

# **LANCASHIRE INSURANCE COMPANY (UK) LIMITED**

## **Financial Statements** For the year ended 31 December 2023

Registered in England and Wales number 05747877

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### DIRECTORS

Steve Smart	Chairman and non-executive director
David Horne	Non-executive director
Adrian Colosso	Non-executive director
Sally Williams	Non-executive director
John Cadman	Chief executive officer
Samantha Churchill	Chief operating officer
James Flude	Chief underwriting officer
Russell Worsley	Finance director
Steve Yeo	Head of claims

### OFFICER

Louise Byrne	Company secretary
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### AUDITOR

KPMG LLP  
Registered Auditor  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 29  
20 Fenchurch Street  
London  
EC3M 3BY

Registered number 05747877 (England and Wales)

The Company is a member of the Lancashire Insurance Group ([www.lancashiregroup.com](http://www.lancashiregroup.com)).

BUSINESS REVIEW

**Commentary on results**

**Changes to accounting policies**

Effective from 1 January 2023 the Company adopted IFRS 9, Financial Instruments and IFRS 17, Insurance Contracts, including any consequential amendments to other standards. These standards have brought significant changes to the accounting for insurance contracts issued and reinsurance contracts held and financial instruments.

The results for 2023 and comparative amounts for 2022 discussed below are presented in accordance with the application of these new accounting standards.

The impact of retrospectively adopting IFRS 9 and IFRS 17 is summarised in notes 16 and 17.

**Summary**

For the year ended 31 December 2023 the Company made a profit after tax of \$13.3 million compared to a loss after tax of \$3.6 million for the previous year.

**Insurance revenue**

Insurance revenue is a new measure introduced by IFRS 17 and is comparable to gross premiums earned less inwards reinstatement premium and is net of commission costs and non-distinct investment components.

The Company writes a diversified book of business, mostly on a direct basis in the property, energy, marine and aviation classes.

Insurance revenue increased by \$36.9 million from \$276.9 million for the year ended 31 December 2022 to \$313.8 million for the year ended 31 December 2023. The increase during 2023 was mainly driven by an increase of \$18.5 million in the Energy segment and an increase of \$16.7 million within the Property segment.

**Allocation of reinsurance premiums**

Allocation of reinsurance premiums on an IFRS 17 basis is comparable to ceded earned premium less outward reinstatement premiums and is net of outward commission costs.

Allocation of reinsurance premiums increased by \$20.4 million from \$213.2 million for the year ended 31 December 2022 to \$233.6 million. This was mainly as a result of quota share cessions on the increase in insurance revenue.

Net retained insurance revenue (after the allocation reinsurance premium) of as a percentage of insurance revenue for the year ended 31 December 2023 is 25.6%, compared to 23.0% for the year ended 31 December 2022, reflecting changes in the mix of inwards business written and reinsurance protection purchased.

**Claims environment (Insurance service expenses less amounts recoverable from reinsurers)**

Current accident year losses (undiscounted, including reinstatement premiums) were \$144.8 million on a gross basis (2022: \$174.2 million) and \$25.0 million on a net basis (2022: \$30.1 million).

Prior year favourable development was \$39.0 million (2022: \$77.1 million) on a gross basis and \$8.0 million (2022: \$15.0 million) on a net basis.

The favourable development in 2023 was primarily due to releases on the 2022 and 2021 accident year across most lines of business due to a lack of reported claims, as well as favourable development across some of the older accident years.

The net insurance ratio for the year ended 31 December 2023 is 44.6% compared to 73.3% in the previous year. This has decreased due to changes in the mix of inwards business written during 2023.

**Other operating expenses**

Operating expenses reported on an IFRS17 basis are not directly comparable to those previously reported under IFRS4 since a portion of expenses that are directly attributable to insurance activities are presented within insurance service expense. The related amounts are summarised in the table below.

	2023 \$m	2022 \$m
<b>Total operating expenses</b>	<b>57.7</b>	37.9
Directly attributable expenses allocated to insurance service expenses	<b>(23.7)</b>	(20.2)
<b>Other operating expenses</b>	<b>34.0</b>	17.7

The increase in total operating expenses was primarily driven by increased headcount and performance bonus costs and to a lesser degree driven by increased IT expenditure, consulting fees and costs associated with taking on additional London office space.

The gross operating expense ratio for the year ended 31 December 2023 is 10.8% compared to 6.4% for the year ended 31 December 2022.

On a net basis, the operating expense ratio for the year ended 31 December 2023 is 42.4% compared to 27.8% for the year ended 31 December 2022.

### Net discounting benefit

The total impact of discounting in the year was net expense of \$0.2 million compared to net income of \$2.0 million in the prior year.

In the current year the discount benefit comprises a net initial discount of \$2.2 million, largely on the 2023 accident year loss reserves, offset by \$2.3 million net unwind of the initial discount previously recognised in relation to prior accident years and a \$0.1 million adverse impact of the change in discount rate assumptions applied in the year. 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 the prior year the discount benefit comprises of a net initial discount of \$1.8 million. The increase in rates across the year resulted in an adverse \$1.6 million impact from the change in discount rate assumptions applied in the year. This was offset by \$1.8 million unwind of the initial discount previously recognised in relation to prior accident years, which had been set in a lower rate environment.

### Investments

Prior to the adoption of IFRS 9, unrealised investment gains and losses were reported in other comprehensive income. These are now reported within investment income in the statement of comprehensive income.

Investment income for the year ended 31 December 2023 is \$10.5 million compared to a loss of \$6.4 million in the prior year. The large variation is primarily due to the impact of unrealised investment gains in 2023 of \$4.7 million compared to unrealised losses of \$9.0 million in the prior year.

In a year of continued volatility, the investment portfolio generated an investment return of 5.1%. 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 2022, the investment portfolio generated a negative return of 3.4%. 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.

### Tax

The effective tax rate for the year ended 31 December 2023 is 23.1% (2022 - 25.0%).

### Outlook

Management believes the company is well positioned for 2024 with a strengthened underwriting team and will look to continue to expand where we think there is the greatest opportunity to do so. At the same time, we will maintain our portfolio in LUK's historic core lines where the level of rating increase stabilised and as always, will continue to pursue opportunities as they develop and will continue to regularly review new propositions.

A delegated underwriting arrangement between LUK and Lancashire Insurance US, a newly established fellow subsidiary company, will allow LUK to write business it could not previously access, through new distribution channels and with new clients.

### Risk disclosures

Details of the Company's risk management objectives and policies and exposure to risk are set out in note 2.

### Statement by the Directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (the “Act”)

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1) (a)-(f) of the Act) in the decisions taken during the year ended 31 December 2023.

In line with its annually-approved business plan, and in accordance with its approved strategy, the Company seeks to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented, and seeking to expand our portfolio where the risk/return metric improves, the Company seeks to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

Our employees are the lifeblood of the Company and we strive to attract and retain excellent staff. The Company actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The Company promotes the group values<sup>(1)</sup> set out below, and during the year, employees participated in a group-wide staff engagement survey offering employees the opportunity to give their feedback and comments across a broad range of areas. The feedback was positive. The Company recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the Company’s and Group’s success through the granting of nil cost RSS awards and participation in the Company’s bonus arrangements. To ensure alignment with the Company’s values and to effectively monitor individual performance, certain senior managers’ remuneration is overseen by the Company’s Remuneration Committee.

It is crucial to the Company’s long term success that it positively engages with its key stakeholders including clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the Company’s underwriters, claims team and senior management will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the Company has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be proactive in its provision of accurate information to such agencies and regulators.

The Company is active in supporting the promotion of the interests of the wider London insurance market, and as an example of that the CEO sits on the board of the IUA. A number of other staff also contribute to the operation of IUA and other market fora.

Through the Lancashire Foundation, we make financial contributions and provide human support to a number of good causes in the places we operate around the world. The Company also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

The Company is a wholly owned subsidiary of a Group that reports against the United Nations Environment Programme Finance Initiative (I) Principles for Sustainable Insurance, and is committed to managing the environmental impacts of all its businesses, including the Company’s.

#### (1) Group Values

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

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

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

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

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

### Climate Change

The Group is a member of ClimateWise and its first ClimateWise report was published during 2023 and can be found on the Lancashire website. The Group continued to support the aims of the Task Force on Climate-related Financial Disclosures (TCFD) and the Group's report can be found in the Lancashire Holding Limited Annual Report and Accounts for 31 December 2023.

Climate change, and more specifically climate-related risks and opportunities, have continued to be a significant focus during 2023. The Lancashire Holdings Group has a Group management ESG Coordination Committee (the 'ESG Committee') which has membership comprising people from across the Group and from a variety of functions, and there are common links between the ESG Committee and the Group Executive to ensure a clear flow of information. The CRO provides quarterly updates on the work of each body to the Board.

The Group and Company's primary business purpose is to deliver bespoke risk solutions that protect their clients and support economies, businesses and communities in the face of uncertain loss events. By its nature, this long-held objective has, for many years, deeply embedded core elements of environmental, social and governance matters into the Company's insurance operations. Management believe the insurance sector plays a crucial role in empowering people to be able to take decisions with confidence knowing that if the unexpected happens their insurance partners will mitigate the effects on their business and community.

Environmental risk exposures, including assumptions related to climate change, are embedded into the Company's risk management, and performance is monitored against formal risk tolerances, in particular with regard to the exposures to natural catastrophe loss events, including weather events impacted by climate change. Stress and scenario tests performed as part of the business planning and ORSA processes include climate related scenarios and will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on business strategy or change to the Company's understanding of the risks' impact to the business.

The Group has developed and implemented a number of internal underwriting guidelines focused on assisting with wider global efforts to tackle issues of climate change and other environmental, social and governance factors.

The Group's Underwriting Committee continued to monitor exposures to a range of natural catastrophe risks, including regional windstorm and hurricane exposures, and the articulation of an appropriate underwriting and risk management strategy and management preference for these and other risk exposures linked to climate change factors. The Committee considered loss information and developing trends in the frequency and severity of weather-related and other loss events and was satisfied that the Group's underwriting strategy and reinsurance and risk management programmes are appropriate for the management of underwriting risk relating to these factors.

The Group's investment committee continues to identify, measure, and manage the potential impact of ESG and climate related risks and opportunities on the investment portfolio. For the past three years, the Group has collaborated with its external portfolio managers to monitor the carbon intensity and ESG profile of the investment portfolios. The Company's investment guidelines restrict investments in companies that rely on thermal coal for power generation or derive revenues from oil sands or Arctic oil/gas, as well as investments in fixed maturity securities with high carbon intensity ratings. Compliance with the investment guidelines is monitored every month and any adjustments are approved by the Group Board and Investment Committee. Every quarter, the climate VaR against the MSCI benchmark is monitored by analysing the underlying securities measured by MSCI. Management's target preference is for the impact of climate change to be less detrimental on the portfolio than the relevant benchmark at the same level. Lancashire monitors the ESG profile of its fixed maturity portfolio for those securities covered by the MSCI ESG rating tool. The majority of the portfolio for the year-end of 2023 was designated within the "average" ESG category. As of 31 December 2023, 95.6% of the Group's external investment portfolio is administered by managers who are signatories to the United Nation's Principles for Responsible Investment.

The Group is also committed to monitoring and offsetting its own carbon emissions and the LHL Board oversees the Group's Carbon Disclosure Project submission and its alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Group supports the aims of the TCFD and its progress against the pillars and recommendations can be found in the Group's annual report.

The Group is committed to implementing and reporting against the UNEP FI Principles for Sustainable Insurance, a global framework for the insurance industry to address ESG risks and opportunities.

Clear and transparent ESG reporting is made through multiple channels, including the Group's Annual Report and Accounts, the Group's website and its work with the Carbon Disclosure Project.

**Environmental Impact and Offsetting**

The Company is committed to both understanding and managing the environmental impact of its business operations and the Lancashire Group has engaged ClimatePartner to calculate its corporate carbon footprint (CCF), for the 2023 reporting year. The CCF reflects the total CO<sub>2</sub> emissions released by the company’s own business operations, within defined system boundaries and for a specified period of time, with the calculations based on the guidelines of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol).

Historically, the Group has achieved its carbon-neutral status for its own operations through the purchase of carbon credits, predominately in carbon avoidance programmes, which assist in the creation and/or maintenance of systems and technologies that replace carbon intensive processes. In 2021, for the first time, the Group offset 15% of its emissions via a carbon sequestration project, which aims to actively remove carbon from the atmosphere, with the remainder of its carbon credits procured via carbon avoidance projects. The same approach was followed for 2022, but the allocation to carbon sequestration projects for 2023 was increased. This year the Group has procured 20% of its carbon credits via a carbon sequestration project (renewable energy in Chile and tree planting in the UK) with the remaining 80% offset in a carbon avoidance programme (renewable energy projects in Asia). A safety margin of 10% was applied to the total carbon footprint incurred, to compensate for uncertainties in the underlying data that naturally arise from using database values, assumptions, or estimates.

Emissions data was calculated using the Company’s consumption data and various emission factors researched by ClimatePartner. Wherever possible, primary data was used. If primary data was not available, secondary data from highly credible sources was used, with emission factors taken from scientifically recognised databases such as ‘Ecoinvent’ and DEFRA.

The Group used an operational control approach to assess its boundaries and identify all the activities and facilities for which it is responsible. Per the ISO 14064-1 guidance, operational control is defined when an organisation has control over its operation, and they have full authority to introduce and implement its operating policies at the operational level. The Group has reported 100% of its Scope 1 and Scope 2 CCF, along with areas of its Scope 3 CCF with high levels of operational control.

The London office is already well optimised, as 20 Fenchurch Street has a BREEAM ‘excellent’ certified performance rating. The building sources 100% renewable electricity on a tariff that is backed up by associated Renewable Energy Guarantees of Origin (REGOs). Representatives from the London office have engaged with the building management’s “Green Building” meetings and the property’s energy-saving initiatives.

Lancashire uses tCO<sub>2</sub>e per full time employee (FTEs) as its intensity metric in its CCF.

Streamlined Energy and Carbon Reporting Disclosure <sup>(1)</sup>	2023	2022
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use/tCO <sub>2</sub> e	37.8	84.5
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location-based)/tCO <sub>2</sub> e	—	—
Gross emissions (location-based) (Scope 1, 2)/tCO <sub>2</sub> e	37.8	84.5
Energy consumption used to calculate above emissions/kWh	387,071.3	766,990.8
Total gross emissions (Scope 1, 2, 3)/tCO <sub>2</sub> e	854.5	882.2
tCO <sub>2</sub> e per FTE	7.3	7.8

<sup>1</sup> The allocation methodology of emissions between UK companies was updated during the year resulting in a lower allocation to LUK.

By order of the Board



L Byrne  
 Company Secretary  
 4 March 2024



The Directors' present their audited financial statements for Lancashire Insurance Company (UK) Limited, registered company number 05747877 for the year ended 31 December 2023

### Principal activity

The Company is authorised by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") to conduct general insurance business. The Company provides insurance and reinsurance products to its customers, with an emphasis on property, energy, marine and aviation lines of business. The Company received UK regulatory authorisation to underwrite business on 30 August 2006 and commenced underwriting activity on 2 October 2006. The Directors consider that the principal activity of the Company will continue unchanged into the foreseeable future.

### Directors' interests

The names of the Directors of the Company as at 31 December 2023 appear on page 3. The Directors who served during the year are as follows:

John Cadman  
Samantha Churchill (appointed 14 December 2023)  
Adrian Colosso  
James Flude  
David Horne  
Steve Smart  
Sally Williams  
Russell Worsley  
Steve Yeo

None of the Directors have any financial interest in the Company. The interests of Directors in other companies in the Lancashire Holdings Group are disclosed in note 14.

### Payment policy

It is the Company policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

### Employees

All UK employees providing services to the Company are remunerated by LISL, a fellow group subsidiary. The emoluments of these employees are recharged, as part of a management charge under management service agreements, ultimately, to the insurance operating divisions of the Lancashire Holdings Group.

Remuneration of Directors is dealt with in note 14.

### Statement of disclosure of information to auditor

Each person who is a Director at the date of approval of this Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Future developments

The outlook for 2024 is discussed in the strategic report.

### Going concern

It is the responsibility of directors when preparing the financial statements to carry out an assessment to ascertain whether the company is a 'going concern'. The assessment should take into account all available information about the future, covering at least 12 months from the date on which the accounts are approved.

The Directors having reviewed the detailed risk disclosures in note 2, noting particularly the Company's short duration, highly liquid fixed interest investment portfolio and its expected liability profile, as well as the business plan and forecast for the next 12 months and the going concern section within the accounting policies on page 21 have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the financial statements.

### Auditor

A resolution will be proposed at the group annual general meeting to re-appoint KPMG LLP as auditor and to set the auditor's remuneration. The Company will then pass a resolution to reappoint KPMG LLP as auditor.

### Dividends

A dividend of \$nil was paid during 2023 (2022 - \$nil). The Directors do not recommend the payment of a final dividend.

The Company's ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the United Kingdom.

### **Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with UK adopted International Accounting Standards and applicable law;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



L. Byrne

Company Secretary

4 March 2024

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LANCASHIRE INSURANCE COMPANY (UK) LIMITED

### 1 Our opinion is unmodified

We have audited the financial statements of Lancashire Insurance Company (UK) Limited ("the Company") for the year ended 31 December 2023 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in shareholders' equity, the statement of cash flows, and the related notes, including the accounting policies on pages 21 to 30.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors on 3 May 2017. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

### 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

#### **Estimation of incurred but not reported element of both liability for incurred claims and asset for incurred claims**

##### **Risk vs 2022: ◀ ▶**

(Claims incurred but not reported is an element of both the liability for incurred claims and the asset for incurred claims at 31 December 2023: \$297.3 million liability for incurred claims, \$277.1 million asset for incurred claims; 31 December 2022: \$300.5 million liability for incurred claims, \$297.5 million asset for incurred claims)

Refer to pages 21 to 30 (accounting policy) and pages 31 to 63 (financial disclosures)

The risk	Our response
<p>The Company maintains liabilities (and related reinsurance assets) for incurred claims to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Company. Incurred but not reported (IBNR) claims is the most subjective component of the liability for incurred claims and the asset for incurred claims.</p> <p>Whilst the adoption of IFRS 17 affects the measurement of the incurred claims, for example by including a risk adjustment and requiring discounting, the adoption of IFRS 17 in the period had no effect on the estimation of IBNR.</p> <p>There is high level of uncertainty within the IBNR portion of the liability (and asset) for incurred claims related to the estimate of the fulfilment cash flows for IBNR.</p> <p><b>Subjective valuation</b></p> <p>The liability for incurred claims represents the single largest liability for the Company and the estimation of the IBNR element is the most subjective. Valuation of the fulfilment cash flows related to incurred but not reported liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as initial expected loss ratios, large loss assumptions and claim development patterns. The determination and application of the methodology and performance of the calculations are also complex. These judgemental and complex calculations for the cash flows for incurred claims are also used along with net to gross ratio assumptions to derive the valuation of the related reinsurance asset for incurred claims.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that valuation of the liability and asset for incurred claims has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>We have used our own actuarial specialists to assist us in performing our procedures in this area:</p> <p>Our procedures included:</p> <p><b>Control design and implementation</b></p> <p>Evaluating and testing the design and implementation of key controls over the appropriateness of the methodology and actuarial assumptions used in the valuation process of the portion of the liability (and asset) for incurred claims related to undiscounted IBNR fulfilment cash flows.</p> <p><b>Assessment of assumptions and methodology</b></p> <p>Assessing and challenging the reserving assumptions and methodology (on a gross and net of outwards reinsurance basis) based on our understanding of the reserving policy within the Company. This has also involved comparing the Company's reserving methodology for the calculation of the IBNR fulfilment cash flows with industry practice and understanding the rationale for any key differences.</p> <p><b>Historical experience</b></p> <p>Evaluating the reliability of the Company's reserving estimates by monitoring the development of losses against initial estimates.</p> <p><b>Independent re-projections</b></p> <p>Applying our own assumptions, across all attritional classes of business, to perform re-projections on the liability for incurred claims (fulfilment cash flows) and asset for incurred claims and comparing these to the Company's projected results. Where there were significant variances in the results, we have challenged the Company's assumptions with respect to the selected initial expected loss ratios or development patterns.</p> <p><b>Data reconciliations</b></p> <p>Assessing the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems.</p> <p><b>Sector experience and benchmarking of large losses</b></p> <p>Assessing and challenging the reserving assumptions by comparing the Company's loss experience to peers in the market, on a gross and net of outwards reinsurance basis, including on a contract by contract basis for selected large loss and catastrophe events.</p> <p>We performed the tests above over the valuation rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><b>Assessing transparency</b></p> <p>Considering the adequacy of the Company's disclosures in respect of the valuation of the liability (and asset) for incurred claims.</p> <p><b>Our results</b></p> <p>We found the estimation of incurred but not reported element of both liability for incurred claims and asset for incurred claims to be acceptable (2022: acceptable).</p>

**Eligibility for the Premium Allocation Approach (“PAA”)**

**Risk vs 2022: New risk in 2023**

**Refer to page 24 (accounting policy)**

The risk	Our response
<p>IFRS 17 was adopted by the Company on 1 January 2023. This new and complex standard requires the Company to measure its groups of insurance (and reinsurance) contracts using the General Measurement Model (“GMM”) unless the criteria for measuring contracts using a simplified Premium Allocation Approach (“PAA”) is met.</p> <p>The Company has applied PAA to simplify the measurement of groups of insurance (and reinsurance) contracts.</p> <p>Insurance (and reinsurance) contracts are eligible for the PAA if the coverage period is one year or less. If the coverage period for any insurance (or reinsurance) contract in a group of contracts is more than one year, the Company is only eligible to apply PAA to the group of contracts if it reasonably expects that the PAA and GMM would not produce materially different measurements of the liability (and asset) for remaining coverage.</p> <p>The Company has to consider and apply judgement to assess whether significant variability in the fulfilment cash flows is expected. If significant variability is expected at the inception of the group of insurance (and reinsurance) contracts, then PAA is not allowed.</p> <p>The calculation for liability (and asset) for remaining coverage using GMM is complex and requires the Company to perform a forecast based assessment. As part of this assessment the Company has calculated the liability (and asset) for remaining coverage at inception of each of the groups of contracts using the GMM approach and compared this with same output under the PAA over the coverage period of the group of contracts. They have then modelled a series of plausible scenarios to test the extent of variability and assess whether the eligibility test is met.</p> <p>There are a number of subjective assumptions used in this assessment with high estimation uncertainty such as budgeted loss and expense ratios, cash flow patterns and estimates of ultimate premium. There is also subjectivity and judgement involved in concluding whether the difference between the liability (or asset) for remaining coverage calculated using the GMM is materially different to the PAA under what are considered reasonable scenarios.</p>	<p>We have used our own actuarial specialists to assist us in performing our procedures in this area:</p> <p>The below responses are in respect of groups of contracts existing at the transition balance sheet as well as those commencing during 2022 and 2023.</p> <p>Our procedures included:</p> <p><b>Control design and implementation</b></p> <p>Evaluating and testing the design and implementation of key controls over the assessment of PAA eligibility for groups of insurance and reinsurance contracts.</p> <p><b>Assessment of assumptions and methodology</b></p> <p>Assessing the appropriateness of the methodology used, qualitative factors and key assumptions such as forecast ultimate loss ratios, cash flow patterns and expense ratios.</p> <p><b>Independent recalculation</b></p> <p>Independently recalculating the liability for remaining coverage (“LRC”) under the General Measurement Model (GMM) and the Premium Allocation Approach (PAA) and assessing whether the difference between the two measurement models differ materially considering both qualitative and quantitative factors.</p> <p><b>Stress testing</b></p> <p>Assessing the appropriateness of stresses applied on key assumptions by management, independently performing stress tests on key assumptions and evaluating whether groups of insurance and reinsurance contract continue to be eligible for PAA under various scenarios.</p> <p><b>Data reconciliations</b></p> <p>Assessing the completeness and accuracy of the data used within the PAA eligibility assessment by reconciling to approved forecasts by the Board.</p> <p>We performed the tests above over the eligibility for the PAA rather than seeking to rely on the Company’s controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><b>Assessing transparency</b></p> <p>Considering the adequacy of the Company’s disclosures in respect of key judgements within PAA eligibility assessment performed by the Company.</p> <p><b>Our results</b></p> <p>We found the Company’s eligibility for the Premium Allocation Approach to be acceptable (2022: acceptable).</p>

### 3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at \$2.77 million (2022: \$2.4 million), determined with reference to a benchmark of insurance revenue of which it represents 0.88% (2022: \$2.4 million determined with reference to a benchmark of gross premiums written under IFRS 4, of which it represented 0.7%). We consider insurance revenue to be the most appropriate benchmark given the size and complexity of the business as it provides a stable measure year on year. We also compared our materiality against other relevant benchmarks (total assets, net assets and profit before tax) to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances aggregate to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2022: 75%) of materiality for the financial statements as a whole, which equates to \$2.1 million (2022: \$1.8 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.14 million (2022: \$0.12 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

### 4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the valuation of the liability for incurred claims given the estimation and judgement involved in setting these reserves.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios and the degree of downside changes in assumptions that, individually and collectively, could result in a liquidity and solvency issue taking into account the Company's current and projected financial resources (a reverse stress test).

We considered whether the going concern disclosure on page 21 of the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure on page 21 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### 5 Fraud and breaches of laws and regulations – ability to detect

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, Internal Audit, the Risk function, Head of legal and the Company Secretary, together with inspection of policy documentation, as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of liability and asset for incurred claims. On this audit we do not believe there is a fraud risk related to revenue recognition because insurance revenue is recognised based on standard non-complex revenue earning patterns with limited management judgement.

We also identified a fraud risk in relation to the following area:

- The valuation of liability and asset for incurred claims due to the estimation required in setting these liabilities (and associated reinsurance asset) and the ability for changes in the valuation to be used to impact profit.

In order to address the risk of fraud specifically as it relates to the valuation of liability and asset for incurred claims, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

Further detail in respect of our procedures around the valuation of liability (and asset) for incurred claims is set out in the key audit matter disclosures in section 2 of this independent auditor's report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying manual journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by individuals who do not frequently post manual journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash, and post-closing manual journals meeting certain criteria.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including an entity's procedures for complying with regulatory requirements. This was achieved through the procedures noted above.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines, litigation or loss of regulatory approval to write insurance contracts. We identified the following areas as those most likely to have such an effect: anti-bribery and certain aspects of company legislation, recognising the financial and regulated nature of certain of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee and those charged with governance matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

### **Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### 6 We have nothing to report on the other information in the strategic report and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### 7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### 8 Respective responsibilities

#### *Directors' responsibilities*

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### 9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.



**Rajan Thakrar (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square, London, E14 5GL  
4 March 2024



## Statement of comprehensive income

For the year ended 31 December 2023

	Notes	2023 \$m	Restated 2022 \$m
Insurance revenue	3, 11	313.8	276.9
Insurance service expenses	3, 6, 11	(141.5)	(135.4)
<b>Insurance service result before reinsurance contracts held</b>		<b>172.3</b>	<b>141.5</b>
Allocation of reinsurance premium	3, 11	(233.6)	(213.2)
Amounts recoverable from reinsurers	3, 4, 11	105.7	88.7
<b>Net expense from reinsurance contracts held</b>		<b>(127.9)</b>	<b>(124.5)</b>
<b>Insurance service results</b>		<b>44.4</b>	<b>17.0</b>
Net investment income	3, 5	10.5	(6.4)
Finance (expense) income from insurance contracts issued	3, 4	(17.0)	1.5
Finance income (expense) from reinsurance contracts held	3, 4	14.6	(1.3)
<b>Net insurance and investment result</b>		<b>52.5</b>	<b>10.8</b>
Net foreign exchange (losses) gains		(1.2)	2.1
Other operating expenses	6	(34.0)	(17.7)
<b>Profit (loss) before tax</b>		<b>17.3</b>	<b>(4.8)</b>
Income tax (expense) credit	7	(4.0)	1.2
<b>Profit (loss) for the year</b>		<b>13.3</b>	<b>(3.6)</b>

# Statement of financial position

As at 31 December 2023

			Restated	Restated
	Notes	31 December 2023 \$m	31 December 2022 \$m	1 January 2022 \$m
<b>Assets</b>				
Cash and cash equivalents	8	37.0	24.3	35.3
Accrued interest receivable		1.1	0.9	0.8
Investments	9	171.1	185.1	188.6
Reinsurance contract assets	11	301.4	266.5	296.9
Other receivables		1.9	3.7	2.6
Corporation tax receivable		0.5	2.0	0.6
Deferred tax asset	12	1.9	2.0	0.2
<b>Total assets</b>		<b>514.9</b>	<b>484.5</b>	<b>525.0</b>
<b>Liabilities</b>				
Insurance contract liabilities	11	310.1	298.3	334.3
Other payables		19.3	14.0	14.9
<b>Total liabilities</b>		<b>329.4</b>	<b>312.3</b>	<b>349.2</b>
<b>Shareholders' equity</b>				
Share capital	13	188.4	188.4	188.4
Retained earnings		(2.9)	(16.2)	(12.6)
<b>Total shareholders' equity</b>		<b>185.5</b>	<b>172.2</b>	<b>175.8</b>
<b>Total liabilities and shareholders' equity</b>		<b>514.9</b>	<b>484.5</b>	<b>525.0</b>

The financial statements were approved by the Board of Directors and signed on its behalf by:



J. Cadman

Director

4 March 2024

## Statement of changes in shareholder's equity

For the year ended 31 December 2023

				Restated	
	Notes	Share capital \$m	Accumulated other comprehensive loss \$m	Retained earnings \$m	Total shareholders' equity \$m
<b>Balance as at 1 January 2022, as previously reported</b>		188.4	1.4	(12.7)	177.1
Initial application of IFRS 9 - Financial instruments, net of tax	16	—	(1.4)	1.4	—
Initial application of IFRS 17 - Insurance contracts, net of tax	17	—		(1.3)	(1.3)
<b>Restated balance as at 1 January 2022</b>		188.4	—	(12.6)	175.8
Profit (loss) for the year (restated)		—	—	(3.6)	(3.6)
<b>Restated balance as at 31 December 2022</b>		188.4	—	(16.2)	172.2
Profit for the year		—		13.3	13.3
<b>Balance as at 31 December 2023</b>		<b>188.4</b>	<b>—</b>	<b>(2.9)</b>	<b>185.5</b>

## Statement of cash flows

For the year ended 31 December 2023

	Notes	2023 \$m	Restated 2022 \$m
<b>Cash flows from operating activities</b>			
Profit (loss) before tax		17.3	(4.8)
<b>Adjustments for:</b>			
Tax paid		(2.5)	(2.1)
Interest income received		(4.4)	(3.5)
Foreign exchange (gains) losses		(0.9)	5.9
Net realised (gains) losses on investments	5	(4.7)	0.7
Net unrealised (gains) losses on investments	5	(0.7)	9.0
<b>Changes in operational assets and liabilities</b>			
– Insurance and reinsurance contracts		(21.8)	(8.7)
– Other assets and liabilities		7.4	(1.9)
<b>Net cash flows from operating activities</b>		<b>(10.3)</b>	<b>(5.4)</b>
<b>Cash flows used in investing activities</b>			
Interest received		4.2	3.4
Purchase of investments		(69.2)	(73.0)
Proceeds on sale of investments		88.6	66.6
<b>Net cash flows used in investing activities</b>		<b>23.6</b>	<b>(3.0)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		—	—
Net cash flows from financing activities		—	—
<b>Net increase in cash and cash equivalents</b>		<b>13.3</b>	<b>(8.4)</b>
Cash and cash equivalents at beginning of year		24.3	35.3
Effect of exchange rate fluctuations and other on cash and cash equivalents		(0.6)	(2.6)
<b>Cash and cash equivalents at end of year</b>	<b>8</b>	<b>37.0</b>	<b>24.3</b>

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation, use of estimates, consolidation principles and material accounting policies adopted in the preparation of these financial statements are set out below.

#### BASIS OF PREPARATION

The financial statements have been prepared in accordance with UK adopted International Accounting Standards and applicable law. Details of the Company's material accounting policies are set out on pages 21 to 30.

The basis of preparation, use of judgements, estimates and assumptions, consolidation principles, and material accounting policies adopted in the preparation of these consolidated financial statements are set out below. Effective from 1 January 2023, the Company adopted IFRS 17, Insurance Contracts and IFRS 9 Financial Instruments. The related changes from adopting these standards are set out in notes 16 and 17 respectively.

#### GOING CONCERN BASIS OF ACCOUNTING

The financial statements are prepared on a going concern basis using accounting policies consistent with UK adopted International Accounting Standards and applicable law.

In assessing the Company's going concern position as at 31 December 2023, the Directors have considered a number of factors. These include the current balance sheet and liquidity position, the level and composition of the Company's capital and solvency ratios, the current performance against the Company's strategic and financial business plan, the current market environment including consideration of climate change.

The Company's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these financial statements. To assess the Company's going concern, the financial stability of the Company was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, a severe but plausible stress test and a reverse stress test. The testing identified that even under the more severe but plausible stress scenarios, the Company had adequate liquidity and solvency headroom.

Based on the going concern assessment performed, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

#### USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Assumptions and estimates are based on information, knowledge, and data available when the financial statements are prepared. However, existing circumstances and assumptions about future developments may change, or circumstances may arise that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur, and are recognised prospectively. It is considered impracticable to determine the effect that changes in these assumptions and estimates are expected to have on future periods.

#### KEY ASSUMPTIONS CONCERNING THE FUTURE AND SOURCES OF ESTIMATION UNCERTAINTY

The Company has considered both key assumptions concerning the future, and sources of estimation uncertainty, that might be expected to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in a subsequent financial year.

#### Insurance contracts issued and reinsurance contracts held

The Company's most significant area of estimation uncertainty is in relation to the measurement of insurance contracts issued and reinsurance contracts held. Changes in assumptions made may materially change the FCF that make up these balances. The FCF are current estimates of the future cash flows within the contract boundary of a group of contracts that we expect to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and uncertainty of those amounts. Changes in the following key assumptions may change the fulfilment cash flows materially:

- Assumptions about the amount and timing of future cash flows;;
- Assumptions about claims development;
- Assumptions about discount rates, including any illiquidity premiums; and
- Assumptions about the risk adjustment for non-financial risk.

The estimation of the FCF is a complex actuarial process which incorporates a significant amount of judgement, in particular in relation to the estimation of the LIC and AIC. Delays in reporting losses to the Company together with unforeseen loss development increase uncertainty over the accuracy of loss reserves. A significant portion of the Company's business is in classes with high attachment points of coverage and therefore a low frequency but high severity of claims. This adds further complexity to the reserving process due to a limited volume of industry data available from which to reliably predict ultimate losses following a loss event. Volatility for the majority of losses is limited on a net basis by the reinsurance protection purchased.

Information about these key assumptions and estimates are included within our risk disclosures on pages 38 and 41.

### JUDGMENTS, OTHER THAN THOSE INVOLVING ESTIMATIONS

The company's primary focus is on underwriting and actively balancing risk and return. In doing so it focuses on ensuring premium revenue and investment return exceeds the cost of claims, outwards reinsurance and operating expense. The main areas in which judgement is applied is therefore in the measurement and recognition of insurance contracts and financial assets.

#### *Simplified premium allocation measurement model*

IFRS 17 allows for the use of a simplified measurement model. The PAA can be applied by the Company if the insurance contracts it underwrites have a coverage period of one year or less, or if the liability for remaining coverage determined under the PAA is not expected to differ materially from that calculated under the GMM. The Company applies the PAA to simplify the measurement of all its insurance contracts issued and reinsurance contracts held. Groups of insurance contracts issued and reinsurance contracts held which include contracts with a coverage period of more than one year require a PAA eligibility assessment upon initial recognition, which in turn requires management judgement to be made in respect of 1) the allocation of an individual insurance or reinsurance contract to a portfolio of insurance contracts based on those individual contracts having similar risks and being managed together, 2) the division of the portfolios of insurance contracts into the three IFRS 17 groups of insurance contracts, (as defined within the insurance contracts issued and reinsurance contracts held accounting policies section below), and 3) the performance of the underlying insurance contracts.

The Company considers that it is eligible to apply the PAA measurement model to its portfolios and groups of contracts on the basis that the measurement of the LRC is not reasonably expected to differ materially from that calculated under the GMM. In the years prior to IFRS 17 adoption, and in the initial year of adoption this assessment was made through detailed modelling of all portfolios and groups of contracts. Going forward the assessment will likely be more qualitative in nature unless there is a significant shift in business mix or material new lines of business are entered into, or significant changes in relevant economic factors occur.

#### *Level of aggregation*

Judgement is required to determine the level of aggregation under IFRS17. Insurance contracts issued that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. The following considerations have been given most weight in the definition of similar risks:

- Risk aggregations used for other business purposes such as reserving;
- Segmentations used for underwriting; and
- Perils covered and incidence of risk over time.

Each portfolio of insurance contracts is then further disaggregated into annual cohorts and each annual cohort is classified into three IFRS 17 groups of contracts for recognition and measurement purposes based on their expected profitability.

#### *Onerous contract assessment*

Management applies judgement to assess whether facts and circumstances indicate that a group of contracts is onerous at initial recognition, or subsequently assesses whether facts and circumstances indicate any changes in the onerous group's profitability, and whether any loss component remeasurement is required.

#### *Approach to transition*

Judgement was applied to determine whether sufficient, reasonable and supportable information was available to apply a fully retrospective approach when transitioning to the new IFRS 9 and IFRS 17 accounting standards (see note 16 and 17).

#### *Classification of investment portfolio*

The classification of the Company's investment portfolio requires judgement in assessing the business model within which assets are held. The Company has established that all investment classes are managed, and their performance evaluated, on a fair value basis and therefore they are classified at FVTPL. These are discussed on pages 51 and 52.

### CHANGES IN ACCOUNTING POLICIES

Effective from 1 January 2023 the Company adopted IFRS 9, Financial Instruments and IFRS 17, Insurance Contracts, including any consequential amendments to other standards. These standards have brought significant changes to the accounting for insurance contracts issued and reinsurance contracts held and financial instruments. The impact of retrospectively adopting IFRS 9 and IFRS 17 is summarised in notes 16 and 17.

The Company's accounting policies that were impacted by the adoption of IFRS 9 and IFRS 17, are disclosed on pages 23 to 29.

The UK has substantively enacted Pillar Two tax legislation to implement the global minimum top-up tax on 20 June 2023. Further rules are expected to be enacted in the UK during 2024. The Company could potentially be subject to the top-up tax in relation to its operations.

The IASB has issued an amendment to IAS 12 'International Tax Reform – Pillar Two Model Rules' which includes an exception from accounting for deferred taxes which was endorsed for use in the UK on 19 July 2023. Prior to the endorsement, the Company had developed an accounting policy, applying the guidance in IAS 8. Under this accounting policy, the Company does not recognise the deferred tax impact of the top-up tax or remeasure existing deferred taxes. Instead, any incremental effect of the top up tax is recognised as current tax as it is incurred.

### OTHER ACCOUNTING CHANGES

Effective from 1 January 2023, the IASB issued amendments to IAS 1 Presentation of Financial Statements, together with an update to IFRS Practice Statement 2 Making Materiality Judgements. The changes primarily relate to considering accounting policies and transactions as either material or significant, and have been determined to be immaterial to the Company's financial statements.

There are also amendments to other existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2023. These are not currently relevant for the Company and do not impact the financial statements.

### FOREIGN CURRENCY

#### FUNCTIONAL CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which operations are conducted (the 'functional currency'). The financial statements are presented in U.S. dollars (the 'presentation currency').

#### TRANSACTIONS AND BALANCES

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on revaluation are recorded in the statement of comprehensive income (loss) within net foreign exchange gains (losses). Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined.

### INSURANCE CONTRACTS ISSUED AND REINSURANCE CONTRACTS HELD

#### CLASSIFICATION

Insurance contracts issued are those that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Contracts that have a legal form of insurance risk but do not transfer significant insurance risk are classified as investment contracts and follow financial instrument accounting under IFRS 9. The Company does not issue any contracts with direct participation features.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract held transfers significant insurance risk if it transfers substantially all the insurance risk resulting from the insured or reinsured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in these financial statements apply to insurance contracts issued and reinsurance contracts held, unless specifically stated otherwise.

#### LEVEL OF AGGREGATION

##### *Insurance contracts issued*

Insurance contracts that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. Each portfolio of insurance contracts is then further disaggregated into annual cohorts, and each annual cohort is classified into three IFRS 17 groups of contracts for recognition and measurement purposes based on their expected profitability:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous; or
- a group of the remaining contracts in the portfolio.

These three groups represent the level of aggregation at which insurance contracts issued are initially recognised and measured. The classification of such groups is not subsequently reconsidered once set for a particular annual cohort.

##### *Reinsurance contracts held*

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held within annual cohorts into:

- a group of contracts for which there is a net gain at initial recognition;
- a group of contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently; and
- a group of the remaining contracts in the portfolio.

For some groups of reinsurance contracts held, a group can comprise a single contract, which is considered the lowest unit of account.

## Accounting policies

For the year ended 31 December 2023

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### INITIAL RECOGNITION

An insurance contract issued by the Company is recognised at the earliest of:

- the beginning of the coverage period (i.e. the period during which the Company provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- for a group of onerous contracts, when the group becomes onerous.

Groups of reinsurance contracts held are initially recognised at the earliest of:

- the beginning of the coverage period of the group of reinsurance contracts held; and
- the date of recognising an onerous group of underlying insurance contracts issued if the related reinsurance contract held was entered into at or before that date.

The recognition of a group of reinsurance contracts held that provide proportional or quota share coverage is delayed until the date that any underlying insurance contracts issued are initially recognised.

Insurance contracts issued and reinsurance contracts held that were acquired in a business combination or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

Insurance contracts issued are initially added to the relevant groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts' restriction. Composition of the groups is not reassessed in subsequent periods.

### MEASUREMENT APPLYING THE PAA MEASUREMENT MODEL

#### *PAA eligibility*

The Company uses the PAA to simplify the measurement of groups of insurance contracts issued and reinsurance contracts held. The Company considers that it is eligible to apply the PAA measurement model to its groups of contracts (within a given portfolio of insurance contracts) where the measurement of the LRC or ARC is not reasonably expected to differ materially from that calculated under the GMM.

The Company does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the FCF that would affect the measurement of the LRC or ARC during the period before a claim is incurred. Variability in the FCF increases with, for example the length of the coverage period of the group of contracts.

For the accounting periods covered by these financial statements, the Company has determined that all groups of insurance contracts underwritten in respect of those accounting periods are eligible for the PAA.

#### *Contract boundary*

The measurement of a group of insurance contracts issued or reinsurance contracts held includes all of the FCF within the boundary of each contract in the group. The contract boundary is reassessed at each reporting period to include the effect of change in circumstances on the Group's rights and obligations, and, may change over time.

Cash flows are within the boundary of an insurance contract issued if they arise from substantive rights and obligations that exist during the period, through which the Company can compel the policyholder to pay premiums or the Company has substantive obligations to provide the policyholder with insurance coverage or other services. A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- the Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risks of the portfolio; and
- the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

The reassessment of risk considers only risks transferred from policyholders to the Company, which may include both insurance and financial risk, but excludes expense risks.

Cash flows outside of the insurance contract boundary relate to future insurance contracts issued and are recognised only when those contracts meet the recognition criteria.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ceases when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Cash flows that are not directly attributable to a portfolio of insurance contracts are recognised in other operating expenses as incurred.



## Accounting policies

For the year ended 31 December 2023

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### *Fulfilment cash flows within the contract boundary*

The FCF are the current estimates of the future cash flows within the contract boundary of a group of insurance contracts that the Company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- are based on an unbiased probability weighted mean of the full range of possible outcomes;
- are determined from the perspective of the Group, provided the estimates are consistent with observable market prices for market variables; and
- reflect conditions existing at the measurement date, including, where appropriate, expected credit losses from policyholders and intermediaries.

The Company may estimate certain FCF at the portfolio level or a higher level where appropriate, and then allocate such estimates to groups of contracts using a reasonable and consistent method.

The Company uses consistent assumptions to measure the estimates of the present value of future cash flows for a group of reinsurance contracts held with the groups of underlying insurance contracts issued.

In the measurement of reinsurance contracts held, the probability weighted estimates of the present value of future cash flows include potential credit losses and potential disputes with the reinsurer to reflect the non-performance risk of the reinsurer.

The Company's insurance contracts issued and reinsurance contracts held that generate cash flows in a foreign currency, are treated as monetary items and are revalued at period end exchange rates.

### *Discounting*

The estimates of FCF within the LIC and AIC are adjusted using current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent they are not already included within the cash flows. The discount rates reflect the characteristics of the cash flows arising from each group of insurance contracts, including the timing, currency, and liquidity of the cash flows.

The initial impact of discounting is included within the Group's insurance service result. The effect of unwinding the impact of discounting, together with the effect of any changes in discounting assumptions applied, are both included within the Company's finance expense. The Company has not identified any significant financing component in the LRC or the ARC and has elected not to adjust these balances to reflect the time value of money and the effect of financial risk.

### *Risk adjustment for non-financial risk*

An explicit risk adjustment for non-financial risk is estimated separately from the discounted FCF. For contracts measured under the PAA, unless facts and circumstances indicate that a group of contracts is onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC. The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows. It reflects the compensation the Company requires for bearing uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils its insurance contracts issued. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of non-financial risk being transferred by the Company to the reinsurer. Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed both below and within the risk disclosures section.

### *Insurance acquisition cashflows*

Insurance acquisition cash flows arise from the cost of selling, underwriting and initiating a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company uses a systematic and rational method to:

- Allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts:
  - to that group; and
  - to groups that include insurance contracts issued that are expected to arise from the renewal of the insurance contracts issued in that group.
- Allocate insurance acquisition cash flows that are directly attributable to a specific portfolio of insurance contracts, but which are not directly attributable to a specific group of contracts within that portfolio, to all groups within that particular portfolio. Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the statement of financial position, a separate asset for insurance acquisition cash flows may be recognised for each related group. The asset is then derecognised when the insurance acquisition cash flows are included in the initial measurement of the related group of insurance contracts. The amortisation of insurance acquisition cash flows is based on the passage of time over the relevant coverage period.

The Company does not generally pay or incur significant insurance acquisition cash flows before a related group of insurance contracts is recognised in the statement of financial position. No asset for insurance acquisition cash flows has been recognised at any point during the accounting periods covered by these financial statements.

### *Initial measurement of insurance contracts issued applying the PAA*

For a group of insurance contracts that is not onerous at initial recognition, the carrying amount of the LRC is measured with reference to the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at

## Accounting policies

For the year ended 31 December 2023

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that date, and adjusted for any amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group.

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, the Company performs additional analysis to determine if a net cash outflow is expected from the contract. On initial recognition of an onerous group of contracts the Company recognises an insurance service expense for the net cash outflows and an onerous loss component is established in the LRC reflecting the losses recognised.

### *Subsequent measurement of insurance contracts issued applying the PAA*

The carrying amount of a group of insurance contracts issued is the sum of the LRC and the LIC.

The Company measures the carrying amount of the LRC at the end of each reporting period. The LRC includes:

- any premiums received less amounts recognised as insurance revenue;
- less insurance acquisition cash flows paid plus amortisation of any insurance acquisition cash flows recognised as insurance service expense in the period; and
- less any non-distinct investment components paid or transferred to the LIC.

Groups that were not onerous at initial recognition can subsequently become onerous if facts and circumstances change during the coverage period.

If a group of contracts becomes onerous, or facts and circumstances indicate that the expected loss of an onerous group during the remaining coverage period has increased, the Company increases the carrying amount of the LRC by the relevant amount, with the increase recognised within insurance service expenses. The relevant amount is determined as the additional amount which would result in the net liability for the relevant onerous group being equal to the expected net outwards FCF. This is equivalent to adjusting the LRC to equal the liability that would be determined by applying the GMM valuation requirements. If the expected loss in respect of an onerous group of contracts decreases, then a corresponding reduction to the LRC is recognised within insurance service expenses. The expected loss in respect of an onerous group is reassessed at the end of each reporting period. The Company amortises the amount of the loss component within the LRC by decreasing insurance service expenses. Consistent with the basis applied for insurance revenue above, the loss component is amortised based on the passage of time over the remaining coverage period of the onerous group of contracts, until the loss component is reduced to nil. The equivalent basis is also applied to any relevant reinsurance recovery component.

The Company measures the carrying amount of the LIC at the end of each reporting period.

The Company recognises the LIC for a group of insurance contracts as the amount of FCF relating to the incurred claims that have not yet been paid, including claims that have been incurred but not yet reported, together with the associated expenses, including all claims handling expenses that relate to incurred claims which have not yet been paid. The FCF are measured at the reporting date using current estimates of future cash flows, current discount rates, and current estimates of the risk adjustment for non-financial risk.

### *Initial measurement of reinsurance contracts held applying the PAA*

The Company measures a group of reinsurance contracts held on the same basis as a group of insurance contracts issued with adaptations to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

On initial recognition of a group of reinsurance contracts held, the Company measures the ARC at the amount of ceding premiums paid on initial recognition minus commission income received.

For a group of reinsurance contracts held which cover onerous underlying insurance contracts issued, the Company establishes a loss-recovery component of the ARC. This results in a gain or loss within amounts recoverable from reinsurers to offset the losses or gains recognised on the underlying onerous insurance contracts issued:

- on recognition of onerous underlying insurance contracts issued, if the reinsurance contracts held covering those insurance contracts is entered into before, or at the same time, as those insurance contracts issued are recognised; and
- for changes in FCF of the group of reinsurance contracts relating to future services that results from changes in FCF of the onerous underlying insurance contracts issued.

### *Subsequent measurement of reinsurance contracts held applying the PAA*

The carrying amount of a group of reinsurance contracts held at the end of the reporting period is the sum of the ARC and the AIC.

The Company measures the carrying amount of the ARC and AIC at the end of each reporting period:

- the ARC includes reinsurance premiums paid less amounts recognised as an allocation of reinsurance premium; and
- the AIC includes reinsurance recovery cash flows received from reinsurers during the period, less any FCF amounts still to be recovered from reinsurers.

Where the Company has established a loss-recovery component, the Company amortises the amount of the loss recovery component within the ARC by decreasing the allocation of recoverables from reinsurers. The loss recovery component is amortised based on the passage of time over the remaining coverage period of the onerous group of contracts until the loss recovery component is reduced to nil.

The Company measures the carrying value of the AIC at the end of each reporting period.

## Accounting policies

For the year ended 31 December 2023

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The Company recognises the AIC for a group of reinsurance contracts held at the amount of the FCF relating to the claims recoverable, less any amounts already recovered. Any expenses allocated to groups of reinsurance contracts held are presented within the AIC. The FCF are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

### *Derecognition and modification under the PAA*

The Company derecognises an insurance contract issued or a reinsurance contract held when it is extinguished (i.e. when the specified obligations in the contract expire, or are discharged or cancelled) or the contract is modified and certain additional criteria are met.

When an insurance contract issued or a reinsurance contract held is modified as a result of an agreement with a counterparty or due to a change in regulations, the Company treats changes in the cash flows caused by the modification as a change in the estimate of the FCF, unless the conditions for derecognition of the original contract are met. The Company derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

- a. If, based on the modified terms, the Company would have concluded at the inception of the contract that it:
  - was not within the scope of IFRS 17;
  - results in different separable components that would be outside the scope of IFRS 17 if they were separate contracts;
  - results in a substantially different contract boundary; or
  - belongs to a different group of insurance contracts issued or reinsurance contracts held.
- b. If the modification means that the contract no longer meets the PAA eligibility criteria.

When an insurance contract is derecognised, adjustments made to the FCF are recorded within profit or loss as follows:

- if the insurance or reinsurance contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from the extinguishment is recorded within profit or loss;
- if the insurance or reinsurance contract is transferred to a third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party is recorded within profit or loss; and
- if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the premium the Company would have charged had it entered into a contract with equivalent terms as the new contract at the date of contract modification, less any additional premium charged for the modification is recorded within profit or loss.

### *Presentation within the financial statements*

Portfolios of insurance contracts issued and portfolios of reinsurance contracts held that are assets and those that are liabilities are presented separately in the statement of financial position.

The Company disaggregates amounts recognised in the statement of comprehensive income into (a) an insurance service result, and (b) insurance finance income and expenses.

The Company disaggregates changes in the risk adjustment for non-financial risk between the insurance services result (which represents the change related to non-financial risk), and insurance finance income or expenses (which represents the effect of the time value of money and changes in the time value of money).

Income and expenses from reinsurance contracts held are presented separately from the income and expenses on insurance contracts issued.

Insurance revenue and insurance service expenses exclude any non-distinct investment components.

### *Insurance revenue*

Insurance revenue from groups of insurance contracts issued is the amount of expected premiums net of ceding commission payable. Expected premiums exclude any investment components.

Insurance revenue is recognised based on the passage of time over the coverage period, except where the period of risk differs significantly from the contract period. In this instance insurance revenue is recognised on the basis of the expected timing of the related incurred insurance service expenses. For the current periods presented, all insurance revenue has been recognised on the basis of the passage of time.

The amount of insurance revenue recognised in the period reflects the provision of services and the consideration the Company expects to be entitled to in exchange for those services.

### *Insurance service expenses*

Insurance service expenses arising from insurance contracts issued are recognised as they are incurred. They exclude the repayment of non-distinct investment components and comprise the following items:

- incurred claims net of inwards reinstatement premium and net of the initial discount on incurred claims;
- adjustments to the LIC (including the risk adjustment) that do not arise from the effects of the time value of money, financial risk and changes therein;

## Accounting policies

For the year ended 31 December 2023

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- amortisation of insurance acquisition cash flows based on the passage of time over the relevant coverage period;
- other directly attributable insurance service expenses, including an allocation of fixed and variable overhead costs; and
- losses on onerous contracts and the reversal of such losses.

Expenses not meeting the above criteria are included in other operating expenses in the statement of comprehensive income.

### *Allocation of reinsurance premium and amounts recoverable from reinsurers*

The Company presents separately on the face of the statement of profit or loss the allocation of reinsurance premiums and amounts recoverable from reinsurers.

The allocation of reinsurance premiums under each group of reinsurance contracts held is the amount of expected premium payments net of commission income receivable. Expected premium payments exclude any investment components.

The Company recognises the allocation of reinsurance premium based on the passage of time over the relevant coverage period of the reinsurance contract.

Amounts expected to be recovered from reinsurers are recognised as they are incurred. The Company uses assumptions to measure the estimates of the future cash flows for a group of reinsurance contracts held that are consistent with the underlying group of insurance contracts issued. Reinsurance cash flows that are contingent on claims incurred by the underlying insurance contracts issued are therefore included as part of the cash flows that are expected to be reimbursed under the reinsurance contract held.

The amounts expected to be recovered from reinsurers include the effect of any risk of non-performance by the issuer of the reinsurance contract.

For a group of reinsurance contracts held covering onerous underlying insurance contracts issued, the loss recovery component and the reversal of such loss recovery components are included as amounts recoverable from the reinsurer.

### *Finance income or expenses from insurance contracts issued and reinsurance contracts held*

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts issued or reinsurance contracts held arising from the effect of the time value of money, financial risk and changes therein. These include:

- unwind of the initial discount i.e. interest accreted on the LIC; and
- the effect of changes in interest rate assumptions.

The Company has elected to include insurance finance income and expenses in profit and loss and does not disaggregate these between profit and loss and OCI.

### *Non-distinct investment components*

The Company identifies the non-distinct investment component of a contract by determining the amount that it would be required to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. The receipt of this deposit component and the subsequent repayment do not relate to insurance services. Non-distinct investment components are therefore excluded from insurance revenue and insurance service expenses and are considered as a settlement of an insurance contract liability.

## Accounting policies

For the year ended 31 December 2023

### FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS

On initial recognition, a financial asset is classified as either measured at amortised cost, FVTPL or FVOCI. The classification is dependant on the Company's business model for managing the financial asset and the contractual terms of the cash flows.

Financial assets are classified at amortised cost if they are held to collect contractual cash flows and where those cash flows represent solely payments of principal and interest.

Financial assets are classified at FVOCI if they are held to both collect contractual cash flows and sell and where those cash flows represent SPPI.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. Financial assets in this FVTPL category are those that are managed in a fair value business model, or that have been designated as FVTPL by management upon initial recognition.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case the affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

#### INVESTMENTS

The Company's business model emphasises the preservation of capital and the provision for sufficient liquidity for the prompt payment of claims, in conjunction with providing a stable income stream as far as possible. Management reviews the composition, duration, and asset allocation of the investment portfolio regularly to respond to changes in interest rates and other market conditions.

Investments are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of investments are recognised on the trade date, being the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures financial assets held at FVTPL at their fair value on acquisition. Transaction costs in respect of financial assets carried at FVTPL are expensed in profit or loss as they are incurred. Financial assets held at FVTPL are subsequently measured at their fair value.

The table below shows the classification categories of the Company's investment portfolio.

Investments	Classification	Reason
Fixed maturity securities	FVTPL	Mandatory - portfolio is managed at fair value

The Company's investment portfolio includes quoted investments. The fair values of the investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains or losses from changes in the fair value of our investments are recognised in profit or loss within net investment income. Interest income is recognised on the effective interest rate method and recognised in profit or loss within net investment income. The carrying value of accrued interest income approximates fair value due to its short-term nature and high liquidity.

Investments are derecognised when the Company has transferred substantially all of the risks and rewards of ownership or when the rights to receive cash flows from the asset has expired, with any realised gains or losses recognised in profit or loss within net investment income.

#### OTHER RECEIVABLES

Other receivables includes trade receivables and contract assets. Trade receivables that do not have a significant financing component are measured on initial recognition at their fair value, which is typically their transaction price and are subsequently measured at amortised cost using the effective interest method, less an expected credit loss allowance where applicable.

Other receivables held by the Company are short term in nature.

#### IMPAIRMENT

The Company applies the simplified approach to measuring ECL, which uses a lifetime ECL for all receivables and contract assets (other than those recognised under IFRS 17). The lifetime ECL is measured from the initial recognition of trade receivables and contract assets. The Company calculates the lifetime ECL using three main components: a probability of default, a loss given default and the exposure at default (collectively the expected loss rates).

To measure the lifetime ECL, receivables and contract assets have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles over a three year period prior to 31 December 2023 and the corresponding credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information based on macroeconomic factors affecting the ability to collect receivables.

## Accounting policies

For the year ended 31 December 2023

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### FINANCIAL LIABILITIES

#### OTHER PAYABLES

Other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 to 60 days of recognition. Other payables are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest method.

#### TAX

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the statement of comprehensive income due to certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the statement of financial position and their tax base. Deferred tax assets or liabilities are accounted for using the statement of financial position liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is probable and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Company applies judgement in identifying uncertainties over income tax treatments, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by taxation authorities.

## 1. GENERAL INFORMATION

The Company is a provider of global insurance and reinsurance products. The Company was incorporated in the UK on 17 March 2006 and is authorised by the PRA to conduct general insurance business. The Company is a limited liability company with an intermediate holding company, Lancashire Insurance Holdings (UK) Limited. LIHL is 100% owned by the ultimate parent company, Lancashire Holdings Limited. The common shares of LHL trade on the main market of the London Stock Exchange.

## 2. RISK DISCLOSURES

The Company is exposed to risks from several sources, classified into six primary risk categories. These risks are:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

The most significant risk to the Company is considered to be insurance risk.

The primary objectives of the Company's Enterprise Risk Management are to ensure that capital resources held are matched to the risk profile of the Company and that the balance between risk and return is considered as part of all key business decisions. The Company has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Company's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Company's capital and providing LHL, the ultimate parent, with a superior risk adjusted return over the long term are constants. The risk appetites are expressed through detailed risk tolerances at both a Company and Group level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Company and the Group are prepared to expose to certain risks.

The Company's Board of Directors is responsible for setting and monitoring risk appetite and tolerances. All risk tolerances are subject to at least an annual review and consideration by the Board of Directors. The Board of Directors reviews actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses the modelled potential catastrophe losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

### EMERGING RISKS

#### CLIMATE CHANGE

The Company is exposed to both climate change-related risk and opportunities. The two major categories of risk being transition and physical risk.

Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk.

Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). As an insurance company, LUK is more significantly affected by physical risk through its exposure to acute and chronic climate change. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Company's strategic and risk management decisions on managing these risks. A risk radar has been prepared to illustrate the risks identified, the likelihood of the risks and their product impact. The risk assessment also considers the products currently offered by the Company and how these might change over time during the transition to a lower carbon economy.

The Company's process in identifying, assessing and managing climate risk with respect to insurance risk, investment risk and business plan risk is discussed further below in our risk disclosures.

#### GEOPOLITICAL CONFLICT

We continue to monitor our loss exposure with regards to the ongoing conflict in the Ukraine and Russia, which remains a complex and fluid situation. With the increased tensions in the Middle East, focus has also been on monitoring our exposures in this area and seeking to ensure it remains within risk tolerance 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.

### INFLATION RISK

Both UK and worldwide inflation measures have increased significantly during the period following the COVID-19 pandemic. Whilst the Company has already been monitoring inflation, macro-economic factors, together with the actions of central banks and the views of economists, indicate that a period of sustained high inflation is likely. On this basis inflation is now an increased focus for management and those charged with governance at both the Board of Directors and the appropriate committees.

### CYBER RISK

It is widely recognised that the current increasing geopolitical risks have also increased the risk of cyber attacks. Whilst the Company does not write standalone cyber as a separate class of business, it does have some limited exposure within broader policy coverage of existing classes of business. The Company's main exposure comes from the operational risk of suffering a cyberattack on its systems, the resultant downtime of systems, the expense in getting back up and running and the potential for missed business opportunities during the downtime.

To mitigate this risk the Company has established an information security function which works with a specialist third party to identify, assess, monitor and manage cyber risk. A robust cyber risk framework has been developed, this includes a range of key risk and performance indicators which are monitored and reported against regularly. A cyber incident response plan has been developed and is tested via a tabletop exercise on an annual basis.

### ECONOMIC CAPITAL MODELS

The Company's economic capital models are primarily focused on insurance risks, however it is also used to model other risks including market, credit and operational risks.

The economic capital models produce data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.



## A. Insurance risk

Insurance risk is the risk that the Company's underwriting, reserving, claims management or reinsurance decisions and judgements result in a detrimental impact to the Company.

The Company underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Company's exposure in connection with insurance or reinsurance contracts underwritten is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Company's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Company considers insurance risk at an individual contract level, at a sector level, at a geographic level and at an aggregate portfolio level. This ensures that careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The level of insurance risk tolerance per peril is set by the respective Board of Directors.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- a rolling strategic plan that helps establish the business goals that the Board of Directors aims to achieve;
- a detailed three year business plan is produced annually. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- economic capital models are used to model risk levels and capital requirements;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events, which are monitored on a regular basis;
- pricing and aggregation models are used to assist with the underwriting process; and
- reinsurance is purchased to mitigate both frequency and severity of losses on a facultative, excess of loss treaty or proportional treaty basis.

Some of the Company's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes, wildfires and floods) and is subject to potential seasonal variation and the effects of climate change. A proportion of the Company's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Company's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Company also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events.

Climate change may expose the Company to the risk of heightened severity and frequency of weather-related losses. Climate related risks are identified and assessed as part of the usual risk identification and management process which includes but is not limited to: discussions with risk owners and with subject matter experts across the Company, discussions at the Emerging Risk Forum, and the ESG Co-ordination Committee.

Climate-related risks specific to the (re)insurance portfolios are identified and assessed as part of the day-to-day underwriting process by individual underwriters in their analysis of specific risk information, and more broadly in the context of the wider portfolio during the individual class of Business Quarterly Review and through the fortnightly RRC meetings. These reviews include: the physical location of assets insured, weather related perils that have impacted the location and their historical frequency and severity, as well as expected short and long-term changes. The insurance and reinsurance underwriting strategy days assess climate-related risks of both current and anticipated future risks, which include but are not limited to transition risk arising from a decline in the value of assets to be insured, changing energy costs, and liability risks that could arise from climate-related litigation. Physical, transition and liability risks are considered by business segment and geographical location, and the expected impact from the risks identified is considered with respect to both magnitude and timescale.

The Company manages climate risk by using stochastic models from third-party vendors which have a long history of data quality governance. We adapt these models based upon our views of climate risk, as well as our clients' exposure data, to create aggregate loss scenarios. Underwriting guidelines support the underwriting process and provide guidance to assist underwriters in their decision making. Performance against guidelines is monitored by the regular meetings, Quarterly Business Reviews and related reporting. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs.

The Company accepts risks for periods primarily of one year, which mitigates the potential short-term impacts of climate risk. The Company has the ability to re-evaluate the portfolio on an annual basis and therefore reprice physical risk and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events.

### CATASTROPHE MANAGEMENT

The Company actively monitors risk levels and manages catastrophe risk accumulations using reinsurance and PML based risk tolerances, which are monitored as part of our climate-related risks. The Company's exposures to certain peak zone elemental

## Notes to the accounts

For the year ended 31 December 2023

losses, as a percentage of tangible capital, are shown below. Net loss estimates are undiscounted before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis.

As at 31 December 2023 <sup>1</sup>		100 year return period estimated net loss <sup>1</sup>		250 year return period estimated net loss <sup>1</sup>	
		\$m	% of tangible capital	\$m	% of tangible capital
Zones	Perils				
Gulf of Mexico <sup>2</sup>	Hurricane	9.1	4.9 %	12.7	6.8 %
California	Earthquake	7.4	4.0 %	9.7	5.2 %
Non-Gulf of Mexico – U.S.	Hurricane	5.3	2.9 %	6.2	3.3 %
Pan-European	Windstorm	0.3	0.2 %	0.4	0.2 %
Japan	Typhoon	1.0	0.5 %	1.1	0.6 %
Japan	Earthquake	0.8	0.4 %	1.1	0.6 %
Pacific North West	Earthquake	2.0	1.1 %	5.1	2.7 %

<sup>1</sup> Estimated net loss balances presented in the table are unaudited.

<sup>2</sup> Landing hurricane from Florida to Texas.

As at 31 December 2022 <sup>1</sup>		100 year return period estimated net loss <sup>1</sup>		250 year return period estimated net loss <sup>1</sup>	
		\$m	% of tangible capital restated	\$m	% of tangible capital restated
Zones	Perils				
Gulf of Mexico <sup>1</sup>	Hurricane	7.2	4.2 %	8.6	5.0
California	Earthquake	5.8	3.4 %	7.7	4.5
Non-Gulf of Mexico – U.S.	Hurricane	4.1	2.4 %	5.0	2.9
Pan-European	Windstorm	3.0	1.7 %	3.5	2.0
Japan	Typhoon	1.2	0.7 %	1.4	0.8
Japan	Earthquake	1.2	0.7 %	1.4	0.8
Pacific North West	Earthquake	2.0	1.2 %	4.4	2.6

<sup>1</sup> Estimated net loss balances presented in the table are unaudited.

<sup>2</sup> Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, any modelled loss scenario could cause a larger loss to capital than the modelled expectation from the above return periods.

### INSURANCE REVENUE GEOGRAPHICAL SPLIT AND OPERATING SEGMENT

The following table provides an analysis of the Company's insurance revenue by operating segment and geographical location:

	Restated									
	For the year ended 31 December 2023					For the year ended 31 December 2022				
	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
U.S. and Canada	63.0	22.1	—	—	85.1	46.1	16.6	—	(0.4)	62.3
Worldwide - multi territory	6.3	81.8	24.6	42.9	155.6	7.2	73.2	22.6	44.0	147.0
Europe	18.2	5.9	0.1	2.8	27.0	20.0	5.0	—	2.5	27.5
Rest of world	27.9	18.2	—	—	46.1	25.4	14.7	—	—	40.1
<b>Total</b>	<b>115.4</b>	<b>128.0</b>	<b>24.7</b>	<b>45.7</b>	<b>313.8</b>	<b>98.7</b>	<b>109.5</b>	<b>22.6</b>	<b>46.1</b>	<b>276.9</b>

### I. PROPERTY

Property direct and facultative is a worldwide book of largely commercial property business. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium-sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Terrorism business can be written either ground up or, for primary or high excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a "blast zone" radius. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground up or on an excess of loss basis. Coverage that the Company provides in the Property political risk book is split between Confiscation perils coverage and Sovereign/Quasi-Sovereign obligor coverage. Confiscation perils coverage protects against CEND (Confiscation, Expropriation, Nationalisation, Deprivation) and may be extended to include other perils. Sovereign/Quasi Sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a Sovereign or Quasi Sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The Company does not cover against private obligor credit risk.

The Company is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, from its remaining property direct and facultative portfolio. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modelling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 33 and 34.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Company's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis; however, ILWs or quota share arrangements may be entered into.

## II. ENERGY

Energy risks are written mostly on a direct basis and may be ground up or for primary or excess layers on either a first loss or full value basis.

Upstream energy policies are typically package policies which may include physical damage, business interruption and third party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high value and are therefore mostly written on a subscription basis meaning that coverage is placed with multiple underwriters.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modelling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 33 and 34.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Downstream energy risks are generally those with an operational hydrocarbon risk - either processing and or storage and or transmission - and may also include production of chemicals and intermediates. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure and may be written on a proportional or excess of loss basis, often with loss limits set at a level commensurate with a modelled "estimated maximum loss" scenario. The portfolio encompasses a global spread of accounts, and critical natural catastrophe coverage is usually sub-limited, with underwriting assessment employing industry-accepted modelling tools to assess this exposure where possible. The sector provides cover for operational assets, albeit some construction risk is covered only where it is not deemed the policy's primary exposure, whilst third party liabilities are not covered (except where required under legislation for a small sub-limited property damage cover required under 'Napoleonic code').

Reinsurance may be purchased on a facultative or treaty basis.

The Company also writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that the Company writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

## III. MARINE

Marine business is predominantly written on a quota share basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine builders risk covers the building of ocean going vessels in specialised yards worldwide. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance. Marine cargo programmes are not normally written. The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs from removal of wreck.

Reinsurance may be purchased to reduce the Company's exposure to both large risk losses and an accumulation of smaller, attritional losses.

#### IV. AVIATION

AV52 is written on a risk-attaching excess of loss basis and provides coverage for third party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does include some US commercial airlines.

Aviation deductible business is a specialist area with small individual limits normally up to \$1.0 million and covers the deductible the airline would normally have for each and every loss under the terms of their airline policy.

Aviation hull and liability provides cover to the airlines directly and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

#### Reinsurance

The Company, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of losses that may arise from events that could cause unfavourable underwriting results, and to improve the modelled risk-adjusted return by entering into external outwards reinsurance arrangements. Reinsurance does not relieve the Company of its obligations to policyholders. Under the Company's reinsurance security policy, reinsurers are assessed and approved based on their financial strength ratings together with other factors. The RSC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case by case basis, and may require collateral to be provided to support the reinsurer's obligations. There are specific guidelines for these collateralised contracts. The RSC monitors the Company's reinsurers on an ongoing basis, and formally reviews the Company's reinsurance arrangements at least quarterly. Exposure to the Company's reinsurance counterparties, compared to the Board-approved tolerances, is reported to the Board of Directors on a quarterly basis.

The Company's principal reinsurance arrangement is with LICL, through an 80.0% (2022 - 80.0%) whole account quota share agreement, after taking account of certain other third party inuring reinsurance contracts. At 31 December 2023 LICL was rated A (excellent) by A. M. Best. Under the terms of the whole account quota share agreement, LICL provides security to the Company in the form of a trust fund, consisting of cash and cash equivalents and fixed maturity securities.

In addition to the quota share agreement referred to above, reinsurance protection is typically purchased on an excess of loss or quota share basis and occasionally includes ILW covers, or proportional treaty arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and subclass. The Company regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Company's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Company can purchase both facultative and treaty reinsurance with varying cover and attachment points. The reinsurance coverage is not intended to be available to meet all potential loss circumstances. The Company will retain some losses as the cover purchased is unlikely to transfer the totality of the Company's exposure. Any loss amount which exceeds the Company's reinsurance programme is retained by the Company. Some parts of the reinsurance programme have limited reinstatements therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is restricted.

#### Reserving

##### *Estimates of future cash flows to fulfil insurance contracts issued*

The Company measures the carrying amount of the LIC and the AIC at the end of each reporting period, being the amount of the FCF. The FCF in respect of the LIC and AIC comprises:

- unbiased probability-weighted best estimates of future cash flows within the boundary of each contract;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows (see interest rate risk section on page 40); and
- a risk adjustment for non-financial risk.

More detail on each of these is considered further in the section below.

##### *Probability-weighted best estimate of future cash flows*

In estimating future cash flows, the Company incorporates, in an unbiased way, all reasonable and supportable information that is available at the reporting date. The Company uses internal and external information about past events, current conditions and forecasts of future conditions. The Company's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount and timing. These include payments to or on behalf of policyholders and other costs incurred in fulfilling contracts.

Other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads. Where expenses are contract specific these costs are taken directly and aggregated, as required, to groups of contracts. Where expenses are not contract specific (e.g. overheads), these are allocated to groups of contracts in a systematic way.

For all our contracts, uncertainty in the estimation of future claims and benefit payments arise primarily from the severity and frequency of claims and uncertainties regarding future inflation rates.

The Company estimates the ultimate costs of settling claims incurred but unpaid at the reporting date and the value of salvage and other expected recoveries by reviewing individual claims reported and making allowance for claims incurred but not yet reported. The ultimate cost of settling claims is estimated using a range of loss reserving techniques (the Bornhuetter-Ferguson, loss ratio and chain-ladder methods). Often, actuarial techniques assume that historic claims experience is indicative of future claims development patterns and therefore ultimate claims cost. The ultimate cost of settling attritional losses and large claims is estimated separately for each class of business.

The assumptions used, including loss ratios and future claims inflation, are derived from a combination of historical information and judgement where past trends may not apply in the future and future trends are expected to emerge.

For each nominal fulfilment amount, the timing of future cash flows is determined by applying cash flow assumptions based, where available, on the Company's historical experience for the given portfolio of contracts. Where there is insufficient historical experience, reliance may be placed on external benchmarks or portfolios which are believed to exhibit similar cash flow characteristics.

*Methods used to measure the risk adjustment for non-financial risk*

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. The Company estimates an adjustment for non-financial risk separately from all other estimates.

Under the PAA, the risk adjustment for non-financial risk is limited to the LIC and the AIC, with the exception of an onerous contract, where it is implicitly considered in determining the required adjustment to the LRC. The undiscounted risk adjustment within the LIC and AIC is set with reference to the Company's reserve risk appetite and aligns with the management margin which depends on the prevailing uncertainty in the FCF of the LIC and AIC at each reporting date. The management margin is set through a combination of initial expected loss ratio uplifts for IBNR provisions and on a case-by-case basis for individual reported events, this process is overseen by the Reserve and Audit Committees. Given the granular approach, no further allocation of the risk adjustment to groups of contracts is required. The undiscounted risk adjustment is then discounted to allow for the time value of money alongside the wider FCF within the LIC and AIC. Changes in the risk adjustment for non-financial risk are disaggregated into insurance services and insurance financing components in the same way as the best estimate FCF.

The Company estimates that FCF within the net of reinsurance LIC (including the risk adjustment for non-financial risks) corresponds to a confidence level of 75% (31 December 2022 - 71%).

The risk adjustment for non-financial risk is subject to discounting and the confidence level is inferred for the purpose of disclosure. The inference of the confidence level requires assumptions around the perceived volatility of each portfolio and the aggregation to the overall entity level, these assumptions are set and agreed by Management. Volatility parameters are set with reference to historical internal and external data but may be adjusted at each reporting date to reflect the prevailing environment and associated reserve uncertainties. Given the inference of the confidence level, the Company generally expects movement in the percentile from period to period. Movements between periods, are to be expected due to, for example, uncertainty around specific loss events or changes in the reserve mix at a class of business level. The change in the Company's confidence level in the period has been driven by both of these factors. The Company's reserve risk appetite and methods used to determine the risk adjustment for non-financial risk and resulting confidence level were not changed for the year ended 31 December 2023 and 2022.

*Sensitivity analysis*

The following table presents information on how reasonably possible changes in assumptions made by the Company impact the valuation of the net insurance contract liabilities, profit after tax and shareholders' equity. Under the PAA, and given the current amount of the Company's loss component, only the LIC component of the net liability on insurance contracts issued and the AIC component of the net asset on reinsurance contracts held is sensitive to possible changes in insurance risk and interest rate risk variables.

	31 December 2023		31 December 2022	
	LIC as at 31 December	Impact on profit or loss	LIC as at 31 December	Impact on profit or loss
Insurance contract liabilities	297.3		300.5	
Reinsurance contracts assets	(277.1)		(297.5)	
<b>Net insurance contract liabilities</b>	<b>20.2</b>		<b>3.0</b>	
<b>Unpaid claims and expense - 20% increase</b>				
Insurance contract liabilities	356.8	(59.5)	360.6	(60.1)
Reinsurance contract assets	(332.5)	55.4	(357.0)	59.5
<b>Net insurance contract liabilities</b>	<b>24.3</b>	<b>(4.1)</b>	<b>3.6</b>	<b>(0.6)</b>

The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

**B. Market risk**

Market risk is the risk that decisions, movements, trends or other factors in financial markets impact the Company in a way that is financially detrimental to the Company. The main risks include:

- i. Insurance risk;
- ii. Investment risk;
- iii. Debt risk; and
- iv. Currency risk.

These risks, and the management thereof, are described below.

**I. INSURANCE MARKET RISK**

Insurance market risk is the risk that factors within either the global insurance market, or the relevant local insurance markets in which the Company operates, have a detrimental financial impact on the Company. The Company is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Company's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Company manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in premium rates and terms and conditions;
- ensures through continuous regulatory capital management that it does not allow surplus capital to unduly influence underwriting appetite;
- has a collegiate approach towards taking risk with most authority requiring at least 4 eyes and pre-authorisation peer review;
- reviews outputs from the economic capital models to assess up-to-date profitability of classes and sectors;
- holds a fortnightly RRC meeting to discuss risk and reinsurance;
- participates in a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy; and
- holds regular meetings with regulators.

**II. INVESTMENT RISK**

Investment risk is the risk that movements, trends or other factors, within either public or private investment markets, have a detrimental financial impact on the price of securities within the Company's investment portfolio. Movements in investments resulting from changes in prices, interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Company's investment portfolio. Investment guidelines are established by the Investment Risk and Return Committee of the LHL Board of Directors to manage this risk. The LUK Board of Directors reviews and adopts these guidelines as appropriate. Investment guidelines set parameters within which the Company's external investment managers must operate. All of the Company's fixed income managers are signatories of the UNPRI. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Risk and Return Committee of the LHL Board of Directors and the LUK Board of Directors.

The Company's investment guidelines restricts investments in companies which rely on thermal coal for power generation or derive revenues from oil sands or Arctic oil/gas, as well as investments in fixed maturity securities with high carbon intensity ratings. The risks from climate change is monitored through the use of a Climate VaR which is monitored versus the MSCI

benchmark quarterly through analysis of the underlying securities as measured by MSCI for the Company's level 1 and Level 2 securities.

The Company's fixed maturity portfolios are managed by an external investment manager. The performance of the managers is monitored on an ongoing basis.

Within the Company guidelines is a subset of guidelines for the portion of funds required to meet near term obligations and cash flow needs following an extreme event. The funds to cover this potential liability are designated as the "core" portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed maturity securities and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives of this portion of assets are capital preservation and providing liquidity to meet insurance and other near term obligations.

Assets in excess of those required to be held in the core portfolio,s are typically held in the surplus portfolio. The surplus portfolio is invested in fixed maturity securities, cash and cash equivalents and can also be invested in derivative instruments. In general, the duration of the surplus portfolio may be slightly longer than the core portfolio. Currently, the Company does not hold any equity securities, derivative instruments or any alternative investments, such as hedge funds. At 31 December 2023, the Company was not holding any securities in the Surplus portfolio.

The Company reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of management's risk tolerance levels, an adjustment to the asset allocation may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform similarly in risk-on and risk-off environments. The Company endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. The Company models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Company also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The Investment Risk and Return Committee performs a strategic asset allocation study on a bi-annual basis, which assesses the Company's overall strategy and seeks to determine if there is an alternative asset allocation to achieve the highest risk-adjusted return within our risk tolerances. The IRRC meets quarterly to ensure that the Company's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the Company's investment portfolio is as follows:

As at 31 December 2023	Total	
	\$m	%
– U.S. treasuries	87.6	51.2
– U.S. municipal bonds	1.7	1.0
– Asset backed securities	0.2	0.1
– U.S. government agency mortgage backed securities	2.7	1.6
– Corporate bonds	78.9	46.1
<b>Total fixed maturity securities</b>	<b>171.1</b>	<b>100.0</b>

  

As at 31 December 2022	Total	
	\$m	%
– U.S. treasuries	102.7	55.3
– U.S. municipal bonds	1.8	1.0
– Asset backed securities	0.4	0.2
– U.S. government agency mortgage backed securities	2.9	1.6
– Corporate bonds	77.3	41.9
<b>Total fixed maturity securities</b>	<b>185.1</b>	<b>100.0</b>

The concentration risk of the Company's fixed maturity securities by country and sector is as follow:

As at 31 December 2023	Financials \$m	Industrial \$m	Utility \$m	Government & Government Agencies \$m	Structured <sup>1</sup> \$m	Total \$m
United States	10.4	42.2	2.2	92.0	0.2	147.0
France	3.6	1.7	—	—	—	5.3
Japan	2.5	2.1	—	—	—	4.6
United Kingdom	0.9	2.8	—	—	—	3.7
Canada	1.8	1.3	—	—	—	3.1
Switzerland	1.7	—	—	—	—	1.7
Netherlands	1.1	0.1	—	—	—	1.2
Ireland	—	1.2	—	—	—	1.2
Germany	0.8	0.3	—	—	—	1.1
Singapore	—	1.0	—	—	—	1.0
Italy	0.8	—	—	—	—	0.8
Spain	0.4	—	—	—	—	0.4
<b>Total</b>	<b>24.0</b>	<b>52.7</b>	<b>2.2</b>	<b>92.0</b>	<b>0.2</b>	<b>171.1</b>

<sup>1</sup> Structured products excludes any Government structured products.

As at 31 December 2022	Financials \$m	Industrial \$m	Utility \$m	Government & Government Agencies \$m	Structured <sup>1</sup> \$m	Total \$m
United States	9.0	40.2	1.9	107.6	0.4	159.1
United Kingdom	2.1	2.0	—	—	—	4.1
Canada	0.8	0.7	—	—	—	1.5
Japan	2.4	2.0	—	—	—	4.4
France	3.7	1.7	—	—	—	5.4
Switzerland	1.5	—	—	—	—	1.5
Spain	2.0	—	—	—	—	2.0
Germany	0.7	0.3	—	—	—	1.0
Italy	0.8	—	—	—	—	0.8
Other	3.4	1.9	—	—	—	5.3
<b>Total</b>	<b>26.4</b>	<b>48.8</b>	<b>1.9</b>	<b>107.6</b>	<b>0.4</b>	<b>185.1</b>

<sup>1</sup> Structured products excludes any Government structured products.

The Company's net asset value is directly impacted by movements in the fair value of investments held. Values can be impacted by movements in interest rates, credit ratings, exchange rates, the current economic environment and outlook.

### Interest rate risk

#### (i) Investments

Interest rate risk is the risk that movements within market interest rates, which are typically correlated with the interest rates set by central banks, have a detrimental financial impact on the value of the Company's assets and liabilities. The Company's investment portfolio is mainly comprised of fixed maturity securities and cash and cash equivalents. Fixed maturity funds are overseas deposits held by the syndicates in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed maturity securities. The fair value of the Company's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Company's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Company's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:



## Notes to the accounts

For the year ended 31 December 2023

	As at 31 December 2023		As at 31 December 2022	
	\$m	%	\$m	%
<b>Immediate shift in yield (basis points)</b>				
100	(3.0)	(1.8)	(3.2)	(1.7)
75	(2.3)	(1.3)	(2.4)	(1.3)
50	(1.5)	(0.9)	(1.6)	(0.9)
25	(0.8)	(0.4)	(0.8)	(0.4)
(25)	0.8	0.5	0.8	0.5
(50)	1.6	0.9	1.7	0.9
(75)	2.4	1.4	2.5	1.4
(100)	3.2	1.9	3.4	1.8

The Company mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The duration of the core portfolio is matched to the modelled duration of the insurance reserves, within a permitted range. The permitted duration range for the surplus portfolio is between one and five years.

The overall duration for fixed maturity, managed cash and cash equivalents is 1.8 years (As at 31 December 2022 - 1.8 years).

In addition to duration management, the Company monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the investment portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option-adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the Investment Committee on behalf of the Board of Directors on an annual basis.

The Company's annual VaR calculations are as follows:

As at 31 December	As at 31 December 2023		As at 31 December 2022	
	\$m	% of shareholders' equity	\$m	% of shareholders' equity
99th percentile confidence level	7.9	4.2	7.5	4.4

### (ii) Discounting approach on LIC and AIC

The Company's LIC and AIC are discounted on initial recognition and re-measured to current interest rates at each reporting date and therefore sensitive to changes in market interest rates.

The Company applies the bottom-up approach when deriving its discount rates for discounting the LIC and AIC. This approach requires the use of an appropriate (liquid) risk-free yield curve plus a specific illiquidity premium above the risk-free yield curve to represent the reduced liquidity of the insurance contract cash flows compared to the observable risk-free rates. The risk-free yields and illiquidity premium are derived using reference data supplied by third parties with management judgement applied where appropriate, in particular in the derivation of the illiquidity premium, which is informed by the implied illiquidity premium of a representative portfolio of corporate bonds determined using the top-down method.

The table below sets out the one, three and five year yield curves (risk-free rate plus illiquidity premium) used to discount the cash flows of insurance contracts issued and reinsurance contracts held for the Company's major currencies:

	As at 31 December 2023			As at 31 December 2022		
	1 year	3 years	5 years	1 year	3 year	5 year
USD	5.33%	4.40%	4.29%	5.26%	5.12%	5.11%
GBP	5.31%	4.34%	4.14%	4.54%	5.07%	5.12%
EUR	4.03%	3.21%	3.21%	3.36%	4.06%	4.29%
CAD	5.23%	4.51%	4.25%	5.05%	4.88%	4.84%
JPY	0.65%	0.96%	1.24%	0.17%	1.11%	1.64%
ZAR	8.92%	8.63%	9.15%	7.83%	8.72%	9.49%
AUD	4.77%	4.55%	4.76%	4.00%	4.85%	5.38%

The following table presents information on how reasonably possible changes in the yield curve made by the Company impact the valuation of the net insurance contract liabilities, profit after tax and shareholders' equity. As stated above, under the PAA, and given the current amount of the Company's loss component, only the LIC component of the net liability on insurance contracts issued and the AIC component of the net asset on reinsurance contracts held is sensitive to possible changes in insurance risk and interest rate risk variables.

## Notes to the accounts

For the year ended 31 December 2023

	31 December 2023		31 December 2022	
	LIC as at 31 December	Impact on profit after tax and shareholders' equity	LIC as at 31 December	Impact on profit after tax and shareholders' equity
Insurance contract liabilities	297.3		300.5	
Reinsurance contracts assets	(277.1)		(297.5)	
<b>Net insurance contract liabilities</b>	<b>20.2</b>		<b>3.0</b>	
<b>Yield curves - 1% increase</b>				
Insurance contract liabilities	293.0	4.3	296.3	4.2
Reinsurance contract assets	(273.4)	(3.7)	(293.9)	(3.6)
<b>Net insurance contract liabilities</b>	<b>19.6</b>	<b>0.6</b>	<b>2.4</b>	<b>0.6</b>

The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

### III. Currency risk

Currency risk is the risk that movements in currency exchange rates have a detrimental financial impact on the Company. The Company currently underwrites from London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Company is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The exchange gains and losses which arise on these assets and liabilities impact profit or loss.

The Company hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets. The Company's main foreign currency exposure relates to its insurance obligations and cash holdings.

The Company's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Total \$m
<b>Assets</b>							
Cash and cash equivalents	14.8	2.0	1.7	1.4	16.2	0.9	37.0
Accrued interest receivable	1.1	—	—	—	—	—	1.1
Investments	171.1	—	—	—	—	—	171.1
Reinsurance contract assets	221.9	23.0	16.7	6.8	20.5	12.5	301.4
Other receivables	(4.7)	6.6	—	—	—	—	1.9
Corporation tax receivable	—	0.5	—	—	—	—	0.5
Deferred tax asset	1.8	0.1	—	—	—	—	1.9
<b>Total assets as at 31 December 2023</b>	<b>406.0</b>	<b>32.2</b>	<b>18.4</b>	<b>8.2</b>	<b>36.7</b>	<b>13.4</b>	<b>514.9</b>
<b>Liabilities</b>							
Insurance contract liabilities	242.6	4.6	18.9	8.3	21.2	14.5	310.1
Other payables	18.7	0.5	0.1	—	—	—	19.3
Corporation tax payable	—	—	—	—	—	—	—
<b>Total liabilities as at 31 December 2023</b>	<b>261.3</b>	<b>5.1</b>	<b>19.0</b>	<b>8.3</b>	<b>21.2</b>	<b>14.5</b>	<b>329.4</b>

## Notes to the accounts

For the year ended 31 December 2023

	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Restated Total \$m
<b>Assets</b>							
Cash and cash equivalents	13.9	0.8	1.8	0.4	7.3	0.1	24.3
Accrued interest receivable	0.9	—	—	—	—	—	0.9
Investments	185.1	—	—	—	—	—	185.1
Reinsurance contract assets	202.2	12.6	8.7	6.7	20.9	15.4	266.5
Other receivables	3.6	0.1	—	—	—	—	3.7
Corporation tax receivable	—	2.0	—	—	—	—	2.0
Deferred tax asset	(0.8)	2.8	—	—	—	—	2.0
<b>Total assets as at 31 December 2022</b>	<b>404.9</b>	<b>18.3</b>	<b>10.5</b>	<b>7.1</b>	<b>28.2</b>	<b>15.5</b>	<b>484.5</b>

	U.S.\$ \$m	Sterling \$m	Euro \$m	Japanese Yen \$m	South African Rand \$m	Other \$m	Restated Total \$m
<b>Liabilities</b>							
Insurance contract liabilities	235.7	3.0	17.6	8.2	15.9	17.9	298.3
Other payables	13.4	0.5	0.1	—	—	—	14.0
<b>Total liabilities as at 31 December 2022</b>	<b>249.1</b>	<b>3.5</b>	<b>17.7</b>	<b>8.2</b>	<b>15.9</b>	<b>17.9</b>	<b>312.3</b>

The impact on net income of a proportional foreign exchange movement of 10.0% up and 10.0% down for the aggregated total of all non U.S. dollar currencies against the U.S. dollar at the year end spot rates would be an increase or decrease of \$4.4 million (31 December 2022 – \$1.6 million).

**C. Liquidity risk**

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Company's main exposures to liquidity risk are with respect to its insurance, investment and operational activities. The Company is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts issued. The Company can be exposed to daily calls on its available investment assets, principally to settle insurance claims and to fund trust accounts following a large catastrophe loss.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame, or to fund trust accounts;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Company's fixed maturity portfolio are as follows:

As at 31 December 2023	Total \$m
Less than one year	58.9
Between one and two years	44.8
Between two and three years	31.5
Between three and four years	5.3
Between four and five years	15.3
Over five years	12.4
Asset backed and mortgage backed securities	2.9
<b>Total fixed maturity securities</b>	<b>171.1</b>

  

As at 31 December 2022	Total \$m
Less than one year	48.7
Between one and two years	61.7
Between two and three years	40.0
Between three and four years	16.7
Between four and five years	4.6
Over five years	10.1
Asset backed and mortgage backed securities	3.3
<b>Total fixed maturity securities</b>	<b>185.1</b>

The maturity profile of the insurance contracts and financial liabilities of the Company is as follows:

As at 31 December 2023	Statement of financial position \$m	Years until liability becomes due – undiscounted values				Total \$m
		Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
<b>Liabilities</b>						
Insurance contract liabilities <sup>(1)</sup>	310.1	160.0	113.6	32.3	14.0	319.9
Other payables	19.3	—	—	—	—	—
<b>Total</b>	<b>329.4</b>	<b>160.0</b>	<b>113.6</b>	<b>32.3</b>	<b>14.0</b>	<b>319.9</b>

(1) Since the Company applies the PAA model for all insurance contracts issued, the maturity profile represents only the liability for incurred claims and has been presented on an undiscounted basis.

As at 31 December 2022	Years until liability becomes due – undiscounted values					Total \$m
	Statement of financial position \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
<b>Liabilities</b>						
Insurance contract liabilities <sup>1</sup>	298.3	158.0	118.4	34.5	14.8	325.7
Other payables	14.0	14.0	—	—	—	14.0
<b>Total</b>	<b>312.3</b>	<b>172.0</b>	<b>118.4</b>	<b>34.5</b>	<b>14.8</b>	<b>339.7</b>

(1) Since the Company applies the PAA model for all insurance contracts issued, the maturity profile represents only the liability for incurred claims and has been presented on an undiscounted basis.

Within the table shown above, the insurance contract liabilities balance discloses the period when the claims in respect of insurance contracts issued by the Company are expected to be settled. All other liability balances within the table disclose the earliest period in which the relevant counterparty could contractually require the Company to make payment. Actual maturities of the above may differ from contractual maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

While the estimation of future cash flows in relation to ultimate claims settlement is complex and incorporates a significant amount of judgement, the timing of payment of claims is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience, and management's judgement have been used to determine a likely settlement pattern based on the earliest period in which the Company could be required by the relevant counterparty to make payment. There are no amounts contained within the insurance contract liabilities or reinsurance contract assets as at 31 December 2023 (31 December 2022 - none) that are payable on demand.

As at 31 December 2023, cash and cash equivalents were \$37.0 million (31 December 2022 – \$24.3 million). The Company manages its liquidity risks through its investment strategy to hold high quality, liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. In addition, the Company has established asset allocation and maturity parameters within the investment guidelines, such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Company monitors market changes and outlook, and reallocates assets as deemed necessary.

As at 31 December 2023, the Company considers that it has more than adequate liquidity to pay its obligations as they fall due.

#### D. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Company is exposed to credit risk on its fixed maturity investment portfolio, derivative instruments, reinsurance contracts assets held for any amounts recoverable from reinsurers. receivables includes within insurance contract liabilities receivable from insureds and cedants and other receivables.

Credit risk on the fixed maturity portfolio is mitigated through the Company's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 10% of portfolio value, with the exception of U.S. government and government agencies securities. The Company is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies.

Credit risk on insurance contract cash flows from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Company has established relationships, and by rigorous cash collection procedures. The Company also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance contract cash flows is primarily managed by the review and approval of reinsurer security, as discussed on page 36.

Reinsurance contracts held in the table below represent the credit exposed components of both reinsurance contract assets and liabilities. These have been presented on an undiscounted basis and represent the maximum exposure to credit risk considering the Company's ability to offset balances, where applicable, under the relevant reinsurance contracts held.

The table below presents an analysis of the Company's major exposures to counterparty credit risk, based on their rating.

As at 31 December 2023	Cash and cash equivalents \$m	Fixed maturity securities \$m	Reinsurance contracts held \$m
AAA	8.4	0.2	—
AA+, AA, AA-	—	96.4	—
A+, A, A-	28.6	38.2	282.2
BBB+, BBB, BBB-	—	36.3	—
Other	—	—	0.7
<b>Total</b>	<b>37.0</b>	<b>171.1</b>	<b>282.9</b>

As at 31 December 2022	Cash and cash equivalents \$m	Fixed maturity securities \$m	Reinsurance contracts held \$m
AAA	2.4	2.2	—
AA+, AA, AA-	—	108.1	—
A+, A, A-	21.9	35.4	307.3
BBB+, BBB, BBB-	—	39.4	—
Other	—	—	0.2
<b>Total</b>	<b>24.3</b>	<b>185.1</b>	<b>307.5</b>

Reinsurance is ceded across all geographic regions in which the Company operates.

Reinsurance contracts held above include \$217.4 million (\$234.9 million -31 December 2022) receivable from LICL which was rated A (excellent) by A.M. Best at 31 December 2023.

Under the terms of the whole account quota share agreement, LICL provides security to the Company in the form of a trust fund, consisting of cash and cash equivalents and fixed maturity securities. At 31 December 2023, an amount of \$215.6 million (\$203.8 million - 31 December 2022) was held in trust by LICL in favour of the Company.

The Company's maximum exposure to credit risk arising from insurance contracts issued is \$144.1 million (\$139.4 million -31 December 2022), which relates to the elements of the net insurance contract liabilities balance which are considered to be exposed to credit risk, specifically, premium receivables and reinstatement premium receivables, net of profit commissions payable on inwards reinsurance business.

ECL have been determined to be immaterial as at 31 December 2023 and 2022.

## E. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems, or non-insurance external events. The Company has identified and evaluated its key operational risks and these are incorporated in the risk registers and modelled within the economic capital model. The Company has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the CRO's quarterly ORSA report to the Board.

In order to manage operational risks, the Company has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. Key risk indicators have been established and are monitored on a regular basis and a formal loss event and near-miss reporting process has been implemented. The risk management function facilitates a quarterly risk and control affirmation process and performs detailed control testing, the outcomes of which inform the CRO's quarterly opinion of the overall control environment. The Company's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through sample testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration for audit for all other areas varies from quarterly at the most frequent to a minimum of once every four years, on a rotational basis.

The operational cyber risk that comes with employees working from home is managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans, and our cyber security incident response plan. The risk is monitored on an ongoing basis through the use of a series of quantitative key risk indicators which are the aggregate of key performance indicators monitored by the Company's information security function.

## F. Strategic risk

Strategic risk is the risk that the Company does not develop and implement an appropriate long-term strategy to meet its business goals. The Company has identified several strategic risks. These include: i) business plan risk; ii) capital management risk iii) retention risk and iv) growth risk.

### I. BUSINESS PLAN RISK

Business plan risk is risk that either the poor execution of the business plan or an inappropriate business plan, results in a strategy that fails to adequately consider and reflect the current trading environment, resulting in an inability of the Company to optimise performance, increasing reputational risk. The Company addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation of and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- evaluation of climate change and the potential short, medium and long-term implications/considerations for the business.

The forward-looking business planning process covers a three-year period from 2024 to 2026 and applies a number of sensitivity, stress and scenario tests. These tests include consideration of climate change risks. The sensitivity and stress testing identified that even under the more extreme stress scenarios the Company had more than adequate liquidity and solvency headroom.

## II. CAPITAL MANAGEMENT RISK

The total capital of the Company as at 31 December 2023 is \$185.5 million (31 December 2022 – \$172.2 million). The Company's capital requirements vary with the insurance cycle.

Risks associated with the effectiveness of the Company's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost-effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in the International Underwriters Association industry group.

The Company reviews the level and composition of capital on an ongoing basis with a view to:

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

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. These approaches are used by management in decision making.

The Company is required to comply with the Solvency II regime and is authorised by the PRA and authorised and regulated by the FCA to conduct general insurance business. Under Solvency II, the basis for assessing capital and solvency comprises a market-consistent economic balance sheet and an SCR, determined using the standard formula. LUK's Solvency II own funds are primarily comprised of Tier 1 items for the years ended 31 December 2023 and 2022. Tier 1 capital is the highest-quality capital under Solvency II with the greatest loss-absorbing capacity, comprising share capital and retained earnings. For the years ended 31 December 2023 and 2022, LUK was more than adequately capitalised under the Solvency II regime.

## III. RETENTION RISK

Retention risk is the risk of inappropriate succession planning, poor staff retention in key roles, and poor management of key man risks. Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- documented recruitment procedures, position descriptions and employment contracts;
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon;
- the use of KPIs for voluntary staff turnovers; and
- training schemes.

## IV. GROWTH RISK

Growth risk is the risk of organisational stretch as the Company grows, in terms of volume of business written and number of employees, as well as from transformation programmes to ensure the Company has appropriate systems, infrastructure and data in place to support business activities. Growth risk is mitigated through continuous monitoring of the Company's current state against the Company's business plan and goals, together with engagement with individual management teams within the Company, to validate that they have the resources they require to deliver their own business objectives.

## 3. SEGMENTAL REPORTING

Management and the Board of Directors review the Company's business primarily by its four principal classes: Property, Energy, Marine and Aviation. These classes are therefore deemed to be the Company's operating segments for the purposes of segmental reporting.

Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section. Operating segment performance is measured by the insurance service result and net insurance ratio. The performance of the overall Company is measured by the combined ratio on both an undiscounted and discounted basis.

All amounts reported are transactions with external parties with the exception of the outwards reinsurance amounts, which include related party transactions as detailed in note 14.

## Notes to the accounts

For the year ended 31 December 2023

### 3. SEGMENTAL REPORTING CONTINUED

#### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2023	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
Insurance revenue	115.4	128.0	24.7	45.7	313.8
Insurance services expenses	(52.3)	(54.4)	(10.4)	(24.4)	(141.5)
Net income from insurance contracts issued	63.1	73.6	14.3	21.3	172.3
Allocation of reinsurance premium	(98.0)	(84.4)	(18.2)	(33.0)	(233.6)
Amounts recoverable from reinsurers	44.5	36.2	7.1	17.9	105.7
Net expenses from reinsurance contracts held	(53.5)	(48.2)	(11.1)	(15.1)	(127.9)
Insurance service results	9.6	25.4	3.2	6.2	44.4
Finance expenses from insurance contracts issued	(6.5)	(7.1)	(1.5)	(1.9)	(17.0)
Finance income from reinsurance contracts held	5.6	6.0	1.1	1.9	14.6
Net insurance financing result	(0.9)	(1.1)	(0.4)	—	(2.4)
Net investment return					10.5
Other operating expenses					(34.0)
Net foreign exchange losses					(1.2)
<b>Profit before tax</b>					<b>17.3</b>
Net insurance ratio	44.8%	41.7%	50.8%	51.2%	44.6%
Net operating expense ratio					42.4%
<b>Combined ratio (discounted)</b>					<b>87.0%</b>
Discounting impact on combined ratio					2.8%
<b>Combined ratio (undiscounted)</b>					<b>89.8%</b>

For the year ended 31 December 2022	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
Insurance revenue	98.7	109.5	22.6	46.1	276.9
Insurance services expenses <sup>1</sup>	(65.3)	(49.5)	(7.9)	(12.7)	(135.4)
Net income from insurance contracts issued	33.4	60.0	14.7	33.4	141.5
Allocation of reinsurance premium	(78.9)	(81.6)	(18.1)	(34.6)	(213.2)
Amounts recoverable from reinsurers	46.9	32.2	5.9	3.7	88.7
Net expenses from reinsurance contracts held	(32.0)	(49.4)	(12.2)	(30.9)	(124.5)
Insurance service results	1.4	10.6	2.5	2.5	17.0
Finance expenses from insurance contracts issued	(0.3)	1.2	(0.3)	0.9	1.5
Finance income from reinsurance contracts held	0.2	(0.9)	0.3	(0.9)	(1.3)
Net insurance financing result	(0.1)	0.3	—	—	0.2
Net investment return					(6.4)
Other operating expenses					(17.7)
Net foreign exchange gains					2.1
<b>Loss before tax</b>					<b>(4.8)</b>
Net insurance ratio	92.9%	62.0%	44.4%	78.3%	73.3%
Net operating expense ratio					27.8%
<b>Combined ratio (discounted)</b>					<b>101.1%</b>
Discounting impact on combined ratio					2.8%
<b>Combined ratio (undiscounted)</b>					<b>103.9%</b>



#### 4. NET INSURANCE FINANCING RESULT

IFRS 17 requires insurance contracts issued and reinsurance contracts held to be accounted for on a discounted basis. The table below shows the total impact of discounting recognised in the statement of comprehensive income for the year ended 31 December 2023 and 2022.

	Insurance contracts issued \$m	Reinsurance contracts held \$m	Total \$m
<b>For the year ended 31 December 2023</b>			
<b>Initial discount included in insurance service result</b>	<b>14.4</b>	<b>(12.2)</b>	<b>2.2</b>
Unwind of discount	(15.6)	13.3	(2.3)
Impact of change in assumptions	(1.4)	1.3	(0.1)
<b>Finance (expense) income</b>	<b>(17.0)</b>	<b>14.6</b>	<b>(2.4)</b>
<b>Total net discounting (expense) income</b>	<b>(2.6)</b>	<b>2.4</b>	<b>(0.2)</b>
<b>For the year ended 31 December 2022</b>			
<b>Initial discount included in insurance service result</b>	<b>15.2</b>	<b>(13.4)</b>	<b>1.8</b>
Unwind of discount	(10.0)	8.4	(1.6)
Impact of change in assumptions	11.5	(9.7)	1.8
<b>Finance income (expense)</b>	<b>1.5</b>	<b>(1.3)</b>	<b>0.2</b>
<b>Total net discounting income (expense)</b>	<b>16.7</b>	<b>(14.7)</b>	<b>2.0</b>

The discounting approach and the yield curves used to discount the cash flows of insurance contracts issued and reinsurance contracts held for our major currencies are provided within the Risk disclosures on page 42.

An analysis of the Company's net investment return is disclosed within note 5. The relationship between the Company's total finance income and expense from insurance contracts issued, and reinsurance contracts held, is not typically expected to correlate directly with the Company's net investment return since:

- the Company's investment portfolio is of greater magnitude than its insurance contract liabilities, net of its reinsurance contract assets;
- in accordance with the requirements of IFRS 17, the discount rate used in respect of the Company's insurance contract liabilities, and reinsurance contract assets, are set with specific reference to the Company's insurance contracts, and not its investment portfolio; and
- there are a mixture of securities within the Company's investment portfolio, certain of which do not have their valuation directly or primarily affected by changes in interest rates.

#### 5. NET INVESTMENT RETURN

The total investment return for the Company is as follows:

	2023 \$m	Restated 2022 \$m
<b>For the year ended 31 December</b>		
Investment income including interest receivable on financial investments	4.1	3.3
Interest on cash and cash equivalents	1.2	0.2
Net movement in realised gains (losses) at FVTPL	0.7	(0.7)
Net movement in unrealised gains (losses) at FVTPL	4.7	(9.0)
<b>Investment income (loss)</b>	<b>10.7</b>	<b>(6.2)</b>
Investment management fees	(0.2)	(0.2)
<b>Total net investment income</b>	<b>10.5</b>	<b>(6.4)</b>

The Company adopted IFRS 9 on 1 January 2023 (see note 16).

## Notes to the accounts

For the year ended 31 December 2023

### 6. EXPENSES

Expenses incurred by the Company in the reporting period are outlined in the table below.

For the year ended 31 December	2023 \$m			Restated 2022 \$m		
	Other operating expenses	Directly attributable expenses	Total expenses	Other operating expenses	Directly attributable expenses	Total expenses
Employee remuneration costs	24.6	12.6	37.2	10.8	11.2	22.0
Operating expenses	9.4	11.1	20.5	6.9	9.0	15.9
<b>Total</b>	<b>34.0</b>	<b>23.7</b>	<b>57.7</b>	17.7	20.2	37.9

Directly attributable expenses comprise fixed and variable expenses incurred by the Company in the reporting period that relate directly to fulfilling insurance contracts issued and have been allocated to insurance service expenses within the statements of comprehensive income.

Auditor's remuneration included within other operating expenses incurred by the Company in the reporting period is outlined in the table below.:

For the year ended 31 December	2023 \$m	2022 \$m
Auditor's remuneration		
– audit fees	0.8	0.8
– audit related services	0.1	0.1
– non-audit services	—	—
<b>Total</b>	<b>0.9</b>	0.9

Fees paid to the Company's auditor for other services relate to Solvency II regulatory reporting and are approved by the Company Audit Committee.

### 7. TAX

For the year ended 31 December	2023 \$m	Restated 2022 \$m
Corporation tax charge for the period	(3.9)	(0.6)
Deferred tax (charge) credit for the period	(0.1)	1.5
Tax rate change adjustment	—	0.3
<b>Total tax (charge) credit</b>	<b>(4.0)</b>	1.2

Tax reconciliation	2023 \$m	Restated 2022 \$m
<b>Profit (loss) before tax</b>	<b>17.3</b>	(4.8)
<b>UK Corporation Tax (charge) credit at 23.5% (2022: 19%)</b>	<b>(4.0)</b>	0.9
Tax rate change adjustment	—	0.3
<b>Total tax (charge) credit</b>	<b>(4.0)</b>	1.2

The current tax (charge) credit as a percentage of the Company's profit (loss) before tax is 23.1% (2022 - 25.0%).

## 8. CASH AND CASH EQUIVALENTS

As at 31 December	2023 \$m	2022 \$m
Cash at bank and in hand	26.5	21.8
Cash equivalents	10.5	2.5
<b>Total cash and cash equivalents</b>	<b>37.0</b>	<b>24.3</b>

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

## 9. INVESTMENTS

As at 31 December 2023	Cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value \$m
<b>Fixed maturity securities</b>				
U.S. treasuries	88.5	0.7	(1.6)	87.6
U.S. municipal bonds	2.1	—	(0.4)	1.7
Asset backed securities	0.2	—	—	0.2
U.S. government agency mortgage backed securities	2.9	—	(0.2)	2.7
Corporate bonds	80.5	0.4	(2.0)	78.9
<b>Total investments</b>	<b>174.2</b>	<b>1.1</b>	<b>(4.2)</b>	<b>171.1</b>

As at 31 December 2022	Cost \$m	Unrealised gains \$m	Unrealised losses \$m	Fair value \$m
<b>Fixed maturity securities</b>				
U.S. Treasuries	106.0	0.1	(3.4)	102.7
U.S. Municipal Bonds	2.1	—	(0.3)	1.8
Asset Backed Securities	0.4	—	0.0	0.4
U.S. Government Agency Mortgage Backed Securities	3.2	—	(0.3)	2.9
Corporate Bonds	81.1	0.1	(3.9)	77.3
<b>Total investments</b>	<b>192.8</b>	<b>0.2</b>	<b>(7.9)</b>	<b>185.1</b>

The Company determines the fair value of each individual security utilising the highest-level inputs of the fair value hierarchy, as defined below, available. The fair value of fixed maturity investments is determined from quotations received from third-party nationally recognized pricing services whose pricing processes, and the controls thereon, are subject to an annual audit on both the design and the operational effectiveness of those controls.

The Company has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The fair value of securities in the Company's investment portfolio is estimated using the following techniques:

## LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

## LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry-accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, interest rates, prepayment speeds and default rates.

## LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement. During the years ended 31 December 2023 and 31 December 2022, the Company did not hold any level (iii) investments.

## Notes to the accounts

For the year ended 31 December 2023

The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to \$5.9 million (2022 - \$17.6 million) and transfers from Level (ii) to (i) securities amounted to \$21.1 million during the year ended 31 December 2023 (2022 - \$12.3 million).

The fair value hierarchy of the Company's investment holdings is as follows:

As at 31 December 2023	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
- U.S. treasuries	87.6	—	—	87.6
- U.S. municipal bonds	—	1.7	—	1.7
- Asset backed securities	—	0.2	—	0.2
- U.S. government agency mortgage backed securities	—	2.7	—	2.7
- Corporate bonds	53.0	25.9	—	78.9
<b>Total investments</b>	<b>140.6</b>	<b>30.5</b>	<b>—</b>	<b>171.1</b>

As at 31 December 2022	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
- U.S. treasuries	102.7	—	—	102.7
- U.S. municipal bonds	—	1.8	—	1.8
- Asset backed securities	—	0.4	—	0.4
- U.S. government agency mortgage backed securities	—	2.9	—	2.9
- Corporate bonds	23.5	53.8	—	77.3
<b>Total investments</b>	<b>126.2</b>	<b>58.9</b>	<b>—</b>	<b>185.1</b>

There were no level(iii) investments as at 31 December 2023 or 31 December 2022, therefore no reconciliation of movements within that level has been presented.

## 10. INTERESTS IN STRUCTURED ENTITIES

### UNCONSOLIDATED STRUCTURED ENTITIES IN WHICH THE GROUP HAS AN INTEREST

As part of its investment activities, the Company invests in unconsolidated structured entities. The Company does not sponsor any of the unconsolidated structured entities.

A summary of the Company's interest in unconsolidated structured entities is as follows:

As at 31 December 2023	2023 \$m	2022 \$m
<b>Fixed maturity securities</b>		
- Asset backed securities	0.2	0.4
- U.S. government agency mortgage backed securities	2.7	2.9
<b>Total</b>	<b>2.9</b>	<b>3.3</b>

The fixed maturity structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed maturity securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories detailed above.

The risk that the Company faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the statement of financial position in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosures for these financial instruments and other investments is provided on pages 38 to 41. The total assets of these structured entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Company holds as at 31 December 2023 and 31 December 2022. Generally, default rates would have to increase substantially from their current level before the Company would suffer a loss and this assessment is made prior to investing and regularly through the holding period for the security. The Company has not provided any other financial or other support in addition to that described above as at the reporting date, and there is no intention to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

11. INSURANCE AND REINSURANCE CONTRACTS

A.MOVEMENTS IN CARRYING AMOUNTS - INSURANCE CONTRACTS ISSUED

The table below shows how the net carrying amounts of insurance contracts issued changed during the year ended 31 December 2023.

	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	
<b>Net insurance contract liabilities (assets) as at 1 January 2023</b>	<b>(2.9)</b>	<b>0.7</b>	<b>275.2</b>	<b>25.3</b>	<b>298.3</b>
Insurance revenue	(313.8)	—	—	—	(313.8)
Insurance service expenses					
- Incurred claims and other insurance service expenses	—	—	130.8	17.4	148.2
- Changes in liability for incurred claims relating to past service	—	—	(30.2)	(13.1)	(43.3)
- Amortisation of insurance acquisition cash flows	37.3	(0.7)	—	—	36.6
<b>Insurance service result</b>	<b>(276.5)</b>	<b>(0.7)</b>	<b>100.6</b>	<b>4.3</b>	<b>(172.3)</b>
Finance expense from insurance contracts issued	—	—	15.3	1.7	17.0
Effects of movements in exchange rates	(2.7)	—	0.9	0.4	(1.4)
<b>Total changes in statements of comprehensive income</b>	<b>(279.2)</b>	<b>(0.7)</b>	<b>116.8</b>	<b>6.4</b>	<b>(156.7)</b>
Investment components	7.6	—	(7.6)	—	—
	7.6	—	(7.6)	—	—
Premiums received and insurance acquisition cash flows	287.3	—	—	—	287.3
Claims and other expenses paid	—	—	(118.8)	—	(118.8)
<b>Total cash flows</b>	<b>287.3</b>	<b>—</b>	<b>(118.8)</b>	<b>—</b>	<b>168.5</b>
<b>Net insurance contract liabilities (assets) as at 31 December 2023</b>	<b>12.8</b>	<b>—</b>	<b>265.6</b>	<b>31.7</b>	<b>310.1</b>

## 11. INSURANCE AND REINSURANCE CONTRACTS CONTINUED

The table below shows how the net carrying amounts of insurance contracts issued changed during the year ended 31 December 2022.

	Liability for remaining coverage		Liability for incurred claims		Total
	Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	
<b>Net insurance contract liabilities (assets) as at 1 January 2022</b>	<b>10.6</b>	<b>1.1</b>	<b>289.3</b>	<b>33.3</b>	<b>334.3</b>
Insurance revenue	(276.9)	—	—	—	(276.9)
Insurance service expenses					
- Incurred claims and other insurance service expenses	—	—	156.0	16.5	172.5
- Changes in liability for incurred claims relating to past service	—	—	(54.1)	(23.4)	(77.5)
- Amortisation of insurance acquisition cash flows	40.8	(0.4)	—	—	40.4
- Losses and reversals of losses on onerous contracts	—	—	—	—	—
<b>Insurance service result</b>	<b>(236.1)</b>	<b>(0.4)</b>	<b>101.9</b>	<b>(6.9)</b>	<b>(141.5)</b>
Finance expense from insurance contracts issued	—	—	(0.7)	(0.8)	(1.5)
Effects of movements in exchange rates	3.1	—	(4.4)	(0.3)	(1.6)
<b>Total changes in statements of comprehensive income</b>	<b>(233.0)</b>	<b>(0.4)</b>	<b>96.8</b>	<b>(8.0)</b>	<b>(144.6)</b>
Investment components	(33.3)	—	33.3	—	—
	(33.3)	—	33.3	—	—
Premiums received and insurance acquisition cash flows	252.8	—	—	—	252.8
Claims and other expenses paid	—	—	(144.2)	—	(144.2)
<b>Total cash flows</b>	<b>252.8</b>	<b>—</b>	<b>(144.2)</b>	<b>—</b>	<b>108.6</b>
<b>Net insurance contract liabilities (assets) as at 31 December 2022</b>	<b>(2.9)</b>	<b>0.7</b>	<b>275.2</b>	<b>25.3</b>	<b>298.3</b>

11. INSURANCE AND REINSURANCE CONTRACTS CONTINUED

B. MOVEMENTS IN CARRYING AMOUNTS - REINSURANCE CONTRACTS HELD

The table below shows how the net carrying amounts of reinsurance contracts held changed during the year ended 31 December 2023.

	Asset for remaining coverage		Asset for incurred claims		Total
	Excluding loss component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
<b>Net reinsurance contracts (assets) liabilities as at 1 January 2023</b>	<b>31.5</b>	<b>(0.5)</b>	<b>(276.3)</b>	<b>(21.2)</b>	<b>(266.5)</b>
Allocation of reinsurance premium	233.6	—	—	—	233.6
Amounts recoverable from reinsurers					
- Recoveries of incurred claims and other insurance service expenses	—	0.5	(96.7)	(14.3)	(110.5)
- Change in asset for incurred claims in relation to past service	—	—	24.0	10.7	34.7
- Reinsurance expenses	(29.9)	—	—	—	(29.9)
<b>Net expenses from reinsurance contracts held</b>	<b>203.7</b>	<b>0.5</b>	<b>(72.7)</b>	<b>(3.6)</b>	<b>127.9</b>
Finance income from reinsurance contracts held	—	—	(13.2)	(1.4)	(14.6)
Effects of movements in exchange rates	(4.1)	—	4.6	(0.2)	0.3
<b>Total changes in statement of comprehensive income</b>	<b>199.6</b>	<b>0.5</b>	<b>(81.3)</b>	<b>(5.2)</b>	<b>113.6</b>
Reinsurance premiums paid net of ceding commissions and other directly attributable expenses	(255.4)	—	—	—	(255.4)
Recoveries from reinsurance	—	—	106.9	—	106.9
<b>Total cash flows</b>	<b>(255.4)</b>	<b>—</b>	<b>106.9</b>	<b>—</b>	<b>(148.5)</b>
<b>Net reinsurance contracts (assets) liabilities as at 31 December 2023</b>	<b>(24.3)</b>	<b>—</b>	<b>(250.7)</b>	<b>(26.4)</b>	<b>(301.4)</b>

At 1 January 2023 the Asset for remaining coverage excluding the loss component is a liability rather than an asset, as would be expected, due to the reinsurance premium payable exceeding the remaining components of this balance. This was due to the timing of the settlement of reinsurance premium ceded under the quota share treaty with LICL.

## 11. INSURANCE AND REINSURANCE CONTRACTS CONTINUED

The table below shows how the net carrying amounts of reinsurance contracts held changed during the year ended 31 December 2022.

	Asset for remaining coverage		Asset for incurred claims		Total
	Excluding loss component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
<b>Net reinsurance contracts (assets) liabilities as at 1 January 2022</b>	<b>(32.1)</b>	<b>(0.9)</b>	<b>(236.2)</b>	<b>(27.7)</b>	<b>(296.9)</b>
Allocation of reinsurance premium	213.2	—	—	—	213.2
Amounts recoverable from reinsurers					
- Recoveries of incurred claims and other insurance service expenses	—	—	(118.2)	(14.2)	(132.4)
- Change in asset for incurred claims in relation to past service	—	—	44.7	19.8	64.5
- Reinsurance expenses	(21.2)	—	—	—	(21.2)
- Recoveries and reversals of recoveries of losses on onerous underlying contracts	—	0.4	—	—	0.4
<b>Net expenses from reinsurance contracts held</b>	<b>192.0</b>	<b>0.4</b>	<b>(73.5)</b>	<b>5.6</b>	<b>124.5</b>
Finance income from reinsurance contracts held	—	—	0.7	0.6	1.3
Effects of movements in exchange rates	(22.0)	—	26.2	0.3	4.5
<b>Total changes in statement of comprehensive income</b>	<b>170.0</b>	<b>0.4</b>	<b>(46.6)</b>	<b>6.5</b>	<b>130.3</b>
Reinsurance premiums paid net of ceding commissions and other directly attributable expenses	(106.4)	—	—	—	(106.4)
Recoveries from reinsurance	—	—	6.5	—	6.5
<b>Total cash flows</b>	<b>(106.4)</b>	<b>—</b>	<b>6.5</b>	<b>—</b>	<b>(99.9)</b>
<b>Net reinsurance contracts (assets) liabilities as at 31 December 2022</b>	<b>31.5</b>	<b>(0.5)</b>	<b>(276.3)</b>	<b>(21.2)</b>	<b>(266.5)</b>

At 31 December 2022 the Asset for remaining coverage excluding the loss component is a liability rather than an asset, as would be expected, due to the reinsurance premium payable exceeding the remaining components of this balance. This was due to the timing of the settlement of reinsurance premium ceded under the quota share treaty with LICL.



11. INSURANCE AND REINSURANCE CONTRACTS CONTINUED

C. CLAIMS DEVELOPMENT

The development of claims in respect of insurance contracts issued is indicative of the Company's ability to accurately estimate the ultimate value of its liability for incurred claims. Actual claim payments are compared with previous estimates of the undiscounted liability for incurred claims in the below claims development disclosure as at 31 December 2023 on both a gross of reinsurance, and net of reinsurance, basis. The Company elected to use the permitted practical expedient, and have therefore only presented 6 years of claims development prior to the adoption date of IFRS 17. The total undiscounted liability for incurred claims for all years prior to the 2018 accident year represents less than 10% of the total undiscounted liability for incurred claims. The Company considers the claims development information presented to show the period (being the 2018 accident year) when the earliest material claims arose, and for which there is still uncertainty in respect of the amount and timing of the claims payments as at 31 December 2023. The Company considers that there is no significant uncertainty with regards to claims that were incurred prior to the 2018 accident year.

Accident year	2018 \$m	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m	Total \$m
<b>Gross of reinsurance - undiscounted</b>							
Estimate of ultimate liability <sup>1</sup>							
At end of accident year	132.1	102.1	168.3	196.4	193.0	165.9	
One year later	126.7	85.5	129.7	161.1	169.1		
Two years later	111.0	70.3	111.8	149.7			
Three years later	109.6	67.7	116.6				
Four years later	111.1	67.6					
Five years later	111.5						
Cumulative gross claims and other directly attributable expense paid	(97.1)	(60.5)	(83.3)	(120.2)	(86.7)	(42.3)	
<b>Gross cumulative claims liability</b>	14.4	7.1	33.3	29.5	82.4	123.6	290.3
Gross cumulative liabilities - prior years							18.5
Effect of discounting							(22.7)
Effect of non-distinct investment components							11.2
<b>Gross liability for incurred claims</b>							297.3

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2023.

Accident year	2018 \$m	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m	Total \$m
<b>Asset for incurred claims- undiscounted</b>							
Estimate of ultimate liability <sup>1</sup>							
At end of accident year	103.2	84.7	141.3	161.4	159.7	136.7	
One year later	102.9	70.2	109.1	131.8	140.8		
Two years later	90.2	57.8	95.0	122.7			
Three years later	89.2	57.3	99.5				
Four years later	89.7	56.4					
Five years later	90.0						
Cumulative net claims and other directly attributable expenses paid	(80.2)	(61.4)	(65.6)	(75.9)	(64.9)	(26.8)	
<b>Net cumulative claims liabilities</b>	9.8	(5.0)	33.9	46.8	75.9	109.9	271.3
Net cumulative claims liabilities - prior years							24.8
Effect of discounting							(19.0)
<b>Net liability for incurred claims</b>							277.1

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2023.

## 11. INSURANCE AND REINSURANCE CONTRACTS CONTINUED

During 2023, the Company experienced net losses from catastrophe, weather and large loss events. None of these events were individually material.

The favourable prior accident year development in 2023 was primarily due to releases on the 2022 and 2021 accident year across most lines of business due to a lack of reported claims, as well as favourable development across some of the older accident years.

During 2022, the most significant net loss was Hurricane Ian, which made landfall on 30 September 2022, in the U.S. state of Florida and continued its path across the U.S. mainland causing significant property and flooding damage. There were no other individually significant net loss events for the years ended 31 December 2022

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Company, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

## 12. PROVISION FOR DEFERRED TAX

As at 31 December	2023 \$m	Restated 2022 \$m
Other temporary differences	1.9	2.0
<b>Net deferred tax asset</b>	<b>1.9</b>	<b>2.0</b>

The deferred tax asset relates mainly to unrealised investment losses previously recognised in accumulated other comprehensive income and to timing differences on capital allowances and is classified as non-current.

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Company in 2024 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the years ended 31 December 2023 and 2022, the Company had no uncertain tax positions.

The table below reconciles the movements within the net deferred tax liability.

As at 31 December	2023 \$m	Restated 2022 \$m
Opening asset	2.0	0.2
Deferred tax (charge) credit for the period	(0.1)	1.5
Tax rate change adjustment	—	0.3
<b>Closing asset</b>	<b>1.9</b>	<b>2.0</b>

All deferred tax assets and liabilities are classified as non-current.

## 13. SHARE CAPITAL

Authorised ordinary shares of £1 each	Number	\$m
<b>As at 31 December 2023 and 31 December 2022</b>	<b>200,000,000</b>	<b>200.0</b>

  

Allocated, called up and fully paid	Number	£m	\$m
<b>As at 31 December 2023 and 31 December 2022</b>	<b>97,987,956</b>	<b>98.0</b>	<b>188.4</b>

## Notes to the accounts

For the year ended 31 December 2023

### 14. RELATED PARTY DISCLOSURES

#### REMUNERATION OF DIRECTORS

The Company has no employees. All UK employees in the Lancashire Group are employed and remunerated by LISL. The emoluments of these employees are recharged as part of a manager service agreement.

For the year ended 31 December	2023 \$m	2022 \$m
Directors' remuneration	3.8	2.4
Amounts receivable under long term incentive schemes	0.8	0.4
Company contributions to money purchase pension plans	0.1	—

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was \$1,454,470 (2022: \$874,092), and Company pension contributions of \$nil (2022: \$9,981) were made to a money purchase scheme on their behalf. During the year, the highest paid Director exercised RSS awards.

For the year ended 31 December	2023	2022
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	3
The number of directors who exercised RSS awards was	3	2
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	—	—

The interest of the directors in shares and restricted stock of LHL are as follows:

For the year ended 31 December	Shares		Restricted stock	
	2023	2022	2023	2022
John Cadman	—	—	384,775	331,336
Samantha Churchill <sup>1</sup>	—	—	69,001	—
James Flude	9,739	9,739	166,100	160,200
Russell Worsley	38,911	38,911	52,500	61,100
Steve Yeo	61,310	53,122	106,100	82,200

<sup>1</sup> Samantha Churchill was appointed as a director during 2023. Her interests in the shares and restricted stock of LHL at 31 December 2022 are therefore not reported.

The interests of Sally Williams are disclosed in the Annual report and Accounts of LHL. None of the other non-executive directors have any interest in the shares and restricted stock of LHL.

#### TRANSACTIONS WITH AFFILIATES

The expenses in the below table relate to transactions with LISL under insurance services agreements.

Income statement	2023 \$m	2022 \$m
Service fee payable to LISL	51.5	32.4

The company has entered into a quota share treaty agreement with LICL. Under this agreement, the Company cedes a share of all its business written or assumed and receives an override commission. Under the terms of the whole account quota share agreement, LICL provides security to the Company in the form of a trust fund. Further details on this are given in the credit risk section of the disclosures. The following balances and transactions with LICL under the quota share treaty are included in the Company's financial statements:

Statement of financial position	2023 \$m	2022 \$m
<b>Assets</b>		Restated
Reinsurance contract assets	271.0	228.7

	2023 \$m	Restated 2022 \$m
<b>Statement of comprehensive income</b>		
Allocation of reinsurance premium	(117.2)	(98.0)
Allocation of recoverable from reinsurers	90.3	58.3
Finance income from reinsurance contracts held	10.1	(0.5)

The Company has entered into a quota share treaty agreement with LSL on behalf of Lancashire Syndicate 3010. Under this agreement, the Company assumes a share of certain business written or assumed and receives an override commission. The following balances and transactions with LSL on behalf of Syndicate 3010 under the quota share treaty are included in the Company's financial statements:

	2023 \$m	Restated 2022 \$m
<b>For the year ended 31 December</b>		
Insurance contract liabilities	4.0	3.7

	2023 \$m	Restated 2022 \$m
<b>Statement of comprehensive income</b>		
Insurance revenue	12.4	14.5
Insurance service expense	(11.5)	(14.7)
Finance expense from insurance contracts issued	(0.6)	—

During 2017 the Company entered into a catastrophe excess of loss reinsurance agreement with LSL on behalf of Lancashire Syndicate 2010. The Company has recognised an insurance contract liability on the contract of \$5.1 million (2022 - \$5.1 million).

## 15. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The Company's immediate parent company is LIHL, a company registered in England. LHL, registered in Bermuda, owns 100% of the issued share capital of LIHL as at 31 December 2023 and is the Company's ultimate holding company. The Company's parent and ultimate holding is Lancashire Holdings Limited, a company incorporated in Bermuda and whose registered office is Power House, 7 Par-la-Ville Road, Hamilton, HM 11, Bermuda.

The financial statements of LHL may be viewed on Lancashire Holdings Limited's website at [www.lancashiregroup.com](http://www.lancashiregroup.com).

## 16. IMPACT OF ADOPTION - IFRS 9 FINANCIAL INSTRUMENTS

The Company adopted IFRS 9 on 1 January 2023, as permitted under the June 2020 amendments to IFRS 4 - Insurance Contracts. IFRS 9, replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In summary:

- The classification and measurement categories of financial assets under IFRS 9 is assessed based on the Company's business model for managing those assets;
- The three principal classification categories for financial assets are: FVTPL (mandatory or designated), FVOCI and amortised cost. IFRS 9, therefore eliminates the previous IAS 39 measurement categories of FVTPL (held for trading or designated), AFS, held-to-maturity and loans and receivable;
- An expected credit loss impairment model replaces the IAS 39 incurred loss model. The expected credit loss approach requires an allowance to be established at initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic factors. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk;
- New hedge accounting requirements (The Company does not apply hedge accounting and have therefore not considered the changes as a result of adopting IFRS 9);
- The requirements for derecognition under IFRS 9 are broadly unchanged from IAS 39; and
- The classification and measurement for financial liabilities under IFRS 9 are broadly unchanged from IAS 39.

### EFFECT OF INITIAL APPLICATION

The Company adopted IFRS 9 retrospectively on the date of initial application on 1 January 2023. The Company, also elected to apply the classification overlay to restate its comparative information, as permitted by an amendment to IFRS 17 (amendments of the initial application of IFRS 17 and IFRS 9 - Comparative Information issued in December 2021.) The classification overlay has been applied to all financial assets, including derecognised assets in the comparative period. A change of classification as at 1 January 2022, has been applied using the projected business model classification on 1 January 2023.

The Company has established that all investment classes are managed, and their performance evaluated, on fair value basis and therefore they are classified at FVTPL. For cash and cash equivalents and other receivables the objective is to collect the

## Notes to the accounts

For the year ended 31 December 2023

contractual cash flows only, and are therefore classified at amortised cost. The Company's classification of financial liabilities has remained unchanged.

The Company's, accounting policies for financial instruments under IFRS 9 are set out on page 29. The application of these policies resulted in the reclassifications set out below:

As at 1 January 2022	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Carrying amount under IFRS 9
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortised cost	35.3	<b>35.3</b>
Fixed maturity securities - AFS	AFS	FVTPL (mandatory)	188.6	<b>188.6</b>
Other receivables	Loans and receivables	Amortised cost	2.7	<b>2.7</b>
<b>Total financial assets</b>			226.6	<b>226.6</b>

The adoption of IFRS 9 resulted in a \$1.4 million, net of tax reclassification adjustment between opening accumulated other comprehensive income and opening retained earnings, as at 1 January 2022 (see statement of changes in shareholders' equity). This reclassification adjustment does not impact opening shareholders' equity. The tables below outline the reclassification of financial statement line items on adoption of IFRS 9.

Statement of financial position	As at 31 December 2021 - IAS 39	Reclassification of investments	Reclassification of tax	Restated as at 1 January 2022
<b>Investments</b>				
- Fixed maturity securities - AFS	188.6	(188.6)	—	—
- Fixed maturity securities - FVTPL	—	188.6	—	188.6
<b>Total assets</b>	226.6	—	—	226.6
<b>Total liabilities</b>	14.7	—	—	14.7
Accumulated other comprehensive income	1.4	(1.7)	0.3	—
Retained earnings	(12.7)	1.7	(0.3)	(11.3)
<b>Total shareholders' equity</b>	(11.3)	—	—	(11.3)

(1) Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

Statement of financial position	As at 31 December 2022 - IAS 39	Reclassification of investments	Reclassification of tax	Restated as at 31 December 2022
<b>Investments</b>				
- Fixed maturity securities - AFS	185.1	(185.1)	—	—
- Fixed maturity securities - FVTPL	—	185.1	—	185.1
<b>Total assets</b>	213.1	—	—	213.1
<b>Total liabilities</b>	14.0	—	—	14.0
Accumulated other comprehensive loss	(6.0)	7.9	(1.9)	—
Retained earnings	(10.3)	(7.9)	1.9	(16.3)
<b>Total shareholders' equity</b>	(16.3)	—	—	(16.3)

(1) Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

The following table shows the adjustments to the statement of comprehensive income for the year ended 31 December 2022 for each individual line item impacted by the adoption of IFRS 9.

Statement of comprehensive income	For the year ended 31 December 2022 - IAS 39	IFRS 9 impact	Restated for the year ended 31 December 2022 - IFRS 9
Net investment income	3.6	(10.0)	(6.4)
Net realised losses on investments	(0.4)	0.4	—
<b>Profit before tax</b>	3.0	(9.6)	(6.6)
Tax (charge) credit	(0.6)	2.2	1.6
<b>Profit (loss) after tax</b>	2.4	(7.4)	(5.0)
Net change in unrealised gains (losses) on investments	(9.6)	9.6	—
Tax credit on net change in unrealised gains (losses) on investments	2.2	(2.2)	—
<b>Other comprehensive loss</b>	(7.4)	7.4	—
<b>Total other comprehensive loss</b>	(5.0)	—	(5.0)

(1) Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

## 17. IMPACT OF ADOPTION - IFRS 17 INSURANCE CONTRACTS

### Recognition, measurement and presentation

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued and reinsurance contracts held.

The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition.

IFRS 17 is a principles-based accounting standard and the valuation of insurance contract liabilities continues to be the largest area of estimation uncertainty. This includes consideration of the cash flows within the contract boundary, discounting and the risk adjustment calculation (see note 4). There are a number of accounting policy choices that are allowed under the standard and this requires the application of judgement and an increased use of estimation techniques. Management have applied judgement in interpreting the standard in areas such as determining the applicable measurement model, the approach to discounting and the level of aggregation (see accounting policies).

The Company determined that it is eligible to apply the PAA to its portfolios and groups of contracts as the measurement of the LRC is not expected to differ materially from that calculated under the GMM. The PAA simplifies the measurement of the LRC, replacing the fulfilment cash flow plus contractual service margin approach of the GMM with a measurement based on net of acquisition cost premiums received less those recognised through revenue. For reinsurance contracts held, the Company applies the PAA adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

### Effect of initial application

The Company has adopted IFRS 17 retrospectively. The transition approach was determined at a group of insurance contracts level. Under the PAA, the Company concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the fully retrospective approach practicable.

Accordingly, at 1 January 2022 the Company identified, recognised and measured each group of insurance contract and reinsurance contract held as if IFRS 17 had always applied; derecognised any existing balances that would not have existed had IFRS 17 always applied; and recognised any resulting difference in shareholders' equity.

The Company has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item and EPS.

The initial application of IFRS 17 resulted in an \$1.3 million net of tax reduction in the statement of shareholders' equity.

The two largest valuation adjustments, representing \$1.7 million of the net reduction in shareholders' equity on the initial application of IFRS 17 before the effect of taxation included:

- \$3.2 million net reduction in shareholders' equity from establishing a directly attributable expense reserve and releasing the existing ULAE provision. This is due to the IFRS 17 requirement that all future cash flows related to the fulfilment of insurance contracts be captured within portfolios and applied to groups of insurance contracts. This replaced, at an increased amount, the existing ULAE provision; and
- \$1.5 million net increase in shareholders' equity from discounting the LIC and AIC. As not all cash flows are expected to be paid or received in one year or less from the date claims are incurred, the Company is required to discount the estimate of future cash flows included in the LIC and AIC. As current discount rates are applied, this is subject to a degree of volatility (see note 4 and note 11).

Other, smaller valuation adjustments representing \$0.4 million of the net of tax increase in the statement of shareholders' equity on initial application of IFRS 17 arose from:

- the requirement to revalue all component parts of insurance contract assets and liabilities at current foreign exchange rates. Under IFRS 4 unearned premium and deferred acquisition costs were considered non-monetary assets and were not retranslated at the balance sheet date;
- including expected premiums in the estimates of future cash flows. Under IFRS 4, for the majority of the Company's excess of loss contracts, premiums written were recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium were recognised in the period in which they were determined;
- the requirement to recognise immediately an onerous loss component and, if applicable reinsurance coverage was in place, a loss recovery component, on the initial recognition of an onerous group of contracts (see note 11); and
- the requirement to include an element of non-performance risk in the cash flow assumptions when measuring reinsurance contracts held balances under IFRS 17. Under IFRS 4, the Company had not previously recognised a bad debt provision on losses recoverable from reinsurers.

The Company reported a total comprehensive loss of \$5.0 million in the annual audited financial statements for the year ended 31 December 2022. Following the adoption of IFRS 17, the restated total comprehensive loss for the year ended 31 December 2022 is \$3.6 million. This \$1.4 million increase in the statement of comprehensive income, alongside the \$1.3 million decrease in shareholders' equity recorded at the date of initial application results in a \$0.1 million cumulative impact on total shareholder's equity of adopting IFRS 17 as at 31 December 2022.

Under IFRS 17, a risk adjustment for non-financial risk is determined to reflect the compensation that the Company requires for bearing non-financial risk and its degree of risk aversion. The risk adjustment for non-financial risk under IFRS 17 does not differ materially from the reserve margin under IFRS 4 as the fundamentals of our reserving remain unchanged (see note 11).

IFRS 17 has resulted in a number of presentation differences compared to the IFRS 4 financial statements:

- The insurance service result comprises insurance revenue, insurance service expense and the net expenses from reinsurance contracts held;
- The reporting of gross premiums written is no longer applicable under IFRS 17 and insurance revenue equates more closely to gross earned premium. Reinstatement premiums are recognised against insurance service expense while commissions paid to cedants are recognised as a deduction from insurance revenue. Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and expenses;
- A portion of operating expenses are included in insurance service expense (see note 6); and
- On the face of the statement of financial position all re(insurance) related balances will be presented in either insurance liabilities or reinsurance assets.

The accounting policies for insurance contracts issued and reinsurance contracts held under IFRS 17 are set out on pages 21 to 28.

### **18. ADOPTION OF IFRS 9 AND IFRS 17 - COMPARATIVE INFORMATION**

Comparative figures have been restated to reflect the new accounting standards and the accounting policies described on pages 21 to 30.

## GLOSSARY

### AFS

Available for sale

### Aggregate

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

### AIC

Asset for incurred claims

### ARC

Asset for remaining coverage

### BREEAM

Building Research Establishment Environmental Assessment Method

### CEO

Chief Executive Officer

### CFO

Chief Financial Officer

### Change in DBVS

The IRR of the change in DBVS in the period plus accrued dividends

### Combined ratio (discounted)

Ratio, in per cent, of the sum net insurance expenses plus other operating expenses to net insurance revenue

### Combined ratio (undiscounted)

Ratio, in per cent, of the sum net insurance expense plus other operating expenses to net insurance revenue. This ratio excludes the impact of the initial discount recognised within net insurance expenses

### DAE

Directly attributable expenses

### Diluted book value per share (DBVS)

Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised

### Duration

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights.

The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored into the calculation

### ECL

Expected credit losses

### ENIDs

Events not in data. Allowance for outlying values that cannot be projected using historic data

### ERM

Enterprise Risk Management

### ESG

Environmental, Social and Governance

### EU

European Union

### Excess of loss

Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

### Facultative reinsurance

A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

### FCA

Financial Conduct Authority

### FCF

Fulfilment cash flows

### FRC

Financial Reporting Council

### FVTPL

Fair value through profit or loss

### FVOCI

Fair value through other comprehensive income

### The Group or the Lancashire Group

LHL and its subsidiaries

### GAAP

Generally accepted accounting principles

### GMM

General Measurement Model

### GWP

Gross premiums written. Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

### IFRS

International Financial Reporting Standard(s)

### IFRS 9

International Financial Reporting Standard on Financial Instruments

### IFRS 17

International Financial Reporting Standard on Insurance Contracts

### IIRC

Investment Risk and Return Committee

### Industry Loss Warranty (ILW)

A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

### Incurred but not reported (IBNR)

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

### International Accounting Standard(s) (IAS)

Standards, created by the IASB, for the preparation and presentation of financial statements



## GLOSSARY

### International Accounting Standards Board (IASB)

An international panel of accounting experts responsible for developing IAS and IFRS

### ISA

International Standards on Auditing (UK)

### KPMG LLP

KPMG LLP, a UK limited liability partnership

### KPI

Key performance indicator

### KRL (Kinesis Re)

Kinesis Reinsurance I Limited

### LCM

Lancashire Capital Management Limited

### LHL

Lancashire Holdings Limited

### LIC

Liability for incurred claims

### LICL

Lancashire Insurance Company Limited

### LISL

Lancashire Insurance Services Limited

### Lloyd's

The Society of Lloyd's

### LMSCL

Lancashire Management Services Canada Limited

### Losses

Demand by an insured for indemnity under an insurance contract

### LSL or Lancashire Syndicates

Lancashire Syndicates Limited.

### LRC

Liability for remaining coverage

### Managed cash

Managed cash includes both cash managed by external investment managers and non-operating cash managed internally

### MGA

Managing General Agent

### NAV

Net asset value

### NDIC

Non-distinct investment component

### Net insurance expenses

Net insurance expenses represent claims related insurance service expenses less amounts recoverables from reinsurers

### Net insurance ratio

Ratio, in per cent, of net insurance expenses to net insurance revenue

### Net insurance revenue

Net insurance revenue represents insurance revenue less allocation of reinsurance premiums

### OECD

Organisation for Economic Co-operation and Development

### OCI

Other comprehensive income

### ORSA

Own Risk and Solvency Assessment

### Onerous contract

A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it

### Operating expense ratio

Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net insurance revenue

### PAA

Premium Allocation Approach

### PRI

Principles for Responsible Investment

### PML

Probable maximum loss. The Company's exposure to certain peak zone elemental losses

### Pro-rata/proportional

Reinsurance or insurance where the reinsurer or insurer shares a proportional part of the original premiums and losses of the reinsured or insured

### Retrocession

The insurance of a reinsurance account

### ROE

Return on Equity

### RSS

Restricted share scheme

### SCR

Solvency capital requirement

### SPPI

Solely payments of principal and interest

### S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as a benchmark for assessing the financial strength of insurance-related organisations

### Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL

### Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL

### TCFD

## GLOSSARY

Task Force on Climate-related Financial Disclosures

### The Company

Lancashire Insurance Company (UK) Limited

### The Syndicates

Syndicates 2010 and 3010

### Total Investment Return

Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group's managed investment portfolio

### Treaty reinsurance

A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

### UK

United Kingdom

### ULAE

Unallocated loss adjustment expense

### Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

### U.S.

United States of America