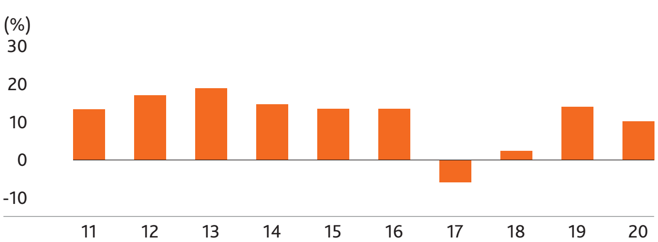
Supporting growth

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

Natalie Kershaw
Group Chief Financial Officer

Change in FCBVS (previously termed 'RoE')



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

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

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

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

How have you reserved for COVID-19 losses?

As we detail on page 26, the COVID-19 loss is unique for the market in that the event is ongoing and has impacts across multiple product lines. This makes it exceptionally difficult to reserve for and also means that any ultimate loss estimates are inherently uncertain. We have considerable experience in reserving for catastrophe events and used the same approach and philosophy to reserve for the Group's COVID-19 claims. A team from across the Group, including underwriters, claims and actuarial personnel, as well as senior management, reviewed all lines of business to assess the likelihood of claims arising. Our approach has therefore been 'bottom-up' by contract and class rather than estimating a market share of an industry loss. Our COVID-19 losses are largely focused in the property classes. We do not have exposure to losses in insurance lines that have been heavily impacted by COVID-19, including travel insurance; trade credit; and long-term life and prior to the COVID-19 pandemic did not write Directors' and Officers' liability or medical malpractice. The Group underwrites a small number of event cancellation contracts and has minimal exposure through mortgage, accident and health business.

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

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

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

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

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

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

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

Natalie Kershaw
Group Chief Financial Officer

Financial highlights

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

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