% and a maximum pay out of the 13-week Treasury bill rate plus 13%, resulting in 0% of the RoE component of the 2017 Performance RSS awards vesting. This was below the target threshold level for the RoE element of the 2017 awards, principally on account of the impact of the lower returns generated during 2017 and 2018. Therefore overall, the 2017 Performance RSS awards vested at 0%. This compared with the 0% vesting of the 2016 Performance RSS awards due to 0% vesting of the RoE and TSR portions of those awards, which we reported last year. The Committee remains concerned at the impact of catastrophe losses in the recent 2017 and 2018 years, which has now resulted in the low or non-vesting of RSS awards for Executive Directors over a period of several years. The RSS scheme is intended to generate long-term equity alignment between our management and shareholders, and the 0% vesting of both the 2016 and 2017 awards is a cause of concern for the Committee and the Board. It was for this reason that the Committee and Board moved to the annual measurement of each year of the three-year performance awards at the beginning of 2018, principally to avoid the vesting levels of awards being dragged down on account of one or more years of exceptional loss activity. We therefore anticipate that RSS vesting levels will in future years be more balanced and less prone to volatility, which is in the best interests of shareholders and executive alignment.

The Committee believes in setting challenging performance criteria and having a significant proportion of the overall package linked to Company performance. However, the Committee also continues to recognise the need to ensure that Executive Directors are appropriately remunerated and incentivised even in the more challenging phases of the insurance cycle, as at present.

It is also important that the Committee and the Board ensure that Executive Director compensation is structured in such a way as to discourage excessive risk to the business.

Overall, in light of the annual and three-year performance delivered, the Committee notes the 0% vesting of the 2017 RSS awards but remains satisfied that there has been sufficient linkage between performance and reward for Executive Directors, albeit that arguably the overall remuneration outcomes for 2019 have been lower than might have been hoped for on account of the series of above average catastrophe loss events to the global insurance markets and the Group during 2017 and 2018, which were beyond the power of our Executive Directors to control, but which have been appropriately planned for. The Committee will continue to work towards ensuring that there is appropriate alignment between executive remuneration and Company performance in line with the Group's cross-cycle return expectations.

Application of Remuneration Policy for 2020

As mentioned above the Remuneration Committee conducted a full review of the Directors' Remuneration Policy in 2019, and the revised 2020 Policy will be put to shareholders for consideration at the 2020 AGM.

At the end of this section is the Annual Report on Remuneration, which provides detailed disclosure on how the Policy will be implemented for 2020 and how Directors have been paid in relation to 2019. During the year, Elaine Whelan decided to step down as an Executive Director from LHL with effect from 28 February 2020 and Natalie Kershaw has been appointed as her successor (see pages 9 and 13 for further details). The Board has decided to apply the targets for the annual bonus to be used in 2020 and to implement the three-year RSS awards for Executive Directors on substantially the same basis as agreed for 2019.

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, alongside the binding vote on the Remuneration Policy, and I hope that you will be able to support both resolutions at the forthcoming AGM. The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters and I welcome any feedback you may have.

Simon Fraser

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

As a company incorporated in Bermuda, LHL is not bound by UK law or regulation in the area of Directors' remuneration to the same extent that it applies to UK incorporated companies. However, by virtue of the Company's premium listing on the LSE, and for the purposes of explaining its compliance against the requirements of the Code, the Board is committed to providing full information on Directors' remuneration to shareholders. The Committee discussed the changes to the Code during 2018, for implementation during 2019, in particular with regard to the responsibilities of the Remuneration Committee and Board concerning the review and cognisance of workforce remuneration structures and the mechanisms for employees' engagement and feedback.

The Company's Remuneration Policy was approved by shareholders at the 2017 AGM, which was effective for a period of three years. The 2017 Remuneration Policy was developed taking into account the principles of the Code and the views of our major shareholders. As noted earlier, the Committee conducted a full review of the Remuneration Policy in 2019, with the amended 2020 Policy being put to shareholders for consideration at the 2020 AGM, and will be effective for the next three years (or until amended in any material respect by a decision of shareholders, if earlier).

The revised 2020 Remuneration Policy contains details of the Company's policy to govern future payments that will be made to Directors. Changes to the Policy are outlined by Simon Fraser on page 74 and are shown in italics in the Remuneration Policy table on pages 77 to 80. The Annual Report on Remuneration also details the remuneration paid to Directors in respect of the 2019 financial year in accordance with the shareholder-approved Policy.

Governance and approach

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

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

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- there is a high level of share ownership amongst current Executive Directors, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, corporate failure and material damage to the Group's business or reputation or the Executive Director ceasing to be a Director and/or employee due to gross misconduct (see page 78 for the full Policy details).

How the views of shareholders are taken into account

The Committee Chairman and, where appropriate, the Company Chairman consult with major investors and representative bodies on any significant remuneration proposal relating to Executive Directors. Views of shareholders at the AGM, and feedback received at other times, will be considered by the Committee. As noted above, in November 2019 the Committee Chairman conducted a consultation on behalf of the Committee with various shareholders and proxy advisory agencies to seek feedback on the Committee's plans for amendments to the 2020 Remuneration Policy and the plans for implementation for the Executive Directors for 2020. Feedback received was broadly supportive of the Committee's approach.

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 consult with employees on Executive Directors' remuneration, the Board and Committee did receive employee feedback. However, as noted above, the Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors. The Committee also reviews and approves the size of any annual bonus pot to be distributed amongst the staff population and the allocation of RSS awards, and its practice in this regard is well aligned with the expectations introduced within the revised Code.

Remuneration Policy table

Fixed pay	*2020 Remuneration Policy* *(showing material changes to the 2017 approved Remuneration Policy)* Note: changes introduced for the 2020 Policy are shown throughout the table in italics.
Base salary	
Purpose and link to strategy	Helps recruit, motivate and retain high-calibre Executive Directors by offering salaries at market competitive levels. Reflects individual experience and role.
Operation	Normally reviewed annually and fixed for 12 months, typically effective from 1 January. Positioning and annual increases influenced by: • role, experience and performance; • change in broader workforce salary; • changes to the size and complexity of the business; and • changes in responsibility or position. Salaries are benchmarked periodically against insurance company peers in the UK, U.S. and Bermuda.
Opportunity	No maximum.

Benefits	
Purpose and link to strategy	Market competitive structure to support recruitment and retention. Medical cover aims to ensure minimal business interruption as a result of illness.
Operation	Executive Directors' benefits may include healthcare, dental, vision, gym membership and life insurance. Other additional benefits may be offered from time to time that the Committee considers appropriate based on the Executive Director's circumstances. Executive Directors who are expatriates or are required to relocate may be eligible for a housing allowance or other relocation-related expenses. Any reasonable business-related expense can be reimbursed, including any personal tax thereon if such expense is determined to be a taxable benefit.
Opportunity	No maximum.

Pension	
Purpose and link to strategy	Contribution towards funding post-retirement lifestyle.
Operation	The Company operates a defined contribution pension scheme (via outsourced pension providers) or cash-in-lieu of pension. There is a salary sacrifice structure in the UK. There is the opportunity for additional voluntary contributions to be made by individuals, if elected.
Opportunity	Company contribution is currently 10% of base salary. *The maximum pension payable to both existing and new Executive Directors will be at a rate not greater than that which is available to the majority of the Group workforce.*

Remuneration Policy table continued

Annual bonus[1,2]	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
Purpose and link to strategy	Rewards the achievement of financial and personal targets.
Operation	The annual bonus is based on financial and personal performance. The precise weightings may differ each year, although there will be a greater focus on financial as opposed to personal performance. The Committee will have the ability to override the bonus outcome by either increasing or decreasing the amount payable (subject to the cap) to ensure a robust link between reward and performance. At least 25% of each Executive Director's bonus is automatically deferred into shares as nil-cost options or conditional awards over three years, with one-third vesting each subsequent year. A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil-cost options up to the point of exercise. The bonus is subject to clawback if: (i) the financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions of the bonus; *(ii) the Company has suffered an instance of corporate failure which has resulted in the appointment of a liquidator or administrator or resulted in the Company reaching a compromise arrangement with its creditors;* *(iii) the Company or the relevant business unit for which the participant works suffers damage to its business or reputation which, in the determination of the Committee, is at least partly due to a breach of corporate risk policies/tolerances and to a failure in the management of the Company or relevant business unit and to which the participant made a material contribution: and/or* (iv) the Executive ceased to be a Director or employee due to gross misconduct.
Opportunity	The maximum bonus for Executive Directors for achieving the target level of performance as a percentage of salary is 200% of salary. Maximum opportunity is two times target. Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.
Performance metrics	The weightings that apply to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will be at least 75% of the overall opportunity, and no more than 25% will be based on personal or strategic objectives. **Financial performance** The financial component is based on the Company's key financial measures of performance. For any year, these may include RoE, growth in BVS, profit, comprehensive income, combined ratio, investment return or any other financial KPI[3]. Typically, a sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. Up to 25% of the total bonus opportunity is payable for achieving threshold/median, rising to maximum bonus for stretch/upper quartile performance. The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. **Personal performance** Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the payout for this part of the bonus.

Long Term Incentives (LTI)	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
Purpose and link to strategy	Rewards Executive Directors for achieving superior returns for shareholders over a longer time frame. Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.
Operation[2,3]	RSS awards are normally made annually in the form of nil-cost options (or conditional awards) with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years. The number of awards will normally be determined by reference to the share price around the time of grant unless the Committee, at its discretion, determines otherwise. The Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set. Awards are subject to clawback if there is a material misstatement in the Company's financial statements, an error in the calculation of any performance conditions, *the Company has suffered an incident of corporate failure, material damage to the Group's business or reputation* or if the Executive Director ceases to be a Director or employee due to gross misconduct. A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise. The Committee has the discretion, in exceptional circumstances, to settle an award made to Executive Directors in cash. *The Committee has the discretion, in exceptional circumstances, to scale back RSS vesting outcomes or to impose additional vesting conditions. The use of such discretion should be limited to exceptional circumstances, such as a downturn in the performance of the individual or the Company or Group.* A two-year post-vesting holding period applies to awards made to Executive Directors since 2016.
Opportunity	Award levels are determined primarily by seniority. A maximum individual grant limit of 350% of salary applies. Note: The Committee may set the normal level of award at less than the percentage set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.
Performance metrics	Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant. These may include measures such as TSR, RoE/BVS, Company profitability, or any other relevant financial measures. If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remains appropriate. A sliding scale of targets applies for financial metrics with no more than 25% vesting for threshold performance. For TSR, none of this part of the award will vest below median ranking or achievement of an index. No more than 25% of this part of the award will vest for achieving median or index.

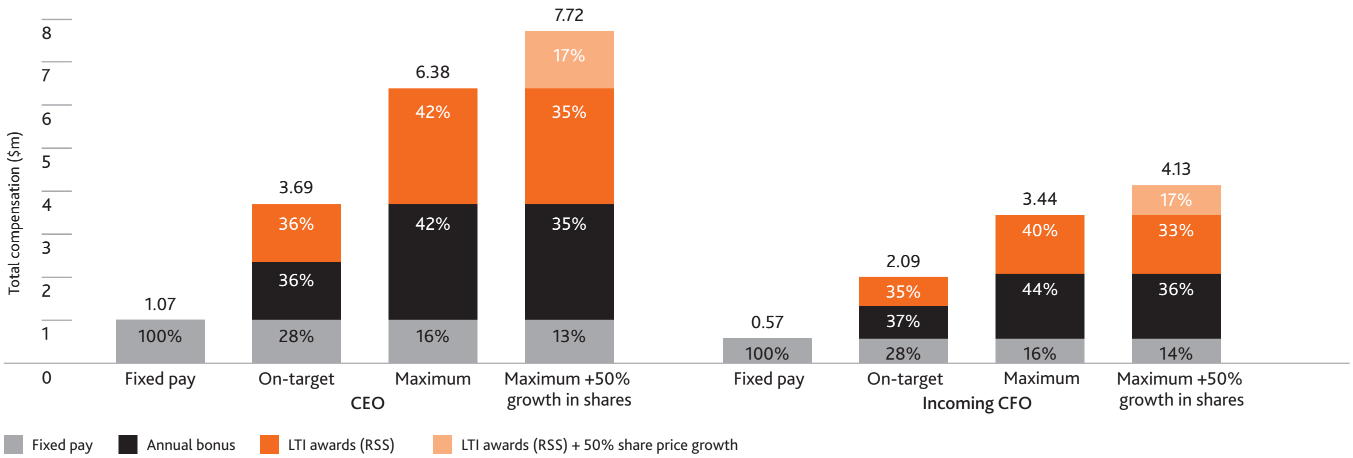
Remuneration Policy table continued

Share ownership guidelines and requirements[4]	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
	Under the guidelines, Executive Directors are expected to maintain an interest equivalent in value to no less than two times salary over time. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50% of the net of tax value of awards that vest under the RSS. *In respect of performance RSS and deferred bonus RSS awards made after 1 January 2020 there is to be a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.* *A nominee account may be established into which shares acquired under RSS awards (i.e. on exercise of (nil cost) options) will ordinarily be directed for the purposes of enforcing the guidelines and requirements.* *The Remuneration Committee shall retain a discretion to waive the requirements, in whole or in part, in exceptional circumstances such as death, critical illness or personal financial hardship.* *In the event of a change of control (takeover) of LHL the guidelines and requirements shall cease to apply on the date of such change of control.*
Chairman and Non-Executive Directors' fees	
Purpose and link to strategy	Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.
Operation	The Chairman is paid a single fee for his responsibilities as Chairman. The level of these fees is reviewed periodically by the Committee and the Group CEO by reference to broadly comparable businesses in terms of size and operations. In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken, including a Non-Executive Director role on a subsidiary board. Any reasonable business-related expenses (including any personal tax payable) can be reimbursed.
Opportunity	No maximum.

1. The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this Policy.
2. All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the Policy.
3. Performance measures: these may include the KPIs shown on pages 18 to 19 or others described within the Annual Report and Accounts Glossary commencing on page 171 or any other measure that supports the achievement of the Company's short to long-term objectives.
4. Share ownership interest equivalent is defined as wholly owned shares or the net of tax value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2020 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2020 Salary + Actual Value of 2019 Benefits + 2020 Pension Contribution.

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

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2020 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 2020 RSS grant + 50% share price appreciation (assuming 100% vesting with the face values of grant).

Approach to recruitment remuneration

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

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

The annual bonus and LTI potential would be in line with the Policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different bonus performance measures for the performance year during which he or she became an Executive Director. The Committee may grant an LTI award to an Executive 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 leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods (which may be less than three years), expected value and performance conditions.

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

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

Service contracts and loss of office payment policy for Executive Directors

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

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

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

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

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

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

Leaver on arranged terms or good leaver

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

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

Vested but unexercised deferred bonus RSS awards will remain exercisable. Unvested deferred bonus RSS awards will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date.

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

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

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

Terms of appointment for Non-Executive Directors

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

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

Legacy arrangements

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

For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy approved at the 2014 AGM and the current Policy which was approved by shareholders at the 2017 AGM, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this Annual Report and Accounts (including for current Executive Directors as detailed on page 90 of the Annual Report on Remuneration) remain eligible for vesting or exercise based on their original award terms.

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chairman's statement, as detailed on pages 74 and 75, will be subject to an advisory vote at the 2020 AGM. The following sections in respect of Directors' emoluments have been audited by KPMG:

- Single figure of remuneration.
- Non-Executive Director fees.
- 2020 annual bonus payments in respect of 2019 performance.
- Long-term share awards with performance periods ending in the year – 2017 RSS awards.
- Scheme interests awarded during the year.
- Loss of office payments.
- Performance and deferred bonus awards under the RSS.
- Directors' shareholdings and share interests.

Implementation of Remuneration Policy for 2020

Base salary and fees

Executive Directors

Increases and resulting salaries effective from 1 January 2020 are set out below:

- CEO – salary increased by 3% to $895,544.
- Outgoing CFO – salary increased by 3% to $614,941.
- Incoming CFO – salary has been set at $500,000.
- For 2020, increases of 3% are in line with the standard salary increases for Group employees.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2020:

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

Other fees

- Samantha Hoe-Richardson is a Non-Executive Director of LUK in which capacity she will receive a fee of approximately $63,644 per annum depending on prevailing exchange rates at times of payment as Samantha is remunerated in GBP.
- Simon Fraser is a Non-Executive Director of LSL in which capacity he will receive a fee of $80,000 per annum.

Annual bonus

For 2020, the Group CEO, outgoing Group CFO and incoming Group CFO will have a target bonus of 150% of salary and, therefore, a maximum opportunity of 300% of salary. This is within the approved policy limit and is in line with last year's opportunity and represents a maximum bonus opportunity which is 100% of salary less than the set policy limit.

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

Financial performance (75%)

The Company's most important financial KPI is RoE, which is the core indicator of the delivery of its strategic priorities of ensuring underwriting comes first, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on pages 14 and 15 of this Annual Report and Accounts). For 2020, the financial component for the annual bonus is to be based on the performance of the Group's RoE, measured as the internal rate of return of the change in FCBVS plus accrued dividends.

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

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

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

Personal performance (25%)

This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2020 personal objectives for each Executive Director.

Executive Director	Personal performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values.
Elaine Whelan	Effective transition of responsibilities to incoming CFO and incoming CEO for the LICL office. Contribution aligned to the Lancashire Group values.
Natalie Kershaw	Effective transition planning and implementation. Effective management of the finance function and participation in Group management and the Board. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Contribution aligned to the Lancashire Group values.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2020 annual performance reviews, each Executive Director will receive a performance rating which will determine the level of personal performance bonus payout for which each Executive Director will be eligible.

Restricted Share Scheme

Performance conditions

For Executive Directors, 2020 RSS awards are subject to a range based on (i) annual growth in FCBVS plus accrued dividends; and (ii) absolute TSR performance conditions, both measured by reference to a period ending on 31 December 2022. 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 2020, the weighting is 85% on annual growth in FCBVS plus accrued dividends and 15% on absolute TSR.

Target ranges

The annual growth in FCBVS plus accrued dividends target range for 2020 awards is:

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

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

The relevant element of the RSS award will not vest if annual growth in FCBVS plus accrued dividends 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 2020 awards is:

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

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

None of the award will vest if 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 that no part (or a lesser part) of the RSS award accrued over the full three-year period shall vest.

Award levels

2020 RSS award levels are as follows:

- Group CEO – RSS awards in respect of shares to the value of $2,686,632 (being 300% of salary)
- Outgoing Group CFO will receive no RSS awards in respect of 2020
- Incoming Group CFO – RSS awards in respect of shares to the value of $1,375,000 will be awarded upon commencement (being 275% of salary)

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

Post-vesting holding period

For RSS awards made in 2016 or subsequent years, Executive Directors 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 performance RSS awards made after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

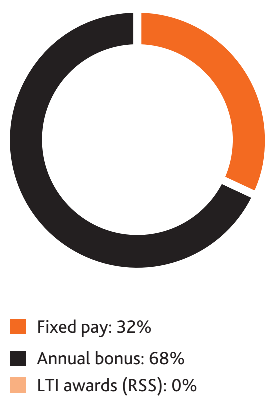
Single figure of remuneration

The following table presents the Executive Directors' emoluments in U.S. dollars in respect of the years ended 31 December 2019 and 31 December 2018.

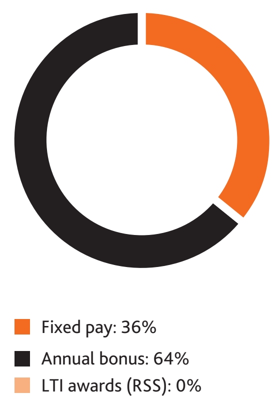
Executive Directors		Salary $	Pension $	Taxable benefits[1] $	Annual bonus[5] $	Long-term incentives (RSS)[2,3] $	Total[4] $
Alex Maloney[4], CEO	**2019**	**867,361**	**86,736**	**21,921**	**2,077,754**	**0**	**3,053,772**
	2018	846,910	84,691	24,879	474,826	0	1,431,306
Elaine Whelan[4], CFO	**2019**	**597,030**	**59,703**	**152,112**	**1,426,726**	**0**	**2,235,571**
	2018	579,967	57,795	234,144	326,048	0	1,197,954

The following charts set out the above disclosed 2019 total remuneration received by Executive Directors as a percentage of their total 2019 remuneration.

Alex Maloney



Elaine Whelan



1. Benefits comprise Bermuda payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the CFO), but exclude UK National Insurance contributions.
2. For 2019, the long-term incentive values are based on the 2017 RSS awards which vest at 0% and are based on a three-year performance period that ended on 31 December 2019.
3. For 2018, the long-term incentive values were based on the 2016 RSS awards which vested at 0% and were based on a three-year performance period that ended on 31 December 2018.
4. Some amounts were paid in Sterling and converted at the average exchange rate of 1.2738 for the year as they are set in U.S. dollars.
5. Bonus targets were set at the beginning of 2019 and are based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component paid out at 162.4% of target as the RoE for 2019 was 14.1% against a target level of RFRoR +8%. Final bonus payout to Executive Directors will be 80% of the maximum for the CEO and 80% of the maximum for the retiring CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 84 and 85. 25% of Executive Directors' annual bonus is deferred into RSS awards without performance conditions, vesting at 33.3% per year over a three-year period.

Non-Executive Directors' fees

		Fee $	Other $	Total $
Current Non-Executive Directors				
Peter Clarke	**2019**	**350,000**	**–**	**350,000**
	2018	350,000	–	350,000
Michael Dawson	**2019**	**175,000**	**–**	**175,000**
	2018	175,000	–	175,000
Simon Fraser	**2019**	**175,000**	**80,000**	**255,000**
	2018	175,000	80,000	255,000
Samantha Hoe-Richardson[1]	**2019**	**175,000**	**63,644**	**238,644**
	2018	175,000	67,099	242,099
Robert Lusardi	**2019**	**175,000**	**–**	**175,000**
	2018	175,000	–	175,000
Sally Williams[2]	**2019**	**168,884**	**–**	**168,884**
	2018	–	–	–
Former Non-Executive Directors				
Tom Milligan[3]	**2019**	**–**	**–**	**–**
	2018	43,750	–	43,750

1. Samantha Hoe-Richardson's LUK fees are paid in GBP and converted at the average exchange rate at the time of payment.
2. Sally Williams was appointed on 10 July 2018 as a Non-Executive Director and her appointment took effect on 14 January 2019. Her 2019 fees were proportionally pro-rated for the year.
3. Tom Milligan retired as a Non-Executive Director effective 31 March 2018. His 2018 fees were proportionally pro-rated for the year and no fees were paid for 2019.

2020 annual bonus payments in respect of 2019 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.

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. The RoE is 14.1%.

Financial performance

75% of the 2019 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
Absolute RoE	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	14.1	162.4% of target payable in respect of Company performance

In 2019, financial returns were above the target levels. Bonus targets were set at the beginning of 2019 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The Company financial performance component paid out at 162.4% of target as RoE was 14.1% against a target level of RFRoR +8% and a threshold of RFRoR +6%.

Personal performance

25% of the 2019 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 2019 personal objectives for each Executive Director.

Executive Director	Personal performance	Factors relevant to the Board's determination for the 2019 performance year
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values.	Delivering a team of employees with strong professional skills at all levels throughout the Group. Achieving controlled organic growth in the business during the year (see pages 16 to 17 for further details). Global employee engagement survey delivered exceptional results giving evidence of a healthy corporate culture within the business (see pages 40 to 43 for further details).
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Group values.	Delivering a team of employees with strong professional skills at all levels throughout the Group. Delivering strong leadership of the Group's investment function (see pages 68 to 69 for further details). Material progress made on the IFRS 17 implementation project (see pages 63 and 112 for further details) which marks an enhancement to the Group's IT and finance systems.

The personal targets were broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles and performance targets relating to areas of personal development.

During the 2019 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 2019 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 Chairman and members of the Board. The outcomes are expressed as a percentage of the maximum award as illustrated in the table below. The Board considers the business to be well positioned for the business opportunities and challenges which lie ahead.

A table of performance measures and total 2019 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[1] $	Value of bonus paid in cash (75% of total bonus) $	Value of bonus deferred into RSS awards (25% of total bonus)[1] $
Alex Maloney	75	25	80	2,077,754	1,558,315	519,439
Elaine Whelan	75	25	80	1,426,726	1,070,044	356,682

1. 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 2021, 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 – 2017 RSS awards

The 2017 RSS awards were based on a three-year performance period ending on 31 December 2019 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 0%, and the actual number of awards vesting.

	TSR (relative to a comparator group of 11 companies) (relevant to 25% of the 2017 RSS awards)		Average annual RoE (over three years in excess of 13-week Treasury bill rate) (relevant to 75% of the 2017 RSS awards)	
Performance level	Performance required	% vesting	Performance required (%)	% vesting
Below threshold	Below median	0	Below 6	0
Threshold	Median	25	6	25
Stretch or above	Upper quartile or above	100	13 or above	100
Actual achieved	Below median	0	3.5	0

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

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[1] $	Value of shares including dividend accrual[2] $
Alex Maloney	286,666	286,666	0	0	0
Elaine Whelan	180,441	180,441	0	0	0

1. Dividends accrue on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards net of tax required.
2. The value of the vested shares is based on the 2017 RSS awards which vest at 0% and are based on a three-year performance period that ended on 31 December 2019.

Scheme interests awarded during the year

The table below sets out the performance RSS awards that were granted as nil-cost options on 22 February 2019.

Executive Director	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] $	% vesting at threshold performance
Alex Maloney	22-Feb-2019	306,915	2,608,388	25
Elaine Whelan	22-Feb-2019	193,186	1,641,836	25

1. The awards were based on the five-day average closing share price prior to the award date, being £6.54 (a share price of $8.50 based on the exchange rate of 1.2995) 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 2021 and becoming exercisable in the first open period following the release of the Company's 2021 year-end results after the meeting of the Board in February 2022.
3. The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Loss of office payments

There were no loss of office payments during the 2019 year.

Details of all outstanding share awards

In addition to awards made during the 2019 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

Performance and deferred bonus awards under the RSS

		Grant date[1]	Exercise price	Awards held at 1-Jan-19	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-19	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	18-Feb-16	–	219,254	–	–	**219,254**	–	–	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	18,741	–	**18,741**	–	**18,741**	–	
	Performance RSS[2,3]	14-Mar-17	–	286,666	–	–	–	–	**286,666**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	35,477	–	**17,739**	–	**17,739**	**17,738**	
	Performance RSS[3,5]	23-Feb-18	–	315,762	–	–	–	–	**315,762**	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	13,090	–	**4,363**	–	**4,363**	**8,727**	
	Performance RSS[3,5]	22-Feb-19	–	–	**306,915**	–	–	–	**306,915**	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	–	**13,968**	–	–	–	**13,968**	
Total				**888,990**	**320,883**	**40,843**	**219,254**	**40,843**	**949,776**	
Elaine Whelan, Group CFO & LICL CEO	Performance RSS[2,3]	18-Feb-16	–	157,104	–	–	**157,104**	–	–	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	12,869	–	**12,869**	–	**12,869**	–	
	Performance RSS[2,3]	14-Mar-17	–	180,441	–	–	–	–	**180,441**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	24,361	–	**12,181**	–	**12,181**	**12,180**	
	Performance RSS[3,5]	23-Feb-18	–	198,755	–	–	–	–	**198,755**	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	9,663	–	**3,221**	–	**3,221**	**6,442**	
	Performance RSS[3,5]	22-Feb-19	–	–	**193,186**	–	–	–	**193,186**	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	–	**9,592**	–	–	–	**9,592**	
Total				**583,193**	**202,778**	**28,271**	**157,104**	**28,271**	**600,596**	

1. The market values of the common shares on the dates of grant were:
   - 18 February 2016 £6.17
   - 11 March 2016 £5.37
   - 14 March 2017 £7.02
   - 23 February 2018 £5.69
   - 22 February 2019 £6.54
2. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 25% of each award is subject to a performance condition measuring the TSR performance of the Company against the TSR performance of a select group of comparator companies (see page 92 for a list of comparator companies for each grant year), over a three-year performance period. 25% of this part of the award vests for median performance by the Company, rising to 100% vesting of this part of the award for upper quartile performance by the Company or better (with proportionate vesting between these two points).
   - The other 75% of each award is subject to a performance condition based on average annual RoE over a three-year performance period. 25% of this part of the award will vest if average annual RoE over the performance period exceeds the criteria set out in the table on page 91, whilst all of this part of the award will vest if the Company's average RoE is equal to the more stringent criteria set out in the table on page 91. Between these two points vesting will take place on a straight-line basis from 25% to 100% for RoE performance.
3. The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:
   - 2016 – 14 February 2019;
   - 2017 – 13 February 2020;
   - 2018 – first open period following the release of the Company's 2020 year-end results; and
   - 2019 – first open period following the release of the Company's 2021 year-end results.
4. The vesting dates of the RSS deferred bonus awards are subject to being out of a closed period and, for the 2016 to 2019 deferred bonus awards, are as follows:
   - 2016 – 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 2016, 2017 and 2018;
   - 2017 – 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 2017, 2018 and 2019;
   - 2018 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2018, 2019 and 2020; and
   - 2019 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2019, 2020, and 2021.
5. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 15% of each award is subject to a performance condition measuring the absolute 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 annual growth in FCBVS plus accrued dividends over a three-year performance period. 25% of this part of the award will vest if annual growth in FCBVS plus accrued dividends over the performance period exceeds the criteria set out in the table on page 91, whilst all of this part of the award will vest if the Company's annual growth in FCBVS plus accrued dividends is equal to the more stringent criteria set out in the table on page 91. 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.

Relative TSR targets for RSS (25% weighting)

	2016	2017
100%	75th percentile	75th percentile
25%	= median	= median
Nil	< median	< median

ROE targets for RSS (75% weighting)

	2016	2017*
100%	RFRoR +15%	13%
25%	RFRoR + 6%	6%
Nil	< RFRoR + 6%	< 6%

* Average annual growth in FCBVS plus accrued dividends.

Absolute TSR targets for RSS (15% weighting)

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

Annual growth in FCBVS plus accrued dividends targets for RSS (85% weighting)

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

* See pages 85 and 86 for the vesting methodology to be applied for the 2018 and onwards RSS awards.

Historical peer group data for 2017 and prior RSS awards (relative TSR element)

Peer companies[10]	2016 awards	2017 awards
Arch Capital Group Limited[1, 3]	X	X
Argo Group International Holdings, Ltd.	X	X
Aspen Insurance Holdings Limited[2]	X	X
Axis Capital Holdings Limited	X	X
Beazley plc	X	X
Endurance Specialty Holdings Ltd.[3,6]	X	–
Everest Re Group, Ltd.[4]	X	X
Greenlight Capital Re, Ltd.[8]	X	X
The Hanover Insurance Group[5]	X	X
Hiscox Ltd.	X	X
Novae Group plc[6,7]	X	X
Renaissance Re Holdings Ltd.	X	X
Third Point Reinsurance Ltd.[9]	X	X
Validus Holdings Ltd.[8]	X	X
XL Group Ltd[7,9]	X	X

1. Arch Capital Group Limited was added to the peer group of companies with effect from 1 October 2016 as a replacement for Endurance Specialty Holdings Ltd.
2. Apollo Funds announced on 28 August 2018 that it intended to acquire all outstanding common shares of Aspen Insurance Holdings Limited ('Aspen'). As a result of this acquisition, Aspen ceased to be in the comparator peer group from 30 June 2018.
3. Sompo Holdings Inc. announced on 5 October 2016 that it intended to acquire Endurance Specialty Holdings Ltd. ('Endurance'). The transaction subsequently achieved shareholder approval. Accordingly, the Committee decided to use Arch Capital Group Limited as a comparator company with effect from 1 October 2016 as a replacement for Endurance.
4. Everest Re Group, Ltd. was added to the peer group of companies with effect from 1 July 2015 as a replacement for Amlin plc.
5. The Hanover Insurance Group was added to the peer group of companies with effect from 1 January 2015 as a replacement for Montpelier Re Holdings Ltd.
6. Novae Group plc was added to the peer group of companies with effect from 1 January 2015 as a replacement for Catlin Group Ltd.
7. Novae Group plc was acquired by Axis Capital Holdings Limited with effect from 2 October 2017 and so was used as a comparator company up to 30 June 2017 and was replaced by XL Group Ltd as of 1 July 2017.
8. American International Group, Inc. announced on 22 January 2018 that it was set to acquire Validus Holdings Ltd. ('Validus'). Accordingly, the Committee decided to use Greenlight Capital Re, Ltd as a comparator company with effect from 1 January 2018 as a replacement for Validus.
9. AXA announced on 5 March 2018 that it had entered into an agreement to acquire 100% of XL Group Ltd, which was approved by XL Group Ltd's common shareholders on 6 June 2018. Accordingly, the Committee decided to use Third Point Reinsurance Ltd as a comparator company with effect from 1 January 2018 as a replacement for XL Group Ltd.
10. For 2018 and onwards RSS awards the Board adopted a range of absolute TSR targets. See page 91 for further details.

Directors' shareholdings and share interests

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

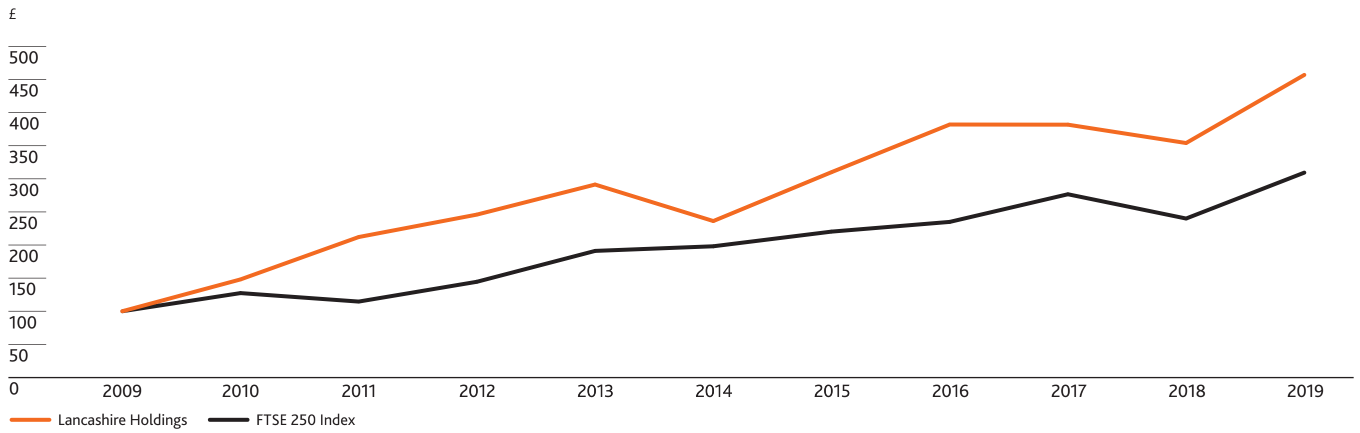
Details of the Directors' interests in shares are shown in the table below.

	Number of common shares						
	Total as at 1 January 2019	As at 31 December 2019					
Directors		Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	Shareholding guideline achieved?
Alex Maloney	1,546,714	**679,308**	**40,433**	**909,343**	**N/A**	**1,629,084**	**Yes**
Elaine Whelan	1,210,362	**654,106**	**28,214**	**572,382**	**N/A**	**1,254,702**	**Yes**
Peter Clarke	60,000	**60,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Michael Dawson	11,000	**15,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Simon Fraser	1,000	**1,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Samantha Hoe-Richardson	5,356	**5,356**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Robert Lusardi	8,000	**8,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Sally Williams	N/A	**1,422**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

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

Performance graph and total remuneration history for Group CEO

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



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2019, of £100 invested in LHL on 31 December 2008 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

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

	2010	2011	2012	2013	2014[1]	2014[2]	2015	2016	2017	2018	2019
Total remuneration ($000s)	9,945	9,623	10,460	10,175	10,072	2,405	**3,853**	**3,800**	**1,943**	**1,431**	**3,054**
Annual bonus (%)	94	73	73	80	80	73	**72**	**76**	**17**	**19**	**80**
LTI vesting (%)	99.6	100	99	100	61[1]	50	**75**	**67**	**22.5**	**0**	**0**

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 at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.
2. Alex Maloney was appointed Group CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.

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

Percentage change in Group CEO remuneration

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

	Year-on-year change CEO[2] %	Average year-on-year change employees[1,3] %
Base salary	2	15
Benefits	-1	34
Bonus[4]	338	93

1. Employee numbers were calculated on a per permanent employee headcount basis for the years ending 31 December 2019 and 31 December 2018, adjusted for any joiners and leavers during this period.
2. The underlying salary increase from 2018 to 2019 for the Group CEO was 3%. However some amounts were paid in Sterling and converted at the average exchange rate of 1.2738 for the year, which has resulted in the overall 2% base salary year-on-year change above.
3. The underlying salary increase from 2018 to 2019 for Group employees was a standard 3%. The 15% increase reflects staff promotions and other adjustments made during the year.
4. The year-on-year bonus increase is reflective of the better performance year observed in 2019 compared to the higher than normal catastrophe year of 2018.

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 2019 compared with the year ended 31 December 2018.

	2019 $m	2018 $m	Percentage change %
Employee remuneration costs	**78.5**	56.9	38
Dividends	**30.2**	70.2	-57

The principal factor influencing the year-on-year increase in employee remuneration costs was the improvement in RoE for 2019 to 14.1% from RoE of 2.4% for 2018.

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2019, please refer to page 72 of this Annual Report and Accounts. The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website. These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

The Remuneration Committee is advised by the Executive Compensation practice at Aon plc ('Aon'). Aon was appointed by the Remuneration Committee in 2007. Aon has discussions with the Remuneration Committee Chairman regularly on Committee process and topics which are of particular relevance to the Company.

Aon Reinsurance Solutions (which is part of Aon but is a separate business division) provides reinsurance broking services to the Group.

The primary role of Aon is to provide independent and objective advice and support to the Committee's Chairman and members. In order to manage any possible conflict of interest, Aon operates as a distinct business within the Aon Group and there is a robust separation between the business activities and management of Aon and all other parts of the wider Aon Group. The Committee is satisfied that the advice that it receives is objective and independent. Aon is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to Aon in respect of its services to the Committee for the year ended 31 December 2019 were $81,643 (2018 – $71,334). 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 2017 Remuneration Policy; any matters discussed with shareholders during the year are provided in the Annual Statement for 2019 starting on page 74.

	Vote to approve 2018 Annual Report on Remuneration (at the 2019 AGM)		Vote to approve 2017-2019 Remuneration Policy (at the 2017 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	**148,941,195**	**89.4**	144,229,951	94.8
Against	**17,672,221**	**10.6**	7,870,777	5.2
Total	**166,613,416**	**100.0**	152,100,728	100.0
Abstentions	**526,656**		9,125,993	

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

Simon Fraser
Chairman of the Remuneration Committee

12 February 2020

Overview of the Group

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

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

Principal activities

The Company's principal activity, through its wholly-owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, the holding company of LSL, and in June 2013 established Kinesis (now LCM), a third-party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the business review on pages 24 to 29.

Dividends

During the year ended 31 December 2019, the following dividends were declared:

- a final dividend of $0.10 per common share was declared on 13 February 2019 and paid on 27 March 2019 in pounds sterling at the pound/U.S. dollar exchange rate of 1.3029 or £0.0768 per common share; and
- an interim dividend of $0.05 per common share was declared on 24 July 2019 and paid on 6 September 2019 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2091 or £0.0414 per common share.

Dividend policy

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) ordinary dividend, supplemented by special dividends from time-to-time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual ordinary dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

Current Directors

- Peter Clarke (Non-Executive Chairman)
- Michael Dawson (Non-Executive Director)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Robert Lusardi (Non-Executive Director)
- Alex Maloney (Chief Executive Officer)
- Elaine Whelan (Chief Financial Officer)
- Sally Williams (Non-Executive Director)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2019 and 2018, including interests held by family members, were as follows:

Directors	Common shares held as at 31 December 2019	Common shares held as at 31 December 2018
Peter Clarke	**60,000**	60,000
Michael Dawson[1]	**15,000**	11,000
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**5,356**	5,356
Robert Lusardi	**8,000**	8,000
Alex Maloney[2]	**679,308**	657,724
Elaine Whelan[3]	**654,106**	627,169
Sally Williams[4]	**1,422**	N/A

There have been no changes in Directors' shareholdings between the end of the financial year and the date of this report.

1. Michael Dawson conducted the following transactions in the Company's shares during 2019:
   - 26 July – purchase of 4,000 shares at a price of £7.05 costing £28,200.
2. Includes 155,722 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2019:
   - 2 August – exercise of 40,843 deferred bonus RSS awards and related sale of 19,259 shares to cover tax liabilities, at a price of £7.03 realising £135,390.77.
3. Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2019:
   - 20 February – exercise of 28,271 deferred bonus RSS awards and related sale of 1,334 shares to cover tax liabilities, at a price of £6.50 realising £8,671.
4. Sally Williams was appointed to the Board with effect from 14 January 2019 and conducted the following transactions in the Company's shares during 2019:
   - 26 July – purchase of 1,414 shares at a price of £7.09 costing £10,018.19.
   - 10 September – acquired 8 shares through an automatic dividend reinvestment scheme at a price of £7.10 costing £56.84.

Transactions in own shares

The Company did not repurchase any of its own common shares during 2019 or 2018.

The Company's current repurchase programme has 20,194,192 common shares remaining to be purchased as at 31 December 2019 (approximately $205.4 million at the 31 December 2019 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 165. The repurchase programme is subject to renewal at the 2020 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 74 to 95.

Substantial shareholders

As at 12 February 2020, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Name	Number of shares as at 12 February 2020	% of shares in issue
Invesco Limited	31,911,749	15.72
Setanta Asset Management Limited	27,400,626	13.51
Merian Global Investors	11,087,705	5.46
Frank W Cawood & Associates	9,302,300	4.58
Troy Asset Management Limited	8,824,666	4.35
Vanguard Group	8,565,704	4.22
BlackRock, Inc.	8,297,885	4.09
GLG Partners	7,661,224	3.78
Dimensional Fund Advisors LP	7,469,834	3.68

Corporate governance – compliance statement

The Company's compliance with the Code is summarised in the corporate governance section of this Annual Report and Accounts on pages 48 to 49.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain' that the Company has applied the principles and complied with the provisions and guidance set out in the UK Corporate Governance Code throughout the year ended 31 December 2019.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions

The Group's greenhouse gas emissions are detailed in the engagement and sustainability section of this Annual Report and Accounts on page 44.

Employees

The Group is an equal opportunity employer, and does not tolerate unfair discrimination of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other employment policies are available to all employees in the staff handbook which is located on the Group's intranet.

Creditor payment policy

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 30 to 32 and in the risk disclosures section on pages 118 to 142 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 131 to 133.

Accounting standards

The Group's consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

Annual General Meeting

The Notice of the 2020 AGM, to be held on 29 April 2020 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 web communications

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

Going concern and viability statement

The business review section on pages 24 to 29 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 33 to 39. Starting on page 118, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The three-year strategic plan was last approved by the Board on 24 July 2019. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2019, 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. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2022, being the period considered under the Group's current three-year strategic plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2020 AGM to re-appoint KPMG as the Company's auditors and to authorise the Directors to set the auditor's 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

12 February 2020

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 and prudent;
- 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

12 February 2020