BUILDING ON STRONG

FOUNDATIONS

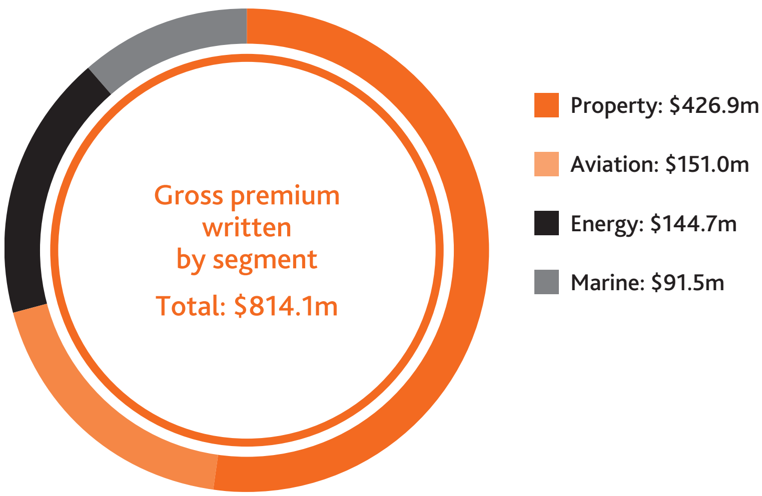
The talents of our people set us apart from our competitors

25 YEARS

average industry experience among senior underwriters

GROSS PREMIUM WRITTEN BY SEGMENT

Our focus is on short-tail, specialty (re)insurance risks within four general segments: Property, Aviation, Energy and Marine

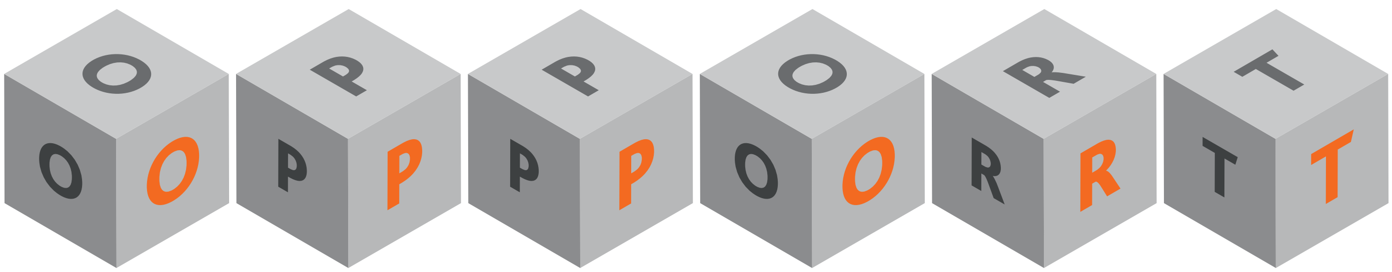


WE HAVE BEEN BUILDING OUR TEAMS TO STRENGTHEN OUR CAPABILITIES

"Having the right team allows us to offer tailor-made, bespoke risk solutions, while our significant experience helps generate returns. We believe that maintaining the right balance between discipline and creativity is key to our success, coupled with a strong focus on profitability and risk selection."

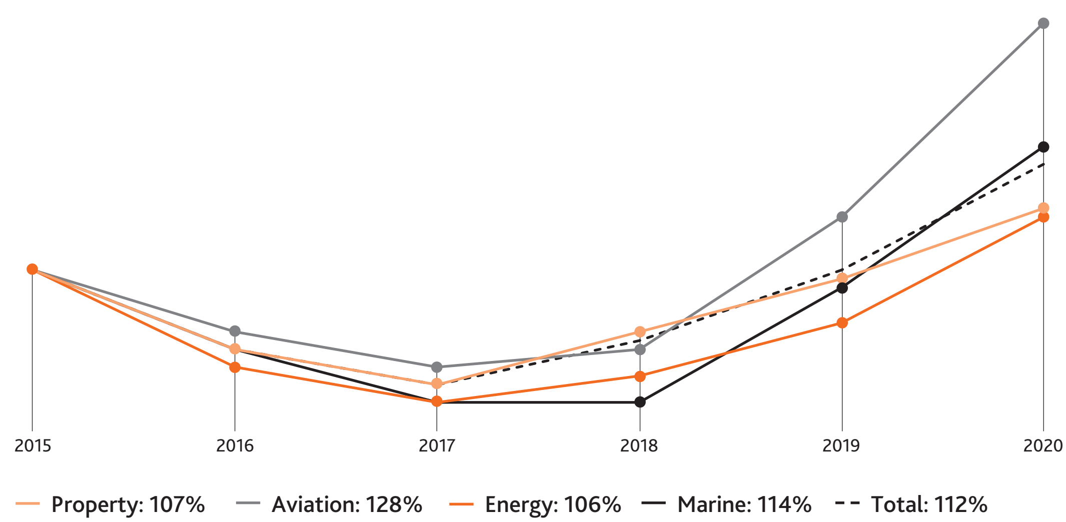
Paul Gregory – Group Chief Underwriting Officer

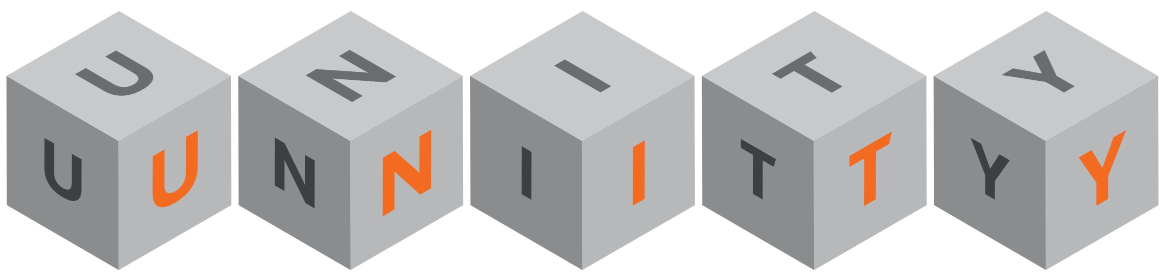
BUILDING ON



We are responding to the improving market opportunity

CUMULATIVE RPI CHANGES SINCE 2015

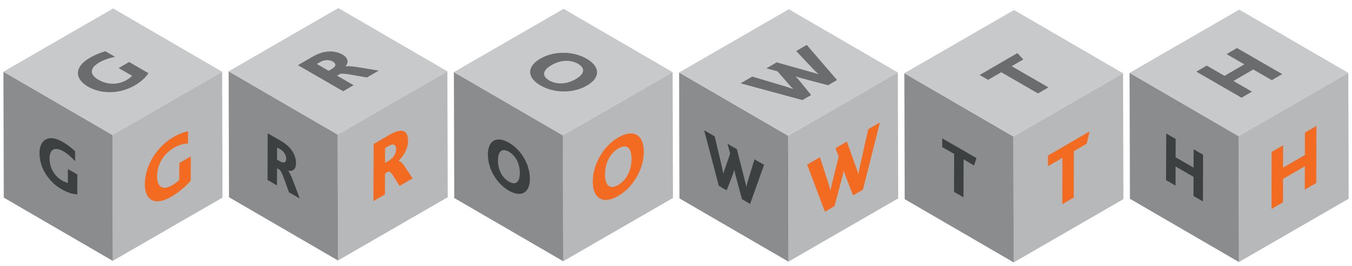




"We have witnessed double-digit percentage rate increases in many of our lines of business, and accelerated rating dislocation in the catastrophe-exposed reinsurance lines. Current market conditions present an attractive opportunity for growth, consistent with our strategy of deploying capital in line with the insurance market cycle."

Alex Maloney – Group Chief Executive Officer

BUILDING FOR

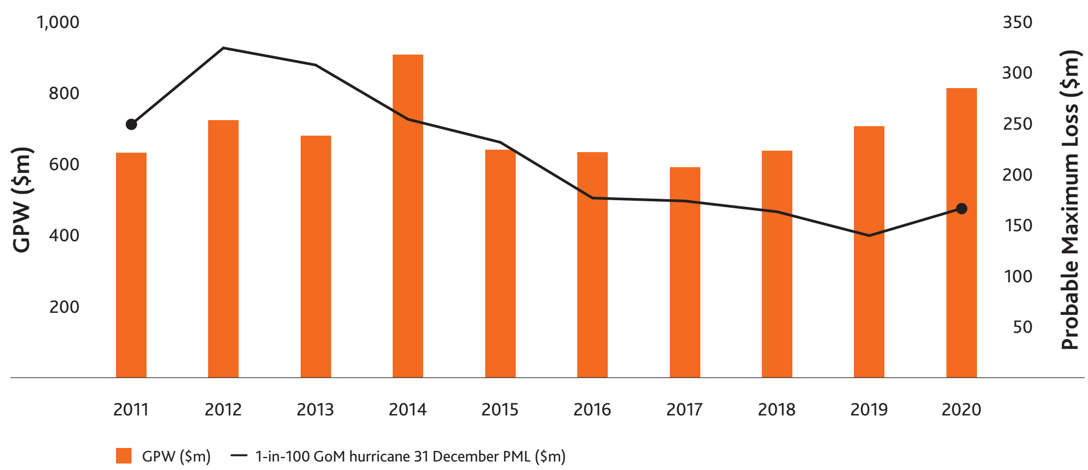


We're positioning the business for organic growth, opening new lines of business and retaining more risk

$340.3m

equity capital raised in 2020

ACTIVELY MANAGING EXPOSURE DEPENDENT ON MARKET CONDITIONS



OUR PLAN FOR 2021

Consistent strategy

Our long-term strategy remains consistent: deploy more capital into a 'hardening' market, contract in a 'softening' market.

Attractive 2021 opportunity

Building blocks in place to take advantage of an attractive opportunity in 2021 to grow our revenues.

Being there for our clients

Our three market-leading platforms drive our long-term success: Lancashire Insurance companies, Lancashire Syndicates and Lancashire Capital Management.

Strong risk selection

Our daily underwriting call, strategic overview of risk and active management of exposures have proven they lead to long-term success.

Superior risk/return profile

Focus on delivering superior Change in FCBVS (previously termed RoE) above peer averages and a resultant strong total shareholder return.

Active capital management

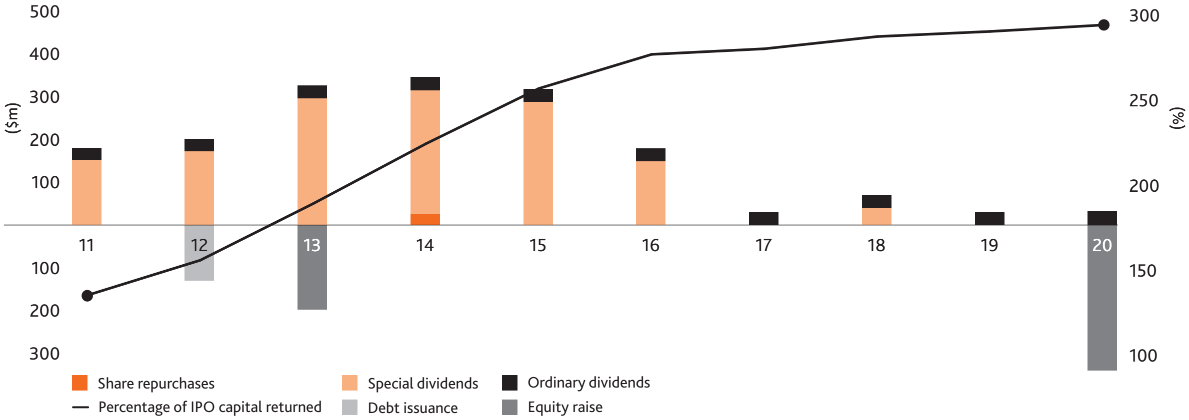
We aim to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools.

Focusing on managing risk and generating investor returns

To generate meaningful returns for our investors across the insurance cycle.

Producing a solid performance across the insurance cycle

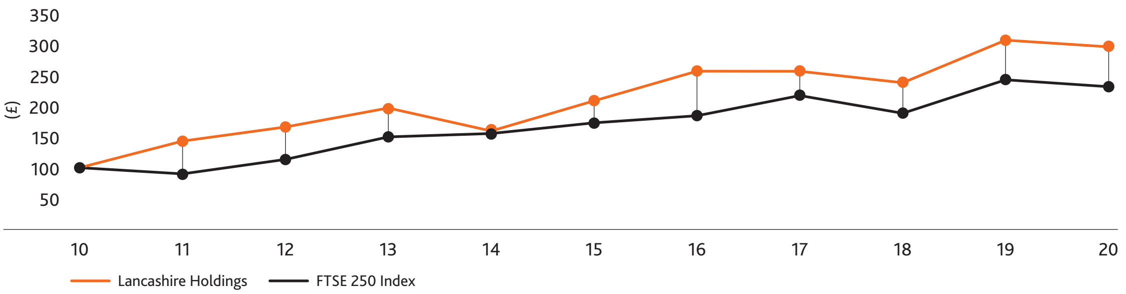
Active use of capital management further helps deliver shareholder returns



Delivering across the cycle

Since our inception, we have a history of delivering shareholder returns across the cycle.

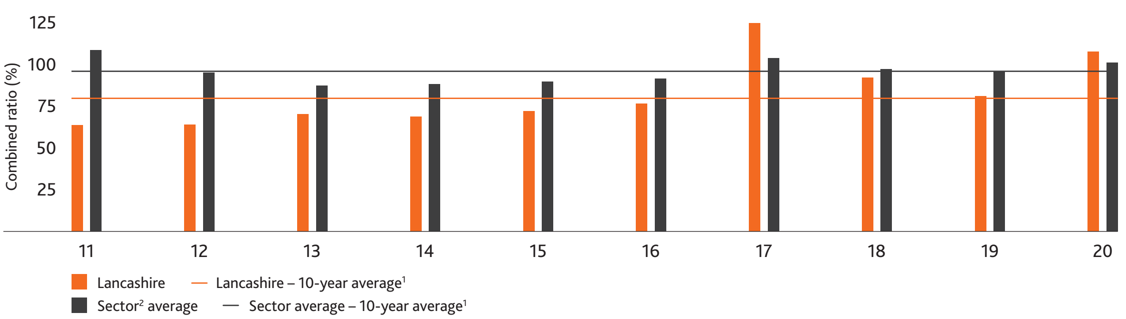
Total shareholder return



Experienced underwriters producing higher returns

Group management and our underwriters have decades of experience in rated companies, Lloyd's and collateralised markets.

Combined ratio



1. Ten-year average based on 2011-2020 reporting periods. Sector ratios are weighted by net premiums earned.
2. Sector includes Arch, Argo, Axis, Beazley, Everest, Greenlight, Hanover, Hiscox, Renaissance Re and Third Point Re. The 2020 results for Argo, Greenlight, Hiscox and Third Point Re are not available at the time of the report.

Source: Company reports

Delivering resilience for shareholders

KPI

Change in FCBVS (previously termed 'RoE')

10.2%

2019: 14.1%

KPI

Total investment return

3.9%

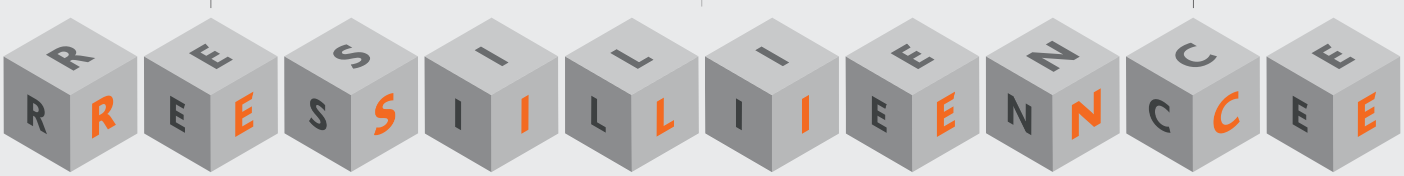
2019: 4.9%

KPI

Total shareholder return

-1.4%

2019: 34.3%



Combined ratio

107.8%

2019: 80.9%

KPI

Profit after tax

$4.2m

2019: $117.9m

Gross premiums written under management

$1.1b

2019: $934.8m

KPI

For APMs refer to page 184.

Planning for sustainable growth

"As we enter 2021, our capital resources and risk appetites are matched to the current exciting market opportunity."

Peter Clarke
Non-Executive Chairman

Equity capital raised in 2020

$340.3m

The best buildings sit on solid foundations. In recent years, through the softer part of the market cycle, our Board and management team have focused on the fundamental strategic buildings blocks of strong underwriting and technical skills, a core client base, rigorous risk and capital management, engaged shareholders, nimble governance, good regulatory relationships and a healthy corporate culture. We have made the necessary preparations to build our business in what we expect to be a better priced and more sustainable market.

How did the business perform in 2020?

This last year has posed exceptional challenges in the areas of health and stability to individuals, societies and to the global economy and commerce. Our thoughts go out to those whose lives and livelihoods have been impacted and to those key workers whose service has helped sustain us all. Much of the Board's focus has been on monitoring the operational and strategic impacts of the pandemic on our business. I would like to thank Alex and all our team for the resilience demonstrated by the Group's operation and performance. The Group has faced a number of challenges this year. These related not only to the COVID-19 pandemic but also included a run of natural catastrophe losses, that were broadly in line with our expectations for such events, and a series of medium-sized risk losses above our usual expectations for attritional losses. The combined ratio of 107.8% represents the Group's strong risk management in this exceptional year. Lancashire has generated a positive Change in FCBVS of 10.2% for 2020, which is a reflection of the Group's active and strategic capital management, operational performance and the contribution of the June 2020 equity raise, which places the business in a strong capital position to take full advantage of the improvements in the pricing environment.

What were the strategic priorities for the Board during the year?

The single most important area of focus for the Board has been discussion with the management team around the strategic commercial opportunities that started to develop compellingly as insurance market pricing strengthened during the year. This has shaped our capital management decisions, and in particular our engagement with our shareholders which resulted in our decision to launch our equity placing in June 2020.

The business has actively developed improved and new opportunities both in growing our existing lines of business and in adding new lines, as Alex and Paul discuss elsewhere in this Annual Report and Accounts. The decision to develop a greater level of casualty underwriting expertise marks a strategic development for Lancashire, which has traditionally had a focus on shorter-tail property and specialty lines. The Board is comfortable with the plans to develop casualty capability and expertise within the business.

What were the other principal areas of Board focus during the year?

Our Board has discussed issues of sustainability, in particular concerning the understanding and management of climate change risks. Our business has always had a strong and purposeful focus on its insurance liability exposures to weather-related events, such as windstorms, floods and wildfires, which are sensitive to climate change trends. The Board and management team have taken steps to broaden the formal oversight, strategic understanding, risk management and forward-looking scenario testing of climate change risk and opportunity. We have taken further steps on the journey to implement the recommendations of the TCFD, in particular in starting to utilise tools for the understanding of climate change risk on the Group's investment portfolio. We have also debated societal changes, including the emergence of the Black Lives Matter movement, and we reaffirm the Group's commitment to building a business which will continue to encourage and reap the benefits of an open, honest and diverse culture. For the second year running we will be reporting by reference to the United Nations Principles for Sustainable Development.

How have the capital requirements of the business changed?

The Board reviews the capital requirements of the business on a quarterly basis and considers the Group's capital headroom under several measures. Natalie Kershaw, who became our Group CFO in March 2020, has helped the Board deepen and develop its understanding of the capital requirements of the business and has also reformulated and refreshed the Group's business planning processes.

In early 2020, we were comfortable that our capital at that point was well matched to the Group's underwriting exposures. However, management's view of the rapidly improving underwriting environment prompted our decision in June to initiate a dialogue with our major shareholders and we subsequently raised fresh equity capital. This initiative was not driven by the need to 'fill a balance sheet hole', but instead to take advantage of the exciting underwriting opportunities which management and the Board believe will develop during 2021 and beyond. The Board paid close regard to the guidance issued by the Pre-Emption Group and the Lancashire shares issued in June 2020 were priced at a level which both maximised participation from our existing shareholders and raised the capital needed for the growth opportunities which we believe lie ahead. We would like to thank our investors for their support in this exercise and in providing the risk capital necessary to develop the exciting strategic market opportunity.

How has the Group changed the reporting measures used in the Annual Report and Accounts?

In previous years we have used the term RoE to describe the Group's growth in fully converted book value per share adjusted for dividends. This has been, and remains, one of the key measures of our overall financial performance, as well as being reflective of our capital management strategy. Further to constructive discussion with our auditors, KPMG LLP, on the use of Alternative Performance Measures (APMs) used in our financial reporting, and on recommendation from Natalie Kershaw, we have decided that the use of the term 'Change in FCBVS' to describe this key performance measure will aid clarity. Our finance team has also ensured that this report contains the necessary inputs and information for our stakeholders to understand this and our other APMs.

How did the Board and business address the challenges of the COVID-19 pandemic?

Following the 2019 year end meetings in February 2020, at which the Board discussed the potential impacts of COVID-19, the global pandemic developed rapidly causing a series of government directed restrictions on travel and national lockdowns. The Board closely monitored the operational and strategic impacts of the pandemic on our business and we were very impressed with the resilience shown by our operations in both London and Bermuda, which adeptly moved to a combination of home and office-based working during the year. A true reflection of our 'nimble' culture was the ability of the business to grow its top-line premium income in a strengthening market, even whilst adapting to a new way of working. The Group did not need to use furlough or other government relief schemes and there was measured net growth in headcount to equip the business to meet the growth opportunity.

The Board also focused on COVID-19 as a liability issue for the business and we monitored the rigorous reserving process which was conducted at an early stage of the pandemic and reviewed regularly throughout the year. As we report later, our COVID-19 reserve has been established on a prudent basis and has not deteriorated materially throughout the year. Whilst the pandemic is ongoing and its full effects remain uncertain, we are comfortable that the Group has strong processes in place to monitor potential exposures. This sense of assurance also relates to the series of natural catastrophe and risk losses which impacted the markets in the third and fourth quarters of 2020, where the Board has engaged constructively with our management and is satisfied that the Group's exposures to these losses have been well understood and reserved for.

In terms of the operation of our governance, we acted quickly to facilitate the virtual operation of our 2020 AGM and the Board itself has used a combination of virtual and in-person meetings during the course of the year.

How has the Board's dividend strategy changed?

Our dividend and capital management strategy has not changed. The Group paid its usual interim dividend during 2020 and proposes to make a final ordinary dividend distribution subject to a shareholder vote at the April 2021 AGM. Details are set out in the Notice of the AGM. In view of the expected improvement in (re)insurance pricing the Board has decided to retain most of the Group's current capital in order to develop this opportunity. Accordingly, the Board has decided not to declare a special dividend in respect of the 2020 financial year.

Assuming shareholder approval, the aggregate of all dividends for the 2020 year will amount to $0.15 per common share. Lancashire's nimble capital management and dividend strategy is well understood by our shareholders and the dividend policy is set out on page 105 of this Annual Report and Accounts.

Peter Clarke
Non-Executive Chairman

A model for success

We combine our deep underwriting and insurance expertise with efficient management of risk and capital resources across all our underwriting platforms to provide our clients and brokers with bespoke solutions for their insurance and reinsurance needs.

We focus closely on the risk-adjusted return.

OUR STRENGTHS

Customer focus

- Long-term established relationships with clients and brokers
- Continuous support across the cycle
- Prompt payment of valid claims

Expert people

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

Disciplined risk and capital management

- Rigorous systems for risk monitoring and management
- Strong record of capital management
- Manage volatility by optimising capital and the underwriting portfolio through the market cycles

A diverse offering

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

OUR STRATEGY

1 Underwriting comes first

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Find out more on page 16.

Our responsibility

We recognise that our responsibility as a company and as individuals reaches wider than our shareholders and our clients. We strive to be a good employer, a good corporate citizen and a responsible preserver of resources. Through the Lancashire Foundation, we make financial contributions and provide human support to a number of good causes in the places we operate around the world (for further details see pages 55 to 56).

THE VALUE WE CREATE FOR…

Our people

91%

of our employees considered they were treated with fairness and respect based on a recent staff survey

Our policyholders

$297.2m

gross losses paid in 2020

Our shareholders

10.2%

Change in FCBVS (previously termed 'RoE')

Society and the environment

£159,000

provided by the Lancashire Foundation to UK and Bermuda charities directly related to COVID-19 relief

Building on strong foundations

"We have laid robust foundations for an exciting period of growth as we enter a better priced 'harder market' in 2021."

Alex Maloney
Group Chief Executive Officer

In a challenging year we have both strengthened and broadened our underwriting teams and our client and investor relationships.

How did the business perform in 2020?

The fundamental requirement for any good building is a strong foundation. So, despite the challenges we have faced during the year, I am pleased and excited at the progress we have made to optimise the underwriting opportunity which now lies ahead. The Group's combined ratio of 107.8% and profit after tax of $4.2 million represent a resilient outcome in an exceptional year in which we faced the challenges of the COVID-19 pandemic as well as a series of natural catastrophe and specialty risk losses that have challenged our profitability. However, in this context, the positive Change in the Group's FCBVS of 10.2% for 2020 demonstrates how we have grown our capital base to build out our business in anticipation of a materially better pricing environment.

What were the impacts of the COVID-19 pandemic on the Group?

As the first lockdown began in March 2020, we were obliged to require all our colleagues to work from home. It is a credit to all our workforce that we were able to adapt so quickly to the changed working environment. Particular thanks must go to our IT team, who dealt rapidly and responsively with the changed requirements to ensure that we were all well-supported working from our homes. It is also testament to the strength of communication between our underwriters and our brokers that we were not only able to carry on servicing the needs of our clients as usual, but also to grow our revenues and underwriting footprint. Whilst the full impacts of the pandemic remain uncertain, there is now cause for hope of a return to a more usual level of 'normality' through the various vaccination and testing initiatives which are now gaining traction. The London and international property and specialty markets are 'people businesses', and whilst the last year has shown us that remote engagement has been a workable solution for Lancashire, I look forward to the time when we can re-establish the face-to-face contact which helps reinforce the relationships of trust and good faith on which our market depends.

As Peter noted earlier, we have carried out a rigorous appraisal of the Group's exposures to COVID-19 losses. The short-tail property and specialty policies which we typically underwrite tend to respond to first party physical damage. So, whilst we expect to have some peripheral exposures, we cautiously expect that we have not assumed material COVID-19 exposure through direct consumer, mortgage business and business interruption coverages. Whilst COVID-19 and its related losses are ongoing and a level of uncertainty remains, I have been pleased with the thoroughness of our reserving process and the relatively modest changes in our ultimate COVID-19 reserves as the year progressed.

How is the business positioned for the future?

Lancashire is entering a period of real opportunity. Since I became Group CEO, I have talked about my understanding of insurance as a cyclical business which is inherently subject to cycles of changing capital, supply and demand and pricing. During the recent years of the

Combined ratio

107.8%

'soft market cycle', we saw a steady accumulation and inflow of new capital within the insurance space which led to year-on-year price reductions. Lancashire prioritised the discipline of insisting on the right technical price for risks and serving our core clients, which resulted in a managed reduction of our top line and the corresponding risk capital needed by our business. But we are now reaping the rewards of that discipline as we enter an improved part of the insurance cycle.

The last year has been an important transitional year in which we have built up our underwriting expertise in our existing classes and in new business lines. We have added and developed expertise in accident and health, specialty reinsurance and casualty reinsurance. On our existing underwriting portfolio, whilst we have seen variations in pricing improvements, we have seen a strongly improving pricing trend illustrated by the Group's cross-class RPIs, which show a like-for-like improvement in insurance pricing of 112% for the full year, on a risk adjusted basis. I spend a lot of my time talking to our core investors about Lancashire's strategy and management of the cycle. So, I was excited to have the opportunity to speak to many of them at the time of our equity placement in June 2020. We were able to raise $340.3 million of new capital to fund future growth. That capital augments our already robust capital base and remains at our disposal to develop existing new underwriting opportunities as we enter 2021.

How has the Group's risk appetite changed?

As Lancashire is able to underwrite better priced insurance and reinsurance risk on our inwards book of business, we have also seen a corresponding increase in the cost of our outwards reinsurance policies, which has led us to adjust the structure of the Group's suite of reinsurance protections. In simple terms, we expect the anticipated increase in the Group's premium income in 2021 to result in increased exposures. This is consistent with our long-term strategy of retaining more, better-priced, risk in the 'harder' part of the insurance cycle by putting more of our own risk capital to work on more favourable terms.

How do you ensure the sustainability of Lancashire's business and strategy?

The issue of sustainability has always been a part of our business model and, as such, should not be over thought. Our core purpose and strategy are to provide risk solutions to our clients who face the challenges of an uncertain world. To do that sustainably over time we have operated a business and a culture with the skills and ability to manage our risk exposure, our pricing and our capital. We help our clients mutualise risk between themselves and with our investors and other capital providers, and that brings with it broader benefits and commercial resilience for the wider society.

Through the work of the Lancashire Foundation, we have a strong history of support for those in society who need our help, and a good record of personal staff commitment of both time and money across the Group. During 2020, the Foundation worked with several partner charities to alleviate the social disruption and harm caused by the COVID-19 pandemic, as well as funding various programmes which support those less able to manage the catastrophic impacts of climate change. The Foundation's activities included a 'London to Bermuda exercise challenge', which helped keep us all active and also raised money for good causes during the autumn. A more detailed report of the work of the Foundation can be found on page 55.

How does the business address the challenges of climate change?

Since Lancashire's formation in 2005, we have monitored and controlled our exposures to a range of natural catastrophe and weather-related risks. There is now a strong scientific consensus that climate change is a risk factor which drives many of those catastrophe events that can impact our business. We have the underwriting and actuarial modelling skills to understand and price these risks. Moreover, we can usually adapt our view of exposure to these risks and price for them on a very nimble basis. We have also started to evaluate the resilience of our investment portfolio to climate change sensitivities; see the Investment Committee report on page 76 for details. So, whilst we are taking steps to enhance our climate change risk understanding and management and in addressing the requirements of the TCFD, on which we report on pages 58 to 61, we have a head start in having a long tradition of appraising, pricing and exposure management for weather-related natural catastrophe risks.

For many years Lancashire has been a risk partner of businesses operating in the energy sector across the world, including oil, gas, nuclear and other renewables. The risk solutions which we provide to the energy sector help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We share with our clients the journey required by the necessary transition away from carbon-based forms of energy. But there are no simple solutions to both meet global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they address these challenges.

Why is Lancashire building an underwriting capability in the casualty reinsurance classes?

Our management team has debated for many years whether the Group should develop expertise in casualty. Although we have had over some years limited ancillary casualty exposures on several of our existing lines of business, such as energy and marine, the Group has traditionally underwritten a predominantly short-tail book of business. In 2020, we identified an opportunity to start underwriting casualty reinsurance as a new class within our Bermuda platform. Our initial plans are modest, and we expect the top-line contribution in the initial years to be small relative to our established books of business. Our new casualty reinsurance class, which is to be underwritten on a proportional and excess of loss basis, will strengthen and broaden our product offering and enable us to deepen relationships with some of our existing property and specialty reinsured clients, who may also be seeking casualty reinsurance protection. So, this should not be seen as a fundamental change of strategy or direction, but indicative of our intention to broaden our expertise and relationships and to develop a wider range of strategic opportunities whilst more favourable market conditions allow.

Alex Maloney
Group Chief Executive Officer

Our strategy

Our goal

Maximising risk-adjusted returns for shareholders

Our strategic priorities

Underwriting comes first

Maintaining the right balance between discipline and creativity is key for success, coupled with a strong focus on profitability and risk selection.

Delivering bespoke risk solutions in a sustainable framework

Effectively balance risk and return

Exploring opportunities for top-line growth only in markets where we believe the right opportunities exist and rigorously monitoring and managing our risk exposures.

Peak-zone PML limits of 25% of capital

Operate nimbly through the cycle

Our speed and agility in the way we manage volatility help us underwrite our core portfolio profitably through the challenges of the cycle, yet seize opportunities when they present themselves.

Maximise risk-adjusted returns

How we serve clients and brokers

- Significant capacity across the cycle allowing us to provide consistent support
- A lean structure allowing resources to be refocused quickly when needed
- Strong processes and structures supply challenge and assurance

Our culture

The bedrock of our strategy is a culture of cooperation and respect based on open challenge

1 Underwriting comes first

Description

We focus on maintaining our portfolio structure and our core clients, with the bulk of our exposures balanced towards significant events. We will grow in existing and new classes where favourable and improving market conditions exist. We use the principle of peer review throughout the Group, usually prior to underwriting business for LICL, LUK and LCM, the platforms that accept larger net exposures, and post-underwriting at LSL, with its smaller net exposures.

Achievements

We continue to add new expertise to the Group. In 2020, we added an Accident and Health team and hired a Casualty Reinsurance team that joined us early in 2021. We have increased the funds raised and capital deployed from LCM investors and grown LCM's client base for the second consecutive year. LUK has decided to re-enter the D&F class of business.

Performance

Underwriting profit

$77.0m

Our underwriting profit demonstrates strong risk selection in an active loss environment across both our specialty and catastrophe lines, with exposures to COVID-19 related losses, a number of catastrophe events and accumulation of single risk losses. Despite these events our focus on high quality underwriting allowed us to generate an underwriting profit for the year.

Gross premiums written

$814.1m

With an improving rating environment in the majority of our classes, plus business generated by new teams, premiums have grown year on year. We maintain the discipline to decline or restructure our participation on under-priced or poorly performing business but are willing to accept more risk if the market opportunity allows.

Associated strategic risk

Strong risk selection remains the key risk for the Group. We mitigate this by maintaining our underwriting standards, whilst growing with the market opportunity.

2 Effectively balance risk and return

Description

By bringing together all our disciplines – underwriting, actuarial, modelling, finance, treasury, risk and operations – at our fortnightly RRC meetings, we are able to look at how different parts of our operations are working together. We tailor our reinsurance programmes to manage our exposures and we stress test our business plans and gauge where we can be most effective without undue volatility. Management reports our risk exposures and mitigation to the Board.

Achievements

We have increased our underwriting footprint and optimised our portfolios in areas where rating has improved whilst adding new complementary classes of business as the market conditions are now improving.

Performance

Change in FCBVS (previously termed 'RoE')

10.2%

The Change in FCBVS incorporates the capital actions taken by the Group during 2020, including the $340.3 million equity raise as well as the $24.3 million of comprehensive income the Group generated during the year. Our results were impacted by the active loss environment and COVID-19, offset by a solid investment return.

Probable maximum loss

$166.5m*

We continued to match our exposure to key catastrophe perils to the market opportunity, demonstrating our discipline and nimbleness.

* 1 in 100-year Gulf of Mexico hurricane expected net loss at 31 December 2020.

Associated strategic risk

The key issue for Lancashire is to continue to serve our clients and brokers with significant capacity, whilst ensuring that the portfolio is balanced. This means constantly reassessing our business mix and testing key risk assumptions.

3 Operate nimbly through the cycle

Description

As capital supply fluctuates in the (re)insurance market, the need to be nimble is more important than ever. This means being ready to deploy capital quickly when it is needed, and having the discipline to return it when it is not.

Achievements

In line with our active capital management strategy, the Group decided to raise capital in 2020 to fund future organic growth. The Group also distributed regular dividends during 2020.

Performance

Percentage of comprehensive income returned to shareholders

132.9%

Lancashire continues to exercise the discipline of maintaining sufficient capital headroom to support underwriting operations and take advantage of new opportunities as they emerge or returning capital to shareholders it cannot profitably use.

Equity capital raised in 2020

$340.3m

We were able to raise $340.3 million of new capital to fund future growth. The capital augments our already robust capital base and remains at our disposal to fund new underwriting opportunities in 2021.

Associated strategic risk

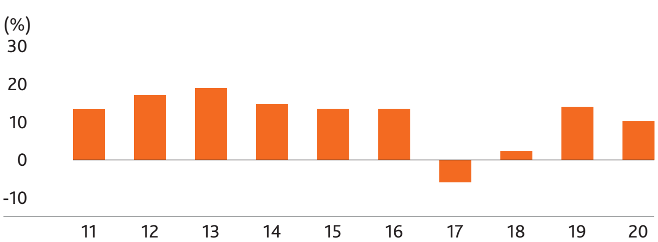
Lancashire has developed an expectation among its shareholders that it will produce a consistent return and pay ordinary dividends with supplementary special dividends only when it makes sense to do so. We believe our shareholders understand that in harder markets Lancashire will retain, and potentially even raise, capital to take full advantage of underwriting opportunities.

Supporting growth

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

Natalie Kershaw
Group Chief Financial Officer

Change in FCBVS (previously termed 'RoE')



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

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

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

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

How have you reserved for COVID-19 losses?

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

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

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

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

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

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

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

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

Natalie Kershaw
Group Chief Financial Officer

Financial highlights

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

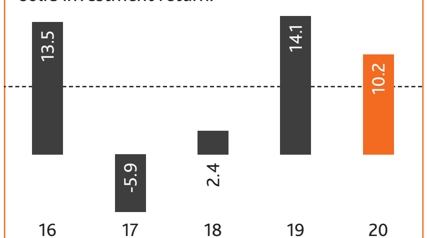
1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.

Change in FCBVS (previously termed 'RoE')

Performance

10.2%

The Change in FCBVS incorporates the capital actions taken by the Group during 2020, including the $340.3 million equity raise as well as the $24.3 million of comprehensive income the Group generated during the year. Our results were impacted by the active loss environment and COVID-19, offset by a solid investment return.



Measure

The Change in FCBVS is measured by management as the internal rate of return of the change in fully converted book value per share in the period, adjusted for dividends. For the year ended 31 December 2020, the Group has renamed return on equity 'RoE' to Change in FCBVS. It should be noted that the methodology in calculating this metric has remained unchanged and has been consistently calculated over the reporting periods outlined in the chart above.

Aim

The Group's aim is to maximise risk-adjusted returns for our shareholders across the cycle through a purposeful and sustainable business culture.

Risk management

The stated aim is a long-term goal, acknowledging that management expects both high and low results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. We seek to align our variable remuneration to shareholders' interests by having a strong link to Change in FCBVS.

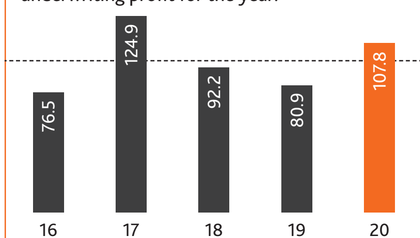
Please refer to the Directors' Remuneration Report on page 82 for further details.

Combined ratio

Performance

107.8%

The combined ratio reflects the impact of an active loss environment across both our specialty and catastrophe lines, with exposures to COVID-19 related losses, a number of recent catastrophe events and accumulation of risk losses. Despite these events our focus on high quality underwriting allowed us to generate an underwriting profit for the year.



Measure

The combined ratio is the ratio of costs to net premiums earned and is a measure of an insurance company's operating performance. It is calculated as the sum of the net loss ratio, the net acquisition cost ratio and the expense ratio. These ratios are defined in our glossary.

Aim

The Group aims to price its business to ensure that the combined ratio across the cycle is less than 100%.

Risk management

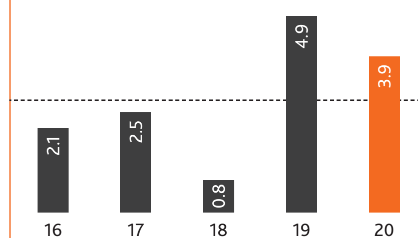
The Group's underwriters assess likely losses using models, their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses. Peer reviews of risks are conducted through the daily underwriting call or other peer review processes, depending on risk impact, enabling the Group to ensure careful risk selection, limits on concentration and appropriate portfolio diversification. The RRC then monitors performance at a portfolio level.

Total investment return

Performance

3.9%

While 2020 was extremely volatile for investments, our portfolio generated a strong return of 3.9%. Following the first quarter of 2020, the portfolio benefited from a decrease in interest rates and spreads. All asset classes performed very well, including risk assets held as a diversifier.



Measure

Total investment return in percentage terms is calculated by dividing the total investment return excluding foreign exchange by the investment portfolio net asset value, including managed cash on a daily basis. These daily returns are then annualised through the geometric linking of daily returns.

Aim

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

Risk management

The investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a reasonably stable income stream. These objectives are reflected in the Group's investment guidelines and its relatively conservative asset allocation. Management reviews the composition, duration and asset allocation of the investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. Performance against guidelines and investment tolerances are reported to the Investment Committee on a quarterly basis.

Key

KPI linked to Executive Directors' remuneration. For more information see pages 82 to 104.

APMs refer to page 184.

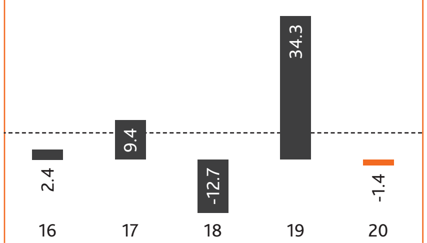
5 year average

Total shareholder return

Performance

-1.4%

Whilst our shares outperformed a lot of our peer group, they were not immune to the broader negative trends of UK listed assets.



Measure

Total shareholder return is measured in terms of the increase/decrease in share price in the period, measured on a total return basis, which assumes the reinvestment of dividends.

Aim

The Group's aim is to maximise the Change in FCBVS over the longer term, and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the Change in FCBVS in the immediate term.

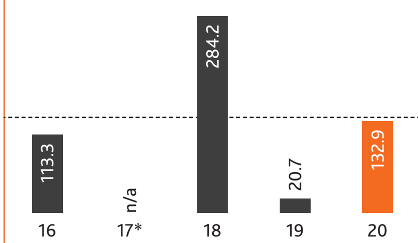
Risk management

The right behaviour is a key element in achieving this KPI. The Lancashire values help drive the desired behaviour, whilst the remuneration structure and RSS ensure that staff are highly motivated and closely aligned to the Group's goals, and therefore with shareholders. Permanent staff are all eligible to receive RSS awards. The participation of employees in the RSS ensures that there is a strong focus on sustainable long-term shareholder value.

Comprehensive income returned to shareholders

132.9%

In line with our active capital management strategy, the Group decided to raise capital in 2020 to fund future organic growth. The Group distributed regular dividends during 2020.



The percentage of comprehensive income returned to shareholders equals the total capital returned to shareholders through dividends and share repurchases paid in a given year, divided by the Group's comprehensive income.

The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.

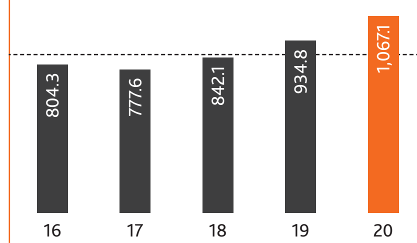
A range of Board approved risk tolerances (including capital and insurance-risk related tolerances) are set at a level that aims to prevent the Group incurring losses that would impair its ability to operate. The Group's key capital measure is its A.M. Best rating, and a minimum rating of A– is considered necessary to attract business. In 2020, Lancashire maintained its A rating.

* The Group made a comprehensive loss of $66.2 million during 2017. We paid annual ordinary dividends of $0.15 per share. Due to 2017 being n/a, the average is calculated over four years.

Gross premiums written under management

$1.1b

During the course of the year, and in light of a 'hardening' pricing cycle, the Group was able to grow gross premiums written under management to $1.1 billion.



Gross premiums written under management equals the total of Lancashire's consolidated gross premiums written plus the external Names portion of the gross premiums written in Syndicate 2010 and the gross premiums written in LCM on behalf of Kinesis Re.

The Group's aim is to operate nimbly through the cycle. We will grow in existing and new classes of business where favourable and improving market conditions exist, whilst monitoring and managing our risk exposures. We do not seek top-line growth for the sake of it in markets where we do not believe the right opportunities exist.

We use the principle of peer review throughout the Group, usually prior to underwriting business for LICL, LUK and LCM, the platforms that accept larger net exposures, and post-underwriting at LSL, with its smaller net exposures.

Additionally, our underwriters are remunerated on the same basis as other staff. They do not have premium targets in order to drive the desired risk-based decision-making behaviour.

Laying the foundations

"2021 should be an exciting year. We can never predict when loss events will occur, but we do know when we are getting paid to assume more risk, and we have the platforms, people and capital base to embrace the market opportunity and really develop our underwriting footprint."

Paul Gregory
Group Chief Underwriting Officer

Our underwriting philosophy centres around our belief that the (re) insurance market is cyclical. During the depths of the soft cycle, many questioned if the cycle was dead after years of softening rates and no obvious sign that appetite and capital would shrink. However, we stuck to our belief that supply and demand always dictate our market and ultimately there will always be events and circumstances, often those that are completely unexpected, that tip the balance.

Given this belief, we ensured the foundations were laid during the softer part of the cycle to ensure the Group was primed to build when better market conditions returned. We believe that these market conditions are now here – looking forward to 2021 and beyond I am encouraged that the building blocks we put in place have put us in the ideal position as we look to grow our business in the future.

The green shoots of recovery started in 2018 following the numerous natural catastrophe events in 2017, the largest aggregate loss year on record for the (re)insurance industry. Then 2018 provided further catastrophe losses and challenges, including the first sight of reserving deficiencies in the long-tail casualty classes following the impacts of social inflation on loss costs. Momentum was building, and as we entered 2020 our outlook was positive. The biggest indication of this was our decision to retain our earnings from a profitable 2019 in order to grow the business – our capital actions are driven by our underwriting outlook.

Our disciplined underwriting actions in the soft cycle meant that we did not and still do not have legacy issues to resolve. We had reduced our risk appetite as the market softened, so when rates started to improve in 2018, we could start to grow market share as others retracted. We hadn't expanded into other lines of business and didn't have a long-tail casualty portfolio, so our balance sheet remained robust and unencumbered. We could simply look forward, legacy-free, to a better operating environment.

Market momentum further accelerated following events that few had foreseen. The COVID-19 pandemic has impacted the entire world and every industry. It will undoubtedly be costly for the (re)insurance industry albeit the exact quantum will not be known for many years, given the complex nature of the recent events. The impacts will generate some of the most challenging losses our industry has ever faced. The cost and uncertainty it has brought to the market, at a time when the industry was grappling with sustainable profitability anyway, has been the catalyst for pricing, as well as terms and conditions of coverage, to shift gear.

It was this change of pace that strengthened our belief that the underwriting landscape would be better than we originally hoped for in 2020, and more importantly was sustainable into 2021 and beyond. Our strong capital position coming into 2020 gave us the luxury of waiting for evidence that the market had accelerated post COVID-19, and the second quarter renewals gave us this evidence. This led us to raise capital in June 2020; another building block in place to profitably grow the business and retain more units of risk in 2021 and beyond as the market outlook improves.

Our four business segments have all experienced different dynamics this year. The outlook for each segment and sub-segment is also different but the trend almost across the board is positive. Importantly, we have experienced and capable team members who will, I believe, help us successfully navigate through the individual business class dynamics.

Gross premiums written

$814.1m

RPI

112%

Property

	2020 $m	2019 $m
Gross premiums written	**426.9**	382.1
RPI	**108%**	106%

Our property segment includes our property reinsurance lines, such as property catastrophe and retrocession, as well as property insurance and terrorism and political risks. Our property (re)insurance lines all contain high degrees of catastrophe risk and as such have seen pricing dislocation during 2020 leading to the property segment RPI of 108%. Catastrophe-exposed products are the most capital intensive within our portfolio. It is in these lines where we will use our robust capital position to enable further growth in 2021, where we see strong pricing dynamics. We underwrite these classes across all of our underwriting platforms and remain both product and platform agnostic as to where we grow. The building blocks for growth in the product lines have been cemented in place. The capital is available to support growth in an improving market and we expanded our underwriting teams and platform options when these positive signs first appeared. As always, the growth will be driven by the underwriting opportunity and we have the flexibility to adapt to the market conditions in each product line.

In the catastrophe-exposed classes, we remain very aware of the changing climate and the elevated risks this brings. Our strong risk management is supplemented with the use of vendor models that collate the latest available data on the frequency and severity of the principal catastrophe events such as windstorm, flood and earthquake. This information forms part of our underwriting process which helps us assess and price natural catastrophe risk. With the heightened awareness of climate change, demand for the products we sell increases and as the understanding of climate change improves so does our assessment of such risk. Natural catastrophe events are damaging to businesses and economies. The products our industry sells help people, businesses and economies to rebuild.

The terrorism and political risk products we sell do not currently benefit from the same market dynamics as our other products. Market conditions are stable but not improving. These classes have not experienced many loss events and appetite for these classes remains strong across the market. Consequently, the demand and supply dynamics are not pushing the rating environment forward. The terrorism risks we underwrite range from hotels in city centres to offshore windfarms, and our political and sovereign risk product supports investments in various industries and infrastructure projects across the globe. Given the link between the economy and our political and sovereign risk offering, demand for the product is impacted by the COVID-19 pandemic, but as the economy recovers so should this demand. Our appetite for these products remains stable in line with market conditions and this segment of our business continues to generate healthy underwriting returns.

Aviation

	2020 $m	2019 $m
Gross premiums written	**151.0**	119.6
RPI	**121%**	116%

Our aviation segment has been building out steadily in the past few years, growing our product offering as market conditions improve. Much like the marine market, capacity has continued to tighten with numerous capacity providers retracting from multiple product lines. We had the platforms and people to seize this opportunity to grow just when market conditions improved. As can be seen from our aviation RPI of 121%, market conditions have been favourable for growth in 2020.

The aviation industry has had one of its most challenging years in history with COVID-19 unexpectedly impacting global demand for air travel. Our clients have been severely tested, and they will continue to be tested in years to come. We aim to adapt where possible and support clients, whilst finding a balance that allows for underwriting profitability. The products we sell are often mandatory purchase products, and therefore there is some insulation from demand headwinds. In addition, as other capacity providers retract, we have grown our market share in a profitable market, stepping in to provide needed capacity.

As we look to 2021, whilst we anticipate continued rate improvement, there will be demand headwinds in a sector so badly impacted by COVID-19. Whilst we anticipate some form of industry recovery, it is likely to be slow. Overall, despite these challenges, our aim will be to further grow our aviation segment where possible.

Energy

	2020 $m	2019 $m
Gross premiums written	**144.7**	128.1
RPI	**113%**	107%

Our energy portfolio continues to evolve, building upon foundations laid in recent years to diversify our product offering. Only a few years ago our portfolio was principally upstream assets and now we underwrite all parts of the energy industry including upstream energy, downstream energy, power and utilities and renewable energy.

Market conditions within the energy segment vary considerably. The 2020 energy RPI of 113% masks the different levels of pricing movement within each segment. Within upstream energy (which includes renewable energy) capacity for these products remains plentiful so, whilst rate momentum is positive, the rate of increase is less pronounced than within both downstream energy and power. In these two segments of the energy market supply of capacity has continued to retract following a high frequency of loss incidents, which has fuelled price momentum and allowed us to develop our underwriting footprint. Given the current economic environment, the energy sector is experiencing a difficult period with demand directly linked to the health of the global economy. In parts of the energy sector, such as upstream energy and to a lesser degree the downstream sector, these difficulties could create demand headwinds for insurance products in 2021. Power and utilities see far less impact and this demonstrates the value of having a more diversified product offering. Despite these challenges our clients still require insurance; in fact the value of insurance products is even more important at times of financial stress as they provide balance sheet protection and encourage active risk management.

Our portfolio will continue to evolve as our clients do. The energy industry itself is changing and will continue to do so in the future. As the world moves to a more sustainable future the assets our clients invest in will change to meet this goal and the products we sell will continue to adapt to support this changing client demand.

Marine

	2020 $m	2019 $m
Gross premiums written	**91.5**	76.9
RPI	**116%**	115%

Our marine segment encompasses all aspects of the marine industry from cargo to cruise liners; we underwrite the marine class from both our Lloyd's and Company platforms. The marine market has seen capacity withdrawals across all sub-segments for the past number of years. As a result, market pricing has been rising, demonstrated by our marine RPI of 116% in 2020. The year saw some high-profile marine incidents that generated losses to the sector, from which we were not immune. These losses further strengthen the marine market's resolve to improve the profitability of the product.

Whilst everyone would prefer for these incidents not to occur, they demonstrate the value of our insurance products. Our insurance helps companies protect their balance sheets in difficult times and helps fund valuable clean-up operations protecting the environment and local economies.

Like many industries, discrete parts of the marine industry have been directly impacted by COVID-19. Demand from certain clients, for example cruise liner operators, has reduced significantly. The insurance industry has reacted and adapted insurance products as best it can to assist clients in these difficult times. Despite these demand headwinds, we have been able to grow our marine footprint during 2020 ahead of rate increases, which is extremely pleasing. We anticipate market conditions to continue to strengthen into 2021 and will be looking to grow and strengthen our marine segment further.

Market overview

From every angle 2020 has been challenging. We have seen loss events across all of our underwriting segments including COVID-19, which will generate some of the most complex losses our industry has ever faced. Our underwriting result reflects this challenging year. COVID-19 has added further challenges as the entire Company worked from home for large portions of the year. I am incredibly proud of the underwriting team, and everyone that supports them, for continuing to execute our underwriting strategy so seamlessly and successfully. During the year we have also added new underwriters – some to help grow existing product lines and some to develop new product lines as we continue to add building blocks to the underwriting function for future success.

2021 should be an exciting year for the Lancashire underwriting team. We can never predict when loss events will occur, but we do know when we are getting paid to assume more risk, and we have the platforms, people and capital base to embrace the market opportunity and really develop our underwriting footprint.

Growing opportunities

James Flude
Chief Underwriting Officer, LUK

James Irvine
Chief Underwriting Officer, LICL

Jon Barnes
Active Underwriter, Syndicate 2010

John Spence
Active Underwriter, Syndicate 3010

Underwriting results

	2020					2019				
	Property $m	Aviation $m	Energy $m	Marine $m	Total $m	Property $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written	**426.9**	**151.0**	**144.7**	**91.5**	**814.1**	382.1	119.6	128.1	76.9	706.7
Net premiums earned	**251.6**	**70.4**	**91.3**	**62.5**	**475.8**	226.5	51.2	85.5	58.5	421.7
Net loss ratio	**57.6%**	**45.6%**	**73.2%**	**64.2%**	**59.6%**	32.6%	36.3%	22.2%	31.5%	30.8%
Net acquisition cost ratio	**20.7%**	**19.0%**	**29.4%**	**36.2%**	**24.2%**	22.5%	18.8%	29.9%	33.0%	25.0%
Expense ratio	**–**	**–**	**–**	**–**	**24.0%**	–	–	–	–	25.1%
Combined ratio	**78.3%**	**64.6%**	**102.6%**	**100.4%**	**107.8%**	55.1%	55.1%	52.1%	64.5%	80.9%

Premiums

Gross premiums written increased by 15.2% in 2020 compared to 2019. The Group's four principal segments, and the key market factors impacting them, are discussed below.

Property

Property gross premiums written increased by 11.7% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Within the property segment, our (re)insurance lines contain a high degree of catastrophe risk and as such have seen pricing dislocation during 2020 leading to a property segment RPI of 108% for the year. As well as these rating trends in renewal business, we have seen an increase in new business flows, in particular within the property catastrophe class and the property direct and facultative classes. These positive trends were marginally offset by the property political risk and property terrorism classes, a good portion of which are, by their nature, non-renewing.

Aviation

Aviation gross premiums written increased by 26.3% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Our aviation segment has been building steadily in the past few years, growing our product offering as market conditions improve. The increase in aviation gross premiums written in 2020 was primarily due to new business and rate increases in the aviation deductible and the aviation hull and liability classes of business with strong support from the aviation reinsurance class.

Energy

Energy gross premiums written increased by 13.0% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Our energy portfolio continued to evolve during 2020. The increase in energy gross premiums written was primarily focused in the power and downstream energy classes where both rate increases and new business led to the premiums almost doubling relative to 2019. Upstream energy remained broadly stable, as modest rate increases were offset by small reductions in exposures.

Marine

Marine gross premiums written increased by 19.0% for the year ended 31 December 2020 compared to the year ended 31 December 2019. Marine pricing has been rising, due to capacity withdrawals over a number of years, demonstrated by our RPI of 116% during 2020. The increase in marine gross premiums written was primarily due to new business growth in the marine cargo and the marine hull classes of business supported by rate and exposure increases across all lines of business. The marine segment also benefited from the favourable timing impact of multi-year policies renewing in 2020 compared to 2019.

Ceded

Ceded reinsurance premiums increased by $12.7 million, or 4.5%, in 2020 compared to in 2019. The higher level of inwards gross premiums written has resulted in an increased level of outwards quota share reinsurance spend while the newer classes of business that the Group has started underwriting have also resulted in additional cover being purchased when compared to the prior year. These increases were somewhat offset by lower outwards reinstatement premiums compared to the prior year and a lower ceding percentage applied on some of the outwards quota share contracts purchased.

Losses

The Group's net loss ratio for 2020 was 59.6% compared to 30.8% in 2019. The accident year loss ratio for 2020, including the impact of foreign exchange revaluations, was 71.4% compared to 51.3% in 2019.

During 2020, Lancashire experienced an active loss environment across both its specialty and catastrophe lines, with exposure to COVID-19 related losses and to a number of natural catastrophe events, including hurricanes Laura and Sally, the Midwest derecho storm and the wildfires in California. In addition, as noted in our third quarter trading update, risk losses were higher than our expectations and this continued into the fourth quarter of 2020, impacting all our segments. These loss events reflect the nature of the insurance products offered by the Group's trading subsidiaries as part of their usual business and are within the Group's risk tolerances.

Our net losses, excluding the impact of inwards and outwards reinstatement premiums, from COVID-19 related losses, natural catastrophe and large risk loss events, amounted to $149.5 million for the year ended 31 December 2020. Our COVID-19 loss primarily relates to exposures within our property segment. Given the ongoing nature of the COVID-19 pandemic and the uncertain impact on the insurance industry, the Group's actual ultimate loss may vary, perhaps materially, from the current estimate. The final settlement of all of these claims is likely to take place over a considerable period of time. The Group's estimated ultimate net financial impact of COVID-19, including losses and reinstatement premiums, is consistent with that reported in July at approximately $42 million. In 2019, our net losses from catastrophe events, excluding the impact of inwards and outwards reinstatement premiums, were $52.1 million.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of current accident year COVID-19 related losses and catastrophe loss events on the Group's loss ratio for the year ended 31 December 2020:

	Losses $m	**Loss ratio %**
Reported at 31 December 2020	**283.8**	**59.6**
Absent catastrophe events noted above	**216.8**	**45.5**
Absent COVID-19 losses	**244.1**	**51.0**
Absent catastrophe and COVID-19 losses	**177.1**	**36.9**

As reported in the Group's results for the year ended 31 December 2019 and excluding the impact of foreign exchange revaluations, the impact of natural catastrophe loss events on the Group's 2019 loss ratio was as follows:

	Losses $m	Loss ratio %
Reported at 31 December 2019	129.8	30.8
Absent all catastrophe events	77.7	18.5

Prior year favourable development for 2020 was $52.0 million, compared to $88.0 million of favourable development in 2019. The favourable development in both 2020 and 2019 was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The second half of 2020 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property segment. This was somewhat offset in the first half of the year by a number of late reported losses from the 2019 accident year, reserve deterioration on a couple of marine claims in the 2017 and 2019 accident years, and adverse development on the 2010 New Zealand earthquake in the property segment. In the prior year, the Group benefited from favourable development on the 2017 catastrophe loss events partially offset by 2018 accident year claims in the energy segment.

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

	2020 $m	2019 $m
Property	**46.6**	44.9
Aviation	**3.3**	6.8
Energy	**17.2**	23.9
Marine	**(15.1)**	12.4
Total	**52.0**	88.0

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2020 and 2019:

Ultimate loss development by accident year

	2020 $m	2019 $m
2015 accident year and prior	**(1.8)**	19.0
2016 accident year	**0.9**	19.3
2017 accident year	**20.7**	30.8
2018 accident year	**25.3**	18.9
2019 accident year	**6.9**	–
Total	**52.0**	88.0

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 34.4% as at 31 December 2020 compared to 30.9% as at 31 December 2019.

Accident year loss ratios

	2020 %	2019 %
Current accident year loss ratio	**71.4**	50.3
Initial accident year loss ratio	**n/a**	51.3
Change in loss ratio post-accident year	**n/a**	1.0

Note: Adjusted for revaluation of foreign currencies at the exchange rates as at 31 December 2020.

Other operating expenses

Other operating expenses were $114.4 million in 2020 compared to $106.0 million in 2019. The increase was primarily driven by higher employment costs due to an increase in the number of employees from 218 in the prior year to 255 in the current year. Non-employment costs increased slightly due to a number of project initiatives during the year which drove an increase in legal and external consulting fees. These increases were partly offset by reduced expenditure on travel and entertainment and promotional events.

The equity-based compensation expense was $12.3 million in 2020 compared to $9.6 million in the same period last year. The equity-based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. Increased equity-based compensation charges were recorded in 2020 as higher performance targets were met.

Denise O'Donoghue
Group Chief
Investment Officer

Investments, liquidity and cash flow

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. As market volatility continues, we position our portfolio to limit down-side risk in the event of market shocks. 2020 has been an extremely volatile year, but our investment portfolio has rebounded from the stress of the first quarter. In this environment of very low rates and a flat yield curve, it does not pay to increase duration. While any expectation of higher rates is at least a few years out, our focus will be on maintaining a defensive portfolio with short duration and high credit quality. We will use our risk budget to add to our portfolio some additional yield, however we will endeavour to add low volatility products. We continue to maintain a short duration fixed maturity portfolio and have been using our risk budget to add products to our portfolio to help diversify from interest rate volatility.

Our portfolio mix illustrates our conservative philosophy, as shown in the chart overleaf. With the composition regulated by the Group's investment guidelines, we have three investment portfolio categories: 'core', 'core plus' and 'surplus'. The core and core plus portfolios contain at least enough funds required to meet near-term obligations and cash flow needs following an extreme event. Assets in excess of those required to be held in the core and core plus portfolios may be held in any of the three categories, which are discussed further on page 140.

The composition, duration and asset allocation of the investment portfolio are reviewed on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risk in the portfolio. We try to be nimble in our investment strategy while putting our objective of capital preservation first and foremost.

We believe in the application of common sense, and do not place much reliance on 'black box' approaches to investment selection.

Investments are, however, inherently unpredictable and there are risks associated with any investment strategy decisions. Recent market history has been tumultuous, and we remain ever watchful. We will continue to monitor the economic environment closely.

Investment performance

Net investment income excluding realised and unrealised gains and losses was $29.0 million for the year ended 31 December 2020, a decrease of 23.1% compared to 2019. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $69.1 million for the year ended 31 December 2020 compared to $83.2 million for 2019.

In a year of significant volatility, the investment portfolio generated a strong total return of 3.9%, with positive returns generated from all asset classes. The returns were driven primarily by the fixed maturity portfolios, given the decline in treasury yields and the tightening of credit spreads during the year. The tighter spreads and stronger equity markets also drove significant returns in the hedge fund and private debt portfolios. All other asset classes also had positive returns on a year to date basis, similar to 2019.

Liquidity

The Group is a short-tail insurance and reinsurance group. As such, the investment portfolio must be liquid, short duration, and highly creditworthy. As noted earlier, the Group's investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims in conjunction with providing a reasonably stable income stream.

Liquid securities will be maintained at an adequate level to more than meet expenses, including unanticipated claims payments. Only once safety, liquidity and investment income requirements are satisfied may additional yield in the investment portfolio be pursued.

Cash flow

The Group's cash inflows are primarily derived from net premiums received, from losses recovered from reinsurers, from net investment income, including dividends and other returns from its associates, and any capital raising activities performed in a given year including the issuance of debt. Excess funds are invested in the investment portfolio, which primarily consists of high-quality, highly liquid fixed maturity securities of short duration. Other cash inflows result from the sale and redemption of investments.

The principal outflows for the Group are the settlement of claims, the payment of premiums for reinsurance cover, payment of general and administrative expenses, the servicing of debt, the purchase of investment products (including LCM) and the distribution of dividends.

Conservative portfolio structure – quality

- Corporate bonds: 35.0%
- U.S. government bonds and agency debt: 19.0%
- Cash and short-term securities: 13.0%
- Agency structured products: 7.0%
- Non agency structured products: 7.0%
- Other government bonds and debt: 5.0%
- Bank loans: 5.0%
- Private debt: 5.0%
- Hedge funds: 4.0%

- AAA: 20.0%
- AA: 35.0%
- A: 23.0%
- BBB: 16.0%
- BB or below: 6.0%

Darren Redhead
Chief Executive Officer, LCM

Third-party capital management

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

	2020 $m	2019 $m
LCM underwriting fees	**10.0**	7.9
LCM profit commission	**1.8**	1.0
LSL fees & profit commission	**3.5**	2.5
Total other income	**15.3**	11.4
Share of profit of associate	**10.7**	5.9
Total third-party capital management income	**26.0**	17.3

The higher Lancashire Capital Management underwriting fees in 2020 reflect the increased level of premiums under management compared to 2019. The amount of Lancashire Capital Management profit commission recognised is driven by the timing of loss experience, settlement of claims and collateral release and therefore varies year on year. The share of profit of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle.

Capital management

Lancashire has built a reputation for being one of the best known and most active proponents of capital management in the industry. Capital management is our most important area of focus after underwriting and it is our firm belief that proactive and flexible capital management is crucial in helping to generate a superior risk-adjusted return over time. With our focus on maximising risk-adjusted shareholder returns over the long term we will return capital where this offers the best returns for our shareholders. We have returned 105.4% of comprehensive income generated via dividends or share repurchases since inception.

The Group actively reviews the level and composition of capital on an ongoing basis. Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories.

The key aim of the capital management process is to maintain a strong balance sheet, whilst:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, regulatory and rating agency requirements.

The subsidiary operating entities also conduct capital requirement assessments under internal measures and in compliance with local regulatory and Lloyd's requirements.

Capital raising can include debt or equity, and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. All capital actions require approval by the Board of Directors. The retention of earnings generated also leads to an increase in capital.

The composition of capital is driven by management's appetite for leverage, amongst other factors, including the cost and availability of different types of capital. Maintaining a strong balance sheet will be the overriding factor in all capital management decisions.

Capital

On 10 June 2020 a total of 39,568,089 new common shares of $0.50 each in Lancashire were placed at a price of 700 pence per share, raising proceeds of $340.3 million for the Company. The shares issued represented approximately 19.5% of the issued common share capital of Lancashire prior to the placing.

As at 31 December 2020, total capital available to the Group was $1.866 billion, comprising shareholders' equity of $1.539 billion and $327.5 million of long-term debt. Tangible capital was $1.712 billion. Leverage was 17.6% on total capital and 19.1% on total tangible capital. Total capital and total tangible capital as at 31 December 2019 were $1.517 billion and $1.363 billion respectively.

Dividends

During 2020, the Lancashire Board declared a final dividend of $0.10 per common share in respect of the 2019 financial year and an interim dividend of $0.05 per common share in respect of 2020. The Board of Directors has declared a final dividend for 2020 of $0.10 per common share, subject to a shareholder vote of approval at the AGM to be held on 28 April 2021. On the basis that the final dividend of $0.10 per common share is approved by the shareholders at the 2021 AGM the total capital returns since inception amount to $2.9 billion or 291.8% of initial capital raised. The final dividend will be paid on 4 June 2021 to shareholders of record on 7 May 2021.

Non pre-emptive issue of shares

As part of the Group's flexible approach to capital management the Board has in recent years requested and received from shareholders authority to issue up to 15% of its shares on a non pre-emptive basis. Lancashire believes that this ability to raise capital quickly is important in securing first mover advantage in the catastrophe insurance and reinsurance business which it underwrites. The Board proposes to put a similar request for authority to shareholders in a resolution at the 2021 AGM to be held on 28 April 2021.

Letters of credit

Lancashire has a syndicated LOC facility which in total amounts to $250.0 million, with a $50.0 million loan sub-limit available for general corporate purposes. Syndicate 2010 has a catastrophe facility in place to assist in paying claims and the gross funding of catastrophes. While up to $80.0 million in aggregate can be utilised by way of an LOC or an RCF to assist Syndicate 2010's gross funding requirements, only $40.0 million of this amount can be utilised by way of an RCF. With effect from 1 January 2021, the RCF element has been removed and the facility now solely operates as an LOC facility, available up to a maximum amount of $60.0 million. Furthermore, a $95.0 million uncollateralised facility is available for utilisation by LICL and guaranteed by LHL for FAL purposes. A separate uncommitted overdraft facility will be made available to Syndicate 2010 of $20.0 million.

There was no outstanding debt under the above facilities at any reporting date. There are no off-balance sheet forms of capital.

Resilient risk management

"2020 was the year that put our risk management framework to the test in many different ways."

Louise Wells
Group Chief Risk Officer

Operational resilience has been key for the year, from invoking a full working from home environment across the Group, moving back into a COVID-19 secure workplace and then back to working from home again, whilst also ensuring the business remained adaptable, that all critical business services continued to operate as usual (internally and those involving third-party providers) and that we were able to provide a seamless service to all of our stakeholders.

One of the positive aspects of 2020 was the robustness of our business, our people and our relationships with our stakeholders. This did not occur without risk, and related risk scores were adjusted to reflect the necessary changes in the working environment. For example, cyber risk scores were increased due to the remote working situation. This risk was mitigated to an extent through the provision of IT equipment to staff to ensure the required level of security was met.

In addition to the COVID-19 pandemic, 2020 also saw a large number of both catastrophe and risk loss events. Whilst that is the nature of the (re)insurance business we are in, the number was above our 10 year average aggregate catastrophe losses. Adherence to risk appetite tolerances during the underwriting process meant that none of these events resulted in losses that were outside of expectations, demonstrating the alignment of the RMF with the Group's business strategy. As we move into 2021 and seize the opportunities available to us, the RMF will be adapted and enhanced as necessary to ensure it remains aligned and appropriate for the growing business.

Culture

Remote working for such an extended period had the potential to negatively impact our culture, whilst also increasing our operational risk. However, the use of various conference technologies ensured key governance and risk management processes, such as the daily Underwriting and Marketing Conference Call, continued to operate as they would have done in the office. In terms of our culture, in 2019 the Group commissioned a comprehensive staff survey, the results of which were very positive. In 2020, this was followed up with a further survey focusing on diversity and inclusion. Risk culture has also been a focus, with the development of a risk culture framework to ensure the alignment between the Group's organisational and risk cultures. We expect to develop this further in 2021 through the implementation of related risk metrics, which can be used to provide assurance to the Board. Our first risk culture survey was conducted in January 2021. These results are being used to direct focused risk training, in addition to the broader ERM training provided to all new permanent and fixed-term contract staff.

Climate change

As a (re)insurance group Lancashire is primarily affected by physical risk through its exposure to acute and chronic climate change. However, consideration must also be, and is, given to transition and climate-related litigation risks. In our underwriting operations, we manage this risk effectively by supplementing our internal know-how with external vendor models. We have clear tolerances and

ERM & ORSA

Key activities

- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board

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

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

- Capital and liquidity management frameworks
- Review of internal model policies, capital and solvency appetites
- Full/proxy capital assessments
- Rating agency capital assessments
- Stress and scenario testing
- Board quarterly review of capital needs, headroom and actions

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

- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment

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

Key elements of ORSA

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

preferences in place to actively manage risk exposures (including exposures associated with loss events which may be influenced by climate change trends), and the Board regularly monitors our PMLs (see table on page 133). Litigation risks are managed by monitoring publicised legal cases and understanding the potential ramifications for the Group based on our existing portfolio. The risks to the asset side of our balance sheet from exposure to climate change is mitigated in part through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio. Management and the Investment Committee are working with our external portfolio managers to monitor the carbon and ESG profile of the Group's investment portfolio (see pages 76 and 77 for further details).

Climate change, its related risks and opportunities and their potential financial impact, are a key focus of the Board at its quarterly meetings, and the Board continues to oversee the development of the ESG framework and the Group's climate-related financial disclosures including the requirements of the TCFD. The stress and scenario tests performed as part of the business planning and ORSA processes included climate-related scenario(s), and these scenarios will continue to be refined and enhanced as more information becomes available. The Group has established a working party which will consider, inter alia, the appropriate methodology for future climate scenarios aligned to TCFD requirements. The work performed to date has not resulted in any material impact on business strategy or change to our understanding of the risks' impacts to our business. See also pages 58 to 61: TCFD Our journey. The Group monitors and offsets its own carbon emissions (see page 53 for further details).

Risk strategy

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

The Group's financial performance is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk, and strategic risk, which are all discussed further in the risk disclosures on pages 132 to 153, as well as Group risk and regulatory and legal risk. The primary risk to the Group is insurance risk, which can be subdivided into the core risk of underwriting and the non-core risk of reserving and includes the Group's risk exposures to natural catastrophes including wind storms, wildfires and other loss events linked to climate change trends.

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

Risk management framework

The Group subscribes to a 'three lines of defence' model, the front-line being risk ownership by business managers. Responsibility for the management of individual risks has been assigned to, and may form part of, the performance objectives of the risk owners within the business. Risk owners ensure that these risks and the controls that mitigate against these risks are consistent with their day-to-day processes and the entries made in the respective risk registers, which are a direct input into the subsidiary capital models. The second line comprises the risk management team, which is responsible for risk oversight and the RRC. Within this, the Group CRO provides regular reports to the business outlining the status of the Group's ERM activities and strategy, as well as formal reports to the Board and the boards of the individual operating entities. The Group CRO ultimately has the right to report directly to the Group and entity regulators if she feels that management is not appropriately addressing areas of concern regarding the Group as a whole or any of the individual operating entities. LSL's CRO provides formal reports to the LSL Board and its Risk, Capital and Compliance Committee ('RCCC'). The third line of defence is the internal audit function, whose work complements that of risk management by independently assessing the operating effectiveness of controls and also appraising the culture.

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

As at 31 December 2020, all Group entities were operating within their board-approved risk tolerances.

The quarterly ORSA reports prepared by the Group CRO to the Group and subsidiary boards provide a timely analysis of current and potential or emerging risks, compared against risk tolerances, along with their associated capital requirements.

The 2021 annual ORSA report will be presented to the Board for review, challenge and approval at the Q1 2021 Board meeting. The equivalent reports for the operating subsidiaries will also be presented to their boards for review, challenge and approval during Q1 2021. As a Lloyd's managing agent, LSL falls within the Society of Lloyd's for Solvency II reporting, preparing ORSA reports for each syndicate. LSL has its own ERM framework to ensure adherence to Lloyd's minimum standards.

The diagram on the previous page illustrates how we balance our ERM and ORSA activities. Our risk culture is driven from the 'top down' via the Board and executive management to the business, with the RRC central to these processes. Risk culture is also driven from the 'bottom up' through the risk and control affirmation process. The primary role of the Group CRO is to facilitate the effective operation of ERM and the ORSA processes throughout the Group at all levels.

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

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

RRC

The RRC, under the chairmanship of the Group CEO, is the key management tool for monitoring and challenging the assessment of risk on a regular basis. It seeks to optimise risk-adjusted returns and facilitate the appropriate use of the Group's internal models, including considering their effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity boards of directors. The RRC includes the Group CEO, members from the finance, actuarial, modelling, operations, treasury and underwriting functions and both the Group CRO and LSL CRO. The Group CRO reports on the RRC's activities to the Group and individual entity boards of directors and via the LSL CRO to the RCCC of LSL. Through the Group CRO the RRC considers recommendations to the Board and its Committees with regard to the adoption of formal risk tolerances. Examples of specific items considered by the RRC during 2020 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests and the results of the quarterly affirmation process and related controls testing.

Capital models

We continue to challenge the assumptions used in the individual capital models and make changes where appropriate.

Changes in risk

From an insurance risk perspective, our Board-approved tolerances have remained static during the year but for the second year running we have seen an increase in the gross written premium compared to the prior year. This increase reflects an increased appetite to write business as we have seen improving rates across most of our classes of business. Our insurance risk tolerances will remain the same for 2021 but our expectation is that we will write more business, retain more risk, and therefore have reduced headroom between tolerance and actual exposure as we deploy our capital according to the market conditions.

As is the case every year, our underwriters have reviewed and refined our purchasing of reinsurance cover. This is designed to ensure our reinsurance buying is aligned to our latest strategy and is targeted to be as responsive as possible, thereby helping to reduce net insurance risk exposures or enabling additional risk taking.

From an operational risk perspective, and primarily as a result of the pandemic, there have been a number of important risk and control changes during the year given the remote working environment. The strength of the control environment remains unchanged, as does the governance process around such changes.

Emerging risk

The identification and assessment of emerging risk occurs throughout the Group from individual departments to management and executive committees, to the boards of directors and sub-committees of the boards. The risk function maintains an emerging risk register, which is provided to the executive committees, Board and entity boards of directors each quarter, and is therefore subject to an iterative process of review and oversight. Emerging risks, by their nature, are difficult to quantify, however, during 2020, the Group strove to foresee potential areas of new risk, or developments in existing risks, and to assess how those risks could impact the Group. Whilst much of the focus in 2020 was on the ongoing pandemic, the risk function also monitored the development of previously reported emerging risks including ESG, Brexit, operational resilience, the Future at Lloyd's and global tax reform. Climate change risk remains at the top of many political agendas internationally and is an area of risk monitoring and management for us at both management and Board level. The threat which catastrophic weather events pose to individuals, communities and businesses illustrates the social and economic value which our risk management products generate. This is therefore a key area both of strategic opportunity for our business and one of the key drivers of our underwriting risk exposure management. In particular, management and the Board set tolerances for, and monitor, the Group's probable maximum losses for major catastrophe events and in particular weather-related exposures. Please see page 133 for a list of the Group's current PML risk exposures. Climate change risk also informs the way we manage our investment portfolio and associated risk. During 2020, the Group once again participated in the Carbon Disclosure Project, which is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures, which are promoted by the Financial Stability Board and the Bank of England. See also the section titled TCFD Our journey on pages 58 to 61 for more information.

Risk universe

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

The Board evaluated the risks disclosed, alongside other factors, in the assessment of the Group's viability and prospects as set out in the going concern and viability statement in the Directors' report at page 108.

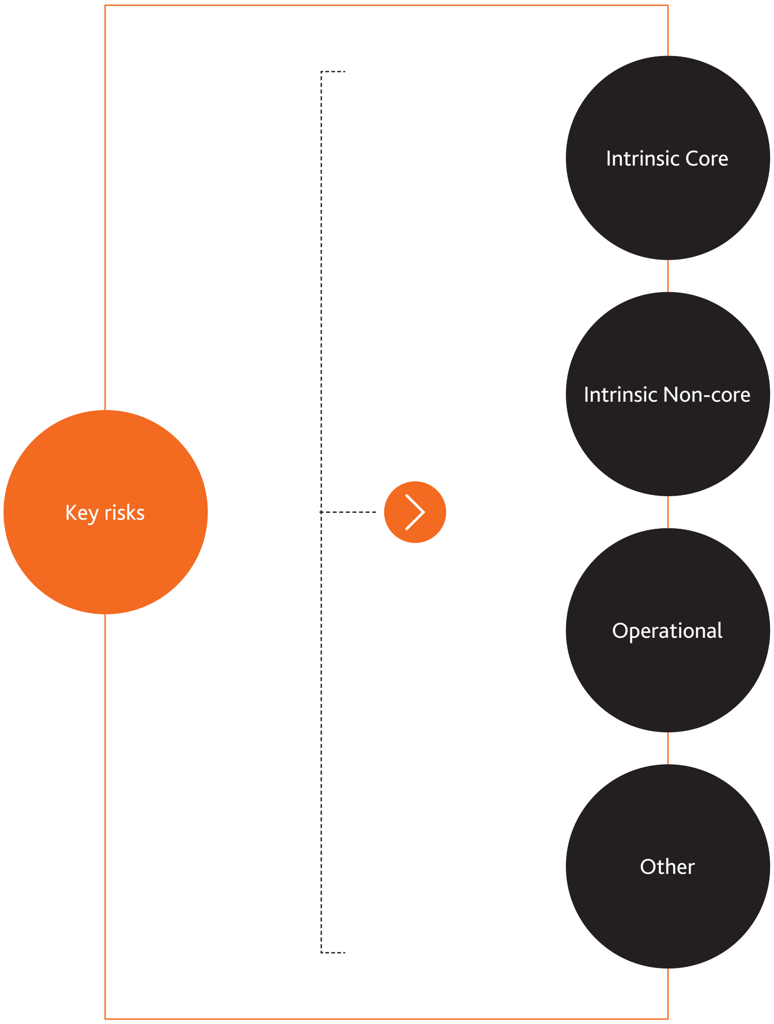
Risk universe

Type	Category	Description
Intrinsic Core	Underwriting Investment	Intrinsic risks representing the potential to generate a return as well as a loss. In these areas, the Group promotes informed risk taking that considers the risk and return equation in all major decisions, with the intention of maximising risk-adjusted returns. We recognise that by insuring fortuitous events we can suffer losses and that within our investment portfolio we can see the value of investments fall. We cannot avoid these risks, so we focus on the correlated operational risks and seek to mitigate them. For example, we know that by insuring the risk of natural perils we are exposed to the risk that losses exceed our plan. We model our portfolio using stochastic modelling to review actual and planned exposures to ensure they remain within tolerances. The correlated risks are that we might fail to design or maintain effective tolerances and limits, and fail to maintain exposures within such limits; or that we fail to keep accurate and timely records of our exposures. We then devise systems and processes to mitigate these risks, such as PML reconciliations and RDS sign offs, with review by the RRC and regular ORSA reports to the Board, which also considers and approves formal risk tolerances.
Intrinsic Non-core	Reserving (Re)Insurance counterparty Liquidity	Intrinsic risks to which we are inevitably exposed as a result of conducting our day-to-day business operations, yet offer no direct potential for return. They are quantified insofar as practicable for the purposes of capital and risk management and avoided or minimised insofar as is economically justifiable.
Operational	Operational	These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. They have the potential either to magnify the adverse impacts of intrinsic risks, for example increased reinsurer default losses arising through the use of non-approved counterparties; or to crystallise separately in their own right, for example losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.
Other	Strategic Group Emerging	These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

Our strong risk culture is the foundation on which we build our strategy

As described under our review of the risk universe on page 34, our classification of risks as Intrinsic Core and Intrinsic Non-core, Operational and Other helps us to focus on our management and mitigation of those risks.

Further details concerning these risks can be found on pages 36 to 41. Within the capital models, insurance risk accounts for over 80% of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place a large number of controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested. For example, we spend a lot of time looking at the implications of new capital entering the market and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change through the analysis of the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned to our business planning, ORSA processes and time horizons. The selected tests are aligned to our key risk areas and include capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.



Intrinsic risk: Core

Underwriting: Losses in our classes are hard to predict, in particular as to the specifics of timing and quantum of catastrophe loss events. Additionally, we write lines of business that are subject to accumulations, including accumulations of individual risk losses arising from a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and AV52 portfolios. Losses can also exceed expectations in terms of both frequency and severity. We recognise that through climate change trends, and other influencing factors, weather-related incidences or other actual catastrophe loss events may increase losses in frequency, severity and clustering so, although we model losses, for example when using the RMS and AIR stochastic models, we know that these projections can and will be wrong in many instances.

Link to strategy

1 Underwriting comes first

Trend

Impact

Appetite

Opportunities

As market dynamics change so too do the opportunities available to the Group. We remain creative in being able to provide tailored insurance and reinsurance products and solutions to our core clients across the three platforms of our business. 2020 saw further opportunity for organic growth as we both increased business written in our existing classes of business and added additional classes of business to our portfolio. 2021 looks to be equally positive.

Mitigation

Modelling: We apply loads to, and stress test, stochastic models and develop alternative views of losses using exposure damage ratios. We review our assumptions periodically to ensure they remain appropriate. We also back test our portfolio against historic events to assess potential losses.

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

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

Reinsurance: We buy reinsurance to manage our exposure and protect our balance sheet. The structure of our programme is reviewed each year to ensure it remains aligned to our strategy and risk profile.

How the Board reviews this risk

Unsurprisingly, the Board views underwriting as the Group's key risk. As such, the Board continues to focus on underwriting expertise and discipline to effectively balance the equation of risk and return, and operate nimbly through the cycle. The Board is actively engaged in the development and implementation of the Group's underwriting strategy, including consideration of potential risks to the strategy such as climate-related physical, transition and litigation risks. The Board is also involved in the articulation of, and adherence to, formal underwriting risk tolerances. Quarterly risk data on this is both received and reviewed by the Board's UURC to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. The UURC and Board also review and approve the structure of the Group's outwards reinsurance programme. During the year the Board was involved in reviewing and approving a range of proposals to enter additional classes of business.

Key

Risk trend key:

- Increased
- Stable
- Decreased

Risk impact key:

- High
- Moderate
- Low

Risk appetite key:

- Acceptable
- Reassess
- Unacceptable

Intrinsic risk: Core (continued)

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

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

Mitigation

Governance: Board and investment strategy: Our strategy is that investment income is not expected to be a significant driver of our returns. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored on a quarterly basis by the Investment Committee and Board. A detailed strategic asset allocation study is performed biannually.

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

External advisers: Lancashire's Board and management recognise that the Group's principal expertise lies in underwriting so we use the services of internationally recognised investment managers who are experts in their fields. The Group's principal investment managers are signatories to the UN Principles for Responsible Investment.

How the Board reviews this risk

The Investment Committee receives and reviews investment strategies, guidelines and policies, risk appetite and associated risk tolerances, and makes recommendations to the Board in this regard. The Committee also monitors performance of the investment strategies within the risk framework and compliance with investment operating guidelines. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances. During 2020 the Investment Committee received the results of the strategic asset allocation study and a paper on ESG and carbon pricing sensitivity, including the results of an exercise whereby our investment managers reviewed our portfolio against the MSCI ESG Index. This work will be further developed in 2021 to define some climate-related investment metrics.

Intrinsic risk: Non-core

Reserving: Because we do not know the amount of losses we are going to incur at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. If these reserves are inadequate and claims exceed them, this may have an impact on earnings, or indeed capital. Independent reserve reviews by external actuaries look at the overall levels of expected losses, as well as individual large events, including benchmarking analyses to provide assurance over the level of reserves booked.

As mentioned in earlier sections of the report COVID-19 is a unique loss event given its ongoing nature and impact across multiple product lines. These factors make it exceptionally difficult to reserve for and also means that any ultimate losses are inherently uncertain. This has led us to change the trend for this risk to increased from stable.

Link to strategy

2 Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

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

Mitigation

Short-tail business: Lancashire's focus is on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty.

Experience data: We have access to a lot of data, both our own and from the industry as a whole, about losses and loss trends. Actuarial and statistical data are used to set estimates of future losses, and these are reviewed by underwriters, claims staff and actuaries to ensure that they reflect the actual experience of the business.

Governance: Reserves are reviewed and approved by the Reserve Committee whose members include representation from finance, actuarial and claims; there are additional attendees from finance, actuarial, underwriting, legal and risk. A reserve report is presented and reviewed on a quarterly basis by the Audit Committee.

External review: Insurers typically facilitate an independent review by external actuaries of their loss reserves. Lancashire retains the services of one of the leading industry experts and our appetite is defined so as to set reserves within a range of reasonable estimates based on both internal and external review. The Audit Committee receives and considers quarterly reports from management and the Group Chief Actuary. In addition, the Audit Committee receives and considers reports on reserve adequacy from the external actuary on a six monthly basis.

How the Board reviews this risk

The Board reviews this risk in detail on a quarterly basis through the Audit Committee, which focuses on the appropriateness of the overall reserve levels, informed by management's quarterly update, the external actuary's independent review of reserve adequacy performed at half-year and year-end and the work performed by the external auditor; and through the UURC, which receives quarterly updates from management on individual large losses. The review includes detailed analysis on major losses including climate-related natural catastrophe losses and pandemic losses.

The Board focused on COVID-19 as a liability issue for the business and monitored the rigorous reserving process conducted by management at an early stage of the pandemic and regularly throughout the year.

Intrinsic risk: Non-core (continued)

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

Link to strategy

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Trend

Impact

Appetite

Opportunities

As both a purchaser and seller of reinsurance, opportunities exist throughout the insurance cycle. Until relatively recently, with rates suppressed, the quantum of reinsurance coverage purchased has increased and therefore so has counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to ensure monies due are received. As always, it is the case of balancing the risk we are taking with the expected return; reinsurance purchasing is one way of balancing this. As market conditions change, we may choose to retain more risk or may be unable to purchase the same level of reinsurance as in previous years resulting in a reduction in counterparty exposure.

Mitigation

Counterparty credit limits: The Broker Vetting Committee is responsible for the broker vetting approval process and monitoring credit risk in relation to brokers. In addition, the Group conducts broker business using non-risk transfer TOBAs. This mitigates the risk due to non-payment by brokers and intermediaries as monies are held in separated client money accounts. We use counterparty credit limits, seek to deal with reputable reinsurers that meet our minimum rating standards, and use collateral agreements where appropriate. The operating entities of the Group that contract for reinsurance separately maintain and report their own counterparty credit limits at the entity level. The RSC is responsible for approving counterparties and monitoring first loss and aggregate limits.

How the Board reviews this risk

The quarterly ORSA report to the Board includes the top five reinsurance counterparty exposures versus the Board-agreed tolerances. These tolerances are reviewed and approved on an annual basis by the Board and considered as part of the annual strategy review. Amounts owed to intermediary counterparties are included in the underwriting information provided to the UURC on a quarterly basis.

Liquidity: In order to satisfy claims payments, we need to ensure that sufficient assets are held in a readily realisable form. This includes holding liquid assets for the modelled payout of loss reserves, as well as ensuring that we can meet claims payments in relatively extreme events.

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

As previously noted, liquidity is a primary objective of our investment portfolio. It is important we balance the need for liquidity and being able to pay our clients' claims on a timely basis with the opportunity for return from our investments. We do this through different investment portfolio categories.

Mitigation

Portfolio management: The Group maintains liquidity in excess of the Board-agreed tolerances. This is achieved through the maintenance of a highly liquid portfolio with short duration and high creditworthiness. We monitor this through the use of stress tests and mitigate risks through the quality of the investments themselves.

How the Board reviews this risk

Liquidity risk is reviewed by the Investment Committee which regularly receives and reviews reports detailing asset allocation and compliance with pre-defined guidelines and tolerances.

Operational

These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. The Group is also subject to regulatory supervision and oversight, as well as legislation and tax requirements across a number of jurisdictions (see page 152 for more information). Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposures. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system. Furthermore, unauthorised access to IT systems as a result of a breach or failure could result in data loss, including personal data, which may have regulatory and/or reputational risk implications. During 2020, the impacts of the COVID-19 pandemic and the resultant transition to home working have been monitored as a 'real world' operational risk challenge. As part of this, the IT security and cyber risk score was increased to reflect the change in working environment.

Link to strategy

2 Effectively balance risk and return

3 Operate nimbly through the cycle

Trend

Impact

Appetite

Opportunities

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

Mitigation

Capacity: We mitigate IT availability risk by adding redundancy to the capacity we need and using backups of data, including off-site storage that we test regularly. Additionally, the Group has both Disaster Recovery and Business Continuity Plans in place that are tested annually and which are designed, in particular, to help minimise the risk posed by Bermuda hurricane events or disruptive political or terrorism events in London. The business follows strict tax and regulatory operating guidelines, which are periodically reviewed and approved by the Board. The executive management team has monitored the unfolding operational impacts of COVID-19, both formally and informally, often on a daily basis. The Board has received regular reports on COVID-19 operational impacts at its quarterly meetings (see page 41 for more detail).

Testing and access: We mitigate the integrity risk by using independent external penetration tests, and by restricting access to key systems to only those people who are qualified and need to use them. We also have a Cyber Incident Response Plan to guide management should a third party be discovered to have gained access to our systems.

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

Although the Group holds limited personal data, it has a suite of policies and processes, including penetration testing procedures, around data protection which facilitate compliance with the General Data Protection Regulation (GDPR), the UK Data Protection Act and UK-implemented GDPR and the Bermuda equivalent of the GDPR, the Personal Information Protection Act (PIPA).

How the Board reviews this risk

The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process and detailed control testing. The Audit Committee reviews this alongside the quarterly updates from the internal audit team regarding their programme of work and opinion on the effectiveness of controls. In addition, the quarterly ORSA report from the Group CRO to the Board includes details of any risk events and near misses and changes to the risk register, and the drivers for such change. The Board reviews the culture aspect of operational risk through the Audit Committee, which receives an update in each internal audit report as well as through internal audit's analysis of the root causes of the audit findings. COVID-19 was discussed at each meeting of the Board during 2020, with a particular focus on the operational resilience of the Group and ensuring the Group could continue to service its policyholders. In addition, a diversity and inclusion survey was performed late in 2020, and a risk culture survey in January 2021, the results of which were presented to the Board in February 2021. The Board is also provided with regular updates on the change management portfolio of work. This has been an area of focus in 2020 with the recruitment of a Head of Change.

Other – climate change and COVID-19

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

Whilst we view climate change as a factor relevant principally to our underwriting and investment risks (see previous), the Board and business continue to monitor the effects of climate change risk perceptions as a driver of global economic, political and regulatory change.

The regulatory requirements around companies' climate-related financial disclosures are increasing and failure to address these requirements sufficiently may result in the risk of reputational damage or increased regulatory oversight.

COVID-19 has had a significant impact through the imposition of a remote working environment and the fact it continues to be an ongoing insurance risk event. Operationally the Group has managed the pandemic well with minimal impact to our control environment. Our staff have shown their resilience whilst working remotely, returning to the office and then having to return to a remote working environment.

Link to strategy

Effectively balance risk and return

Trend

Impact

Appetite

Opportunities

Operational resilience and climate change risk factors are examples of other risks the Group considers and monitors.

Climate change and the trend of increased frequency and severity of weather-related loss events illustrate the value of our insurance and reinsurance products to our clients. Whilst we already insure many clients in the renewable energy sector, as the world transitions to non-carbon forms of energy the opportunities within this sector will grow.

2020 has proven to be a year for demonstrating resilience, including that of our staff, our operations, our technology, our third-party service providers and our facilities. All of which are required to be operationally resilient to effectively service our clients.

Mitigation

Qualitative approach: These risks require a qualitative approach, engaging staff in appropriate discussions about sources of risk, and then thinking about possible outcomes. The Group Executive Management Committee and the RRC consider these issues, and the quarterly ORSA reports made by the Group CRO to the Board include standing items on these risk areas.

ESG: An ESG working group has been established under the leadership of the CRO to drive the necessary work to be in compliance with the TCFD requirements prior to the end of 2021.

COVID-19: The increased cyber risk was mitigated through the provision of hardware to staff for use when working remotely to ensure appropriate security was in place. In addition, a cyber security incident response plan has been developed and a desktop exercise performed to test the plan.

How the Board reviews this risk

Both COVID-19 and climate change have been topics of discussion at each Board meeting this year. The quarterly ORSA report from the CRO to the Board includes an ESG section providing an update on related work during the period. In addition, the stress and scenario testing performed as part of the annual business planning process and regulatory reporting process includes both a pandemic risk scenario and a climate change-related scenario looking at both transitional and physical risks. The Board concluded that the results of these scenario tests did not represent a material risk to the Group. The Board has reviewed the TCFD report in the Annual Report and Accounts (see pages 58 to 61).

Building on clear communication and strong governance

"Clear and direct communication and information flows, a sense of accountability and an open and honest culture of engagement, debate and challenge are the pillars of an effective governance framework and a sustainable business model at Lancashire. They give the business a strong sense of purpose and a clear strategic focus."

Peter Clarke
Non-Executive Chairman

In my opening statement, I discussed the Board's oversight of performance, strategy, risk and capital management during 2020. The following sections focus first on the work carried out in the areas of the Company's environment & social responsibilities, including the Company's progress in advancing the UNEP FI Principles for Sustainable Insurance, stakeholder engagement, the Board's Section 172 responsibilities and progress in our engagement with climate change risk and the recommendations of the TCFD. The following Governance section describes the work carried out by the Board and each of its Committees in providing challenge and support to the management team and in engaging with the wider business to oversee the development and delivery of an effective strategy.

What priorities inform the governance arrangements for the Group and its broader social and environmental responsibilities?

Lancashire is a premium-listed company on the LSE, which measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis through the work of our Nomination Corporate Governance and Sustainability Committee (see page 72 for the Committee report).

Throughout this Annual Report and Accounts for the 2020 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the Bermuda Monetary Authority, which also regulates LICL, the Group's Bermuda incorporated (re)insurance entity. The Group's UK insurance entities are regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

The Board is alive to the increased focus under the Code on the sustainability of businesses, not only with regard to the operation of formal governance arrangements, but increasingly social and environmental impacts. The Code specifically stresses the importance of the Section 172 responsibilities of boards under the UK Companies Act 2006, and whilst the Company is incorporated in Bermuda and not formally subject to Section 172 as a matter of law, our Board has for many years operated a strong culture of proactive and constructive stakeholder engagement. During 2020, the Board enhanced its formal consideration of questions of sustainability by renaming the Nomination Corporate Governance and Sustainability Committee and revising that Committee's Terms of Reference, which are posted on the Company's website.

On pages 44 to 46 of this report we have included a summary of the principal areas of focus for the year under the 'Principles for Sustainable Insurance', promoted by the United Nations Environment Programme Finance Initiative. This is the second reporting year since the Board and business became signatories to the UN Principles. As both Alex and I mentioned in our introductory remarks, the Board and business have progressed the business's strategy and planning in the area of climate change and the attendant risks and opportunities. In our Investment Committee report, Rob Lusardi reports on some of the preliminary work carried out to measure the sensitivity of the Group's investment portfolio to a range of carbon pricing scenarios. Louise Wells, our Chief Risk Officer, addresses how we manage the risks and opportunities associated with climate change in her Enterprise Risk Management report (see pages 30 to 33) and this Annual Report and Accounts summarises the steps taken so far by the Board and the business in 'Our journey' to embed the principles of the TCFD through our governance, strategy, risk management and scenario testing (see pages 58 to 61).

Readers will also note our account of the way in which the Company engages with its stakeholders in the engagement and sustainability section of this report on pages 47 to 57. This includes the Board's statement in respect of matters covered by Section 172 which can be found on page 48.

I am pleased to report that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2020. The formal consideration of governance and regulatory requirements are used by the Board and the business as practical working tools to monitor and promote a purposeful, diverse and successful business culture.

In the face of the COVID-19 pandemic how did the Board engage with the workforce?

The Board has for many years had a strong culture of 'workforce' engagement. We have the great advantage of having an employee headcount of around 250 people, so all our employees are known personally by our Group CEO or the other members of the Group's executive management team. 2020 presented practical challenges for face-to-face engagement, as our staff in London and Bermuda were required to work from home for several months during the year. We addressed this challenge in several ways including the use of video conferencing. The management team and Board also used a staff pulse survey, which helped develop a picture of the challenges faced and requirements of staff following the lockdowns.

As has been his practice for several years, Alex Maloney has led on a quarterly basis 'town hall' meetings with all our staff, which during 2020 moved to a virtual environment and were very well attended by our staff in both our UK and Bermuda offices. At each of these meetings one of our Non-Executive Directors participated on a rotating basis to talk about their perspective on the work of the Board and the priorities for the business and to take questions from members of staff. Alex also produced regular newsletters for staff over the period of lockdown, which as well as giving an update on the business included other, more social information, to enhance staff morale.

We were able to organise meetings in Bermuda in February 2020 and in France during July 2020 at which our Non-Executive Directors had opportunities to meet members of staff both as part of the formal business of the Board and informally outside Board meetings. We also held an informal buffet lunch In Bermuda in February where our Directors had the opportunity to meet staff members.

There were several training and discussion sessions presented by members of staff to Directors, which helped facilitate engagement.

Our internal audit team has now embedded a focus upon business culture at a business unit level and reports its findings to the Audit Committee as another tool to help monitor the health of the Group's business culture.

The Board and business continue to support the work of the Lancashire Foundation, which continues its strong tradition of staff engagement and activism.

In summary, despite the exceptional challenges faced in 2020, the Board was able to engage with the workforce and monitor the Group's business culture through several channels. Whilst there will always be areas of friction and scope for improvement and innovation, the Board is pleased that we operate an open, respectful and successful business culture and that we have the practical tools to ensure strong and effective two-way communication and engagement between the workforce and our Board.

For further discussion of the work of the business, the Board and its Committees in the areas of culture and engagement please refer to the engagement and sustainability report (pages 47 to 57), the report from the Audit Committee (pages 67 to 71) and the report from the Nomination Corporate Governance and Sustainability Committee (pages 72 to 75).

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

As we noted in last year's Annual Report and Accounts, following an announcement in December 2019, Natalie Kershaw was appointed to the role of Group CFO and as an Executive Director of LHL with effect from 1 March 2020 and Natalie has proved a welcome addition to our Board. Other than that, the Board composition has not changed, although we do expect to make further appointments to the Board during 2021 to help ensure managed succession planning.

Are the Board and its Committees operating effectively?

Following last year's 2019 Board performance evaluation, we tracked several actions and enhancements during the year. Towards the year end our Board once again carried out a review of its effectiveness, which was facilitated internally by Chris Head, our Group Company Secretary. A summary report was discussed by the full Board and the exercise has again helped us identify certain topics for training or specific focus during the coming year, as well as other enhancements to our Board and Committee reporting and operational processes. Throughout 2020, I have continued to meet regularly with the chairs of each of our principal subsidiary boards and our performance evaluation concluded that the relationship between the main Lancashire Board and the subsidiary boards continues to operate effectively. We concluded that the Board, its members and each of its Committees have a balance of experience and talents that serve the Group well and have the competencies and operational culture necessary to meet the strategic challenges of the business effectively (see page 65 for further details).

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

Peter Clarke
Non-Executive Chairman

Principles for Sustainable Insurance

The UNEP FI Principles for Sustainable Insurance ('the Principles') serve as a global framework for the insurance industry to address ESG risks and opportunities. The Principles are directed at achieving a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for effective risk protection and reporting.

The Board has reported against the Principles since 2019 and seeks to monitor and embed the Principles in the delivery of its strategy. This table summarises how the business applied the Principles during 2020 and directs readers to where the relevant activities of the Board and business in embedding the Principles are discussed in more detail within this Annual Report and Accounts.

Principle 1

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.	**For more information please see:**
Company strategy We embed ESG issues within our Board and management's strategic and business planning processes to foster a strong, purposeful and profitable culture of sustainable governance. The business is led by a strong management team accountable to an independent, diverse and effective Board and Committee structure.	Purpose statement (inside cover) Engagement and sustainability – Section 172 (page 48) Governance report (pages 64 to 66)
Our principal strategic purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events, including those influenced by the effects of climate change. During 2020, the Group has taken further steps to implement the recommendations of the TCFD in developing greater formality around the understanding of the impacts of climate change risk and implementing an appropriate governance framework for climate change management. We formally monitor our climate exposures and build this into our risk management and strategic planning, both as a risk and opportunity for the business. We are also starting to develop a picture of the likely impacts of a range of climate change scenarios on the Group's insurance operations and its investment portfolio. We are committed to monitoring and offsetting the Group's own carbon emissions.	Purpose statement (inside cover) Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24) Climate change and TCFD strategic planning, risk management and resilience testing (Enterprise risk management section pages 30 to 33) and our TCFD journey (pages 58 to 61) Environmental impacts and offsetting (pages 53 to 54) Investment Committee report – carbon pricing, portfolio sensitivity analysis (page 77)
Management and the Board actively support the work of the Lancashire Foundation, which promotes engagement of our staff with a range of charitable and social projects, including a record of assistance to disadvantaged communities blighted by catastrophic events including the COVID-19 pandemic.	Communities, including the Lancashire Foundation (pages 54 to 56)
We value our people and the strategic benefits of a healthy business culture. Our management team and Board promote an active programme of engagement and we operate a robust, yet flexible, programme of staff training and opportunities for career development. We offer attractive remuneration and employee benefits packages and have a planned approach to succession, staff retention and employee satisfaction.	Succession planning (page 51) Engagement and people (page 52) Workforce engagement and culture (page 50) Employees/Health and safety (page 107)
There is regular engagement with our shareholders and other stakeholders by management, the Board and the business, touching upon a range of strategic and business issues, including the Group's approach to a range of ESG matters.	Purpose statement (inside cover) Strategic report (pages 16 to 17) Chairman's introduction – ESG implementation (pages 42 to 43) Governance report (pages 64 to 66) Investment Committee report – work on portfolio ESG management (page 77)

Principle 1 continued

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.	**For more information please see:**
Risk management and underwriting There is a strong culture of underwriting discipline and risk management within the Group, which values professionalism and embeds risk monitoring and control processes in our underwriting activities. Environmental risk exposures, including assumptions related to climate change, are embedded into our risk management, underwriting processes and capital management.	Chief Executive's review (pages 14 to 15) Enterprise risk management and principal risks (pages 30 to 41) Risk disclosures (pages 131 to 152)
Management and the Board agree and monitor performance against formal risk tolerances, in particular with regard to the Group's exposures to natural catastrophe loss events, including weather events impacted by climate change.	Risk disclosures – peak zone elemental loss exposures (page 133)
Product and service development Our (re)insurance products and services help our clients manage the threats they face from climate catastrophe risks and other unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes.	Purpose statement (inside cover) Underwriting review (pages 22 to 24)
The Board and management foster a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world. Included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.	Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24)
Claims management Our experienced team of claims specialists is well-equipped with specific knowledge of our diverse product lines. We have high levels of expertise that allow us to effectively manage and thoroughly investigate any loss our clients may sustain. Our goal is to ensure timely and equitable claims resolution for our clients.	Business review – losses (page 26) Engagement and sustainability – our policyholders (page 52)
Sales and marketing We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as with independent brokers, who distribute our products. We seek to engage with our clients and their brokers to provide relevant and targeted risk solutions based on a sustainable strategy and business model.	Purpose statement (inside cover) Engagement and sustainability – brokers (page 52)
Investment management We actively manage our climate change transitional risk, with sensitivity to, and promotion of, ESG responsible investment. Our principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment'. We have also started to formally monitor the sensitivity of the Group's investment portfolio to the impacts of different carbon pricing regimes and to develop a better understanding of the resilience of the investment portfolio to carbon transition risk.	Principal risks – investment risk management (page 37) Investment Committee report (pages 76 to 77) Our TCFD journey (pages 58 to 61)

Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.	For more information please see:
Clients and suppliers We engage constructively with our clients, brokers and other suppliers to address environmental, social and governance issues relevant to the operation of our business and to address our clients' needs for risk management solutions across a range of specialty and property lines.	Purpose statement (inside cover) Chief Executive's review (pages 14 to 15) Underwriting review (pages 22 to 24) Chairman's introduction (pages 42 to 43) Investment Committee report (pages 76 to 77)
Insurers, reinsurers and intermediaries We engage with industry bodies to develop and promote awareness of market issues (including environmental factors).	Chief Executive's review/comments on climate change impacts and actions (page 15) Engagement and sustainability – (page 52) Chairman's introduction (page 42)

Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.	For more information please see:
Governments, regulators and other policymakers Our Board and business operate constructively within a highly regulated insurance and financial services environment in the UK, Bermuda and internationally. Our Bermuda and UK entities have engaged during the year with their respective national regulators in relation to the management of climate change risk and the progress made in implementing the TCFD recommendations and in the monitoring of the impacts of the COVID-19 pandemic both operationally and strategically. As a listed company, LHL systematically monitors, records and reports its compliance with the Code.	Chief Executive's review (pages 14 to 15) Chairman's introduction – sustainability, governance and regulation (pages 42 to 43)
The Board and business monitor and comply with relevant law and regulation. Examples include the Board's clearly articulated position regarding slavery and human trafficking, pursuant to the provisions and requirements of the UK Modern Slavery Act 2015. Our Board has also regularly discussed the recommendations of both the Hampton-Alexander and the Parker Reviews regarding gender and ethnic diversity.	Nomination Corporate Governance and Sustainability Committee report (pages 72 to 75)
The Board oversees the Company's annual submission to the Carbon Disclosure Project (CDP). The Group and its regulated subsidiaries are working to implement the recommendations of the TCFD.	Our TCFD journey (pages 58 to 61) See also: LHL's responses on the CDP website

Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.	For more information please see:
We offer clear and transparent ESG reporting through multiple channels, including our Annual Report and Accounts, our website and our work with the CDP.	www.lancashiregroup.com See also: LHL's responses on the CDP website
We are committed to being transparent and accountable, by publicly disclosing the business's implementation of the Principles.	Chairman's introduction (pages 42 to 43) Chief Executive's review (pages 14 to 15)

Building with purpose

The very foundations to our strategy and success as a business are the solid pillars of engagement that we have built with our people, our stakeholders and society, and the creation of a healthy and sustainable corporate culture.

Since its foundation in 2005, the Group has focused on fostering relations with a broad range of stakeholders.

Our stakeholders

Our people

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

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

See page 50 for further details.

Our policyholders

We place the highest value on the relationships we have built over the years with our existing policyholders and work hard at creating a lasting impression with new ones.

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly priced and useful products.

See page 52 for further details.

Our shareholders

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them.

As a premium-listed company on the LSE, LHL understands the importance of its obligations to shareholders. We work hard to foster good investor relations and pride ourselves on having an active programme of engagement with our diverse shareholder community.

See page 53 for further details.

Society and the environment

Through the Lancashire Foundation, we utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable environment.

Our insurance products deliver social benefits in helping businesses and communities manage and mitigate the risks they face. Lancashire is strongly committed to giving back to the communities within which it operates and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events.

See page 53 for further details.

The Board and Section 172 responsibilities

The 2018 UK Corporate Governance Code requires formal disclosure around the interests of and engagement with stakeholders, and the duties falling upon boards under Section 172 of the UK Companies Act 2006. Although the Company is incorporated in Bermuda and therefore not subject to the UK Companies Act requirements, the Board continues to pay close attention to developments in English law and governance best practice.

In this 2020 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of our stakeholders in their discussions and decision making. To that end, this engagement and sustainability segment should be considered together with the rest of this report as the Company's comprehensive account of its Directors' compliance with their Section 172 duties. The table below directs readers to some illustrative examples of where the Board and business have addressed these duties:

Board decision making in action

2020 equity placing

In June 2020, the Company issued an additional 19.5% of its then-existing issued share capital pursuant to an equity placing. In reaching its decision to launch the placing, the LHL Board and the executive management team had regard to a number of stakeholder factors, including: policyholder demand and requirements; the growth and underwriting opportunities expected to develop from the improving pricing environment; the Group's rating agency and regulatory capital headroom requirements and the need to maintain a strong capital position to allow the business to take advantage of such opportunities; and the constructive consultation exercise conducted with the Company's major shareholders, which included discussion of the rationale for the placing, immediately prior to its launch.

In allocating the new shares, the LHL Board and the executive management team paid close attention to the Pre-Emption Group's Statement of Principles. A balance was struck in achieving strong pricing for the share placement and in respecting the percentage holdings of the Company's major shareholders, so as to allocate, where reasonably possible, shares in accordance with their existing holdings.

Overall, the LHL Board considered it in the best interests of the Company, all its shareholders, as well as the wider stakeholders of the Lancashire Group, to approve and proceed with the placing.

Section 172(1):	Duty to promote the success of the company, with regard to:	For further details, see:
a)	The likely consequences of any decision in the long term;	• The Group's statement of purpose – inside cover • The Group's business model for success – pages 12 to 13 • The Group's strategic goal and three priorities: that underwriting comes first; to effectively balance risk and return; and to operate nimbly through the cycle – pages 16 to 17 • The Board's assessment of the Group's viability and prospects as set out in the going concern and viability statement – page 108
b)	The interests of the company's employees;	• The importance of our people, and the business's focus on Lancashire's values, culture, diversity & inclusion, training & development and workforce engagement (for example, our 'Engagement in action') – pages 49 to 52 and 73 to 75
c)	The need to foster the company's business relationships with suppliers, customers and others;	• Our business depends upon the strong business relationships that we build and maintain with our core and broader stakeholders. All Board members attend the quarterly UURC and, during 2020, gave close consideration to business development opportunities as summarised in the Committee's report – pages 57 and 78 to 79
d)	The impact of the company's operations on the community and the environment;	• Society and the environment form part of our 'core' set of stakeholders. The Board is engaged with the impact of the Company's operations through its oversight of the Lancashire Foundation, the Group's submission to the Carbon Disclosure Project, the annual offsetting of our GHG emissions, and more recently the commitments to report against the UNEP FI Principles for Sustainable Insurance and address the requirements of the TCFD – pages 44 to 46 and 58 to 61
e)	The desirability of the company maintaining a reputation for high standards of business conduct; and	• Through its compliance with the FRC's UK Corporate Governance Code, the Company strives to operate in line with high standards of governance expectation and business conduct. A healthy and sustainable corporate culture is embedded throughout the business, which is assessed by the Board through various channels – pages 42 to 43, 47 to 57 and 72 to 75 • The Audit Committee oversees the Group's implementation of whistleblowing arrangements, and other systems and controls for the prevention of fraud, bribery and money laundering – page 70
f)	The need to act fairly as between members of the company.	• The Board is committed to treating the Company's shareholders fairly, and engaging with them through a broad programme of investor relation activities, meetings (including the AGM), and targeted consultations; be that with our substantial shareholders, the Company's own employees, private individuals, or via shareholder advisory groups – see in this regard 'Board decision making in action', as well as pages 47 to 57 and 85 • Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of dividends – pages 10 to 11, 29 and 105

Our approach to stakeholder engagement

The Group has always positively engaged with a broad range of stakeholders. Our ‘core’ stakeholders are shown at the heart of the diagram on page 47, namely our shareholders and our people (who support our business), as well as our policyholders who rely on the (re) insurance products we sell. Through our purpose as a business we aim to contribute to society and benefit the environment. The value of these relationships and the responsibilities they entail are recognised throughout the Group, ranging from Board-level decision making through to the day-to-day business activities of our workforce.

The Group’s relationship with its broader stakeholders can, of course, at any one time also be of key importance. The Board and the business prioritise underwriting excellence and nimble capital management to serve the best interests of core stakeholders, and ultimately benefit a broader group of stakeholders. It is the fluidity of these relationships which enables the business to deliver on its purpose and strategy.

Engagement in action

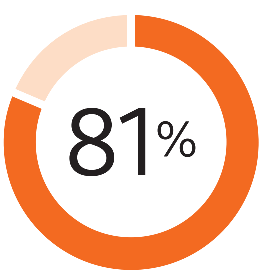
2020 diversity and inclusion survey

Lancashire is committed to promoting an open, honest and inclusive working environment. In December 2020, the Group conducted an employee survey with a focus on diversity and inclusion. The survey was undertaken with the purpose of helping the business obtain a better understanding of its employees’ views on diversity and inclusion at Lancashire, a more complete picture of the business’s culture and to gain valuable feedback on areas for potential improvement across the Group. The survey also sought information from employees on a non-attributable basis in relation to such matters as gender, ethnicity, sexual orientation and religion. Whilst responses were not mandatory, participation was encouraged across the Group.

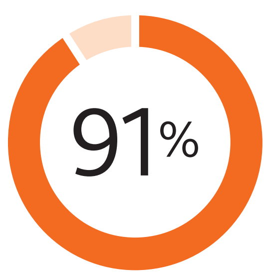
The survey was coordinated by an independent company to guarantee the anonymity and confidentiality of individuals’ responses. The summary of responses to the survey were presented by the Group Head of HR to the LHL Board, subsidiary boards and executive teams to help inform strategy across the business and to identify new initiatives to help build on areas of the Group’s culture. In particular, the business will continue to consider and engage with its employees on matters of diversity and inclusion.

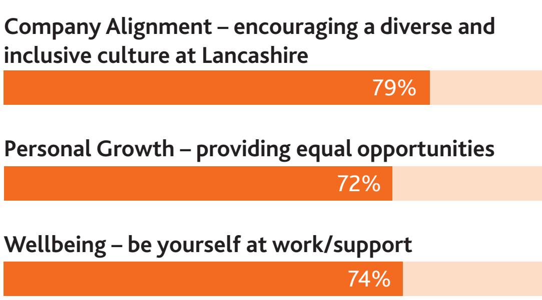
Key findings and feedback:

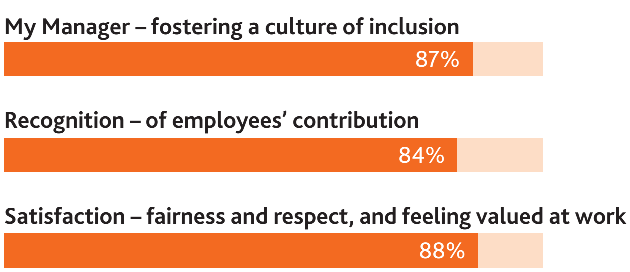
Employee participation



Employees responding that they are treated with fairness and respect







Our people

Culture

Our employees are the lifeblood of the organisation and the Group therefore strives to attract and retain excellent individuals who share our drive and appetite to outperform. Matching the skills, aspirations and values of new recruits to those of the business remains a key priority. We believe the talents of our people and our distinctive culture continue to set us apart from our competitors.

2020 has demonstrated, more than ever, the nimble 'can do' attitude of our people. The resilience, commitment and professionalism displayed throughout the Group, in what have proven to be challenging and unprecedented times, has enabled the business to continue to operate both smoothly and efficiently and to serve the interests of its stakeholders.

Lancashire offers a rewarding environment within which to work, both in terms of the support and opportunities given to employees to enable them to excel in their role and the competitive and attractive compensation and reward structures. To further enhance the link between our people and the performance of the business, all of our permanent employees are eligible to receive RSS awards, therefore giving them the opportunity to share in the growth and success of the Group and ultimately to become shareholders.

The Lancashire values

Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are…

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

Nimble in our decisions, actions and business processes, we are…

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

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

	2020*	2019*
Number of employees (UK and Bermuda)	**255**	218
Percentage of female employees	**38.8%**	38.5%
Percentage of women on the LHL Board	**37.5%**	37.5%
Percentage of women on the Group executive committee	**50.0%**	50.0%
Percentage of women in senior management positions	**50.0%**	38.1%
Number of different nationalities represented by our employees	**12**	12
Percentage of the workforce composed of third-party contractors	**6.9%**	8.0%
Group employee turnover (annual)	**6.8%**	13.8%
Percentage of employees who undertook training during the year	**56.9%**	69.3%
Percentage of permanent employees eligible for RSS awards	**100%**	100.0%
Accredited London Living Wage employer	**Yes**	Yes

* Unless otherwise stated above all figures are as at 31 December.

“The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness.”

Number of employees

255

Percentage of women on the Group executive committee

50.0%

Diversity and inclusion

The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness (see in this regard ‘Engagement in action’ on page 49 and the Nomination Corporate Governance and Sustainability Committee report on pages 72 to 75). As an equal opportunities employer, we do not tolerate discrimination of any kind in any aspect of employment. For example, all decisions relating to recruitment, assessment and promotion are based on the ability of the individual to do the job, without consideration to race, age, gender, sexual orientation, disability, beliefs, background (except as may be pertinent to the requirements of a role, such as educational qualifications or prior employment experience) or nationality. Our workforce is represented by employees of at least 12 different nationalities and the gender split of males to females (see page 75) is 61.2%/38.8% respectively. The Group is also committed to providing a working environment that is free from any form of bullying or harassment.

We expect our staff to conduct themselves in a professional manner which is reflective of the Group’s core values (see page 50 for further details). All new employees are required to attend our Communications Etiquette/Equality, Diversity & Inclusion training sessions as part of their induction. The training sessions aim to highlight employees’ responsibilities in ensuring that there is no discrimination in the workplace and in fostering a positive and productive working environment.

Lancashire respects, supports and complies with all relevant local Bermudian and UK legal requirements to which it is subject, in particular with respect to rights of freedom of association, collective bargaining and working time regulations.

Training and development

The Group encourages continuous personal and professional development for all of its employees, through internal and external training, professional qualifications, internships and secondments, performance coaching, and ‘lunch and learn’ sessions. During 2020, approximately 56.9% of our employees undertook some form of training supported by the Group that encompassed training delivered by an external provider and/or ongoing professional qualifications/continuing professional development. As ever, we encourage all our employees to take advantage of the training opportunities offered. Individual training and personal development needs are discussed on a regular and ongoing basis by managers and their team members, and are assessed as part of the formal appraisal process, where principally each employee’s success is measured through the attainment of personal performance metrics as well as performance within the Group’s values framework. During the year 9% of our employees were promoted within the Group, supported by the training and development opportunities afforded to them.

The Group also delivers compulsory training to all new permanent staff and fixed-term contract staff which covers a range of important topics, including: Tax/Regulatory Operating Guidelines, Disclosure (including the requirements of the Market Abuse Regulation 2016), Inspections, Financial Crime, ERM, Communications Etiquette/Equality, Diversity & Inclusion, GDPR and Conduct Rules. Other training may be held on an ad hoc, one-off or refresher basis according to an individual’s requirements. The training is designed to ensure that all personnel who are employed by the Group are provided with the skills, knowledge and expertise appropriate to their role and responsibilities within the business. There is an expectation that all new staff members will have completed their compulsory training during the first three months of joining the business. Quarterly updates regarding attendance at these compulsory training sessions are provided to the Board for information purposes.

Engagement

The Group benefits from having a relatively small headcount, 255 employees globally, which allows its staff members to interact easily between departments and to access members of the senior management team, including the CEOs at both Group and subsidiary level. Lancashire also encourages a high level of engagement between its workforce and the Board. There are regular opportunities for each of the Directors and staff members to interact (both in person and virtually) at all levels across the organisation in a particular year, and such engagement is encouraged both at the level of the Group's subsidiary boards and the main Board of the Company. This typically occurs at board dinners (to which UK and Bermuda staff members are routinely invited), interaction with senior employees as part of quarterly activities, semi-formal lunches, 'town hall' quarterly update meetings (attended by a designated Non-Executive Director), periodic attendance at the daily underwriting call and annual attendance at the AGM. Furthermore, both Simon Fraser and Samantha Hoe-Richardson are Non-Executive Directors on the subsidiary boards of LSL and LUK, respectively, and in that capacity each has the opportunity to meet and engage with a range of staff members within those businesses. Stakeholder engagement mechanisms are kept under review by the Board to ensure they remain appropriate and effective. In the face of the challenges presented by the COVID-19 pandemic, the senior management team and the Board adapted, where possible, during 2020 the Group's workforce engagement activities and communications to staff accordingly. Please see page 43 of the Chairman's introduction for a fuller account of the Board's engagement with the workforce in 2020 and its plans for 2021.

Our programme of employee surveys (as conducted in 2019 and 2020) gives our staff members the opportunity to provide their feedback to peers, senior management, departmental heads and the Board on their experience working for the Lancashire Group. In April 2020, the Group conducted an employee survey: 'Responding to the Coronavirus outbreak', to help senior management understand how well the business had responded to managing the challenges of the COVID-19 pandemic, with a request for feedback on: personal wellbeing, the adaptation of working practices and communications to staff on business developments. The survey received high participation amongst staff and the survey results were discussed at the April 2020 Board meeting. For an account of the Group's 2020 diversity and inclusion survey, including the key findings and feedback arising, see our 'Engagement in action' section on page 49.

Our employees also continue to contribute towards the development of our marketplace through their involvement with market committees, boards and working groups. During 2020, our employees actively participated, albeit mostly digitally, in industry conferences, investor days and symposia, and market education programmes. We also donate to many of the causes supported by our industry partners through the Lancashire Foundation.

Our policyholders

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly-priced and useful products that continue to meet our policyholders' insurance and reinsurance needs across the cycle. In the event of a loss occurring, we remain responsive in order to provide our policyholders with ongoing support and seek to pay their claims as expeditiously as possible, knowing the importance of providing an excellent service. We place the highest value on the relationships we have built over the years with our existing policyholders and work hard at creating a lasting impression with new ones. To this end, and to the extent we are permitted to do so in current circumstances, we are happy to welcome both our policyholders and their brokers to our offices, but we also travel to see them and their businesses around the world.

A more detailed account of the work we do in meeting the needs of our policyholders can be found in the underwriting review and business review sections of this Annual Report and Accounts on pages 22 to 24 and pages 25 to 29, respectively.

Brokers

We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as independent brokers. The Group depends on brokers to distribute its products and actively assesses these relationships to ensure that it continues to be viewed as a trusted partner and provider of solutions for their clients' (re)insurance needs.

Notwithstanding the shift to a home-working model across both our London and Bermuda offices for the large part of 2020 and the consequential need to adapt traditional face-to-face working practices due to COVID-19, our underwriters and other members of staff have continued to maintain effective and productive trading relationships, albeit largely digitally, with the Group's brokers and clients.

Our shareholders

As a premium-listed company on the LSE, Lancashire understands the importance of its obligations to shareholders. We work hard to foster good investor relations and pride ourselves on having an active programme of engagement with our diverse shareholder community around the world.

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them and certain of the leading shareholder advisory services. This is led by our Group Head of Investor Relations, in collaboration with members of the Board and the executive team, and is achieved through a structured programme of meetings, presentations and periodic consultation initiatives (with both shareholders and industry analysts). These can cover a range of topics including the Group's financial performance and business strategy; capital initiatives (see in this regard 'Board decision making in action' on page 48); ESG matters; and the executive Remuneration Policy.

The Board meets regularly with the Group's corporate brokers to seek their feedback on investor priorities as well as Lancashire's performance and perception amongst investors within the broader insurance sector. To learn more about the Board's engagement and relationship with its shareholders, please see page 66 of this Annual Report and Accounts.

Society and the environment

Environmental impact and offsetting

The Group is committed to managing the environmental impact of its business. We continue to measure our carbon footprint with a view to minimising its negative impact through mitigation strategies and by offsetting 100% of our GHG emissions, as reported in the table below, to remain carbon neutral. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning process (please refer to the Chairman's statement on page 10 and the section on principal risks from pages 34 to 41 for further details). The Group CRO and the Board oversee the Company's annual submission to the Carbon Disclosure Project. The information which is requested as part of the reporting process is aligned with the recommendations of the TCFD and during the year the business, led by Group CRO, has progressed in its journey in broadening its understanding and addressing the requirements of the TCFD. Please see pages 58-61 for more information on our TCFD journey.

Emissions are collated over a 12-month period from 1 January 2020 to 31 December 2020 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO_2e) using the UK's Department for Business, Energy and Industrial Strategy (BEIS) 2019 factors. For the first time, Lancashire has also calculated its Scope 2 market-based emissions, which we disclose adjacent to our previous location-based figure, in line with the Greenhouse Gas Protocol's guidance on dual reporting[1].

Types of emissions	Activity	2020 tCO_2e	2019 tCO_2e
Direct (Scope 1)	Gas *(measured in kWh)*	**67.0**	126.9
	Refrigerant *(measured in kg)*	**0.0**	0.0
Indirect Energy (Scope 2) (location-based)	Electricity *(measured in kWh)*	**253.5**	294.1
Indirect Energy (Scope 2) (market-based)	Electricity *(measured in kWh)*	**228.8**	n/a[2]
Indirect Other (Scope 3)	Business Travel *(measured in miles and spend)*	**118.2**	1,925.9
	Additional Upstream Activities *(measured in kWh, litres, miles and spend)*	**87.4**	297.1
	Water *(measured in m^3)*	**19.4**	14.2
	Waste *(measured in kg)*	**4.6**	6.1
	Paper *(measured in reams)*	**2.4**	4.4
	Hotels *(measured in hotel nights)*	**6.1**	26.8
Gross emissions (tCO_2e) (location-based)		**558.6**	2,695.5
Gross emissions per FTE (tCO_2e/FTE)		**2.2**	12.4
Gross emissions (tCO_2e) (market-based)		**533.9**	n/a[2]
Carbon credits		**534**	2,696
Total net emissions after offset (tCO_2e)		**0.0**	0.0

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

Additional Upstream Activities include Well-to-Tank and Transmission & Distribution emissions. These are emissions associated with the upstream processes of extracting, refining and transporting raw fuel and the emissions associated with the electrical energy lost during transmission to our business.

1. https://ghgprotocol.org/sites/default/files/standards/Scope%202%20Guidance_Final_Sept26.pdf
2. 2020 is the first year that Lancashire has reported Scope 2 market-based emissions.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has typically incurred the bulk of its carbon footprint as a result of airline travel. However, due to the impacts of the COVID-19 pandemic in 2020, our business travel emissions have decreased by 93.9%.

We have procured 100% renewable electricity for our London operations and have applied an appropriate residual grid factor for our operations in Bermuda. Lancashire did not implement any energy efficiency measures in the business during 2020 due to limited control of its sites. However, our London office is already well optimised with 20 Fenchurch Street achieving a BREEAM 'excellent' environment performance rating.

Using an operational control approach, Lancashire has assessed its boundaries to identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 footprint, along with areas of our Scope 3 footprint with high levels of operational control, as detailed below. Calculations performed follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Group's emissions. Lancashire uses the number of FTEs as its intensity metric. Where data was not available for 2020, values have been extrapolated by using available data or calculated using industry benchmarks. Lancashire does not own company-owned vehicles; thus business travel emissions fall entirely in Scope 3 and vehicle energy is not included in numbers below.

Total emissions for 2020 have decreased by 79.3% compared to 2019. As FTEs have increased year on year, emissions per FTE have also decreased by 82.3%. The table on page 53 sets out the Group's carbon footprint for the current and prior reporting period, broken down by emission source.

Results show that location-based GHG emissions in the year were 558.6 tCO_2e, comprised of direct emissions (Scope 1) amounting to 67.0 tCO_2e, and indirect location-based emissions (Scope 2) amounting to 253.5 tCO_2e. The source of other indirect emissions (Scope 3) comprised 238.1 tCO_2e. Scope 1 emissions have decreased by 47.2% mostly due to our London site's closure during the UK COVID-19 lockdowns. Scope 2 emissions have decreased by 13.8% compared with 2019, again, primarily due to impacts of COVID-19 lockdowns. Scope 3 emissions have also decreased compared with 2019 due, primarily, to travel restrictions in 2020 resulting in significant reductions in business travel and hotel stays.

Under the market-based methodology, Lancashire Group's Scope 2 emissions are 228.8 tCO_2e. This results in total market-based emissions of 533.9 tCO_2e. Our market-based emissions are lower than our location-based as the Group sources 44.7% of electricity via a renewable tariff, backed up by associated Renewable Energy Guarantees of Origin (REGOs).

The Group has fully offset its 2020 GHG market-based emissions through an organised programme with EcoAct by purchasing credits in the Gandhi India Wind Project, which generates renewable electricity in various states across India that have traditionally been reliant on fossil fuel generated energy. These offsetting proposals were discussed and agreed with the Group CEO.

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

Communities, including the Lancashire Foundation

Lancashire is strongly committed to giving back to the communities within which it operates, both locally in the UK and Bermuda and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events, to name a few. We utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable environment. In turn, this stimulates a positive culture amongst staff and promotes Lancashire as an ethical and compassionate employer. These goals are primarily achieved through the work of the Lancashire Foundation. Read further on to learn more about the work of the Lancashire Foundation during 2020, including its dedicated COVID-19 emergency appeal funding initiative, and the charities it has and continues to support.

The Group and the Foundation have jointly sponsored an internship programme for Bermuda resident college graduates since 2014. These graduates are afforded the opportunity to work and learn about insurance in the Group's London office. Due to the restrictions in place resulting from the COVID-19 pandemic, there was no new graduate intake for the 2020 year.

The Board keeps itself informed of the activities of the Lancashire Foundation through regular reporting and meetings with the Foundation's trustees. The Board also sets the policy for donations to the Lancashire Foundation.

Streamlined Energy & Carbon Reporting disclosure – January 2020 to December 2020

	Current reporting year		Previous reporting year	
	(UK & offshore)	UK only	(UK & offshore)	UK only
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use/tCO_2e	**67.0**	**67.0**	126.9	126.9
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location-based)/tCO_2e	**253.5**	**113.4**	294.1	140.3
Gross emissions (location-based) (Scope 1, 2)/tCO_2e	**320.5**	**180.4**	421.0	267.2
Energy consumption used to calculate above emissions/kWh	**1,450,033.6**	**849,398.9**	1,840,889.8	1,239,278.8
Total gross emissions (Scope 1, 2 location-based, 3)/tCO_2e	**558.6**		2,695.5	
tCO_2e per FTE	**2.2**		12.4	

The Lancashire Foundation

The Lancashire Foundation, our charitable grant-making body, is the cornerstone of our community activity and support, and a key component of our corporate persona.

The Foundation is funded by regular donations from the Company and also retains a shareholding in the Company, therefore benefiting from any dividends paid. This creates a direct link between the success of the Company and the resources available to the Foundation. Greater resources enable the Foundation to support more of the causes that are suggested by employees, serving as an additional motivation for our people. This alignment between the Foundation and the Lancashire Group is important in enabling the Foundation to support causes and communities to deliver maximum positive impact in line with its mandate and the concerns of the staff body.

The year 2020 will be synonymous with the worldwide COVID-19 pandemic. Charities have been significantly impacted at precisely the time when their services are needed the most, threatening delivery and the vulnerable communities that they support. In reaction, the Lancashire Foundation implemented an emergency funding initiative directed towards a number of charities in both the UK and Bermuda. Amongst the notes of thanks received from these charities, outlining the impact that these donations had, was one from Thames Reach, a charity dealing with the vulnerable living on the streets in London.

A further consequence of the COVID-19 pandemic during 2020 is that our staff have not been able to support charities 'in kind', typically done through charity volunteer days, nor have they had the opportunity to participate in various fundraising events for which the Foundation would ordinarily provide matching donations. The Lancashire Foundation therefore introduced staff challenge initiatives across both the UK and Bermuda offices. These encouraged staff to get involved remotely in activities to provide much needed funding to nominated charities. One of these initiatives challenged staff to collectively attempt to 'virtually' cover the distance from the UK to Bermuda, and back again, over the course of a week using non-vehicular means only. This proved a great success, as a result of widespread collaborative efforts across the Group.

"I am writing to thank you and the Lancashire Foundation for your kind donation to Thames Reach. You will be aware that, in common with others, this has been a very busy and challenging time for us. We are really pleased that, despite the very trying circumstances of recent weeks, we have been successful in maintaining our services to a very vulnerable group of people, while opening up additional buildings and services to make sure that people who were on the streets can safely isolate.

Your donation will be particularly helpful as we begin to consider the next steps for people living in this accommodation. We're keen that they don't return to the streets, and this will help us help them by removing the barriers to future accommodation, for example by helping with housing deposits. I and all of us at Thames Reach are very grateful, and you can be assured that your donation is needed and will be put to good use."

Bill Tidnam
CEO of Thames Reach

In addition to the dedicated COVID-19 emergency funding initiatives, the Foundation also engaged with its existing charities to ensure that donations continued to have a positive impact, and also to understand the charities' operational and financial challenges in the face of the pandemic. In this way the Foundation has been able to work flexibly with the charities to help them meet their most pressing demands and identify areas where additional support has been needed; this remains an ongoing process. One such example is the Victor Scott school in Bermuda. The Foundation makes a donation to the school to help fund the provision of fruit to pupils who would otherwise go without. As a result of COVID-19, the Foundation explored the possibility of redirecting some of these funds towards providing resources to enable remote learning for pupils who have no internet access or other necessary materials.

Another charity supported by the Foundation is Medical Detection Dogs, a charity that trains dogs to help detect and monitor conditions such as diabetes and certain cancers. These dogs are placed with families and act as an effective early warning system to adverse developments, particularly with the vulnerable and with children who are perhaps less well equipped to identify or communicate symptoms. During the pandemic the charity developed a programme in conjunction with the UK government to explore whether these dogs could also be used to detect coronavirus as part of a wider testing strategy.

Major donations, such as those made to Médecins Sans Frontières (MSF), which operates in crisis relief around the world, and International Care Ministries (ICM), which works with the ultra-poor in the Philippines, complement Lancashire's own insurance and reinsurance business. Lancashire provides coverage for weather and conflict-related events and these organisations seek to directly support communities impacted by such events or in extreme poverty in areas where there is often no insurance to protect people and their property, including vulnerability to climate change risks.

Other charities supported by the Lancashire Foundation during 2020 include:

- Action on Addiction
- Cancer Research UK
- Care for Children
- Family Centre
- Kiva Microfunds
- Knowledge Quest
- London Air Ambulance
- Mission Aviation Fellowship
- Tomorrow's Voices
- Warwick Academy
- Windreach Bermuda
- Vauxhall City Farm

"I would like to offer my deepest thanks on behalf of International Care Ministries to the Lancashire Foundation for your longstanding partnership. Lancashire has donated over £1.0 million to the ultra-poor in the Philippines since our partnership began in 2010! The Lancashire Foundation has been an incredible partner; committing both funding and volunteers consistently for a decade. We are incredibly grateful. Thanks to your partnership, we estimate that close to 100,000 people have been impacted through the Transform programme, and experience 167% income increase, 18% reduction in illness, and 88% of malnutrition cured!"

David Sutherland
Chair of ICM Board, CEO of International Care Ministries

Our broader stakeholders

Government and regulators

In an industry that is subject to strict regulatory supervision and oversight, we recognise the need to work closely and openly with all relevant regulatory bodies. We place great importance on the relationships we have with our regulators and engage actively with them, whether that is through meetings, reporting or routine regulatory reviews. The Board is also kept apprised of communications with regulators and supervisors and, together with management, monitors changes in regulatory and supervisory requirements closely.

During the year, our principal insurance subsidiaries engaged regularly and as required with their respective regulatory and supervisory bodies to provide updates (aligned with general market reporting requirements) in relation to the Group's estimated (re)insurance exposures to COVID-19, as well as details of the business's contingency arrangements and its management of the operational challenges presented by the pandemic.

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

Rating agencies

Lancashire maintains a positive relationship with three major rating agencies: A.M. Best, S&P and Moody's. These rating agencies assess and rate the creditworthiness and claims-paying ability of the Group's insurance subsidiaries, LICL and LUK, based upon established criteria. The syndicates benefit from Lloyd's current ratings. We are proud of the ratings which we have been assigned by each of these rating agencies and we engage with them on the following bases: annually, for our rating review; quarterly, to discuss our results for the period; and on an ad hoc basis as events dictate including after significant industry loss events or a series of loss events. These ratings allow the Group to write business successfully in all major global insurance markets and to comply with reinsurance contracts under which the Group is reinsured, as well as its credit facilities which support underwriting obligations.

Service providers, including suppliers and contractors

The Group contracts with a number of third parties for the provision of important services to help run its business. Having developed excellent relationships with its service providers, Lancashire is able to work collaboratively with them. This helps us to respond to technological advances and to develop internal systems and infrastructure to operate efficiently.

For all employers within the ancillary services and limited supply chains used by the Group, Lancashire seeks to receive assurance that its service providers pay a living wage. In particular, the Group's UK operation is an accredited Living Wage employer by the Living Wage Foundation.

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

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

Lenders

The Group has in place a number of long-term debt and financing arrangements with lenders which help to support and fund its underwriting operations and to comply with regulatory capital requirements. The Group's solid relationships with its lenders allow it the flexibility to respond to changing business and economic conditions and to raise capital, when required, to execute its strategy. We routinely publish financial information for the benefit of all our capital providers, including our lenders.

Further details of our long-term debt and financing arrangements are set out in note 18 to the consolidated financial statements from page 170 to 172.

Our TCFD journey

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The TCFD comprises four pillars, under which sit 11 recommendations for disclosure. Lancashire supports the aims of the TCFD, and we have detailed below our progress against both the pillars and the recommendations.

Governance

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

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

As part of the approval process for our underwriting strategy, the Board approves and monitors performance against probable maximum losses ('PMLs') and Realistic Disaster Scenarios ('RDS'). Both of these include modelling of the Group's underwriting exposures to climate-related catastrophic loss events and quantify our risk appetite with respect to how much capital the Group is willing to risk for a specific event – be it a natural catastrophe (in particular climate-related events such as hurricanes, windstorms, typhoons and floods) or a non-elemental event. More information on this can be found on page 134.

The current PML and RDS levels are reported to the Board on a quarterly basis as part of the Group CRO's quarterly ORSA report to the Board. Please see page 32 for more information on this assessment process. The Group CUO and CRO regularly review current and emerging risks. Directors are apprised of any development of business strategy, including the monitoring and effective control of PMLs for climate-related catastrophic weather events.

The actual business underwritten within the Group is monitored against the strategic plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events) are reported to the Board quarterly. Please see page 32 for more information.

The Investment Committee oversees the management and performance of the Group's investment portfolio including investment risk parameters. During 2020, the Investment Committee reviewed an analysis of the Group's investment portfolio's exposure to a range of carbon pricing scenarios and will continue to develop analytical tools for the understanding of the impacts of climate change risk, including transitional risk, on the Group's investment portfolio. Please see pages 76 to 77 for more information.

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

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

The Group's modelled underwriting PML and RDS risk exposures are presented against the Group's tolerance levels to the management Risk and Return Committee ('RRC') on a monthly basis as well as to the Board each quarter as part of the CRO's ORSA report. Lancashire underwrites predominantly short-tail business, with loss exposures usually crystallising within a policy period of 12 months. As a result, with PML levels updated monthly and shared internally, we ensure we closely track the market conditions. Please see page 36 for more information.

The management investment risk and return committee ('IRRC') is increasingly alive to the potential impacts of climate change related transitional risk on assets within the Group's investment portfolio. The CRO has convened a climate change working group, which will work on areas for enhancement in the assessment and management of climate change risk and related opportunity over the coming year to inform the work of the IRRC and the Investment Committee.

Key

Recommended disclosure

Strategy

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

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

Lancashire underwrites predominantly short-tail business, and so the principal impact is on short-term strategy. We recognise that climate change does also impact the longer-term strategy in terms of emerging risk and as such management works with some of the leading external catastrophe model providers to understand the science supporting developments in the short and long-term assumptions in their stochastic models. These developments are included in the Group's management and Board approved annual three-year strategy document. More information can be found on page 41 of this report.

The Board also regularly discusses cycles and trends within the insurance sector as well as within the natural, commercial and political environment to which the Group's business is subject. We also recognised the potential impacts of transitional climate change risk on the Group's investment portfolio and investment strategy. Whilst detailed strategic planning is based on short to medium-term horizons (over a period of three to four years) the Board's strategic discussions are informed by consideration of potential future trends in the longer term such as the make-up of global energy demand (which may be influenced by climate-related factors) or the potential for political instability (for example over a period of up to 10 to 15 years). During 2021 work will continue in this area with a broader focus on transitional risks and articulating what transitioning to net zero means for the Group.

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

Lancashire's purpose is to sell bespoke risk solutions which help our clients manage the threats they face, including those presented by climate change. We monitor our assumed risk, manage our capital and we track and mitigate our own environmental impacts, fostering an engaged, sustainable and open business culture. Please see page 32 for more information.

As a (re)insurer Lancashire is affected by the severity and frequency of weather-related losses which may be influenced by climate change. Data is collected using the stochastic models from third-party vendors which are adapted based upon our views and our clients' exposure data, to create aggregate loss scenarios. This data is closely monitored by executive management and the Board on a quarterly basis as part of strategic risk and capital management, with the testing of these leading to changes in risk levels, reinsurance purchasing and structuring strategy as required.

As a business with an office in Bermuda we recognise that this is an area of the world that is vulnerable to catastrophic windstorm events and may be affected by any future climate change trends. Both Lancashire offices have disaster recovery and business continuity plans (BCP) in place. Specifically, the Bermuda management team and Board consider hurricane and tsunami risk within the Bermuda office's BCP. Please see page 40 for more information.

As Alex notes in his CEO's review on page 15, Lancashire has been a risk partner of businesses operating in the energy sector across the world, including oil, gas, nuclear and other renewables, for many years. The risk solutions which we provide to the energy sector help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We share with our clients the journey required by the necessary transition away from carbon-based forms of energy to a net zero state. But there are no simple solutions to both meet global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they address these challenges.

We also recognise the potential impacts of climate-related risks and opportunities upon the Group's investment portfolio, in particular the potential impacts of the transition away from a carbon intensive economy. Although our current analysis suggests that there is a good level of resilience within the investment portfolio to these risks, we will be developing tools for the identification, measurement and management of these risks and opportunities through the work of the climate change working party, the RRC and the Investment Committee.

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

Stress and scenario tests and reverse stress tests are performed as part of the business planning process and the annual ORSA reporting process. More information on these processes can be found on page 32 of this report. The capital impacts from a range of scenarios, including climate-related risks and opportunities, are presented to the RRC and Board for review and discussion.

One of Lancashire's key operating principles, which supports the Group's strategy to produce an attractive risk-adjusted total return to shareholders over the long term, is to 'Operate nimbly through the cycle'. Climate change may influence the severity and frequency of losses that impact our policyholders and Lancashire's quick response to such post-loss situations can therefore be seen as a competitive advantage. A similarly 'nimble' approach to the management of climate change transition risk helps inform asset allocation and investment portfolio management.

The Group CRO has established a climate change working group, which will, inter alia, discuss and agree a methodology for analysing a range of future climate scenarios. The Group expects to report in more detail on likely scenario impacts in future years. Nonetheless, given the Group's ability to model the geographical and economic impacts of climate risk on the insurance products it sells and to price insurance premiums on the basis of a flexible and fluid risk analysis, the Board and management consider that there is an intrinsic resilience in both the Group's underwriting and investment strategy and its business model to the challenges of increased frequency and severity of physical damage and the effects of transition risk, as a result of climate change risk.

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks

Describe the organisation's processes for identifying and assessing climate-related risks.

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

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

Nonetheless, climate-related risks (and opportunities) are a constituent part of the Group's underwriting risk. Such risks are managed in the same way as other risks: they are identified, monitored, mitigated and reported upon against tolerance as appropriate. Opportunities are monitored and taken advantage of where it makes sense to do so. More information can be found on page 41 of this report.

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

The RRC considers all aspects of risk for the Group at a management level and reports through the CRO to the Board. The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors.

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

The management IRRC is alive to the potential impacts of climate change related transitional risk on the Group's assets within the Group's investment portfolio and its work is reported to the Board level Investment Committee. During 2021, we expect to build on our early climate sensitivity analysis work to further develop tools for the understanding of the impacts of climate change and transition risk on the investment portfolio as well as potential opportunities.

Coronavirus and the subsequent and ongoing pandemic spread of COVID-19 (whilst not directly attributable to climate change) does demonstrate both the nimbleness and the resilience of the Group during a market moving event. Its response to this ongoing pandemic is as a result of effective and efficient business continuity planning, which was quickly deployed and has resulted in very little impact upon the business operations. This event has also influenced the Group's disaster recovery planning and has helped illustrate the use and resilience of a home working model in the management of disaster recovery scenarios. More information on our response to the pandemic spread of COVID-19 can be found on page 41.

Metrics and targets

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

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

We define our risk appetite for underwriting risks as a percentage of capital we are willing to lose in a specific event, and we set a capital loss tolerance for and track the Company's modelled PMLs to weather-related hurricane perils. We note on page 133 of this Annual Report and Accounts that at 31 December 2020 the actual largest 1 in 100 year modelled exposure to a Gulf of Mexico hurricane stood at $166.5 million, or about 9.7% of capital.

Similarly, with respect to our investments, we have taken steps in 2020 to advance the previous approach for assessing our portfolio's exposure to climate-related risks. Our portfolio at 31 December 2020 consisted of the following:

Fixed maturity securities	82.8%
Managed cash	8.5%
Private investment funds	4.7%
Hedge funds	4.0%
Total:	100.0%

As shown in the table above, we have 91.3% allocated to managed cash and fixed maturities. The majority of the fixed maturities consist of government-related securities: U.S. government treasuries, non-U.S. government sovereign debt, U.S. agency debt and U.S. agency mortgage-backed securities. In addition, we have 33.5% allocated to corporate debt, of which we have a small amount of exposure to climate-related risks. The Group itself does not hold any equities (although we have exposure to a small number of equities in the hedge fund portfolio).

As noted in the principal risks section on page 37, during 2020, we performed a review of our investment portfolio against the MSCI ESG Index. The Investment Committee has carried out a carbon pricing sensitivity analysis of the Group's investment portfolio on the basis of three scenarios. This ESG and climate change work will be further developed in 2021 to define some climate change related investment metrics.

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

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint to minimise its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, in order to remain carbon neutral. Please see page 53 of this Annual Report and Accounts where we report our Scope 1, 2 and 3 GHG emissions. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning processes, as discussed above. The Group CRO and the Board oversee the Company's annual submission to the Carbon Disclosure Project and note that the information which is requested as part of that reporting process is aligned with the recommendations of the TCFD.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has (prior to the COVID-19 pandemic) incurred the bulk of its carbon footprint as a result of airline travel. We utilise a number of technologies to reduce inter-office travel, including full video and telephone conferencing facilities in all of our offices and our meeting and boardrooms. The use of such technological solutions has greatly increased in 2020 to address the communication challenges posed by COVID-19. However, we acknowledge the benefits of physical meetings and will expect to return to a more normal pattern of travel when possible during 2021, should it be safe for our employees to do so.

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

In terms of an emissions target, we have established a travel policy to reduce our impact on the environment whilst balancing the needs of our staff and Directors. Our target is to not ordinarily book a business class airline ticket, if the duration of the flight is less than five hours long. This is intended to assist the Group in managing one of its climate-related risks, with a measurable target. The Group also commits to continue to offset 100% of its Scope 1, 2 and 3 emissions, in order to remain carbon neutral as well as to source and utilise 100% renewable electrical energy for its London offices. Please see page 54 for more information.