A better balance *for growth*

Lancashire made significant progress in 2022 in realising the benefits of our work to **diversify**, **fortify** and **grow** our strong product portfolio.

We will always be driven by the underwriting opportunity and our disciplined approach to managing risk as we push **forward**.

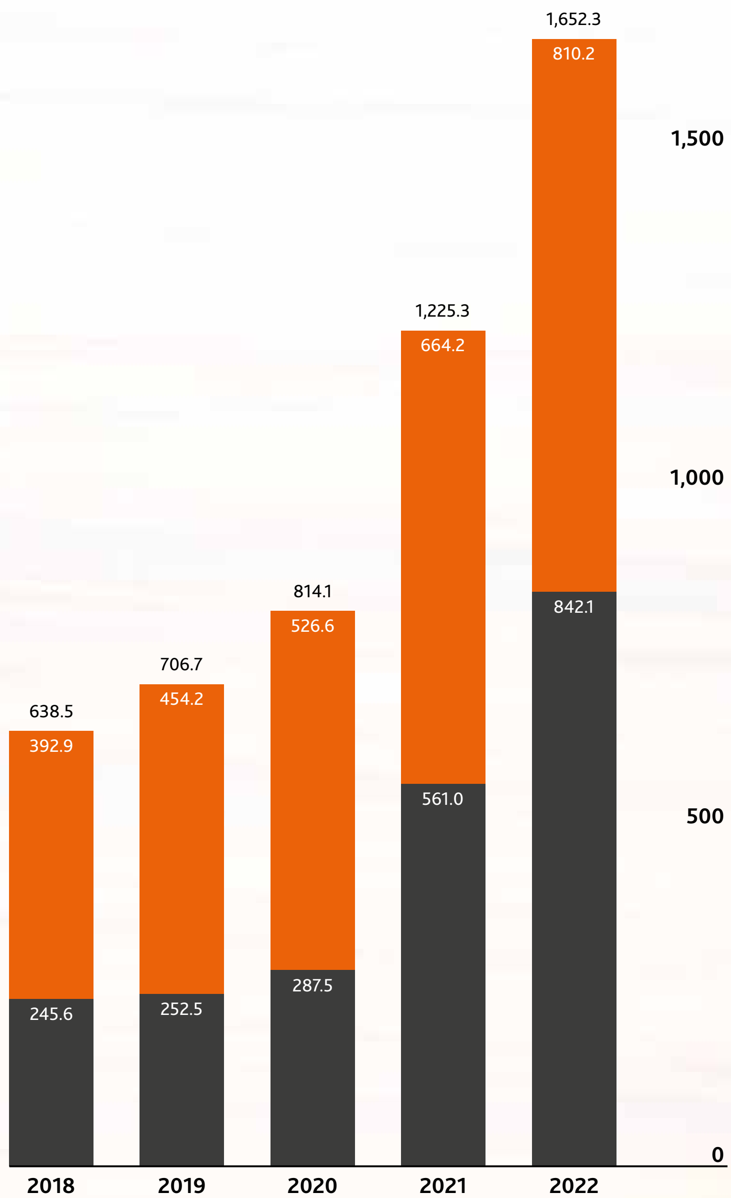
We have the **momentum** to take advantage of an exciting market opportunity.

Gross premiums written

Key

Reinsurance

Insurance



Demonstrating resilience

A business focused on growth

We are a provider of global specialty insurance and reinsurance products offering risk transfer solutions to brokers and clients.

We always strive for long-term and mutually beneficial relationships with our customers and stakeholders.

We want to be the best and we are building on our strengths

Empowering people

Our sector
plays a role in giving people and businesses confidence to operate, recover and thrive through our products

Our people
are united by our ambition and we work hard to build strong teams

A supportive employer

100+
senior managers attended Group strategy sessions during 2022

$149,000
donated to charities nominated by staff in 2022 from a total Foundation donation of $0.6m.

11.2%
Staff turnover

A helpful employer
One-off cost-of-living payment to lower paid employees

A growing and responsible franchise

2
segments with 8 core product classes

47%
women in senior management roles

$1.7bn
Robust capital base

100%
calculated GHG emissions from own operations offset

Our footprint

3
offices in London, Bermuda and Australia

338
experienced and talented colleagues

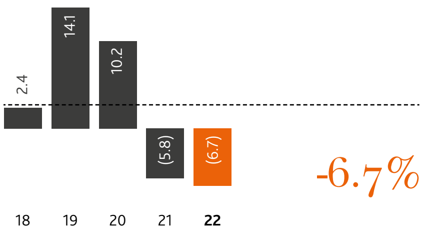
Strongly rated

A
(Excellent)
A.M. Best Company

A-
S&P
Global Ratings

A3
Moody's Investors Service

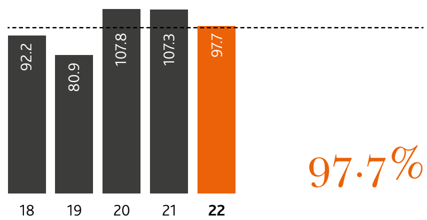
Change in FCBVS



The negative change in FCBVS is primarily due to the upwards trend in U.S. interest rates which resulted in **$93.2 million of unrealised losses** on our fixed maturity investment portfolio.

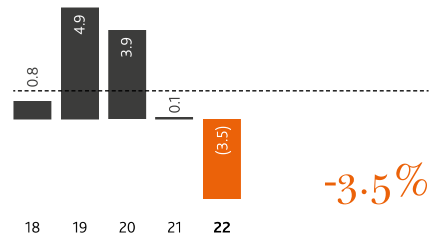
For the 2023 accounting year we will rename 'Change in FCBVS' to 'Change in Diluted Book Value Per Share'. This has no impact on the underlying calculation, given the Group has no warrants in issuance.

Combined ratio



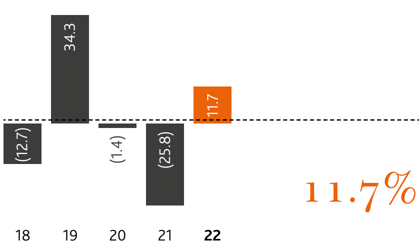
Net premiums earned have grown to $988.4 million compared to $696.5 million in the prior year. The profitable growth of our non-catastrophe lines of business has enabled Lancashire to mitigate the impact of the 2022 natural catastrophe loss events, such as hurricane Ian and the Australian floods. The **combined ratio of 97.7%** demonstrates how our recent disciplined growth helps deliver more balanced returns over the longer term and improves our ability to return an underwriting profit even in a year of significant losses.

Total investment return



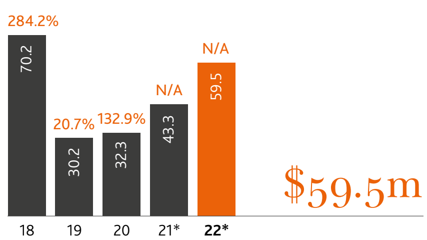
Lancashire reported a total net investment return of **negative 3.5%** for the year ended 31 December 2022. This was primarily driven by unrealised losses on our fixed maturity portfolio as a result of significant interest rate hikes by the U.S. Federal Reserve. Given the short duration of our investment portfolio we should benefit from the higher interest rate environment going forward.

Total Shareholder return



In 2022 there has been an overall stock market decline driven by the ongoing conflict in Ukraine, supply chain and inflationary pressures, a rapidly changing interest rate environment, exchange rate volatility and general economic uncertainty. This weighed on our total shareholder return for much of the year with a recovery in Q4 2022. We see further opportunities for profitable underwriting growth into 2023 and will continue to deliver on our strategy and manage the cycle.

Comprehensive income returned to shareholders



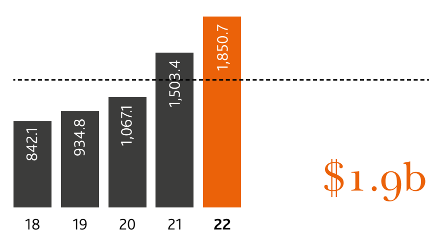
■ Ordinary / special dividends and shares repurchased ($)

% Comprehensive income returned to shareholders

* Due to 2022 and 2021 being N/A the five year % average is not calculated.

The Group has made a **comprehensive loss of $92.6 million** in 2022 primarily driven by unrealised investment losses of $93.2 million on our fixed maturity available for sale investment portfolio. We remain strongly capitalised to deliver on our long-term strategy and continued to deploy excess capital into the business to fund growth opportunities. We paid ordinary dividends of $36.2 million and repurchased shares of $23.3 million.

Gross premiums written under management



The Group continues to expand and diversify its underwriting portfolio taking advantage of a period of sustained rate increases across a number of lines of business. The Group's corporate member has also acquired additional syndicate participation rights in Syndicate 2010, which takes the Group's share of the 2023 year of account to 69.3%.

Key

KPI linked to Executive Directors' remuneration. For more information see pages 96 to 117.

Alternative Performance Measures (APMs) refer to page 197.

----- Five-year average

A model to move us forward

Our strengths

Customer focus

- Our relationships with clients and brokers are long-standing and we aim to enable our clients to return to their pre-loss condition as soon as practicable

Expert people and specialised products

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

Disciplined risk and capital management

- Rigorous systems for risk monitoring and management
- Strong track record of capital management
- Proven ability to manage volatility by optimising capital and the underwriting portfolio through 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

Underwriting comes first

Profitable growth

Exploring opportunities for growth in markets where we believe the right long-term opportunities exist, and rigorously monitoring and managing our risk exposures.

Balance risk and return through the cycle

Maximise risk-adjusted returns

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.

Insurance market employer of choice

Positive culture enables sustainability

Maintaining our positive culture and the ability to retain and attract the best talent is key for success, coupled with a strong focus on profitability and risk selection.

Our purpose is to...

Deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events.

Manage our risk exposures and capital resources to generate returns for our investors.

Support our people and work with our stakeholders, fostering a positive, sustainable and open business culture to the benefit of society.

Priorities

Growth in existing and new classes where favourable and improving market conditions exist.

Focus on maintaining a diversified portfolio structure and our core clients.

Use the principle of peer review throughout the Group.

Achievements

We continue to add new expertise to the Group and diversify our underwriting portfolio. Gross premiums written increased to $1.7 billion in 2022. This growth came from both newer and more established classes.

Priorities

Explore opportunities for top-line growth in markets where we believe the right long-term opportunities exist and rigorously monitor and manage our risk exposures.

Use our speed and agility to manage volatility and underwrite our core portfolio profitably through the challenges of the cycle.

Deploy capital quickly when it is needed and having the discipline to return it when it is not.

Achievements

We have increased our underwriting footprint and optimised our portfolio in areas where rating has improved, whilst adding new complementary classes of business.

Priorities

Foster entrepreneurial, collaborative culture through the Lancashire values.

Improve operational efficiency and data capabilities through business transformation activities.

Develop the Group's ESG principles to ensure we operate responsibly as a business.

Achievements

Employee headcount increased to 338 in 2022 with new talent attracted by Lancashire's positive corporate culture.

More than $149,000 donated to charitable organisations nominated by employees in 2022.

The value we create

Our people

85%

overall participation rate for 2022 employee 'Pulse' survey

Our policyholders

$412.7m

gross losses paid in 2022

Our shareholders

16.5%

compound annual change in FCBVS since inception

Society

$0.6m

donated through the Lancashire Foundation in 2022

The environment

15%

per FTE carbon footprint reduction target from own operations by 2030

Our Vision

At Lancashire, our vision is to be the leading underwriter of specialty insurance and reinsurance products.

I am pleased with our performance in 2022 and that the decisions we have made in the past few years to better balance the portfolio mean we have produced an underwriting profit in a challenging year.

Alex Maloney
Group Chief Executive Officer

A stronger *and more resilient business*

Peter Clarke
Non-Executive Chair

For Lancashire, 2022 was the year where we continued to implement our long-term strategy of building a more diverse and robust business. We deployed our capital according to the opportunity in an improving pricing environment.

The year started with a challenging macroeconomic environment, which was further amplified by the conflict in Ukraine. In addition, the insurance industry had to deal with the large natural catastrophe loss of hurricane Ian and other loss events.

However, I am very pleased that we maintained our strong forward momentum – with an increase in gross premiums written of 34.9% – despite the various challenges.

This is the second year of strong premium growth since we raised new equity capital in 2020, and we now have a more diversified and balanced underwriting portfolio.

The Board is pleased with this continued growth in both existing and new classes including longer tail casualty lines, and the Group's position going into a strong market for many of our product lines in 2023.

Overall, the Board is satisfied that the business has demonstrated discipline and resilience in a challenging year.

The Group's negative change in FCBVS of 6.7%, based on the comprehensive loss of $92.6 million, was mainly driven by rising U.S. interest rates and general volatility in investment markets. These have impacted our investment returns at negative 3.5% and resulted in unrealised losses on our investment portfolio during the year, which we expect to unwind for the most part as our predominantly shorter duration assets reach maturity.

Elevated natural catastrophe insured losses also contributed, with estimated industry-wide losses in 2022 of around $120bn, exceeding the 10-year average by 40%.

Natural catastrophe risk business, particularly property catastrophe risks, is an important part of Lancashire's product offering to its clients, offering confidence to vulnerable communities that they can return to normal post a loss event.

As a result, we can expect our underwriting results to be impacted by catastrophe losses such as hurricane Ian. Nevertheless, Lancashire delivered a combined ratio of 97.7%, which demonstrates the benefits of the current growth and greater risk diversification in enabling us to produce an underwriting profit even in a year of heightened losses.

"This is the second year of strong premium growth since we raised new equity capital in 2020, and we now have a more diversified and balanced underwriting portfolio."

This is testament to the delivery of our strategy to grow our footprint when the market opportunity allows, and to rigorously monitor and manage our risk exposures through the cycle.

The Group's philosophy on reserving has been conservative and is well established. Management engaged proactively with the Board during 2022 in explaining the reserving exercises which were conducted, in particular with regard to the conflict in Ukraine and hurricane Ian. This gives us the confidence in our overall capital position and Natalie talks more about this in her review.

Importantly, maintaining our positive culture as we grow is at the heart of Lancashire's strategy, as outlined by Alex in his review. The Board is fully supportive of management's efforts to ensure we continue to retain and attract a talented and diverse group of colleagues.

During 2022, we also continued to have an active dialogue on issues of climate change, sustainability and governance. We were pleased to join the ClimateWise organisation during the year and we have again reported against the recommendations of TCFD and outlined our activities in measuring and actively monitoring climate change effects on the Group.

Through the Lancashire Foundation we have always sought to support charities that have a positive impact on the communities they serve. The cost-of-living crisis has made that need even more acute. I am pleased that during 2022, the Foundation's focus on social causes has been increasingly valuable and effective. The Foundation's support for homeless charities is particularly apt and the organisations we have funded include in their ethos a long-term goal of helping people back on their feet.

During the course of 2022, we have acknowledged and discussed the impact that the increased cost-of-living can have on some employees. We have ensured that our focus with regards to remuneration and assistance has been targeted to benefit those who are likely to require additional support the most. To that end, the Board approved a one-off cost-of-living payment for employees whose salary was below a specific level. You can read more about our work on Environmental, Social and Governance matters in our sustainability section starting on page 40.

As in previous years, we have not changed our dividend strategy. Subject to a shareholder vote at the 2023 AGM, we propose to pay a final ordinary dividend of $0.10 per common share, unchanged on prior years. Further information can be found on page 119. Our dividend policy is set out on page 118.

Q: How have employees assisted in navigating a challenging year?

A: Lancashire employs some of the best people in our industry. Our underwriters have market-leading expertise and all our support functions effectively aid our overall goal to deliver on our strategy.

In a challenging year, acting as one team with one driver for success is incredibly important. I am reminded constantly in my conversations with people from around the business of the strength of pride that they feel in working at Lancashire.

On behalf of the Board, I would like to thank Alex, the wider management team and all our colleagues for their hard work and commitment.

We believe the outlook for 2023 and beyond is extremely exciting and that we have the right teams across the Group to deliver our strategy and grow when there are opportunities.

Driving forward
a more diverse and robust business

Alex Maloney
Group Chief Executive Officer

This year our focus remained firmly on delivering our long-term strategy and actively managing the cycle.

I'm very pleased to report that Lancashire continued its strong growth trajectory, increasing gross premiums written year-on-year by 34.9% to $1.7 billion and delivering a combined ratio of 97.7%.

Our robust underwriting performance came against a backdrop of high industry losses and a volatile macroeconomic environment.

In line with our 'underwriting comes first' principle, we have continued to expand our footprint and take full advantage of the organic growth opportunities and rate increases being seen across the majority of our product lines.

This growth has come from those lines where we have longer-term strength and expertise and from those we have added over the past few years as part of our actions to diversify and fortify our portfolio.

Although there have been years in the past when we have had to be patient, we are now starting to see the benefits of the expansion we started in 2018 coming through.

Traditionally, Lancashire has been seen as an established writer of natural catastrophe risk business meaning that when such events occur it is expected to impact our performance. However, during 2022 we have demonstrated that the growth and diversification of recent years now allows us to absorb significant catastrophe losses, such as hurricane Ian. While this event is estimated to be the second most costly hurricane on record, we have still produced a net underwriting profit.

This is a notable positive step-change for the business and testament to the clear long-term strategy we have set out.

Catastrophe and weather related losses for the year, excluding the impacts of reinstatement premiums, were $218.4 million. This includes the impact of hurricane Ian, which was within our expectations for these types of events and at the lower end of the $160 million to $190 million range provided at Q3.

"Everything we do is driven by the underwriting opportunity. It is why we are here and why we do what we do."

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.

On investments, the volatility in the global financial markets and higher interest rates have understandably affected our 2022 investment result, which was negative 3.5% including mark-to-market losses. These losses are largely unrealised and were the most significant driver of the negative change in FCBVS of 6.7% for the year. Going forward, we expect to see higher investment income as a result of the higher interest rate environment.

From a capital perspective, we held a very strong position throughout the year and we have the necessary headroom to continue to write profitable business, and deliver returns, during what we expect to be a harder market in 2023.

Overall, I am pleased with our performance in 2022, and that the decisions we have made in the past few years to better balance the portfolio mean we have returned an underwriting profit in a challenging year.

During 2022, we have continued to strengthen our underwriting teams and our organisational infrastructure through key internal promotions and external hires.

Lancashire aims to retain and attract the best people in our industry. Our underwriters have market-leading expertise and our support functions are vitally important in the overall delivery of our growth strategy.

We made a number of senior appointments from within our existing underwriting teams during the year. This is testament to the strength of talent, knowledge and experience that we have at Lancashire, in underwriting and across the wider business.

Our long-term investment in developing our people means that we are able to reward and promote colleagues across the Group when suitable opportunities arise.

We are also enhancing and expanding our capabilities in a range of areas, including business development, human resources, procurement, change and vendor management, and sustainability.

We have always recruited on merit which has given us the benefits of a diverse employee community and we continue to look at how we can bring more people into the industry from a range of backgrounds.

Q: How have the business's strategic objectives and vision changed in 2022?

A: Each year the Board reviews the Group strategy, and in 2022 we made some changes to reflect the size of the business and our future aspirations. This includes a new focus on our people, operations and sustainability.

It is important to stress that our number one priority remains the same and will not change – underwriting comes first.

It is this emphasis on disciplined underwriting that underpins everything we do. It is also in many cases why people want to join Lancashire.

They know that we have a strong team, in both underwriting and support functions, and that we value and reward expertise and talent.

As I said last year, everything we do is driven by the underwriting opportunity. It is why we are here, why we do what we do and why we play an important role in supporting and protecting communities and economies across the world.

I am pleased that in delivering on our strategy we have the full support of our people. We hosted sessions in London and Bermuda during 2022 for our people managers, where we had an opportunity to discuss how to bring the strategy and vision to life – and how we can further improve the work experience for employees.

This spirit of collaboration is incredibly important for us at Lancashire.

Fundamentally we are a people business and we have a high level of engagement from all our colleagues. Keeping our positive culture and making Lancashire a place that develops, retains and attracts quality people is central to our success going forward.

I very much look forward to the opportunities for further profitable growth that the next 12 months may bring, and I'd like to thank all of our colleagues for their hard work, and our investors, clients, and brokers for their support during the past year.

Our market *environment*

At Lancashire, we build when market conditions are favourable to create sustainable returns.

Our strong balance sheet will support our growth ambitions.

Natalie Kershaw
Group Chief Financial Officer

A balanced *approach*

Natalie Kershaw
Group Chief Financial Officer

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

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.

Gaining *momentum*

Paul Gregory
Group Chief Underwriting Officer

For the past five years we have spoken about our desire to grow and diversify our underwriting footprint whilst market conditions are favourable. The intention of this strategy has been to build out a more robust portfolio of business that allows us to better absorb the inherent volatility of the business we underwrite. 2022 is the year where we demonstrated the benefit of this strategy.

We delivered a healthy combined ratio of 97.7% in a year characterised by a challenging loss environment. Additionally, we saw the impacts of political unrest, inflation, sanctions, and economic instability that were offset by improved market conditions.

Against this backdrop, we have continued to strengthen our underwriting bench, mainly through internal promotions and developing our talented teams.

During 2022, we once again witnessed a number of loss events that both tested our clients and demonstrated the value of the (re)insurance products we sell.

The conflict in Ukraine, and its tragic humanitarian consequences, dominated the year. Events such as these have far-reaching economic consequences and can create losses to (re)insurance policies that provide the relevant coverage. The total cost to the (re)insurance market for the conflict is not yet known, and there are a number of ongoing material uncertainties, but it is likely to be across both insurance and reinsurance classes including marine, energy, aviation, political violence, and political risk. These are classes in which we specialise and therefore have exposure to; albeit for a loss event of this magnitude, we see our estimated loss as very manageable.

"Gross Premiums Written is now at $1.7 billion. This is the highest at any point in our history and over $1 billion more than at the soft market low in 2017."

We have also seen significant industry losses from natural catastrophes with an estimated $120 billion of insured losses. A variety of events have contributed to this total including flooding in areas such as Pakistan, South Africa and Australia, hailstorms, drought and extreme heat in Europe, plus convective storms, winter storms and hurricanes across North America. Of all the natural catastrophe loss events of 2022 by far the largest from an insured perspective was hurricane Ian. Hurricane Ian impacted the west coast of Florida in late September and is estimated to be the second most costly hurricane on record. These events have once again tested our underwriting of natural catastrophe risk and, given the size of hurricane Ian, our portfolio has proved to be more robust than ever.

Despite these challenges, it has been another year of forward momentum in the build out of the underwriting portfolio and team. The underwriting environment has continued to be supportive, as demonstrated by a portfolio RPI of 108%. Almost every single sub-class of business delivered positive year-on-year rate increases, including classes that have now delivered cumulative rate rises each year for the past five years.

It is these market conditions, plus the addition of new teams and products, that have contributed to premium growth of approximately 35%, with gross premiums written now at $1.7 billion. This is the highest at any point in our history and over $1 billion more than at the soft market low in 2017. We anticipate even more favourable market conditions in 2023 and it is likely that this record premium level will be surpassed during the course of the next 12 months.

We have consciously been building out our underwriting expertise over the past number of years as the business evolves, and the underwriting bench has continued to expand through 2022.

We are pleased to have made a number of internal promotions over the past 12 months, demonstrating the strong development and progression of our underwriting talent as our footprint broadens. As the business grows, we will continue to offer attractive opportunities for those at Lancashire to progress their careers.

Alongside these internal promotions, we continue to hire new talent into the business. In 2022, we added new lines of business such as construction and engineering, added leadership capabilities in sub-classes such as energy liabilities to expand our market presence, and successfully launched our new office in Sydney, Australia, to underwrite regional property insurance. All of these have contributed to our 2022 premium growth and will keep developing over the coming years as they mature.

The dynamics across all our business segments have varied and we cover these more specifically in the analysis that follows. The Group's operating segments for the purpose of reporting were revised during the year to reflect an internal management restructuring that occurred in the second half.

	Premium $m			RPI	
Segment	2022	2021	Variance	2022	2021
Reinsurance	**842.1**	561.0	281.1	**108%**	110%
Insurance	**810.2**	664.2	146.0	**108%**	108%
Total	**1,652.3**	1,225.2	427.1	**108%**	109%

Reinsurance

Our reinsurance segment contains casualty reinsurance, property reinsurance and specialty reinsurance. There has been significant premium growth in this segment during 2022 of approximately 50%, with an RPI of 108%. This was expected given the build-out of casualty reinsurance and the strong rating environment for property and specialty reinsurance.

Casualty reinsurance comprises casualty, professional and financial lines and accident and health reinsurance. The rating environment for all these sub-classes has been broadly stable with an RPI of 101%, with growth being a result of the continued maturity of the casualty sub-class and professional and financial lines sub-classes. An inflationary and future recessionary environment can bring challenges to some of these longer tail classes. Having entered these classes very recently, we have no legacy portfolio, where reserve deterioration can become a negative drag on results, and rating levels are at historical highs. Our underwriting and reserving approach to these lines will remain prudent as we build out this portfolio.

Property reinsurance comprises our catastrophe exposed reinsurance classes as well as our excess of loss risk and other property treaty portfolios. As anticipated, rating for the natural catastrophe exposed sub-classes was positive as the market continued to harden; this is seen in the RPI of 111% for property reinsurance. During 2022, property catastrophe product line pricing strengthened during each quarter with supply reducing and demand increasing, while inflation saw our clients purchase more cover. We stuck to our stated strategy of maintaining relatively stable risk levels and taking the increased margin we got through rate improvements given we had already grown our footprint significantly during 2021. As we look to 2023, we expect to see a true hard market, due to the loss environment, the demand and supply imbalance and macroeconomic conditions.

Specialty reinsurance comprises our reinsurance offering for classes such as aviation, marine and energy, as well as our property retrocession portfolio. The rating environment across all of the sub-classes remained positive during 2022, with an RPI of 110%. We continue to build out our specialty treaty account in areas such as energy, marine and political violence, adding to the already well-established sub-classes of aviation reinsurance and property retrocession. Much like our property reinsurance class, our risk appetite for the property retrocession sub-class was broadly stable as we look to maintain the Group's natural catastrophe footprint. Loss events such as the conflict in Ukraine and hurricane Ian impacted these classes during 2022 and provided further impetus for continued improvement in both rating and terms and conditions as we move into 2023.

Insurance

Our insurance segment includes aviation insurance, casualty insurance, energy and marine insurance, property insurance and specialty insurance. We have seen another year of growth opportunities across this segment with rates across all sub-classes positive. The insurance segment RPI for 2022 was 108% with premium growth of approximately 22%. A combination of the positive rating environment, inflationary pressure increasing values at risk and the continued build out of new teams have all contributed to the growth we have seen in 2022.

It has been an interesting year for **aviation insurance** as the aviation industry continues to rebound strongly post the COVID-19 pandemic. Demand for aviation insurance has been relatively resilient despite the extreme downturn experienced by the sector during the pandemic years. In addition, the rating environment has continued to improve with a RPI of 118%, which is the highest across our portfolio. Within this there are sub-classes that are broadly stable from a rating perspective, given rates have increased steadily over the past five years, whilst the war / terrorism exposed products have seen a sharp increase in rating following the conflict in Ukraine. This is a class, however, that has seen a negative premium impact due to international sanctions on Russia which have been a headwind for growth in 2022. We continue to see opportunities to further grow our aviation portfolio during 2023, and the expectation is that rating will remain favourable to support this development.

Casualty insurance is a small segment of the business and comprises our accident and health insurance sub-class and a small amount of professional lines insurance which is adjunct to our casualty reinsurance class. Market conditions remain positive with an RPI of 105%. Accident and health was a new class of business to the Group in 2020 and has grown steadily. We continue to explore opportunities in the broader casualty insurance arena, albeit our focus thus far has centred around the reinsurance lines.

35%

increase in gross premiums written

Energy and marine insurance provides products across the spectrum of the marine and energy sectors. The rating environment has remained positive with an RPI of 104% for 2022. There has been a variance in rating levels across all of the sub-classes with some, such as downstream energy, broadly stable and others, such as marine liability, seeing double digit rate increases. We have been able to grow premiums ahead of rate given the positive environment, inflationary pressures boosting demand, and underlying values at risk. Additionally, our investments in newer sub-classes such as energy and marine liability have provided new business opportunities. This has offset the negative impact of Russian sanctions on premiums in some of the energy sub-classes.

We have continued to invest in our underwriting expertise to support the transition within the energy sector. In 2022, we brought in additional engineering resource to aid this ongoing development. This allows us to offer products and services that cater to the changing risks our clients face as their businesses transition. Insurance will continue to be a key risk management tool for the industry, supporting global net-zero goals and the wider transition. Please see the ESG section starting on page 40 for more information.

Whilst the conflict in Ukraine did create losses in the energy and marine sectors, our exposure was modest. Outside of this event there were no significant insured losses in the energy and marine sectors, although there were a number of mid-sized losses in the downstream energy and power generation sectors; some of which we incurred. These loss events should help maintain modest rating momentum into 2023.

Property insurance comprises property direct and facultative insurance and construction insurance. Trading conditions have been favourable with a 2022 RPI of 108%. Significant premium growth in property insurance this year has been driven by the favourable rating environment, inflationary pressures increasing demand, and underlying values at risk. In addition we have seen the benefits of various investments we have made. We opened our office in Australia to underwrite property direct and facultative insurance in the region, and the team have made a promising start. We also welcomed the construction team and market conditions have been better than originally anticipated, meaning that our start in this class has been strong. Across the broader property direct and facultative class we have continued to build out our portfolio on both our Lloyd's and Lancashire UK platforms, benefitting from a number of new business opportunities. As a product that provides natural catastrophe protection, property direct and facultative was impacted by the various events during 2022, and in particular hurricane Ian. Our anticipation is that these positive market conditions continue in 2023, providing more opportunity to develop our portfolio.

"The team have continued their drive forward as our bench strength grows, delivering on Lancashire's long-term strategy."

Specialty insurance comprises our terrorism, political violence and political and sovereign risks sub-classes. Prior to the conflict in Ukraine, rates in terrorism and political violence were starting to soften. As the insurance market reappraised its view of risk, this softening reversed and we started to see rate rises come through these product lines. The overall segment RPI for 2022 was 101%. The broader ramifications, in the form of political and economic turmoil that the conflict has produced, have undoubtedly influenced these sub-classes. The political and sovereign risk portfolio is predominantly non-renewable business and therefore is not subject to RPIs but the rating levels remain strong against this backdrop. We have delivered strong premium growth in the broader segment primarily as a result of new business opportunities. The outlook for 2023 is more promising as we anticipate the dislocation from the conflict to add more traction to the rating environment.

Overall, we are extremely proud of what the underwriting team have achieved in 2022.

The team have continued their drive forward as our bench strength grows, delivering on Lancashire's long-term strategy. 2023 will bring plenty of opportunity for this momentum to carry on as premiums continue to grow and the underwriting portfolio goes from strength to strength.

Underwriting results

James Irvine
Group Chief Underwriting Officer
– Reinsurance

James Flude
Group Chief Underwriting Officer
– Insurance

	2022			2021		
	Reinsurance $m	Insurance $m	Total $m	Reinsurance $m	Insurance $m	Total $m
Gross premiums written	**842.1**	**810.2**	**1,652.3**	561.0	664.2	1,225.2
Net premiums earned	**495.5**	**492.9**	**988.4**	302.1	394.4	696.5
Net loss ratio	**71.0%**	**45.5%**	**58.3%**	90.6%	49.9%	67.6%
Net acquisition cost ratio	**26.4%**	**26.4%**	**26.4%**	18.6%	25.5%	22.5%
Expense ratio	**–**	**–**	**13.0%**	–	–	17.2%
Combined ratio	**97.4%**	**71.9%**	**97.7%**	109.2%	75.4%	107.3%

The Group's operating segments for the purpose of segmental reporting have been revised in 2022. This reflects an internal management restructuring that occurred in the second half of the year.

Reinsurance gross premiums written

The significant increase in premiums in the reinsurance segment is primarily due to new business in the casualty reinsurance class as we continue our successful build out of the new product lines within this class. This class also benefited from significant written premium being recognised from new policies bound in 2021.

Strong growth was also seen in property reinsurance. Rates continued to harden with RPIs of 111%. Aside from rate rises there was limited exposure growth in this class as the Group maintained relatively stable risk levels, taking the increased margin through rate improvements, given we had already grown our footprint significantly during 2021.

In specialty reinsurance, all lines of business saw small increases in gross premiums written driven by new business growth. We continued to build out our specialty treaty account in areas such as energy, marine and political violence, adding to the already well-established sub-classes of aviation reinsurance and property retrocession.

Overall, for the reinsurance segment, reinstatement premiums were $45.1 million in 2022 compared to $42.8 million in the prior year.

Insurance gross premiums written

There was increased premium in the majority of insurance classes during the year. A combination of the positive rating environment, inflationary pressure increasing values at risk and the continued build out of new teams all contributed to the growth in 2022.

The most significant increases in this segment were in the property insurance class where the Group has continued to expand its property direct and facultative offering across all its underwriting platforms, including the newly established Australian platform. The Group also added a new property construction line of business.

The energy and marine insurance classes grew through the addition of new underwriting teams and product expansion, particularly in the marine liability and cargo and specie lines of business.

Outwards reinsurance premiums

Although in dollar terms the spend increased by $55.2 million or 13.5% compared to 2021, the proportion of outwards reinsurance premiums to gross premiums written has decreased year-on-year. The increase in reinsurance spend is primarily driven by the growth of the inwards portfolio and, to a lesser degree, by an increase in outwards reinstatement premium.

Net acquisition costs

Net acquisition costs were $261.2 million in 2022 compared to $157.0 million in 2021, and the Group's net acquisition costs ratio for the year ended 31 December 2022 was 26.4% compared to 22.5% in 2021. The increase is primarily driven by the reinsurance segment where a change in business mix has seen more premium growth in proportional lines of business, which incur higher commission costs.

Net insurance losses

The Group's net loss ratio for 2022 was 58.3% compared to 67.6% in 2021. The accident year loss ratio for 2022, including the impact of foreign exchange revaluations, was 69.9% compared to 81.0% in 2021.

During 2022, we experienced net losses from catastrophe, weather and large loss events of $308.8 million, excluding the impacts of reinstatement premiums. Within this, catastrophe and weather related losses for the year ended 31 December 2022, excluding the impacts of reinstatement premiums, were $218.4 million. This includes $163.3 million from hurricane Ian.

Our provision for large risk events for the year amounted to $90.4 million and include $65.8 million related to the ongoing conflict in Ukraine and $24.6 million from an accumulation of four large losses in the energy upstream and power generation lines of business.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of the current year loss events on the Group's net loss ratio for the year ended 31 December 2022:

	Losses $m	Loss ratio %
Reported at 31 December 2022	**576.4**	**58.3**
Absent catastrophe and weather events	**358.0**	**35.7**
Absent large losses	**486.0**	**48.8**
Absent catastrophe, weather and large loss events	**267.6**	**26.3**

Note: The table does not sum to a total due to the impact of reinstatement premium.

During 2021, our total net catastrophe, weather and large losses, excluding the impact of reinstatement premiums, were $306.4 million.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of prior year loss events on the Group's net loss ratio for the year ended 31 December 2021.

	Losses $m	Loss ratio %
Reported at 31 December 2021	470.5	67.6
Absent catastrophe and weather events	232.9	33.2
Absent large losses	401.7	57.7
Absent catastrophe, weather and large loss events	164.1	23.4

Note: The table does not sum to a total due to the impact of reinstatement premium.

Prior year loss development

Prior year favourable development for 2022 was $100.5 million, compared to $86.5 million of favourable development in 2021. The favourable development in 2022 was primarily due to general IBNR releases on the 2021 and 2020 accident years and across most lines of business, due to a lack of reported claims. There was also favourable development on natural catastrophe loss events from the 2019 and 2018 accident years as well as beneficial claims settlements on risk losses in the 2017 accident year.

The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. 2021 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events, as well as some beneficial claims settlements from earlier accident years.

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

	2022 $m	2021 $m
Reinsurance	**45.3**	22.2
Insurance	**55.2**	64.3
Total	**100.5**	86.5

Note: Positive numbers denote favourable development.

The table below provides further detail of the prior years' loss development by accident year, excluding the impact of foreign exchange revaluations.

Ultimate loss development by accident year

	2022 $m	2021 $m
2017 accident year and prior	**19.9**	36.1
2018 accident year	**13.6**	7.1
2019 accident year	**13.7**	8.8
2020 accident year	**27.5**	34.5
2021 accident year	**25.8**	–
Total	**100.5**	86.5

Note: Positive numbers denote favourable development.

Investment results

Denise O'Donoghue
Group Chief Investment Officer

Investments and liquidity

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity, and we position our portfolio to limit down-side risk in the event of market shocks. Those objectives remain unchanged and are more important than ever in today's volatile markets. 2022 was the story of one of the most significant U.S. Federal Reserve rate increases in history as a tool to fight inflation. While it resulted in negative returns for 2022, 2023 has a more positive outlook, starting the year with much higher yields in the investment portfolio. With the significant rate hikes, continued inflation and an inverted yield curve, there is a risk of recession. However, given the level of current market yields, our portfolio can weather this, particularly with a high credit quality portfolio. With an inverted yield, we do not see any reason to increase duration significantly. We will continue to maintain a short, high credit quality portfolio with some portfolio diversification to balance the overall risk adjusted return.

Our portfolio mix illustrates our conservative philosophy, as shown in the chart below.

Investment performance

Net investment income, excluding realised and unrealised gains and losses, was $43.7 million for 2022, an increase of 90.0% compared to 2021. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a loss of $76.7 million in 2022 compared to a gain of $1.3 million for 2021.

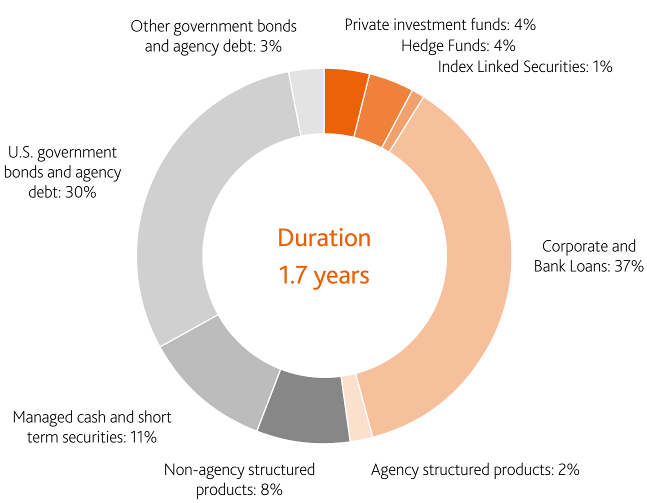
In a year of significant volatility, the investment portfolio generated a negative return of 3.5%. The returns were driven primarily from interest rate increases and the widening of credit spreads, resulting in losses in all asset classes. The majority of the losses were unrealised. It is expected that the majority of the unrealised losses will reverse over the next couple of years, given the short duration of the portfolio.

In 2021, the investment portfolio generated a small positive return of 0.1%. While the portfolio had been hit in 2021 by rising rates, the losses were somewhat mitigated by the strong returns in the majority of the risk assets, notably the bank loans, hedge funds and the private investment funds.

Conservative portfolio structure – quality

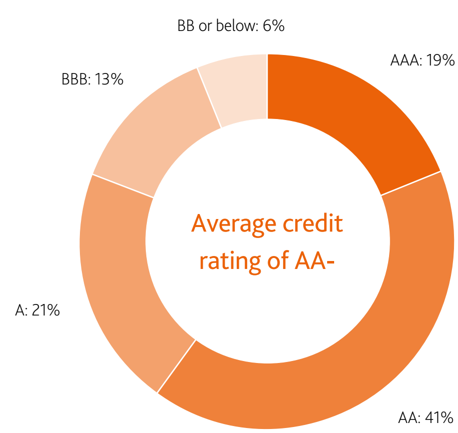
Asset allocation

Total investment portfolio and managed cash



Credit quality

Fixed maturities and managed cash



Other financial information

Hayley Johnston
Chief Executive Officer,
Lancashire Insurance Company
Limited and Reinsurance Manager

John Cadman
Group General Counsel
and Chief Executive Officer,
Lancashire Insurance Company
(UK) Limited

John Spence
Chief Executive Officer,
Lancashire Syndicates Limited

Third-party capital management

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

	2022 $m	2021 $m
LCM underwriting fees	**3.1**	10.6
LCM profit commission	**0.9**	5.2
LSL fees & profit commission	**2.5**	2.4
Total other income	**6.5**	18.2
Share of loss of associate	**(6.5)**	(3.9)
Total third-party capital management income	**–**	14.3

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 loss of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle.

Other operating expenses

Other operating expenses were $128.7 million in 2022 compared to $119.6 million in 2021. A growth in headcount has resulted in higher underlying employee remuneration costs compared to the prior year alongside an increase in audit fees, travel costs and fees and subscriptions. The weakening Sterling/U.S. Dollar exchange rate relative to the prior year partly offset these increases in the underlying cost base.

Capital

As at 31 December 2022, total capital available to Lancashire was approximately $1.7 billion, comprising shareholders' equity of $1.3 billion and $0.4 billion of long-term debt. Tangible capital was $1.5 billion. Leverage was 26.0% on total capital and 28.9% on total tangible capital. Total capital and total tangible capital as at 31 December 2021 were $1.9 billion and $1.7 billion respectively.

Share repurchases

During the year ended 31 December 2022, Lancashire repurchased 4,589,592 of its common shares (out of an overall, maximum Board-approved limit of 9,000,000 common shares, conducted via three separate share repurchase programs). These repurchases totalled $23.3 million and were made pursuant to and in accordance with the general authority granted by shareholders at Lancashire's Annual General Meeting held on 27 April 2022, and will be used to satisfy a number of future exercises of awards under the Company's Restricted Share Scheme.

Dividends

Lancashire announces that its Board of Directors has declared a final dividend of $0.10 (approximately £0.08) per common share, subject to a shareholder vote of approval at the AGM to be held on 26 April 2023, which will result in an aggregate payment of approximately $23.8 million. On the basis that the final dividend is approved by shareholders at the AGM, the dividend will be paid in Pounds Sterling on 2 June 2023 (the "Dividend Payment Date") to shareholders of record on 5 May 2023 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan (DRIP), or other services including international payment, are encouraged to contact the Group's registrars, Link Group, for more details.

Our approach to risk management

At Lancashire, our corporate infrastructure has been developed to manage risk and support disciplined, sustainable growth.

We pride ourselves on a strong and collaborative risk culture that promotes risk awareness and discipline across all the Group's activities.

Louise Wells
Group Chief Risk Officer

A culture *of risk challenge*

Louise Wells
Group Chief Risk Officer

At Lancashire, our corporate infrastructure has been developed to manage risk and support disciplined, sustainable growth. Our ERM framework sits at the heart of this, underpinned by a strong risk culture and governance framework. As the Group continues its strong forward momentum and maximises the opportunities available, the risk function is focussed on providing appropriate second line oversight and challenge to mitigate the risks involved.

Inflation and geopolitical risk are two areas that have had a lot of focus this year. The impact of inflation on the principal risk of reserving is discussed in more detail on page 34.

The events of the last couple of years have demonstrated just how quickly a risk can change and the importance of monitoring a wide range of risks, including those that are harder to quantify. As a result, the focus of the risk function has been on balancing the rear-view, what happened and why did it happen, and the cockpit view of uncertainty, what will happen and how can we make it happen to both preserve and create value for the Group. The risk function cannot operate successfully in isolation and we pride ourselves on a strong and collaborative risk culture that promotes risk awareness and discipline across all the Group's activities.

Lancashire's values remain instrumental in maintaining a strong and straightforward risk culture within the business. Leadership is a key element of this, with the accessibility to, and visibility of, Lancashire's senior management actively promoting, and adhering to, the risk framework driving the collaboration throughout the business.

During 2022, we have expanded the risk function, recruiting additional staff with complementary skill sets to better enable us to provide effective challenge of the changing risk landscape and stress test the assumptions made by the business in relation to these risks. As the Group continues with its growth plans, resource levels will be revisited to help ensure the function continues to be able to manage the challenges associated with our growth as well as address emerging and climate risks and legal and regulatory changes.

With respect to climate change, Lancashire became a member of ClimateWise during the first half of 2022. ClimateWise is part of the Centre for Sustainable Finance at Cambridge University and represents a growing global network of leading insurance industry organisations. ClimateWise helps to align its members' expertise to directly support society as it responds to the risks and opportunities of climate change. ClimateWise members are required to annually disclose their firm's response to climate change through the ClimateWise Principles Framework; as a new member Lancashire was not obliged to participate but opted to do so. The seven ClimateWise Principles are aligned with the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD); our TCFD reporting can be found in the sustainability section starting on page 61.

ERM & ORSA
Key activities

Strategy review & challenge
- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board
- Development of ESG strategy and framework

Risk identification & assessment
- 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
- Monthly CCWG
- Monthly ESG Committee

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

Risk & business management
- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment
- ESG framework and strategy
- Review and approval of business plan by the Board

Capital management
- 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

Business planning
- Stress and scenario testing (business plan)
- Assessment of management actions
- Group CRO review of business plan
- Board business performance review
- Board consideration of stakeholder engagement

Risk solvency & assessment
- Group CRO reports to Board and Group Executive Committee
- Production of quarterly ORSA report for review and approval by the Board

Key elements of ORSA
- ◆ Board sign off and embedding
- Business strategy
- Risks
- Capital and solvency
- Stress and scenario testing

Risk management strategy

Our risk management strategy remains 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 page 144, 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, and risks related to other natural phenomena. This risk is discussed in more detail in the Principal Risks section starting on page 30.

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, loss event and near miss reporting, key risk indicators, and an overview of the control environment (driven by key control testing and control affirmations and supported by internal audit findings) 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.

The focus on ERM and governance is consistent across the cycle with full engagement from the Board down. Roles and responsibilities with respect to the identification, assessment, mitigation and monitoring of risks are clearly defined. The risk management framework drives risk culture from the bottom up, through risk and control ownership by management and staff across the Group.

Risk management framework

The Group takes an enterprise-wide approach to managing risk with a Group risk management framework. The framework sets out our approach to identifying, assessing, mitigating and monitoring the principal risks the Group faces. Lancashire 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 forms part of, the performance objectives of the risk and control owners within the business. Risk owners ensure that these risks and the controls that mitigate against them 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, the emerging risk forum, the CCWG 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 they feel 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 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 approved 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 2022, 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 2023 annual ORSA report will be presented to the Board for review, challenge and approval at the Q1 2023 Board meeting. The equivalent reports for the operating subsidiaries will also be presented to their boards for review, challenge and approval during Q1 2023. 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, all of which are underpinned by our risk culture and governance. Our collaborative risk culture is driven from the 'top down'

"We aim to promote informed risk taking that considers the risk and reward equation in all major decisions in order to optimize growth."

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 facilitate the identification, assessment, evaluation and management of climate-related risks and opportunities by management and the Board and report the financial impacts thereof;
- 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.

During 2022, the risk management framework was enhanced with regards to evidencing risk management challenge, with a focus on the areas of strategic decision making and change management. The quarterly ORSA report was used to report this oversight and challenge to the Board.

The internal audit function considers both existing risks to the business and emerging risks which may impact the Group in designing its programme of work. The Group's risk and control registers and emerging risk radar are key sources of information for internal audit who provide the Audit Committee with mapping between the proposed audit plan and key risks of the Group as well as coverage of emerging risks within the internal audit plan. The Group CRO has input to all internal audit terms of reference and receives copies of all internal audit reports enabling the risk function to assess all recommendations and include in the risk register as appropriate.

RRC

The RRC, chaired by 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 2022 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests, the results of thematic reviews (for example a review on the impact of inflation on our portfolio and associated model assumptions) and the results of the quarterly affirmation process and related controls testing.

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 runs the emerging risk forum and maintains an emerging risk radar, 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 our emerging risk radar was designed to clearly illustrate the risks and expected time horizon, magnitude and likelihood. Examples of key emerging risks monitored include operational strain (driven by growth), geopolitical disruption, economic risks including inflation and recession, and regulatory risk, for example in relation to new climate related standards or legislation.

Whilst no longer an emerging risk, 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 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 146 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 2022, the Group once again participated in the CDP, which is aligned with the recommendations of the TCFD, which are promoted by the Financial Stability Board and the Bank of England. See also our 2022 TCFD Report starting on page 61 for more information.

Understanding the key risks to the Group

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.

Within the capital models, insurance risk accounts for the majority 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. We continue to believe in the market cycle and the dynamics of supply and demand and therefore spend 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 strategic and business plan time horizons. The selected tests are aligned to our key risk areas of capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.

From a capital perspective we show the losses we could absorb and still meet our rating agency and regulatory capital requirements. Our climate change scenario incorporates underwriting and investment risks as we consider transition risk and physical risk. For this scenario we stress our premium income, our catastrophe loss ratios to reflect the assumed increased frequency and severity and inflationary impact on associated claims, our litigation costs, and our investment return. We also run various other tests based on discussions with the RRC and the Group Executive Committee that identify pertinent potential stresses and scenarios given market or social conditions prevailing at the time.

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 118.

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

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.

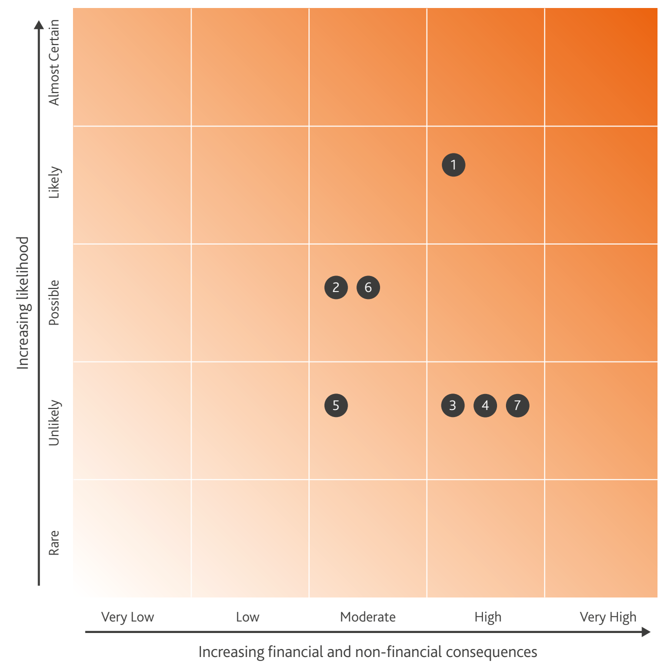
Other

Strategic, Group, Emerging, Climate

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.

Given the broad reach of climate change and the risks associated with it, we concluded these risks are most appropriately managed by including their impact through existing principle risks, rather than a separate climate change principal risk. The impact of climate change is therefore covered in the following principal risks: underwriting, investment, operational and strategic.

Current assessment of principal risks



Key

Principal risk

1 Underwriting	5 Liquidity
2 Investment	6 Operational
3 Reserving	7 Strategic
4 (Re)insurance counterparty	

Intrinsic risk: Core – **Underwriting**

As a (re)insurance group our business is in assuming risk. The problem arises where there is a mismatch between the risk we are being paid for and the risk we are assuming. If we are mispricing our business, we are at increased risk of having insufficient premium to cover any losses arising. If we are taking on more exposure than we realise, then we are at an increased risk of having much larger losses than we expect in a particular scenario. Losses in our classes are hard to predict, in particular as to the specifics of timing and quantum of catastrophe loss events. Additionally, we underwrite 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, using third party stochastic models, we know that these projections can and will be wrong in many instances.

Opportunities

As market dynamics change so too do the opportunities available to the Group. We remain creative and responsive in the provision of tailored insurance and reinsurance products and solutions to our core clients across the different platforms of our business. The management team regularly considers new business opportunities and provides updates on these to the Board. We continue to focus on the opportunities to support our clients as they transition from the current carbon intense environment to a lower-carbon one.

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 backtest our portfolio against historic events to assess potential losses. PMLs for natural catastrophe perils are updated monthly, and RDSs for non-elemental perils are updated quarterly. Both are provided to the RRC for review.

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.

Underwriting guidelines: Underwriting risk appetite is incorporated into underwriters' individual underwriting authorities; compliance with these authority levels is part of the daily underwriting procedures. Climate related insurance underwriting guidelines have been introduced to guide underwriters during this period of transition in energy markets.

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 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, including all movements in the Group's principal modelled PMLs and RDSs, 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 Board customarily reviews the capital requirements and adequacy of the business within the context of underwriting risk exposures on a quarterly basis. The UURC and Board also review and approve the structure of the Group's outwards reinsurance programme.

Key

Strategy	Risk trend	Impact trend	Appetite trend
1 Underwriting comes first	Increased	High	Acceptable
2 Effectively balance risk and return	Stable	Moderate	Reassess
3 Insurance market employer of choice	Decreased	Low	Unacceptable

Intrinsic risk: Core – **Investment**

2

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 designed to have a low exposure to the effects of climate change transitional risk over the various asset classes.

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 the principal driver of our returns. However, we do seek out non-correlated investment opportunities to add yield where appropriate and as we build our casualty portfolio, we will look to match casualty reserves with longer duration assets. 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. Our biannual strategic asset allocation study was performed during 2022, the recommendations from which were approved by the Board on the recommendation of the Investment Committee in Q3 and will be implemented during 2023.

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

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, as well as performance against the climate-related metrics that have been implemented, including carbon intensity scores and a climate value at risk measure. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances. As noted within the mitigation section, the Board approved the recommendations arising from the biannual strategic asset allocation study which was performed during the year and will be implemented in 2023, unless there are unforeseen circumstances in the market that change the outlook of certain asset classes.

Intrinsic risk: Non-core – **Reserving**

2

Because we do not know the quantum of losses, if any, to be incurred at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. Lancashire has a consistent reserving methodology; however, there is a risk that the reserves established based on our estimates are insufficient. 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 evaluate the overall levels of expected losses, including individual large events and benchmarking analyses, to provide assurance over the level of reserves booked.

Recently, there have been several loss events which, due to their ongoing nature and impact across multiple product lines, are exceptionally difficult to reserve for with inherently uncertain ultimate losses. In 2020 the pandemic led us to change the trend for this risk to increased, from stable. In 2021, we retained the elevated status due to the social inflation risk within claims. This year, with inflation across the U.S. and Europe reaching its highest level for many years, we have performed a detailed analysis on the impact of inflation rates to ultimate losses and reserve levels. However, there remains considerable uncertainty and we have therefore again shown the risk as trending upwards.

Whilst our longer tail lines, such as casualty, remain a small proportion of the overall book, these lines, due to their very nature, are more difficult to reserve for and will, over time, increase the inherent risk within this principal risk.

Opportunities

As an intrinsic non-core risk, i.e. one to which we are exposed as a result of our day-to-day business but does not offer a direct potential for return, there are no opportunities as such to speak of.

Whilst our focus is predominantly 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 predominantly on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty. When entering any new line of business, Lancashire adopts a conservative reserving approach as it becomes established.

Experience data: We have access to significant amounts of data, both internal and from the industry as a whole, relating to 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 reserving update is presented to and reviewed by the Audit Committee on a quarterly basis.

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 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 and other natural catastrophe losses and pandemic losses.

Intrinsic risk: Non-core – **(Re)Insurance and intermediary counterparty**

2

Almost all the insurance policies which we underwrite 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.

Opportunities

As both a purchaser and seller of reinsurance, opportunities exist throughout the insurance cycle. While rates were suppressed, the quantum of reinsurance coverage purchased increased and therefore so did counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to help 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.

Intrinsic risk: Non-core – **Liquidity**

2

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.

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.

Intrinsic risk: **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 151 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. With flexible working conditions now the norm we have invested heavily in our information security capabilities, monitoring and staff training to mitigate the risk associated with the change in working environment.

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 BCPs 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.

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. This plan is tested on an annual basis in the form of a table-top exercise facilitated by a third party specialist.

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, to which all employees subscribe and which reflect the strong and positive corporate culture described in the People and culture section starting on page 51. 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 GDPR, the UK Data Protection Act and the Bermudian equivalent of the GDPR, the 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, along with the Group CRO's opinion on the overall control environment. 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 a suite of KRIs, any risk events and near misses, 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. The Board is provided with regular updates on the change management portfolio of work.

Intrinsic risk: **Other**

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, emerging and climate change 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 and its perception as a driver of global economic, political, legal and regulatory change. For more detail on this and our governance, strategy, risk management and metrics and targets associated with climate change risks please see the TCFD report starting on page 61.

Of the other risks, the success of the Group is most dependent on its strategy and the successful execution thereof. Strategic risk is not limited to but can be increased by any or all of the following: inappropriate strategic objectives, not adapting to market conditions, poor decision making, poor communication of the strategy and/or the business plan in place to deliver it, and inappropriate or insufficient personnel.

Opportunities

Having a clear vision, and a strategy that is well communicated internally allows the whole Group to understand their role and contribution to the whole.

Mitigation

Review and challenge: The risk of inappropriate strategic objectives and not adapting the strategy / business plan for the market conditions are mitigated by the governance over the Group's strategic planning process and the annual review and challenge by the Group Executive and Board of the strategy document.

Communication: Following the Board's approval of the strategy, events were held in London and Bermuda to communicate the strategy to the wider management team, who then communicated it to their teams prior to town hall events where there was the opportunity to ask questions of executive management.

Performance and appraisal process: There is the risk that poor performance by senior management has a detrimental impact on the Group's performance. This is mitigated by the performance and appraisal process run by the HR department, and the monitoring of senior management's performance by the CEO, overseen by the Remuneration Committee of the Board. The performance and appraisal process is also a mitigant against inappropriate conduct by, or inadequate skills of, personnel.

Succession planning: Being aware of the strength in depth, or lack of, and documenting within a succession plan that is regularly reviewed, mitigates the risk of both inappropriate and insufficient personnel.

How the Board reviews this risk

An annual strategy day is held with the Board and members of the Group Executive, following which management prepares the strategy for review and challenge by both the Group Executive and the Board. The Board then receives quarterly updates on the Group's performance against plan in its execution of the strategy.