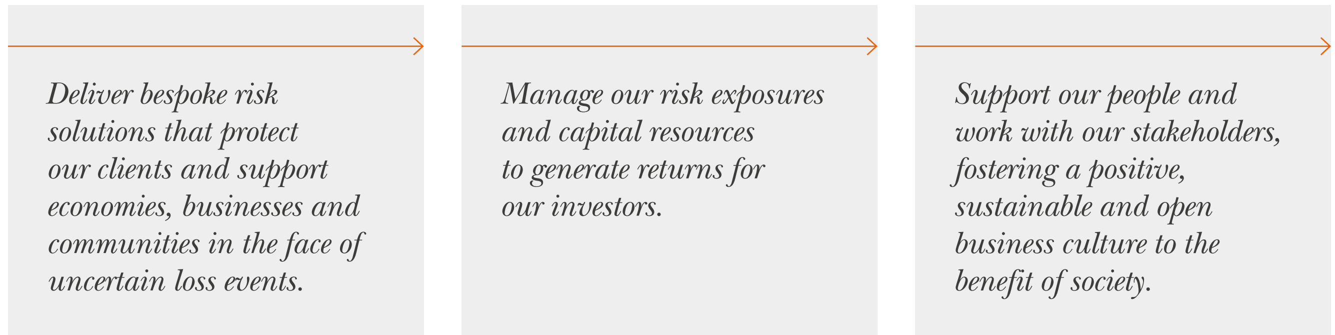
Delivering our strategy

“Our franchise remains resilient and we have fantastic teams across the Group who are dedicated to achieving our goals.”

Group CEO
Alex Maloney

Our purpose



Our business model

Our vision is to be the leading underwriter of specialty insurance and reinsurance products. We work to deliver that vision through our business model which focuses on our core strengths.

Customer focus

- We value our long and mutually beneficial relationships with our clients and brokers
- Our aim is to enable our clients to recover from loss events as soon as practicable
- We focus on customer service and ensure we are responsive, open and honest at all times

Expert people and specialised products

- Our experienced management team has a diverse skill set and is focused on delivering our strategy
- We have skilled teams across the Group and make decisions quickly and effectively through our lean business operations
- We offer highly-specialised multi-class products with market barriers to entry

Disciplined risk and capital management

- We maintain rigorous systems for risk monitoring and management
- Our strong track record of capital management is central to our strategy
- We manage our underwriting portfolio through market cycles and reduce volatility by optimising our capital

A diverse offering

- We have the ability to write business across our platforms
- Through access to multiple markets we provide clients with bespoke solutions and ourselves with underwriting opportunities
- We have a stable core book of business and disciplined underwriting approach

Delivering value for

Our people

94%

of employees say they are proud to work at Lancashire

Our policyholders

$484.8m

gross losses paid in 2023

Our shareholders

24.7%

change in diluted book value per share

Society

$23m

donated through the Lancashire Foundation since 2007

The environment

2,907

carbon credits purchased to support our continued carbon-neutral status

Focusing on our strategy

Strategic pillar	Objective	Focus	Delivery
Underwriting comes first	Profitable growth	• Continue to grow in classes where favourable and improving market conditions exist, and explore new distribution opportunities • Reduce earnings volatility from natural catastrophe risk • Focus on maintaining a diversified portfolio structure and our core clients	• Gross premiums written of $1,931.7 million in 2023 • Insurance revenue of $1,519.9 million in 2023 • New U.S. operation to begin underwriting in 2024
Balance risk and return through the cycle	Maximise risk-adjusted returns	• Actively manage capital to support underwriting opportunities • Deploy capital quickly when it is needed and have the discipline to return it when it is not • Encourage a culture of risk challenge, questioning and understanding	• Total capital available of $1,954.5 million • Total dividends paid to shareholders of $155.3 million, including special dividend announced in Q3 2023 due to strong operational performance
Insurance market employer of choice	Positive culture enables sustainability	• Foster entrepreneurial, collaborative culture via Lancashire values • Further develop the Group's ESG principles to ensure we operate responsibly as a business • Continuously strive for operational efficiency alongside development of data capabilities	• Five-star employer award from survey organisation WorkBuzz • 90% Group-wide engagement score • First ClimateWise report published detailing progress on climate risk

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.

A more robust portfolio

Our underwriting strategy has remained simple since inception. We look to actively manage the underwriting cycle. Since 2018 we have been growing and diversifying our underwriting portfolio, taking advantage of market conditions that have been improving each year.

The intention of this strategy has been to build out a more robust portfolio that allows us to better absorb the inherent volatility of the business we underwrite. Whilst we have seen continued rating momentum over the past five years, there was a more marked improvement in trading conditions in 2023 and this allowed us to continue to deliver on our strategy. We are clearly seeing the benefits of the investments in our business we have made alongside the improved market conditions in our 2023 underwriting result. All classes within our underwriting portfolio have contributed to an exceptional underwriting result with an undiscounted combined ratio of 82.6%, which results in an insurance service result of $382.1 million.

Paul Gregory
Group Chief Underwriting Officer

Loss activity from natural catastrophes continued around the world in 2023, creating devastating consequences for those affected and leading to significant economic and insured losses. It was another year where estimated insured losses from natural catastrophes were above $100 billion, ranging from the earthquake in Turkey and Syria, hurricanes in Mexico, cyclones in Asia, to wildfires and severe convective storms in the U.S. and storm activity in Europe. Given the changes to our catastrophe exposed products in rating, attachment levels and structure we have been able to produce profitable underwriting returns despite a reasonably large amount of loss occurrences and cost.

The geopolitical tensions of 2022 continued throughout 2023. The conflict in Ukraine continues with little sign of relenting, and the conflict between Israel and Gaza adds to increased tensions in the Middle East. Events such as these have far-reaching humanitarian and economic consequences and undoubtedly bring loss exposure to the (re)insurance market. The financial impact to (re)insurers remains uncertain, also bringing with it a number of challenges and complexities for the broader market and Lancashire. Whilst we have exposure to such events, this has remained very manageable and within our risk tolerances and expectations.

The market conditions in 2023 have been the most favourable we have seen in over 10 years. The underwriting environment was very supportive, as demonstrated by a portfolio RPI of 115%. Every class of business delivered a positive year-on-year rate increase. For the majority of product lines 2023 was the sixth straight year of positive rating. Given that the market has struggled to make adequate underwriting returns over the past few years this adjustment was needed.

It is these strong market conditions, as well as the continuing maturity of newer lines of business that have allowed us to grow premiums by 16.9% to $1.9 billion – a record high for the Group. Since the turn of the market in 2018 we have more than tripled our premiums, matching our long-held strategy of managing the cycle. Whilst we anticipate a more stable market in 2024, we again expect to grow our underwriting footprint, supported by the creation of Lancashire U.S.. This is an exciting next development for the Group, and a good example of the continued investment in people within the underwriting function. It will be spearheaded by Huw Jones as the CEO of that operation as he moves from his role of Group Head of Specialty. We have a long tradition of promoting from within to strengthen our underwriting team and this continues to be a vital part of our continued success. Complementing this, we continue to hire quality individuals externally to bring new thoughts and ideas as our underwriting function evolves.

The dynamics across all our business segments have varied and we cover these more specifically in the analysis that follows.

“Strong market conditions, as well as the continuing maturity of newer lines of business, have allowed us to grow premiums by 16.9% to $1.9 billion – a record high for the Group.”

	Gross premiums written $m			Insurance revenue $m			RPI	
Segment	2023	2022	Variance	2023	2022	Variance	2023	2022
Reinsurance	**967.5**	842.1	125.4	**714.9**	560.4	154.5	**122%**	108%
Insurance	**964.2**	810.2	154.0	**805.0**	666.1	138.9	**110%**	108%
Total	**1,931.7**	1,652.3	279.4	**1,519.9**	1,226.5	293.4	**115%**	108%

Reinsurance

Our reinsurance segment contains casualty reinsurance, property reinsurance and specialty reinsurance. There has been significant premium growth during 2023 of approximately 14.9%, with an RPI of 122%. This was expected given the continued 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%. Growth came from the continued maturity of the casualty sub-class and professional and financial lines sub-classes. For the casualty sub-class we are now close to a mature portfolio and if market conditions remain broadly stable then we will not see the same levels of growth we have seen in prior years. We understand that the inflationary and 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 remain at historical highs. Whilst old casualty years written before our entry into the class have no direct impact on our portfolio, we continually review loss trends to ensure we are satisfied with the underlying margin of our book. 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, we saw a very dislocated market in 2023; this is seen in the RPI of 134% for property reinsurance. There was a real disconnect between demand and supply which resulted in hard market conditions. Inflationary pressure pushed demand whilst supply was restricted as carriers pulled back risk levels following multiple years of inadequate returns. As significant as rate change was, the changes to product structure and attachment levels meant the reinsurance product moved toward one of balance sheet protection rather than an earnings protection for buyers. This means that cedants have to retain more risk before their reinsurance coverage is triggered. For reinsurers this insulates the portfolio from the frequency of small to mid-size losses. The value of these changes in structure was seen in underwriting results during 2023. Despite a reasonable amount of loss activity, the majority of losses were small to mid-size, with less impact to reinsurance products than there would have been in prior years. In line with the Group's overall appetite for catastrophe risk, our aim was to keep net catastrophe risk broadly stable year on year whilst optimising the portfolio. The hard market conditions allowed us to achieve this objective in 2023. In 2024, we will continue to optimise the portfolio, and anticipate a more stable rating level.

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 2023, with an RPI of 138%. 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. In line with the market our retrocession portfolio increased in attachment point which insulated it from natural catastrophe losses during 2023, yielding profitable underwriting results. We have seen significant hardening in the aviation reinsurance market as prior year market losses have deteriorated and capacity from a number of carriers reduced. In the specialty classes we had modest exposure to events, such as political unrest in the Middle East and some large energy losses.

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 positive across all classes. The insurance segment RPI for 2023 was 110% with premium growth of approximately 19.0%. A combination of the positive rating environment, inflationary pressure increasing values at risk and the continued build out of new teams has contributed to the growth we have seen in 2023.

Aviation insurance saw a less dramatic year than 2022. As a result of the uncertainties arising from the Russia / Ukraine conflict the aviation market hardened again during 2023 as is demonstrated by an RPI of 112%. The aviation industry itself continues to successfully rebound strongly from COVID-19, with passenger demand continuing to climb globally which aids demand for the product. Within our portfolio there are sub-classes that are broadly stable from a rating perspective, given rates have increased steadily over the past five years but remain at healthy levels. War/terrorism exposed products have continued to see meaningful increases in rating levels, which skews the overall RPI positively. We remain underweight within certain segments of the aviation portfolio where rating is inadequate for a broader risk appetite. Should market conditions change, we would broaden our appetite, in line with our overall underwriting strategy.

16.9%

increase in gross premiums written

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 102%.

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 107% for 2023. Whilst each product was driven by its own dynamics, all saw rate increases.

The challenges of inflation, volatile commodity prices and political unrest remain. Both the marine and energy industries have long been exposed to these risk factors, which we always consider in our underwriting decisions when assessing risk. Importantly, we consider such events both in terms of risk, as well as potential opportunity. Growth in our cargo book, for example, has been aided not only by rate improvement but also by the value of goods and commodities in transit rising which increases the values at risk and also the demand for the product and associated premium volumes. And within certain classes such as upstream energy, there remains an abundance of insurance capacity due to relatively low insured losses.

We continue to expand our knowledge and underwriting expertise to support the transition within the energy sector, in line with our stated strategy. The industry needs to evolve by offering products and services that cater to the changing risks our clients face. 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 report starting on page 41 for more information.

Property insurance comprises property direct and facultative insurance and construction insurance. Trading conditions have been very favourable with an RPI of 117% which is the highest within the insurance segment. Premium growth in property insurance this year has been driven by the favourable rating environment, inflationary pressures increasing demand, and significantly reduced capacity for natural catastrophe exposed risks. We anticipated favourable market conditions but our expectations were surpassed with more rate and demand flowing through. Our property offering in Australia has continued to mature well as market conditions have been supportive. We anticipate similar success in the U.S. with property insurance being a cornerstone product offering of this new venture. The construction team continued their impressive development since joining the Group with favourable market conditions allowing us to develop this class ahead of expectations. Attractive market conditions continue to support our property insurance segment in 2024 and this combined with the opening of the U.S. operation should provide ample profitable growth opportunities.

> "We almost certainly have the most robust underwriting portfolio in our history."

Specialty insurance comprises our terrorism, political violence and political and sovereign risks sub-classes. Following the conflict in Ukraine last year, the terrorism and political violence market saw rate improvement in 2023 – the first year for many years that has happened. The RPI of 102% is driven by the positive rate change in terrorism and political violence sub-classes. The world continues to be an extremely volatile place amplified in 2023, with the continuation of the conflict in Ukraine and the conflict in Israel and Gaza both adding further pressure to global geopolitical tensions. We continue to navigate these challenges in our underwriting and to date any losses have been very manageable. As ever we remain vigilant to the ever-changing risk landscape and how this should influence our underwriting decisions. 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, and the higher-interest rate environment has seen improvement in the underlying terms and conditions. We have delivered strong premium growth in these classes with a number of new opportunities. The outlook for 2024 is currently relatively stable from a rating perspective but, as the broader landscape remains volatile, this is a class that could change quite quickly.

We are extremely proud of what the underwriting team achieved in 2023. We almost certainly have the most robust underwriting portfolio in our history. Rating adequacy in almost all of our products is in a very strong position. The successful diversification of product lines, investment in our underwriting team and growth at the right time in the market cycle has created an excellent foundation to continue to develop our underwriting footprint in the coming years.

We have always said that underwriting is a team sport, and the exceptional underwriting result in 2023 is because of the underwriters and all those across the business that support them in delivering together as a team.

Underwriting results

James Irvine
Group Chief Underwriting Officer – Reinsurance

James Flude
Group Chief Underwriting Officer – Insurance

For the year ended	31 December 2023			31 December 2022		
	Reinsurance $m	Insurance $m	Total $m	Reinsurance $m	Insurance $m	Total $m
Gross premium written	**967.5**	**964.2**	**1,931.7**	842.1	810.2	1,652.3
RPI	**122%**	**110%**	**115%**	108%	108%	108%
Insurance revenue	**714.9**	**805.0**	**1,519.9**	560.4	666.1	1,226.5
Insurance service expenses	**(254.2)**	**(442.0)**	**(696.2)**	(528.3)	(466.3)	(994.6)
Insurance service result before reinsurance contracts held	**460.7**	**363.0**	**823.7**	32.1	199.8	231.9
Allocation of reinsurance premium	**(174.6)**	**(250.2)**	**(424.8)**	(152.7)	(219.1)	(371.8)
Amounts recoverable from reinsurers	**(78.2)**	**61.4**	**(16.8)**	140.0	141.5	281.5
Net expense from reinsurance contracts held	**(252.8)**	**(188.8)**	**(441.6)**	(12.7)	(77.6)	(90.3)
Insurance service result	**207.9**	**174.2**	**382.1**	19.4	122.2	141.6
Net insurance ratio	**61.5%**	**68.6%**	**65.1%**	95.2%	72.7%	83.4%
Other operating expenses			**9.8%**			6.8%
Combined ratio (discounted)			**74.9%**			90.2%
Combined ratio (undiscounted)[1]			**82.6%**			98.7%

1. The combined ratio (discounted and undiscounted) is the ratio, in per cent, of the sum of net insurance expense plus all other operating expenses to net insurance revenue.

Gross premiums written

Gross premiums written increased by $279.4 million or 16.9% during 2023 compared to the same period in 2022. Excluding the impact of reinstatement premiums and multi-year contracts, underlying growth in gross premiums written was 17.8%. The Group's two principal segments, and the key market factors impacting them, are discussed below.

Reinsurance segment

The increase in the reinsurance segment was primarily driven by new business in the casualty reinsurance classes as well as the continued successful build out of our specialty reinsurance classes in a strong rating environment. The property reinsurance classes also benefited from strong RPIs and new business, albeit these were somewhat offset by a lower level of reinstatement premiums than in 2022 due to higher catastrophe losses in that year. Overall, the RPI was 122% for the reinsurance segment up from 108% in the prior year.

Insurance segment

The increase in the insurance segment was primarily due to strong growth in our property insurance lines of business, which include property direct and facultative and also property construction. In these classes we are seeing the benefit of a strong rating environment and also a more mature book of business following the decision to add new teams in recent years. Gross premiums written in the energy and marine lines also increased meaningfully with new business across all lines of business and rate and exposure increases in power and energy liabilities classes. To a lesser extent, new business contributed to growth across all of our casualty insurance lines of business. Rate and exposure increases were the driver of growth in aviation insurance. Overall, the RPI was 110% for the insurance segment.

Insurance revenue

Insurance revenue comprises gross premiums earned less inwards reinstatement premium, and is net of commission costs. Insurance revenue increased by $293.4 million or 23.9% in 2023 compared to the same period in 2022. The market factors driving the increase in casualty reinsurance, property insurance and energy and marine insurance gross premiums written also drove the increase in insurance revenue recognised in the period.

Allocation of reinsurance premiums

Allocation of reinsurance premiums comprises ceded earned premium less outward reinstatement premiums, and is net of outward commission costs. Allocation of reinsurance premiums increased $53.0 million or 14.3% in 2023 compared to the prior year. This increase was largely the result of the rate increases experienced upon renewal of the Group's outwards reinsurance programme, additional cover purchased for some of the newer lines of business and a higher level of quota share reinsurance spend driven by the growth in insurance revenue. Overall the allocation of reinsurance premiums as a percentage of insurance revenue was 27.9% down from 30.3% in the prior year.

Net claims

During 2023, the Group experienced net losses (undiscounted, including reinstatement premiums) from catastrophe, weather and large loss events totalling $106.1 million. None of these events were individually material for the Group.

In comparison, during 2022, the Group experienced net losses (undiscounted, including reinstatement premiums) from catastrophe, weather and large loss events of $329.4 million. Within this, catastrophe and weather related losses for the year ended 31 December 2022, were $232.4 million. This included $181.0 million from hurricane Ian. Large losses for the year amounted to $97.0 million.

Prior year development comprises the undiscounted movement in loss reserves, expense provisions and reinstatement premiums. Favourable development was $78.8 million in 2023 compared to favourable development of $134.3 million in 2022. In 2023, there were reductions in reserves for some of the 2022 natural catastrophe events. The 2022 year included reserve reductions from natural catastrophe loss events in the 2019 and 2018 accident years as well as relatively large beneficial claims settlements on risk losses in the 2017 accident year.

Net discounting benefit

The table below shows the total net impact of discounting, by financial statement line item.

For the year ended 31 December 2023	Insurance contracts issued $m	Reinsurance contracts held $m	Total $m
Initial discount included in insurance service result	**101.9**	**(17.2)**	**84.7**
Unwind of discount	**(84.2)**	**28.4**	**(55.8)**
Impact of change in assumptions	**(14.1)**	**3.3**	**(10.8)**
Finance (expense) income	**(98.3)**	**31.7**	**(66.6)**
Total net discounting income	**3.6**	**14.5**	**18.1**

For the year ended 31 December 2022	Insurance contracts issued $m	Reinsurance contracts held $m	Total $m
Initial discount included in insurance service result	109.1	(36.6)	72.5
Unwind of discount	(39.7)	13.7	(26.0)
Impact of change in assumptions	59.8	(20.4)	39.4
Finance income (expense)	20.1	(6.7)	13.4
Total net discounting income (expense)	129.2	(43.3)	85.9

In 2023 discount rates across all our major currencies were at a relatively high level throughout the year with a small decrease in the fourth quarter. This drove the high initial discount impact and relatively low change in assumption impact.

In comparison, 2022 began in a relatively low discount rate environment, which then experienced significant increases across all currencies throughout the year. This increase in rates resulted in a favourable $39.4 million impact from the change in discount rate assumptions. This was only partly offset by $26.0 million unwind of the initial discount previously recognised in relation to prior accident years that had been set in a lower rate environment.

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. The year started with elevated yields, which only continued throughout the year, finishing with a 5.7% return. The higher yield environment was a positive for the reinvestment of income, maturities and sales of securities. While rates were higher, there was continued volatility with respect to geopolitical tensions around the world and risk of a U.S. recession, given the inverted yield curve. However, despite the inverted yield curve, fundamentals remain strong in the U.S. and recession risk has reduced toward the latter part of the year. Given the volatility and inverted yield curve, we remain cautious but will look to modestly increase duration in the first half of 2024. 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 $108.5 million in 2023, an increase of 94.8% compared to 2022. Total investment return, including net investment income, net realised gains and losses and net change in unrealised gains and losses, was $160.5 million in 2023 compared to a loss of $76.7 million in 2022.

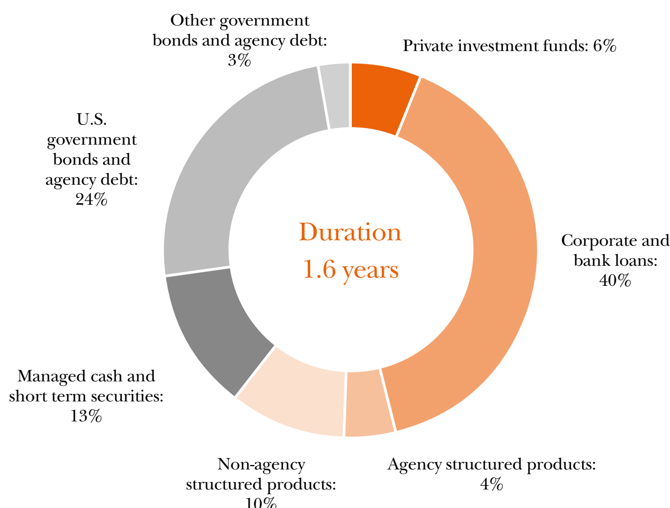
In a year of continued volatility, the investment portfolio generated an investment return of 5.7%. The returns were driven primarily from investment income given the higher yields during the year. While the Federal Reserve raised rates by 1.0% this year, the higher yields and tighter spreads mitigated any losses on the portfolio. In addition, the risk assets, notably the bank loans, hedge funds and private credit, all contributed positively to the overall investment return.

In 2022, 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, most of which were unrealised.

Conservative portfolio structure – quality

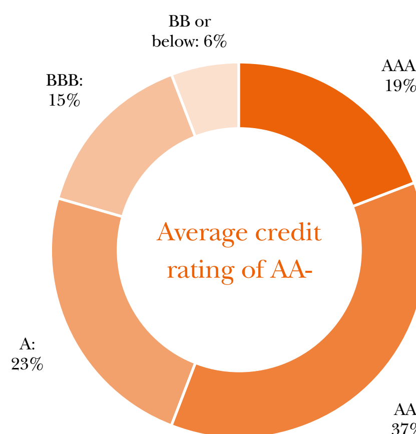
Asset allocation

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

Other operating expenses

For the year ended 31 December	2023 $m	2022 $m
Operating expenses – fixed	**147.9**	118.9
Operating expenses – variable	**41.7**	9.8
Total operating expenses	**189.6**	128.7
Directly attributable expenses allocated to insurance service expenses	**(82.2)**	(70.4)
Other operating expenses	**107.4**	58.3

A significant driver of the increase in operating expenses is the increase in variable costs related to remuneration of $31.9 million given the strong financial performance of the Group. Fixed expenses have increased by 24.4% or $29.0 million largely due to the Group's growth and subsequent impact on headcount. IT and consulting expenses also increased during the year as we focused on upgrading our systems and data capabilities.

For the year ended 31 December 2023, $82.2 million of operating expenses were considered directly attributable to the fulfilment of (re)insurance contracts issued, and have therefore been re-allocated to insurance service expenses and form part of the insurance service result. This compares to $70.4 million in 2022.

Bermuda corporate income tax

During 2024, the Group will continue to assess the potential impact of the Economic Transition Adjustment introduced by the recent Bermuda Corporate Income Tax legislation. Based on its current plans, the Group does not anticipate that it will become subject to Bermuda corporate income tax until 1 January 2030, as it expects to fall within the exclusion within the Bermuda corporate income tax rules that means groups with a limited international presence are excluded from scope for a period of up to five years.

Capital

As at 31 December 2023, total capital available to Lancashire was approximately $2.0 billion, comprising shareholders' equity of $1.5 billion and $0.5 billion of long-term debt. Tangible capital was $1.8 billion. Leverage was 22.8% on total capital and 25.2% on tangible capital. Total capital and total tangible capital as at 31 December 2022 was approximately $1.8 billion and $1.6 billion respectively.

Share repurchase

During the period commencing 22 November 2023 and ending on 29 February 2024, the Company had authorised a share repurchase programme of its common shares of $0.50 each up to a maximum consideration of $50 million. No shares were repurchased under the programme. No other share repurchase programmes were conducted during the year ended 31 December 2023.

Dividends

Lancashire's Board of Directors has declared a special dividend of $0.50 per common share (approximately £0.39 per common share at the current exchange rate), which will result in an aggregate payment of approximately $119.0 million. The dividend will be paid in Pounds Sterling on 12 April 2024 (the "Dividend Payment Date") to shareholders of record on 15 March 2024 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date. Lancashire also announces that its Board of Directors has declared a final dividend of $0.15 (approximately £0.12) per common share, subject to a shareholder vote of approval at the AGM to be held on 1 May 2024, which will result in an aggregate payment of approximately $36.0 million. On the basis that the final dividend is approved by shareholders at the AGM, the dividend will be paid in Pounds Sterling on 7 June 2024 (the "Dividend Payment Date") to shareholders of record on 10 May 2024 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

Delivering for our clients

“If our clients are impacted by a loss, our aim is to support them in recovering as quickly and as fairly as possible. It is our opportunity to deliver on our promise to pay, and we strive to do that consistently across all claims in a manner that is clear and transparent to our client and broker stakeholders.”

Steve Yeo
Group Head of Claims

Everyone is a risk manager

"Our collaborative risk culture is driven from the 'top down' via the Board and the executive management team to the business, with the management Risk Return Committee central to these processes."

Louise Wells
Group Chief Risk Officer

Over the last five years, as Lancashire has focused on growing in a strengthening market, our corporate infrastructure has developed to manage the changing risk and support our growth.

Effective risk management, underpinned by a strong collaborative risk culture, has been vital in our success, enabling the business to deliver on its strategic objective of balancing risk and return through the cycle. The risk culture starts with us, the employees: everyone is a risk manager at Lancashire.

During 2023, the risk management function expanded further to ensure it had sufficient capacity and expertise to drive the development required and deliver the expanding remit.

Key areas of development in 2023 were the emerging risk process, more detail on which can be found on page 27; our forward-looking risk assessments which articulate our opinion on future trends, risk mitigation requirements and business actions by risk, and our ESG reporting, both internal and external.

Our ClimateWise report was published on our website for the first time in August 2023 and our TCFD report, which complements our ClimateWise report, starts on page 49 of this report.

Geopolitical risk and macro-economic risks have continued to be a focus during 2023 and that focus will carry over into 2024.

The ongoing conflict in Ukraine, as well as other potential areas of conflict, and the increasing tensions in the Middle East, are examples of issues that are closely monitored by the business to seek to ensure exposure remains within appetite and expectations. As geopolitical risks can change and evolve rapidly, these are factors that we carefully consider in our underwriting decisions. Where appropriate, thematic reviews are performed to provide a more detailed analysis of the risk and potential impact.

Cyber security risk has also been a key area of focus in 2023 and again will continue to be so in 2024. Cyber security risk is included within the principal risk of operational risk, which is discussed on page 31.

Risk strategy

Our risk management strategy remains closely aligned with the Group strategy, focused on adding value to the business and providing assurance over both the most material risks and the emerging risks to the Group. The Board is responsible for managing risk and retains responsibility for the oversight of risk management activities. The risk management function, led by the Group CRO, ensures there is appropriate risk governance and a risk management framework to support the Board, CEO and Group Executive Committee in managing risk. It is critical that the risk management framework can adapt to the changes associated with the delivery of the Group’s strategy. The risk strategy is updated annually and the associated plan of work is approved by the Board.

Risk management framework

The Group takes an enterprise-wide approach to managing risk. The primary objective being to ensure that 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 risk management framework sets out our approach to identifying, assessing, mitigating, and monitoring the principal risks the Group faces. The diagram on page 25 illustrates how the various parts of the risk management framework come together to form Lancashire’s overall Own Risk and Solvency Assessment (ORSA) process.

Our ORSA process is an ongoing analysis of the Group's risk profile and its capital adequacy to support the business strategy over the business plan horizon. The key activities within this process consider how the financial and principal risks to which we are exposed may change over the planning cycle, what drives these changes, and how resilient the Group's resources are to a range of extreme but possible events. As such, it is a key business management tool which is used to inform key business decisions.

The ERM and ORSA activities are underpinned by our risk culture and governance. Our collaborative risk culture is driven from the ‘top down’ via the Board and the executive management team to the business, with the management Risk Return Committee central to these processes. The RRC 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. 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 and to provide day-to-day oversight and challenge on risk-related issues.

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

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

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

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

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

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

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 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

The ORSA processes are ongoing and operate throughout the year, with the annual ORSA report summarising their outcome for management and the Board on an annual basis. The quarterly ORSA update report provides the Board with a point in time update on the key activities listed above and the challenge provided by the Group CRO.

Risk governance is a major component of the overall risk management framework and provides for clear roles and responsibilities in the oversight and management of risk. It also provides a framework for the reporting and escalation of risk and control issues across the Group. Lancashire operates a three lines of defence governance model, which is highlighted overleaf.