



A balanced approach

Natalie Kershaw
Group Chief Financial Officer

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Financial highlights

	2022 \$m	2021 \$m	2020 \$m	2019 \$m	2018 \$m
Gross premiums written	1,652.3	1,225.2	814.1	706.7	638.5
Net underwriting profit	150.8	69.0	77.0	186.5	121.7
(Loss) profit after tax ¹	(3.3)	(62.2)	4.2	117.9	37.5
Comprehensive (loss) income ¹	(92.6)	(92.9)	24.3	145.7	24.7
Dividends ²	36.2	36.4	32.3	30.2	70.2
Diluted (loss) earnings per share	(\$0.01)	(\$0.26)	\$0.02	\$0.58	\$0.19
Fully converted book value per share	\$5.24	\$5.77	\$6.28	\$5.84	\$5.26
Change in FCBVS	(6.7%)	(5.8%)	10.2%	14.1%	2.4%
Combined ratio	97.7%	107.3%	107.8%	80.9%	92.2%
Accident year loss ratio	69.9%	81.0%	71.4%	51.3%	70.0%
Total investment return	(3.5%)	0.1%	3.9%	4.9%	0.8%

1. Amounts are attributable to Lancashire and exclude non-controlling interests.

2. Dividends are included in the financial statement year in which they were recorded.

During 2022, we have continued to deliver on our strategy to diversify our portfolio.

We have reported a combined ratio of 97.7% for 2022, a strong performance when set against a backdrop of significant loss events, including hurricane Ian, and the conflict in Ukraine.

For hurricane Ian we incurred catastrophe losses of \$163.3 million, excluding the impact of reinstatement premiums, in line with our expectations for this type of event.

The work we have done over the past four years has been targeted at strategic growth, and we reported gross premiums written for the year at \$1,652.3 million - an increase of 34.9% on 2021.

This growth has come both from those lines where we are traditionally strong, and from the newer classes of business that we have begun to write with new talented underwriting teams joining us.

Lancashire has always had a well-established approach to reserving, and we have a consistent approach to these newer lines. Our philosophy is to be conservative and comfortable with how these classes are performing during the first years of writing this business.

When catastrophe loss events occur, such as hurricane Ian, the size of our business and our strong collaborative culture mean that we have a clear line of sight in assessing the likelihood of claims arising. We use a combination of sophisticated modelling techniques, historical loss experience analysis, and our team's expert judgement to estimate ultimate losses. These loss estimates are developed on a contract-by-contract basis rather than a percentage of a wider expected industry loss.

We previously set aside \$22 million for direct claims emanating from the conflict in Ukraine. In Q4, we subsequently revised this to include an additional management margin for any potential indirect claims related to the conflict across a number of classes. Our potential claims related to the conflict now total \$65.8 million. Given the nature of the conflict, the ultimate claims relating to the event are subject to a high level of uncertainty.

The volatility in the global financial markets and steeper interest rates have inevitably affected our investment performance. Our investment result for 2022 was a negative return of 3.5% including mark-to-market losses. These losses are largely unrealised and are the main contributing factor to the comprehensive loss of \$92.6 million.

The short duration of our portfolio means that we will see the benefit of the higher interest rate environment going forward in 2023. These additional returns will complement the growth in our underwriting portfolio.

In the medium term, we do not expect to make material changes to our investment strategy, with a focus on a short duration portfolio.

Clearly, global commerce across sectors will also be impacted by higher inflation. For Lancashire we have experience managing inflationary pressures – in both directions – through a number of our product lines.

Looking forward, our strategy has always been to manage the underwriting cycle and we are pleased that the decisions we have made in the past few years have put us in a strong position to take advantage of the market opportunities we will see in 2023.

From a capital perspective, we held a very strong capital position throughout the year, and we have the necessary headroom to write profitable business during what promises to be an improving insurance market in 2023. This includes our catastrophe products, where we are happy with our position in the market and share of risk.

We will always use our capital effectively to support the underwriting environment and manage our exposures to market conditions.

Maximising returns for the capital deployed is what we are here to do, providing the best opportunity for returns for our shareholders. As we move forward into 2023, and beyond, our strategy for growth will continue to focus on less capital-intensive lines of business while matching the underwriting of more volatile classes with the market opportunity.

Our strong capital position brings optionality, which is always beneficial in a fast-moving market. During 2022, we undertook a share repurchase programme to buy 4,589,592 common shares totalling \$23.3 million to fund future exercises of awards under our RSS.

2022 was my second full year of serving as Group CFO. I am constantly impressed by the commitment of our teams across the business and their sharp focus on delivering on our strategic priorities.

I am extremely confident that Lancashire is in a strong position to further grow in a disciplined way as the pricing environment continues to move in a positive direction. The events of 2022 will only accelerate that change and we are well placed to optimise those opportunities.

Q: What preparations for the IFRS 17 changes has the business made in 2022?

A: During 2022, we have spent a considerable amount of time fine-tuning our preparations for the transition to IFRS 17. As the biggest insurance accounting change for more than a generation, it has been many years in the making.

As we move into implementation in 2023, we are confident that our preparations have been robust.

IFRS 17 allows businesses to make a number of judgments on how they will report. We have continued to work through these and to make the appropriate decisions to reflect the nature of our operations and our established focus on transparency.

At our Investor Day in November we outlined our approach to IFRS 17 to aid early understanding of the impact. With such a substantial change it is important to stress test our assumptions and processes, and we have carried out a number of 'parallel runs' internally, ready for final implementation in 2023.

In ensuring our systems, data, processes and people are ready we have seen a strong collaborative effort across a number of teams. While the overall preparations have been time-consuming, we have taken the opportunity to refine our wider processes and make positive enhancements. This includes improving our collation and use of data across the business, which will have the long-term benefit of making Lancashire more efficient and reducing operating costs in some areas.