



A diversified and capital-efficient portfolio

Lancashire's strong financial performance in 2023 clearly demonstrated the benefits of our growth and diversification strategy.

Natalie Kershaw
Group Chief Financial Officer

For the year ended 31 December	2023 \$m	2022 ¹ \$m
Highlights		
Gross premiums written	1,931.7	1,652.3
Insurance revenue	1,519.9	1,226.5
Insurance service result	382.1	141.6
Net investment return	160.5	(76.7)
Profit (loss) after tax	321.5	(15.5)
Dividends ²	155.3	36.2
Net insurance ratio	65.1%	83.4%
Combined ratio (discounted)	74.9%	90.2%
Combined ratio (undiscounted)	82.6%	98.7%
Total investment return	5.7%	(3.5%)
Diluted book value per share	\$6.17	\$5.48
Change in diluted book value per share	24.7%	(1.2%)

1. Comparative figures have been restated to reflect the adoption of IFRS 9 and IFRS 17.
2. Dividends are included in the financial statement year in which they were recorded.

Our long-term aim has been to develop a more diversified and capital-efficient portfolio as we spread risk across catastrophe and non-catastrophe related business.

This approach has resulted in a robust underwriting profit and an undiscounted combined ratio of 82.6%, while maintaining our usual discipline and focus on balancing risk and return.

Our strong operating performance and very healthy capital position meant we were able to announce a special dividend of \$0.50 per share at our third quarter results, as well as a potential share buyback scheme of up to \$50 million. In March 2024 we also announced further capital return actions, including a 50% increase in our ordinary dividends. This illustrates the benefit of our diversified portfolio alongside our considered approach to balancing our capital requirements – shaped by the underwriting environment – and rewarding our shareholders.

Our undiscounted combined ratio of 82.6%, or 74.9% on a discounted basis, translated into a net insurance services result of \$382.1 million. This was an increase of 169.8% compared to the same period last year. The benefit of our growth over the last few years and additional premiums written in newer and existing product lines resulted in insurance revenue of \$1,519.9 million, a 23.9% increase compared to 2022.

Our overall profit after tax for the year was \$321.5 million, resulting in a change in diluted book value per share of 24.7%.

During 2023, market loss environment was reasonably active with estimates for global insured losses from natural disasters hitting \$118 billion, according to Aon research. This is more than 30% higher than the average since 2000.

Despite this, Lancashire did not incur any individually material loss events. Total catastrophe, weather and large losses, (undiscounted and net of reinstatement premiums), were \$106.1 million.

The benefits of our diversification strategy to better balance the portfolio and our established underwriting discipline and risk selection expertise are clear in this context.

Lancashire has always maintained a conservative reserving philosophy and this has continued in 2023. The confidence level of our net insurance reserves is 88%, with a net risk adjustment of \$239.1 million, or 16.7% of net insurance contract liabilities. Our confidence level remains within our preferred range of 80%-90%.

Additionally, favourable prior year loss development totalled \$78.8 million, primarily due to releases on the 2022 and 2021 accident years across most lines of business. During 2023, our estimate of potential claims from the conflict in Ukraine has remained stable.

Within our investment portfolio we have benefited from higher interest rates and the portfolio returned 5.7% during the year, resulting in a net investment return of \$160.5 million. The overall credit rating of our investment portfolio is AA-. We have always maintained a relatively conservative investment portfolio. During 2024, we plan to modestly increase the duration of the portfolio but we do not intend on making any material changes to our investment strategy.

All in all, 2023 was a very strong year for Lancashire in which we were able to demonstrate that we are delivering on our strategic objectives through disciplined underwriting and maximising risk adjusted returns.

While we were able to return some capital to shareholders in 2023, we ended the year with a strong capital position from which we can fund future growth in 2024. Looking forward, active capital management will continue to be at the heart of how we run the business.

This Annual Report is our first since the implementation of the IFRS 17 accounting standard. Although this has been a significant change in the presentation of our financial performance it has not had a significant impact on financial performance in 2023.

I would like to thank all my colleagues in the finance and actuarial teams for their hard work and diligence during 2023 in preparing our financial reports on the new basis. This has been a fantastic team effort and I am extremely grateful for the expertise and commitment they have brought to the task of continuing our established focus on transparency.

What is your thinking regarding Lancashire's capital requirements going into 2024?

We have always focused on balancing risk and return through the market cycle, and we manage our capital to support the underwriting opportunities that we see. Our success has been built on being able to deploy capital quickly when it's needed but also having the discipline to return it when it's not. In fact, Lancashire has returned approximately \$3 billion since inception and raised about \$550 million. We believe that there will be significant opportunities for Lancashire in 2024, and we are confident that we have the capital headroom to make the most of those opportunities, including the U.S. operation.

So, overall, the work we have put in to diversify the business puts us in a really strong position to maximise the market opportunity from a solid base. Our focus is always to provide the best returns for our shareholders, and we will deploy our capital where it makes the most sense and offers the greatest rewards.