A balanced Board

Peter Clarke
Non-Executive Chairman

Date of appointment to the Board: 9 June 2014

Board meeting attendance: 5/5

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

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

Alex Maloney
Group Chief Executive Officer

Date of appointment to the Board: 5 November 2010

Board meeting attendance: 5/5

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

Natalie Kershaw
Group Chief Financial Officer

Date of appointment to the Board: 1 March 2020

Board meeting attendance: 4/4

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

Michael Dawson
Non-Executive Director

Date of appointment to the Board: 3 November 2016

Board meeting attendance: 5/5

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

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

Key

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

Simon Fraser
Senior Independent Non-Executive Director

Date of appointment to the Board: 5 November 2013

Board meeting attendance: 5/5

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

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

Samantha Hoe-Richardson
Non-Executive Director

Date of appointment to the Board: 20 February 2013

Board meeting attendance: 5/5

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

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

Robert Lusardi
Non-Executive Director

Date of appointment to the Board: 8 July 2016

Board meeting attendance: 5/5

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

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

Sally Williams
Non-Executive Director

Date of appointment to the Board: 14 January 2019

Board meeting attendance: 5/5

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

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

Christopher Head
Company Secretary

Board meeting attendance: N/A

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

Board Committees

Board and Committee administration

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

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

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

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

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

The Directors

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

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

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

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

Information and training

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

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

Board performance evaluation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relations with shareholders

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

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

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

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

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

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

Enterprise risk management

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

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

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

Committees

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

Audit Committee

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

Samantha Hoe-Richardson
Chair of the Audit Committee

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

Committee membership

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

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

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

Principal responsibilities of the Committee

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

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

How the Committee discharged its responsibilities

Financial and narrative reporting

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

External audit

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

Internal audit

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

Internal controls and risk management systems

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

Significant areas of judgement and estimation

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

Going concern basis of accounting

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

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

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

The valuation of loss reserves and expenses

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

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

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

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

The fair value of financial instruments

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

The valuation of intangible assets

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

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

Implementation plans for IFRS 9 and IFRS 17

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

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Nomination Corporate Governance and Sustainability Committee

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

Peter Clarke
Chair of the Nomination Corporate Governance and Sustainability Committee

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

Committee membership

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

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

Corporate governance

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

Sustainability

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

Environment

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

Social responsibility

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

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Gender diversity

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

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

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

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

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

Investment Committee

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

Robert Lusardi
Chair of the Investment Committee

Committee membership

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

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

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

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

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

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

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

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

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

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

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

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

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

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

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Underwriting and Underwriting Risk Committee

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

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

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

Committee membership

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

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

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

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

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

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

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

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

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

Regarding business development opportunities, the Committee:

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

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

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

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

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Remuneration Committee

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

Simon Fraser
Chair of the Remuneration Committee

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

Committee membership

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

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

Principal responsibilities of the Committee

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

How the Committee discharged its responsibilities

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

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

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

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

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

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

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

Priorities for 2021

The Committee's key priorities for 2021 are:

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

Annual statement

Dear Shareholder,

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

Shareholder engagement and Remuneration Policy review

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

Remuneration and strategy

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

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

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

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

Transition in the Group CFO role

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

Performance outcomes for 2020 – managing risk and building opportunity

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

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

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

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

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

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

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

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

Application of Remuneration Policy for 2021

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

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

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

Simon Fraser

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

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

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

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

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

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

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

Governance and approach

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

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

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

How the views of shareholders are taken into account

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

How the views of employees are taken into account

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

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

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

Remuneration Policy table

Fixed pay

Base salary

Purpose and link to strategy

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

Reflects individual experience and role.

Operation

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

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

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

Opportunity

No maximum.

Benefits

Purpose and link to strategy

Market competitive structure to support recruitment and retention.

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

Operation

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

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

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

Opportunity

No maximum.

Pension

Purpose and link to strategy

Contribution towards funding post-retirement lifestyle.

Operation

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

There is a salary sacrifice structure in the UK.

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

Opportunity

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

Annual bonus[1,2]

Purpose and link to strategy
Rewards the achievement of financial and personal targets.

Operation
The annual bonus is based on financial and personal performance.

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration Policy table continued

Long Term Incentives (LTI)

Purpose and link to strategy

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

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

Operation[2,3]

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

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

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

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

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

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

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

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

Opportunity

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

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

Performance metrics

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

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

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

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

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

Share ownership guidelines and requirements[4]

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

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

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

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

Chairman and Non-Executive Directors' fees

Purpose and link to strategy

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

Operation

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

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

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

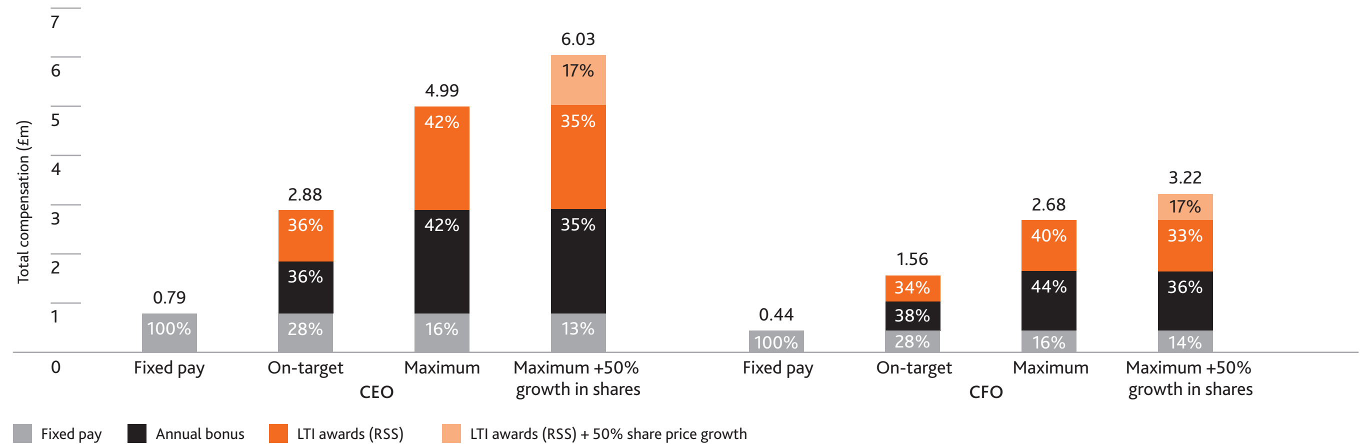
Opportunity

No maximum.

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

Illustrations of annual application of Remuneration Policy

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



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

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

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

Approach to recruitment remuneration

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

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

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

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

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

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

Service contracts and loss of office payment policy for Executive Directors

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

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

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

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

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

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

Leaver on arranged terms or good leaver

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

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

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

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

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

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

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

Terms of appointment for Non-Executive Directors

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

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

Legacy arrangements

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

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

Annual Report on Remuneration

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

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

Implementation of Remuneration Policy for 2021

Base salary and fees

Executive Directors

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

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

Salaries effective from 1 January 2021 are set out below:

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

Non-Executive Directors

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

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

Other fees

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

Annual bonus

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

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

Financial performance (75%)

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

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

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

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

Personal performance (25%)

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

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

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

Restricted Share Scheme

Performance conditions

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

Weighting

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

Target ranges

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

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

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

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

The TSR target range for 2021 awards is:

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

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

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

Overriding downwards discretion

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

Award levels

2021 RSS award levels are as follows:

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

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

Post-vesting holding period

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

Post-employment holding requirements

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

Single figure of remuneration

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

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

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

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

Alex Maloney

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

Natalie Kershaw

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

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

Non-Executive Directors' fees

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

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

2021 annual bonus payments in respect of 2020 performance

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

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

Financial performance

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

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

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

Personal performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Scheme interests awarded during the year

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

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

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

Loss of office payments

RETIREMENT ARRANGEMENTS FOR ELAINE WHELAN

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

Details of all outstanding share awards

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

Performance and deferred bonus awards under the RSS

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

Performance and deferred bonus awards under the RSS continued

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

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

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

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

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

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

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

Directors' shareholdings and share interests

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

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

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

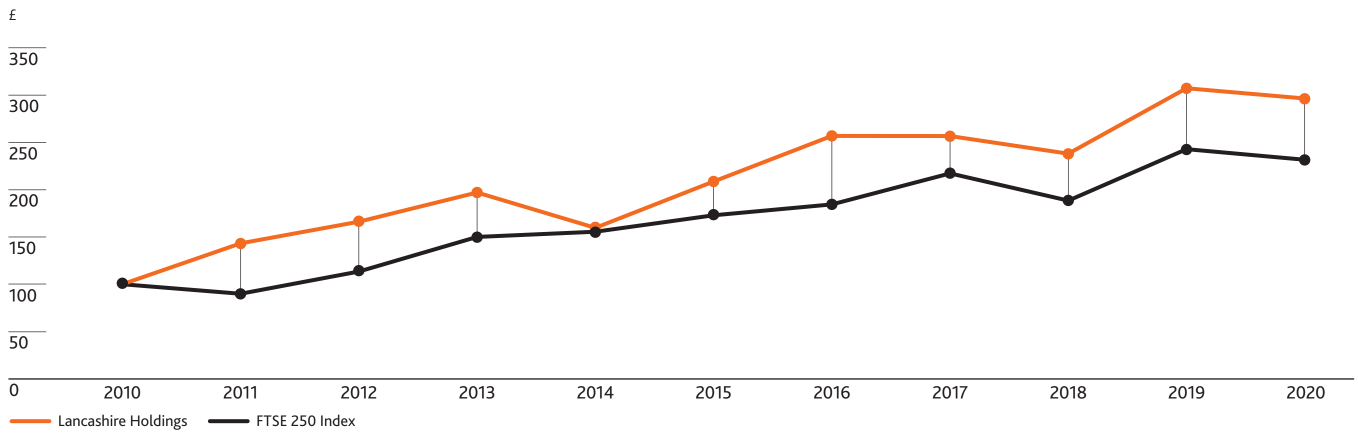
Note: Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus and/or non-performance RSS awards. Shares include those owned by persons closely associated with the relevant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

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

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

Performance graph and total remuneration history for Group CEO

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



Source: Datastream (Thomson Reuters)

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

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

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

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

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

Percentage change in Directors' remuneration

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

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

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

Relative importance of the spend on pay

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

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

The principal factor influencing the year-on-year increase in employee remuneration costs reflects headcount increases across all locations, staff promotions and other adjustments made during the year. The Group has not utilised any COVID-19 related government grants or financial support programme and no employees have been furloughed during the year ended 31 December 2020.

CEO pay ratio

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

Committee members, attendees and advice

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

Remuneration Committee adviser

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

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

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

Engagement with shareholders

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

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

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

Simon Fraser
Chairman of the Remuneration Committee

9 February 2021

Overview of the Group

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

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

Principal activities

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

Dividends

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

- a final dividend of $0.10 per common share was declared on 12 February 2020 subject to shareholder approval, which was received at the 2020 AGM. The final dividend was paid on 5 June 2020 in pounds sterling at the pound/U.S. dollar exchange rate of 1.23195 or £0.08117 per common share; and
- an interim dividend of $0.05 per common share was declared on 28 July 2020 and paid on 11 September 2020 in pounds sterling at the pound/U.S. dollar exchange rate of 1.31045 or £0.03815 per common share.

Dividend policy

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

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

Current Directors

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

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2020 and 2019, including interests held by family members, were as follows:

Directors	**Common shares held as at 31 December 2020**	Common shares held as at 31 December 2019
Peter Clarke	**60,000**	60,000
Michael Dawson	**15,000**	15,000
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**5,356**	5,356
Natalie Kershaw[1]	–	N/A
Robert Lusardi	**8,000**	8,000
Alex Maloney[2]	**693,445**	679,308
Elaine Whelan[3]	**671,997**	654,106
Sally Williams	**1,422**	1,422

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

1. Natalie Kershaw was appointed to the Board with effect from 1 March 2020.
2. Includes 155,722 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2020:
   - 26 February 2020 – exercise of 17,738 deferred bonus RSS awards and related sale of 12,621 shares to cover tax liabilities, at a price of £7.64 realising £96,487.54.
3. Elaine Whelan ceased being a Director on 28 February 2020. Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2020:
   - 19 February 2020 – exercise of 18,599 deferred bonus RSS awards and related sale of 728 shares to cover tax liabilities, at a price of £7.98 realising £5,813.08.

Transactions in own shares

The Company did not repurchase any of its own common shares during 2020 or 2019.

The Company's current repurchase programme has 20,294,192 common shares remaining to be purchased as at 31 December 2020 (approximately $200.1 million at the 31 December 2020 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 172. The repurchase programme is subject to renewal at the 2021 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 82 to 104.

Substantial shareholders

As at 9 February 2021, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Name	Number of shares as at 9 February 2021	% of shares in issue
Setanta Asset Management Limited	22,687,173	9.30
Baillie Gifford	17,337,051	7.11
BlackRock, Inc.	16,020,519	6.57
Troy Asset Management Limited	13,688,024	5.61
Wellington Management	11,879,139	4.87
Vanguard Group	11,444,676	4.69
Polar Capital	11,247,392	4.61
GLG Partners	9,467,643	3.88
Frank W Cawood & Associates	9,302,300	3.81
Invesco	7,932,821	3.25

Corporate governance – compliance statement

The Company's compliance with the Code is detailed in the environment & social reporting and governance sections of this Annual Report and Accounts on pages 42 to 66 and more particularly in Peter Clarke's introduction to those sections on page 42.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain' that the Company has applied the principles and complied with the provisions and guidance set out in the UK Corporate Governance Code throughout the year ended 31 December 2020.

Health and safety

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

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

Greenhouse gas emissions

The Group's greenhouse gas emissions are detailed in the engagement and sustainability section of this Annual Report and Accounts on page 53.

Employees

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

Creditor payment policy

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

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 30 to 33 and in the risk disclosures section on pages 131 to 152 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 128 to 129.

Accounting standards

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

Annual General Meeting

The Notice of the 2021 AGM, to be held on 28 April 2021 at the Company's head office, Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The Notice of the AGM is also available on the Company's website.

Electronic and website communications

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

Going concern and viability statement

The business review section on pages 25 to 29 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 34 to 41. Starting on page 131, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, climate change, pandemic, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The three-year strategic plan was last approved by the Board on 28 July 2020. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2020, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of severe but plausible scenarios and the impact on capital evaluated. As we note in the Audit Committee report on page 67 and throughout this Annual Report and Accounts, the Board had a particular focus on the impacts of COVID-19, as a liability event impacting the policies underwritten by the Group, as a shock to the global investment markets, as an operational risk to the business and in terms of the strategic risks and opportunities posed. The Audit Committee also considered a formal and thorough 'going concern' analysis from management at both its July 2020 and February 2021 meetings (for further details see page 71 in the Audit Committee report). The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2023, being the period considered under the Group's current three-year strategic plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2021 AGM to re-appoint KPMG LLP as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Christopher Head
Company Secretary

9 February 2021

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. Where IFRS, as adopted by the EU, is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. Further detail on the basis of preparation is described in the consolidated financial statements.

In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS as adopted by the EU are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, and also have general responsibility for safeguarding the assets of the Group, and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- the strategy and the business review sections of this Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

9 February 2021