Lancashire
Holdings Limited

Understanding risk.
Seeing the opportunity.

Annual Report & Accounts 2019

OUR PURPOSE IS TO…

- Deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events;
- Manage our risk exposures and capital resources to generate returns for our investors; and
- Support our people and work with our stakeholders; fostering a positive, sustainable and open business culture to the benefit of society.

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

FROM OUR BEGINNING

2005: Inception

$1bn

LHL was incorporated in Bermuda on 12 October 2005 and raised over $1 billion via an initial public offering on AIM on 16 December 2005.

Our focus has always been that 'underwriting comes first' as we seek to capitalise on the opportunities of the market.

2008: LHL profitable in a year of significant market losses

In 2008 there were very substantial losses to the (re)insurance markets, both from insured events and the impact of the financial crisis, testing Lancashire on both sides of the balance sheet. Even in such challenging circumstances we delivered a combined ratio of 86.3% and a positive total investment return of 3.1%.

2009: Listing on the LSE

Our listing on the main market of the LSE was built on four years of strong performance and the indication of pricing improvements across our business lines. With opportunities and capital, we began to grow, and others withdrew from the market.

2011: Resilience in the face of volatility

With the insurance sector reeling from record breaking, $100 billion losses, Lancashire's focus on fundamentals over diversification paid off, with superior combined ratios compared to competitors reflecting our exceptional risk management. Our nimble approach to capital allowed us to take advantage of this post-loss market. We launched the Accordion third-party capital reinsurance facility.

2012: Focusing our core portfolio

In a year of flat demand and ample industry capacity, Lancashire optimised its portfolio, in order to better balance our exposure and focus on more profitable areas. We launched the client-facing third-party capital reinsurance facility, Saltire, and issued $130m of senior debt.

WE HAVE UNDERSTOOD THE CYCLE

2013: Broadening capital base

Against a backdrop of capital oversupply and market softening, Lancashire broadened its base to access different kinds of capital through the purchase of Cathedral (now Lancashire Syndicates) and the establishment of Kinesis (now LCM).

2014: Returning capital to shareholders

$346.0m

returned to shareholders

With low rates making investment of capital into the market unattractive, the Group delivered on its commitment to instead return excess capital to our shareholders. Over time we have a proven record of doing so, actively managing our capital to adjust to conditions.

2017: Loss events stress test Lancashire

2017 saw three major hurricanes, Harvey, Irma and Maria, two earthquakes in Mexico, and wildfires in California. Lancashire's careful balancing of risk and return managed its exposures, where others with higher exposure were forced to leave the market.

2018: Lloyd's review

An overdue review by Lloyd's of underperforming classes leads to a number of (re) insurance businesses leaving the market, reducing the supply of risk capital and contributing to the improvement in rates.

WE CAPTURE OUR OPPORTUNITIES

KPI
Total shareholder return
34.3%
2018: -12.7%

KPI
Total investment return
4.9%
2018: 0.8%

KPI
Dividend yield
1.5%
2018: 4.5%

KPI
Combined ratio
80.9%
2018: 92.2%

Profit after tax
$117.9m
2018: $37.5m

KPI
Return on equity
14.1%
2018: 2.4%

For APMs refer to page 176

TO DELIVER BESPOKE RISK SOLUTIONS

Protecting against uncertainty

Five business segments

Our focus is on short-tail, specialty (re)insurance risks within five general segments: Property, Energy, Marine, Aviation and Lancashire Syndicates.

2019 gross premium written by segment:

Property

Lancashire covers property catastrophe excess of loss, terrorism, property political risk, property risk excess of loss, property retrocession and other property.

Energy

Lancashire covers worldwide offshore energy, Gulf of Mexico offshore energy, onshore energy, energy liabilities, construction energy and other energy.

Marine

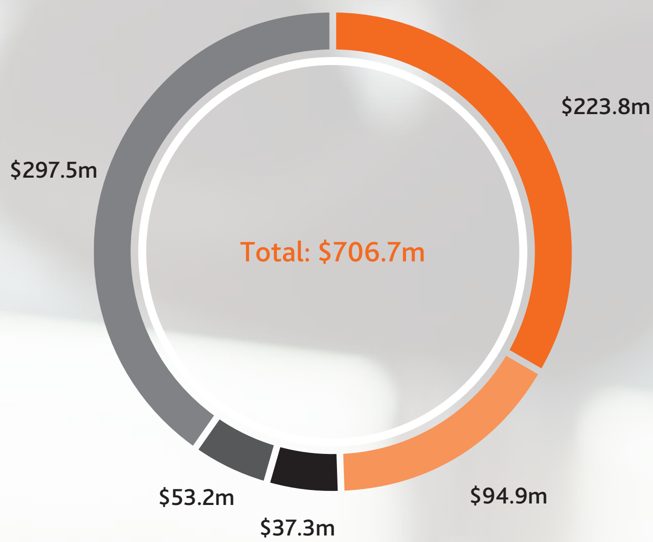
Lancashire covers marine hull and total loss, marine builders' risk, marine excess of loss, marine P&I clubs, marine hull war and other marine.

Aviation

Lancashire covers AV52, aviation deductible and other aviation.

Lancashire Syndicates

Syndicates 2010 and 3010 cover property reinsurance, property direct and facultative, aviation deductible, other aviation and satellite, marine cargo, energy and terrorism.



MANAGING OUR CAPITAL

Focusing on managing risk and generating investor returns

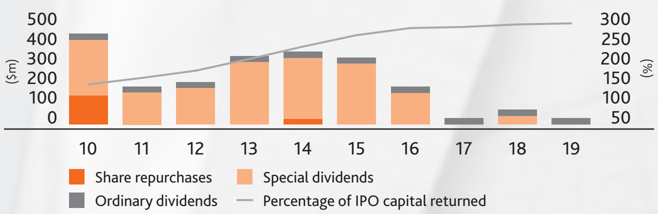
Our investment case

To generate meaningful returns for our investors across the insurance cycle.

Producing a solid performance across the insurance cycle

Lancashire has a proven record of returning excess capital to shareholders over time.

Proven record of capital management



Delivering across the cycle

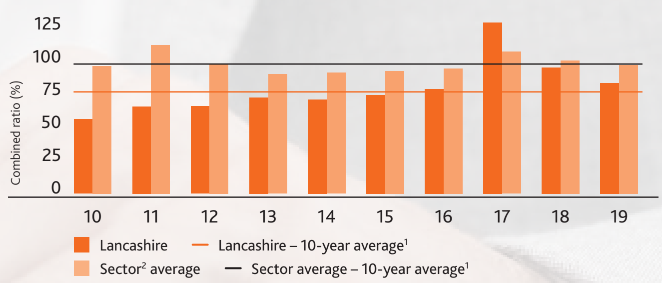
Since our inception, we have a history of delivering shareholder returns across the cycle.

Total shareholder return

Experienced underwriters producing higher returns

Group management and our underwriters have decades of experience in rated companies, Lloyd's and collateralised markets.

Combined ratio



1. Ten-year average based on 2010-2019 reporting periods. Sector ratios are weighted by net premiums earned.
2. Sector includes Arch, Argo, Axis, Beazley, Everest, Greenlight, Hanover, Hiscox, Renaissance Re and Third Point Re. The 2019 results for Argo, Greenlight, Hiscox and Third Point Re are not available at the time of the report.

Source: Company reports

ENGAGING WITH STAKEHOLDERS

There for those who rely on us

Our core stakeholders

The Group values its relations with, and works to support, its stakeholders to ensure the success of the business. We engage constructively with our people, our stakeholders and in society.

Since its foundation in 2005, the Group has focused on fostering relations with a broad range of stakeholders.

Our people

Our employees are the lifeblood of the organisation and the Group therefore strives to attract and retain excellent individuals who share our drive and appetite to outperform.

See page 42 for further details.

Our policyholders

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly priced and useful products.

See page 43 for further details.

Our shareholders

As a premium-listed company on the LSE, LHL understands the importance of its obligations to shareholders. We work hard to foster good investor relations and pride ourselves on having an active programme of engagement with our diverse shareholder community.

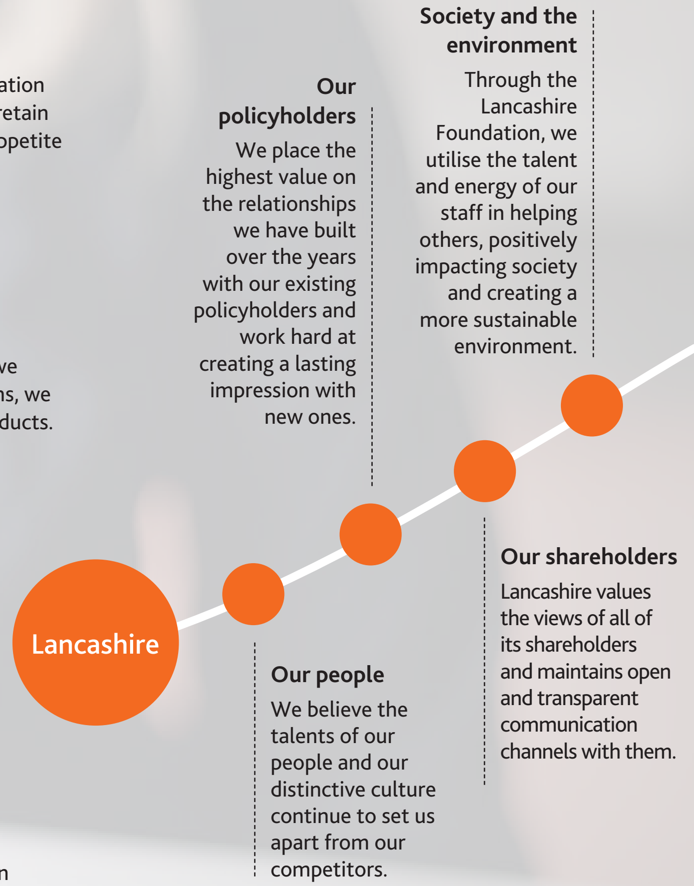
See page 44 for further details.

Society and the environment

Our insurance products deliver social benefits in helping businesses and communities manage and mitigate the risks they face.

Lancashire is strongly committed to giving back to the communities within which it operates and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events.

See page 44 for further details.



A strategic approach to risk, capital and returns

Peter Clarke
Non-Executive Chairman

The Board pays particular attention to the Group's purpose of delivering insurance solutions for our clients and managing our risk and capital resources across the insurance cycle. We aim to generate meaningful returns for our investors whilst fostering a positive, sustainable and socially beneficial business and culture.

How did the business perform during 2019?

Lancashire has generated a strong return on equity of 14.1% for 2019 and an impressive combined ratio of 80.9% which, in view of the challenge of another year impacted by catastrophe and risk losses, are a tribute to the Group's underwriting and risk management expertise.

How does the Board expect strategy to develop in 2020?

The Board regularly monitors business performance to ensure that we maintain Lancashire's record of nimble risk monitoring and capital management. This has meant that over several recent years the Board has returned some of our capital to shareholders in circumstances where it has not been required to meet the risk capital requirements of our business. As Alex notes in his introductory comments (see page 12), after many years of a downward pricing trend across those property catastrophe and specialty classes in which we underwrite, there is currently an expectation of an improved pricing environment during 2020, which may afford the Group the opportunity to assume more underwriting risk.

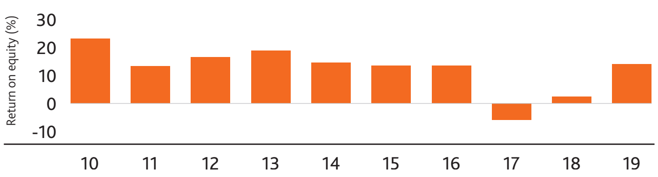
How does the Board view the capital requirements of the business?

The Board regularly considers the balance of risk and return when setting our capital levels, using capital for underwriting when the opportunity presents itself and returning capital to shareholders when it is not needed. As we enter 2020, we believe that our capital resources are appropriate for the current market opportunity, but the Board will continue to adopt a flexible approach to capital management.

An important tool within Lancashire's active capital management strategy is the flexibility afforded to us by shareholders during the last eight years to issue up to 15% of Lancashire's shares on a non pre-emptive basis. The best opportunities in the insurance and reinsurance sectors typically arise following major loss events, and the flexibility to issue shares and raise capital quickly is a central pillar of our business strategy and will help the Group maximise underwriting opportunities for the business. Once again, the Group is seeking shareholder support for resolutions at the 2020 AGM, allowing this capital management flexibility, and I would encourage all shareholders to vote in favour.

> "As we enter 2020, we believe that our capital resources are appropriate for the current market opportunity, but the Board will continue to adopt a flexible approach to capital management."

Return on equity



How has the Board developed its dividend strategy?

Our dividend and capital management strategy has not changed and in view of the anticipation of an improving underwriting environment the Board has decided not to declare a special dividend in respect of the 2019 financial year. In addition, for the first time, we propose to make our final ordinary dividend subject to a shareholder vote of approval at the April 2020 AGM which will be held in Bermuda, with a live shareholder video link from our London office. Details are set out in the Notice of the AGM.

Assuming such shareholder approval, the aggregate of all dividends for the 2019 year will amount to $0.15 per common share. Lancashire's nimble capital management and dividend strategy is well understood by our shareholders and the dividend policy is set out on page 96 of this Annual Report and Accounts.

What risk factors have most affected the Board's thinking in 2019?

The fundamental risk which we consider as a Board is the underwriting risk which we assume as a Group. In this regard, readers will be interested in the work which we carry out in setting capital risk tolerances for underwriting risk and in monitoring those risks, which are described in more detail in the risk section of this Annual Report and Accounts (see pages 30 to 39) and in the summary of the Group's probable maximum losses (PMLs), which are monitored by the Board on at least a quarterly basis. In his report on page 13, Alex mentions how we think about climate change risk within the business. This is increasingly a topic of debate within the Board and its various Committees (see the Risk and Governance sections of this report commencing respectively on pages 30 and 48 for further discussion of these issues).

The Board has also monitored the risk arising from the UK's Brexit process during the year. We are satisfied that measures are in place to mitigate some of the adverse effects on the Group's business, although this matter will be kept under review during the coming year. For a further discussion please see the Risk section at page 38.

Other areas of focus for the Board during the year have included oversight of business culture within the Group as well as issues of staff development, retention and succession. Please see my introduction to the Governance section of this report on page 48 for an account of the work of the Board in these and other areas and our governance arrangements for the 2019 year.

Peter Clarke
Non-Executive Chairman

The Board announced the appointment of Natalie Kershaw as an Executive Director and Group CFO on 5 December 2019. Natalie will assume her new roles on 1 March 2020.

"I look forward to welcoming Natalie to our Board and to the fresh insights that she will bring to her role."
– Peter Clarke

"Natalie has been an insightful and dedicated team member for nearly 10 years. Her appointment is testimony to the strength of our management team and our succession planning."
– Alex Maloney

A model for success

We leverage our deep underwriting expertise with efficient management of risk and capital and resources across our three platforms to provide our clients and brokers with bespoke solutions for their insurance and reinsurance needs.

We always focus on the risk-adjusted return.

Our strengths

Customer focus

- Long-term established relationships with clients and brokers
- Continuous support across the cycle
- Prompt payment of valid claims

Expert people

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

Disciplined risk and capital management

- Rigorous systems for risk monitoring and management
- Strong record of capital management
- Manage volatility by optimising capital and the underwriting portfolio through the market cycles

A diverse offering

- Three established platforms: Lancashire, Lancashire Syndicates and Lancashire Capital Management
- Access to multiple markets providing clients with versatility and ourselves with underwriting opportunities
- A stable core book of business and disciplined underwriting

Our responsibility

We recognise that our responsibility as a company and as individuals reaches wider than our shareholders and our clients. We strive to be a good employer, a good corporate citizen and a responsible preserver of resources. 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 (for further details see pages 45 to 47).

Our strategy

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Find out more on page 14.

The value we create for

Our people

85%

of our employees felt positively engaged with the business based on a recent staff survey

Our policyholders

$310.3m

gross paid losses

Our shareholders

34.3%

Total shareholder return

Society and the environment

46%

of staff volunteering time to the Lancashire Foundation

Providing risk solutions in a changing world

Alex Maloney
Group Chief Executive Officer

Our purpose as a business is to deliver bespoke risk solutions which help protect our clients in the face of uncertain loss events. It is therefore central to our strategy to develop and retain underwriters and other experts in risk management with the expertise to appraise and price risk properly and to ensure that we use our capital to support our business whilst delivering sustainable returns to our investors.

Did Lancashire perform as you expected in 2019?

We have generated a strong return on equity of 14.1% and a combined ratio of 80.9%. The return comes from a combination of underwriting and investment returns and represents a good outcome for our shareholders. For me, one of the most pleasing outcomes of these results is that they illustrate that the Lancashire Group has not been materially impacted by the catastrophe reserve deterioration on prior year losses, which has affected some in our industry.

Lancashire has the expertise, the capital, the commercial long-term relationships and the nimble business culture to succeed, and the results for 2019 are testament to the open, honest and sustainable approach we take to underwriting and risk management across the insurance cycle.

How was the Group impacted by the catastrophe losses which occurred in 2019?

With the occurrence during 2019 of typhoons Faxai and Hagibis in Japan and hurricane Dorian in the Caribbean and along the U.S. south-east coastline, we saw the tragic results of catastrophe loss activity. These events once again caused disruption to lives and livelihoods. There were also significant large aviation, energy and political risk losses during the year which have impacted those specialty lines which form a major part of our underwriting portfolio.

As a Group we established aggregate net loss reserves in respect of typhoons Faxai and Hagibis, and hurricane Dorian of $52.1 million. But the 2019 losses must be viewed within the context of the catastrophe losses of 2017 and 2018, which taken together produced the largest aggregate losses to the global insurance market in recent memory.

So, while in economic terms the 2019 losses should be considered relatively unremarkable, the fact that they amount to another sequence of mid-sized catastrophe losses serves to demonstrate the continuing need within the insurance industry for a re-rating of pricing in many traditional property and specialty lines.

What challenges and opportunities do you see over the coming year?

The pressure on insurance risk capital has been further heightened by the recent industry reappraisal of many of the reserving assumptions within the longer-tail casualty classes, and the need to strengthen reserves. Whilst Lancashire has not traditionally operated in the casualty space in any meaningful way, the combination of reserving and pricing pressure across international (re)insurance markets in short-tail catastrophe and specialty lines and in the longer-tail casualty classes has produced an appreciation across our sector that the products we sell need to be sufficiently priced to attract the risk capital on which our industry relies.

"During 2019, I was pleased to see controlled top-line growth in our premium income, which was a measured response to an improving market environment. As things stand, we believe the positive pricing trend is likely to continue in many of our core specialty and catastrophe lines in a move towards better pricing."

Although we are still in the early stages of a necessary market correction, developments over the past year or so have illustrated once again that our industry is cyclical in nature and that the key to long-term sustainable success is to show underwriting discipline across that market cycle.

At Lancashire we have taken the difficult decision over the recent years of the soft market phase of the cycle to shrink our top-line income, which reflected the challenging pricing environment. During 2019, I was pleased to see controlled top-line growth in our premium income, which was a measured response to an improving market environment. As things stand, we believe the positive pricing trend is likely to continue in many of our core specialty and catastrophe lines in a move towards better pricing. However, this cautious optimism should be tempered by the knowledge that in many insurance and reinsurance classes pricing still sits below a level which we consider to be sustainable. So, in what remains a competitively priced market, there will be some opportunities for organic growth. It is central to our strategy to develop and retain underwriters and other experts in risk management with the expertise to appraise and price risk properly, to structure and manage our outwards reinsurance protections and to ensure that we use our capital to support our business whilst delivering sustainable returns to our investors.

Paul Gregory discusses the underwriting environment in more detail in his underwriting review on page 20.

How does climate change affect the longer-term prospects of the Group's business?

As a business we have a relatively small headcount of a little over 200 people and our own carbon footprint (which we offset through the purchase of carbon credits) is small relative to many listed businesses of our market capitalisation (see page 44). Perhaps even more important is the trend over the last three years of the increased frequency and severity of weather-related loss events, which I mentioned above. Such a trend will ultimately be understood and managed over longer time frames. What this illustrates is the value of our insurance and reinsurance products to our clients in managing their climate change risks and exposures, in particular through the catastrophe-exposed property insurance and reinsurance products which we underwrite. Our purpose as a business is to deliver bespoke risk solutions which help our clients manage the threats they face from unpredictable perils. It follows as a central pillar of our strategy and its operation that we monitor and manage our own risk exposures to both weather-related and other catastrophic loss events. Our investment portfolio is conservative in nature and has limited exposure to climate-related risk. As a business, we are a long-term partner of many clients operating in the oil and gas exploration and development sectors and within power generation and distribution. We recognise the potential environmental effects of carbon emissions, and in a global commercial and political environment, which currently remains reliant on carbon-based forms of energy production, we will work with our clients through a period of global energy transition to help manage their operational and catastrophe-exposure risks in a controlled and responsible way. We also insure many clients in the renewable energy sector, and in this regard please see Paul Gregory's introduction to the underwriting review on page 20. We have also decided to become signatories to the UN Principles for Sustainable Insurance (see pages 52 to 54). Our strategy is to respond nimbly to the demands of a changing world, and we believe this flexibility will help guarantee viability over the longer term.

How has the Group developed the Lancashire brand recently?

We have made a few name changes to our Lloyd's and reinsurance third-party capital management platforms. Our Lloyd's managing agent, Cathedral Underwriting Limited, has changed its name to Lancashire Syndicates Limited (LSL), and our third-party capital management operation, Kinesis Capital Management Limited, has changed its name to Lancashire Capital Management (LCM). There has been no change to the ownership or operation of these businesses. This helps clearly align the 'Lancashire' name and brand across all platforms within the Lancashire Group of companies.

Can you tell us about the developments in the Group executive team and business over the last year?

We announced in May 2019 that, after slightly more than 13 years of service at Lancashire, Elaine Whelan decided to retire from the Group and will step down as our Group CFO and from the LHL Board at the end of February 2020. Personally, I would like to thank Elaine for her years of support and advice to me and to our business. Elaine has been one of the architects of our successful strategy over many years, in particular in the area of our nimble capital management and the delivery of strong cross-cycle returns to our shareholders.

As we say farewell to Elaine, I am pleased to welcome Natalie Kershaw as Elaine's successor to the role of Group CFO and a member of the LHL Board (see page 49 for more details). During the year we have also seen the progression of other colleagues within the Group. Emma Woolley became CEO at LSL, John Cadman (our Group General Counsel) became CEO at LUK, and Hayley Johnston will become our Bermuda CEO at LICL, replacing Elaine in that role. James Flude will assume the role of our LUK CUO, replacing Hayley, subject to regulatory approval.

I would like to thank these and all our staff across our businesses in London and Bermuda, for having contributed to a strong performance for the year. I look forward to leading our excellent team in meeting the challenges and developing the opportunities in the year ahead, which has the potential to be a more interesting phase of the insurance and reinsurance market cycle.

Alex Maloney
Group Chief Executive Officer

Our strategy

Our goal

Maximising risk-adjusted returns for shareholders

Our strategic priorities

Underwriting comes first

Maintaining the right balance between discipline and creativity is key for success, coupled with a strong focus on profitability and risk selection.

Delivering bespoke risk solutions in a sustainable framework

Effectively balance risk and return

Not seeking top-line growth for the sake of it in markets where we do not believe the right opportunities exist and rigorously monitoring and managing our risk exposures.

Peak-zone PML limits of 25% of capital

Operate nimbly through the cycle

Our speed and agility in the way we manage volatility helps us underwrite our core portfolio profitably through the challenges of the cycle, yet seize opportunities when they present themselves.

Maximise risk-adjusted returns

How we serve clients and brokers

- Significant capacity across the cycle allowing us to provide consistent support
- A lean structure allowing resources to be refocused quickly when needed
- Strong processes and structures supply challenge and assurance

Our culture

The bedrock of our strategy is a culture of co-operation and respect based on open challenge

Underwriting comes first

Description

We focus on maintaining our portfolio structure and our core clients, with the bulk of our exposures balanced towards significant events. We will grow in existing and new classes where favourable and improving market conditions exist. We use the principle of peer review throughout the Group, usually prior to underwriting business for LICL, LUK and LCM, the platforms that accept larger net exposures, and post-underwriting at LSL, with its smaller net exposures.

Achievements

Successfully embedded the new underwriting teams in downstream energy, power & utilities and aviation, which we hired during 2018. We have grown the funds raised and capital deployed from LCM investors and grown LCM's client base for the second consecutive year. LUK has decided to re-enter the D&F class of business.

Performance

Combined ratio

80.9%

A strong combined ratio, even in a loss-impacted year, evidences our continued focus on underwriting, our general appetite for less attritional exposures, our superior risk selection and our portfolio construction.

Gross premiums written

$706.7m

With an improving rating environment in the majority of our classes, plus business generated by new teams hired in 2018, premiums have grown year on year. We maintain the discipline to decline or restructure our participation on under-priced or poorly-performing business but are willing to accept more risk if the market opportunity allows.

Associated strategic risk

The key risk in the current market phase is the potential loss of relevance to brokers and clients. While there is still some surplus capacity in the market, insurers need to have a unique selling point. For the Group, that is found in its mixture of underwriting capacity, leadership capability, claims service and multiple balance sheet options.

Effectively balance risk and return

Description

By bringing together all our disciplines – underwriting, actuarial, modelling, finance, treasury, risk and operations – at our fortnightly RRC meetings, we are able to look at how different parts of our operations are working together. We tailor our reinsurance programmes to manage our exposures and we stress test our business plans and gauge where we can be most effective without undue volatility. Management reports our risk exposures and management to the Board.

Achievements

We have increased our underwriting footprint and optimised our portfolios in areas where rating has improved whilst adding new complementary classes of business as the market conditions are now improving.

Performance

Return on equity

14.1%

A good result in the light of a challenging market and the incidence of natural catastrophe and risk losses in our major portfolios of business, helped by our improved outwards reinsurance programme and investments.

Probable maximum loss

$152.0m*

We continued to match our exposure to key catastrophe perils to the market opportunity, demonstrating our discipline and nimbleness.

* 1 in 100-year Gulf of Mexico hurricane expected net loss at 1 January 2020.

Associated strategic risk

The key issue for Lancashire is to continue to serve our clients and brokers with significant capacity, whilst ensuring that the portfolio is balanced. This means constantly reassessing our business mix and testing key risk assumptions.

Operate nimbly through the cycle

Description

As capital supply fluctuates in the (re)insurance market, the need to be nimble is more important than ever. This means being ready to deploy capital quickly when it is needed, and having the discipline to return it when it is not.

Achievements

Profits for 2019 have largely been retained for 2020 underwriting opportunities. Lancashire renewed its 15% disapplication of pre-emption rights at the 2019 AGM to assist potential future capital raises.

Performance

Percentage of comprehensive income returned to shareholders

20.7%

Lancashire continues to exercise the discipline of maintaining sufficient capital headroom to support underwriting operations and take advantage of new opportunities as they emerge or returning capital to shareholders it cannot profitably use.

Dividend yield

1.5%

Current opportunities exist in the short-tail specialty insurance classes that, in general, require less capital than catastrophe exposed classes, so we grow in these areas but still provide modest capital returns. If opportunities exist in capital-intensive product lines then capital will be retained to take advantage of these opportunities.

Associated strategic risk

Lancashire has developed an expectation among its shareholders that it will produce a consistent return and pay ordinary dividends with supplementary special dividends only when it makes sense to do so. We believe our shareholders understand that in harder markets Lancashire will retain, and potentially even raise, capital to take full advantage of underwriting opportunities.

A solid underwriting performance combined with positive investment returns

Elaine Whelan
Group Chief Financial Officer

While Lancashire has clearly picked up losses from the 2019 events, our share was very manageable and well within our expectations. Our predominantly fixed maturity investment portfolio also performed well in a declining yield environment, supported by strong performance from our risk asset allocation. All that has meant a welcome change to the relative battering of the last two years and a return to strong profitability.

How has the Group performed in 2019 within the market environment?

Compared to 2017 and 2018, 2019 saw much lower annual global insured losses. While insured losses from man-made and natural catastrophes were below the 10-year average, it wasn't a benign year by any stretch of the imagination with the significant windstorms Dorian, Faxai and Hagibis occurring and wreaking havoc in their respective regions. There was also significant adverse development for the industry as a whole on the 2018 typhoon Jebi. There have been some meaningful industry risk losses as well and we also saw a general uptick in attritional losses across the industry this year. That all sounds a bit bleak, but I think what we have seen is a reaction by the industry to the losses of the last few years and the recognition that pricing had to move. While that's not where it needs to be yet, Lancashire has been adding new teams to the business over the last few years, positioning ourselves for the improving market that we hoped to see. Our patience has paid off in that regard and we have, for the first time in a long time, been able to add a meaningful amount of new business to our top line. While we have yet to see that factor through to the bottom line – it takes a little while for the timing impacts of the new business to flow through to earnings – that has been all about putting ourselves in the best possible position for the pricing improvement we are expecting. While Lancashire has clearly picked up losses from the 2019 events I have mentioned, our share was very manageable and well within our expectations. Our predominantly fixed maturity investment portfolio also performed well in a declining yield environment, supported by strong performance from our risk asset allocation. All that has meant a welcome change to the relative battering of the last two years and a return to strong profitability. We are pleased to have produced an RoE of 14.1% and a combined ratio of 80.9%.

Do you anticipate needing to raise more capital in 2020 to take advantage of an improving market?

The short answer is no. Or not yet. While it's great to finally see the market turning, it's from a low base and still has some way to go before we get too excited about it. We're probably back to around 2014/2015 pricing levels now and we'd like to see that move more before we think the economics make sense to raise more capital. We have enough existing capital to take advantage of what we are seeing in terms of opportunities, and also remember that many of the new lines of business we have added are in specialty lines and not too capital intensive. I think we would say the current market is "interesting". Which means we will be watching how it develops closely rather than jumping in. If there are more opportunities, with the right economics, then we will certainly be ready to go to market. Our shareholders remain supportive of our capital management approach. That is greatly appreciated, and also comforting to know that they are ready to support a capital raise if there are good reasons to do so.

What does that mean for special dividend expectations?

Given my comments above on an improving market, we chose not to declare a special dividend with our November 2019 trading statement. There was also a fair amount of uncertainty heading into the January renewals, particularly around the retro markets. It seemed prudent for us to keep the capital while we see how that develops. With the 1 January 2020 renewal season behind us now, we do expect the market to continue to improve through 2020 and we have therefore again chosen to retain our capital. We have always said our special dividends are indeed special, and most of our shareholders understand that and see it as good news in the context of improved future returns.

How does the U.S. Federal Reserve's recent pivot impact Lancashire's investment portfolio?

We are back in a lower yielding environment. Although we hadn't actually really left it! But rates will be lower going forward across the majority of our portfolio. We have already had the initial benefit of rate reductions on the valuation of the fixed income portfolio. We don't expect to see any significant benefit there going forward and there isn't much more benefit to be had from future spread compression either. We do continue to look for ways to add yield to the portfolio, without adding too much risk, and we will continue to do that. We have recently decided to redeem about half of our hedge fund portfolio in 2020. While the volatility remained low and it acted as a good diversifier to the rest of the portfolio, we weren't seeing the returns we had hoped for there. Those funds will be redeployed and hopefully produce a better risk-adjusted return.

Elaine Whelan
Group Chief Financial Officer

Financial highlights

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Gross premiums written	**706.7**	638.5	591.6	633.9	641.1
Net premiums written	**424.7**	417.7	398.0	458.7	481.7
Net premiums earned	**421.7**	413.5	427.9	488.1	567.1
Net insurance losses	**129.8**	165.4	335.4	142.5	155.7
Net underwriting profit (loss)	**186.5**	121.7	(23.1)	213.5	265.2
Net investment income	**37.7**	34.7	30.5	29.8	29.8
Net realised gains (losses) and impairments	**8.9**	(5.1)	9.1	(2.4)	(2.8)
Profit (loss) after tax[1]	**117.9**	37.5	(71.1)	153.8	181.1
Net change in unrealised gains/losses on investments	**27.8**	(12.8)	4.9	4.1	(11.3)
Comprehensive income (loss)[1]	**145.7**	24.7	(66.2)	157.9	169.8
Dividends[2]	**30.2**	70.2	29.9	178.9	317.5
Diluted earnings (loss) per share	**$0.58**	$0.19	($0.36)	$0.76	$0.91
Fully converted book value per share	**$5.84**	$5.26	$5.48	$5.98	$6.07
Return on equity	**14.1%**	2.4%	(5.9%)	13.5%	10.9%
Return on equity excluding warrant adjustments	**14.1%**	2.4%	(5.9%)	13.5%	13.5%
Net loss ratio	**30.8%**	40.0%	78.4%	29.2%	27.5%
Net acquisition cost ratio	**25.0%**	30.6%	27.0%	27.1%	25.8%
Expense ratio	**25.1%**	21.6%	19.5%	20.2%	18.8%
Combined ratio	**80.9%**	92.2%	124.9%	76.5%	72.1%
Accident year loss ratio	**51.3%**	70.0%	94.2%	46.2%	46.0%
Net total return on investments[3]	**4.9%**	0.8%	2.5%	2.1%	0.7%

1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.
3. Net return on investments includes internal foreign exchange hedging.

Return on equity

Measurement

The return on equity is measured by management as the internal rate of return of the change in fully converted book value per share in the period, adjusted for dividends.

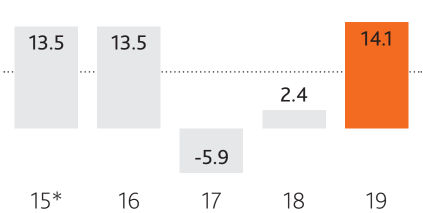
Aim

The Group's aim is to maximise risk-adjusted returns for our shareholders across the cycle.

Performance

14.1%

Given the sequence of mid-sized catastrophe and risk losses during the year we were pleased to generate a strong RoE for the year, reflecting a solid underwriting performance combined with positive investment returns.



Risk management

The stated aim is a long-term goal, acknowledging that management expects both high and low results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. We seek to align our variable remuneration to shareholders' interests by having an RoE component in this.

Please refer to the Directors' Remuneration Report on page 74 for further details.

* RoE including the impact of warrants was 10.9% in 2015. The five-year average was 7.0%.

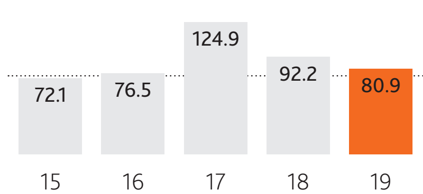
Combined ratio

The combined ratio is the ratio of costs to net premiums earned and is a measure of an insurance company's operating performance. It is calculated as the sum of the net loss ratio, the net acquisition cost ratio and the expense ratio. These ratios are defined in our glossary.

The Group aims to price its business to ensure that the combined ratio across the cycle is significantly less than 100%.

80.9%

The combined ratio reflects the impact of hurricane Dorian and typhoons Faxai and Hagibis. Despite these events our focus on high quality underwriting allowed us to generate an underwriting profit for the year.



The Group's underwriters assess likely losses using models, 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. Peer reviews of risks are conducted through the daily underwriting call or peer review, depending on risk impact, enabling the Group to ensure careful risk selection, limits on concentration and appropriate portfolio diversification. The RRC then monitors performance at a portfolio level.

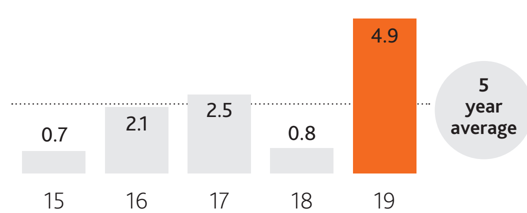
Total investment return

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

The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

4.9%

In 2019, the Group continued to manage its most significant investment risk, interest rate risk, via floating rate assets and risk assets. This helped to manage the risk on/risk off volatility in the rising rate environment in the first half of 2019.



The investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a reasonably stable income stream. These objectives are reflected in the Group's investment guidelines and its relatively conservative asset allocation. Management reviews the composition, duration and asset allocation of the investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions.

$ KPI linked to Executive Directors' remuneration. For more information see pages 74 to 95.

A APMs refer to page 176.

Total shareholder return $ A

Measurement

Total shareholder return is measured in terms of the internal rate of return of the increase/decrease in share price in the period, measured in U.S. dollars and adjusted for dividends.

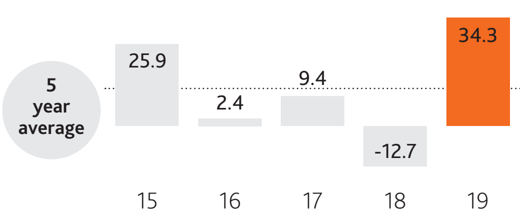
Aim

The Group's aim is to maximise RoE over the longer term, and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the RoE in the immediate term.

Performance

34.3%

Our shares traded well through 2019, reflecting some investor optimism around the improvement in pricing in the insurance market. Towards the end of the year, our shares also benefited from a modest relief rally of all UK assets. In addition, our regular ordinary dividend supplemented the overall TSR.



Risk management

The Lancashire remuneration structure and RSS ensure that staff are highly motivated and closely aligned to the Group's goals, and therefore with shareholders. Permanent staff are all eligible to receive RSS awards. The participation of employees in the RSS ensures that there is a strong focus on sustainable long-term shareholder value.

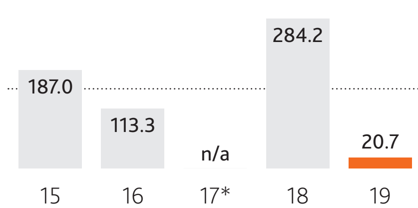
Comprehensive income returned to shareholders A

The percentage of comprehensive income returned to shareholders equals the total capital returned to shareholders through dividends and share repurchases paid in a given year, divided by the Group's comprehensive income.

The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.

20.7%

In view of the current market outlook the Group took the decision not to return surplus capital to shareholders in 2019 by way of a special dividend as we position ourselves for the improving market that we hope to see in 2020. Our ordinary dividend payments were unchanged.



Risk tolerances are set at a level that aims to prevent the Group incurring losses that would impair its ability to operate. The Group's key capital measure is its A.M. Best rating, and a minimum rating of A– is considered necessary to attract business. In 2019, Lancashire maintained its A rating.

* The Group made a comprehensive loss of $66.2 million during 2017. We paid annual ordinary dividends of $0.15 per share. Due to 2017 being n/a, the average is calculated over four years.

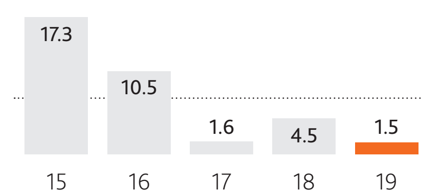
Dividend yield A

Dividend yield is measured by dividing the annual dividends per share by the share price on the last day of the given year.

The Group aims to maintain a strong balance sheet whilst maximising risk-adjusted return for shareholders across the cycle. Lancashire's dividend yield demonstrates our ability to operate nimbly through the cycle, through the active capital management that underpins our business model. We aim to pay annual ordinary dividends, and when we decide not to retain our profits as additional underwriting capital, we return them to shareholders by way of special dividends.

1.5%

We declared annual ordinary dividends of $0.15 per share in respect of 2019. The final payment of $0.10 is subject to shareholder approval at the 2020 AGM.



As capital continues to accumulate in the (re) insurance market, the need to be nimble is more important than ever. This means being ready to deploy capital quickly when it is needed and having the discipline to return it when it is not. The Group has to ensure that all shareholders understand that in harder markets the Group will want to retain, and potentially even raise, capital to take full advantage of underwriting opportunities.

Seeing the opportunity

Paul Gregory
Group Chief Underwriting Officer

Insurance is an often-underestimated product in the global economy and its value is rarely appreciated until such time as there are losses. Our job is to pay our clients' valid claims promptly whilst also ensuring the premium we receive is adequate to pay these claims and provide appropriate shareholder returns over the long term.

Introduction

The dynamics of our market are very simple. The basic concepts of demand and supply are the principal drivers of the pricing in the marketplace. From 2013 to 2017, the market for almost all our products experienced a period of oversupply and as such the pricing of those products reduced. This reduction in pricing varied by product line as the dynamics of each area are always slightly different, but the downward trend was consistent. Our response to this environment was to take less risk, by reducing our inwards risk and protecting our portfolio with more reinsurance. Our goal has always been to match risk and return as best we can and ignore pressures to simply grow the top line irrespective of pricing adequacy. We took this approach most importantly because we think this is the right way to manage a business that doesn't sell widgets but sells units of risk protection; and secondly to ensure that when better times did arrive, we were well positioned to maximise the opportunity.

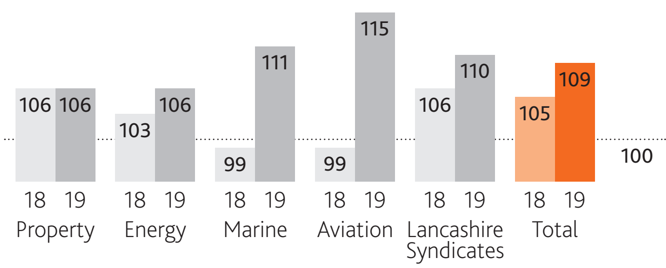
In 2018, we started to see the demand and supply balance begin to tip in our favour, albeit slowly. It was the first year since 2012 that we saw a positive rate movement across our portfolio as a whole. In line with our underwriting philosophy, we grew our premium and added new underwriting teams and products to the Group.

2019 saw a continuation of this trend across most of our product lines, as the demand and supply shift continued to move in our favour. Supply across the market was restricted by various factors including: large carriers reducing risk appetite in underperforming classes; the ILS sector of the property retrocessional reinsurance market wrestling with consecutive years of natural catastrophe losses and significant loss creep on certain catastrophe events; a number of large risk losses; and the Lloyd's performance review starting to take effect. Running adjacent to this, throughout 2019, was the developing story of a creaking casualty market, with several carriers having to bolster reserves on historic underwriting years. As a predominantly short-tail underwriter this casualty development does not directly impact us, but could help further improve broader market conditions should this trend continue, as it may require additional insurance risk capital, which will further restrict supply.

Given these improved market conditions it should come as no surprise that our gross premiums written increased again in 2019. Most of our product lines saw rate increases of varying degrees. As rates improved, we grew our core portfolio and wrote new business in these product lines. Our new teams, added in 2018, have continued to build out and mature whilst also benefiting from the improved rating environments. Our disciplined approach in the softer part of the cycle has meant that our focus for the past two years has been on growing existing and new

> "2018 was the first year that we started to see the demand and supply balance begin to tip in our favour, albeit slowly. 2019 has seen a continuation of this trend across most of our product lines, as the demand and supply shift has continued to move in our favour."

Renewal price index (%)



classes and we have not had to shut down or cut back in poor performing product lines, as a number of our peers have had to do.

2019 again had several mid-sized natural catastrophe losses and several large risk losses in areas in which we specialise such as aviation, marine and political risk. It is therefore pleasing to be able to produce a combined ratio of 80.9%. Our clients buy our products for exactly these types of events and this shows the value of the (re)insurance that we provide. Our products help support economies and communities to rebuild after natural catastrophe events, and companies to continue to operate safely and profitably after major loss incidents. Our partnership with our clients helps encourage a good risk management culture, which aids prevention of future major loss incidents. Insurance is an often-underestimated product in the global economy and its value is rarely appreciated until such time as there are losses. Our job is to pay our clients' valid claims promptly, whilst also ensuring that the premium we receive is adequate to pay these claims and provide appropriate shareholder returns over the long term.

For all our natural catastrophe lines of business we are acutely aware of the impact of climate change. The vendor models we use to both assess and price risk are regularly updated to include changing patterns and data. We use this information alongside our own view of risk to measure the frequency and severity of natural catastrophe events across the world. Clearly over the past three years we have seen an increase in frequency as compared to the previous five years. Our role is to assess how the risks we underwrite are changing over time and if we are getting sufficiently well paid for the risks we take onto our balance sheet.

Our outlook for 2020 is more of the same. We anticipate an improving market across most of our product lines. As ever, the dynamics of each market will be subtly different, but the positive pricing trend looks to continue.

Whilst this is pleasing, we are always aware of where we sit in the pricing cycle and the soft market conditions between 2013 and 2017 took a lot of rate and premium out of the system. Although increases in rating in the last two years move us in the right direction, we would not classify the current market as a 'hard market'; it is an improving market.

With this improving underwriting environment in mind, we have chosen not to declare a special dividend to give us maximum flexibility with our capital in order to allow us to grow and take more risk. This aligns fully with our historic capital management philosophy. When there are limited opportunities to deploy excess capital, we will return this to shareholders. When the opportunities improve, and we feel we can deploy it, we retain capital and aim to produce an improved return for shareholders. If the market were to become markedly dislocated, we would seek to raise more capital from our shareholders. Our approach to underwriting and capital management are fully aligned and simply linked with the market environment we see before us. Our actions during each part of the cycle will change, but our philosophy remains constant.

Property

Our property offering across the Group is split into four principal classes of business: retrocession, property reinsurance, property D&F insurance, and terrorism and political risks. The demand and supply dynamics of each of these classes were very different throughout the course of 2019.

The retrocession market faced two challenging years in 2017 and 2018 with the worst consecutive insured loss years on record. To further add to that challenge, large losses such as hurricane Irma (2017), hurricane Michael (2018) and typhoon Jebi (2018) experienced significant loss creep.

2019 continued to increase pressure on this market with more typhoons in Japan (Faxai and Hagibis) as well as hurricane Dorian impacting the Caribbean and U.S. The losses in 2019, in aggregate, were not of the same magnitude as the previous two years but once again impacted the market, causing billions of dollars of insured loss.

Over recent years the retrocession market has been dominated by the growing ILS market and after years of a benign loss environment the past three years have been a real challenge for this sector. 2019 was the first year that we started to witness supply in the ILS market coming under downward pressure as capital providers started to question the risk-reward metrics they had historically received, given they now understand the potential volatility of the product sold. As supply tightened, pricing firmed as the year progressed.

The Group offers retrocession capacity from all three of our platforms, albeit the majority is sold via our ILS vehicle, LCM. During the softer part of the cycle we deliberately kept LCM relatively small as we were not able to find enough products to sell at the required return metrics of our capital providers. We also did our best to be as transparent as possible with our capital providers, particularly regarding the volatility of the portfolio being underwritten.

Whilst the LCM underwriting result was negatively impacted by the natural catastrophe losses of 2017 and 2018, we were still able to grow LCM in both 2018 and 2019, which is the opposite direction of travel to most ILS vehicles in the market. We believe this is because of our underwriting discipline and transparency. The most important thing is that when the opportunity has improved, we have been able to grow with that opportunity. Our expectation for 2020 is that this market will continue to improve, and we aim to maximise this opportunity across our platforms.

The property reinsurance market has experienced the same natural catastrophe losses as the retrocession market. However, the demand and supply dynamics of this market have not shifted to the same extent. As a result, the pricing environment (whilst still positive) has not moved as much as the retrocession market. Prior to the start of 2019, our expectation was that outside of loss impacted territories such as Japan and Florida, rates would be broadly static with only those loss-impacted territories seeing positive rate movement.
The reason for this is that supply of capacity into this sector of the reinsurance market remained relatively stable, so the only drivers of rate movement were the increased cost of retrocession and market sentiment. The market reacted in line with our expectations. Our response was to grow in those areas getting rate increases. We broadened our core relationships with Japanese cedants and started to write a Florida property catastrophe portfolio via our Bermuda office. Moving into 2020 we expect positive pricing in the property catastrophe market, but once again it is unlikely to be to the same extent as we expect to see in the retrocession market. Albeit the more dislocated the retrocession market becomes, the more impact on the property catastrophe market we would anticipate seeing. Dependent upon market conditions, it is likely we will look to grow in certain territories where there is the opportunity to do so.

The property D&F insurance market developed as the year progressed. Similarly impacted by the natural catastrophe events of recent years, the market had seen several capacity withdrawals through the course of the year. The Lloyd's Decile 10 performance review included D&F and as such some markets withdrew from the class and others cut back on their exposure. Just as significantly, some of the larger carriers in this market made substantial reductions to the capacity they offered in the product line. As the effect of this was felt, the pricing began to increase as the year progressed. The Group writes the vast majority of D&F via Lancashire Syndicates and has benefitted from these pricing improvements. The Group also decided to re-enter this class of business through LUK as the market continued to harden into 2020.

The only part of our property offering that did not experience rate increases in 2019 was our terrorism and political risk portfolio. The reason for this is simple. There remained an ample supply of capacity, which outstripped the demand. The world remains a volatile place with incidents of terrorism and political unrest across the globe. However, ultimately, the pricing of our products is driven by demand and supply and unlike our other lines this has not tipped in the underwriters' favour. The product line remains profitable for most carriers and, as such, no one has cut back. Our view is that pricing remains adequate for our risk profile and the product line continues to be profitable for us, so we continue to support our core clients. Absent any shift in demand/supply dynamics, our view is that market conditions for 2020 will be broadly like 2019.

Energy

Our energy portfolio has a number of components: upstream (offshore) energy, downstream (onshore) energy, renewable energy and power. It is underwritten across our company and Lloyd's platforms. Much like our other classes of business we are seeing different dynamics across the sub-classes.

Downstream energy and power saw supply continue to retract in 2019. Large carriers have reduced their risk appetite following several large losses and increasing attrition. Additionally, these classes fell under the Lloyd's performance review microscope. As a result pricing accelerated through 2019, albeit coming from a historically low base. We entered both these sub-classes during 2018, so our timing had been favourable with the market moving in the right direction. As others retract from these sub-classes we look to grow (whilst always mindful of rating adequacy). We expect pricing to continue to improve in 2020 which will provide us with the opportunity to further build out these portfolios.

Within our power and energy portfolios we support a range of renewable projects around the world. As this industry continues to develop during this period of a global transition to a lower-carbon future, the insurance community helps to provide valuable insurance products that allow such projects to be viable. Renewable energy rates increased during 2019 and we expect this trend to continue into 2020.

Our upstream portfolio saw no supply of capital restrictions. This was primarily because the loss environment, driven by low levels of activity due to oil price levels, has been very benign over the past few years. Therefore, this sector has delivered good underwriting profits and, as such, no one is exiting the class. That said, there is a broad acknowledgement that rating levels are relatively low, so market sentiment had seen pricing improve slowly in both 2018 and 2019, but not to the levels where we would want to broaden our portfolio too much. Our belief is that this market is finely balanced, and it will not take too much loss activity to see rates start to improve more materially. We will remain patient until such time and maintain our core portfolio of risk that has historically performed very well.

Aviation

The Group underwrites both an aviation insurance and reinsurance portfolio across our company and Lloyd's platforms.

The aviation insurance market saw some historically large losses in 2019. Capacity withdrew from the market due to historical unprofitability and the Lloyd's performance management initiative. Therefore, rates improved throughout the year in all parts of our aviation insurance portfolio.

Our aviation insurance offering was broadened at the end of 2018, with a new team specialising in a niche area of the aviation market. This complemented our existing aviation offering to clients and brokers, and as a result our aviation premium grew in 2019 from both rate improvement and new business.

There remain areas of the aviation insurance market where we still do not have a significant market share given current pricing levels. Should rates change, we have the team and the platforms to increase our market share quickly.

The aviation reinsurance market also improved during 2019, albeit to a lesser extent than the insurance market. The simple reason for this is that less capacity exited this sector. Our portfolio shrank during the soft cycle to a core portfolio of risk, and 2019 was the first year where we have been able to cautiously grow as rates started to improve.

Our general outlook for 2020 is for continued pricing momentum in aviation insurance, allowing us the opportunity to continue to increase our footprint in this class.

Marine

We underwrite various sub-classes of marine across our company and through Lancashire Syndicates. All our marine classes saw pricing improvement throughout 2019.

Like many of the specialty lines of business we write, marine has been under scrutiny from the Lloyd's performance review which has seen numerous syndicates exit or significantly reduce their marine portfolios. Consequently, market conditions have improved.

Cargo has seen the greatest degree of dislocation. Withdrawal of capacity started in 2018 and continued into 2019 and underwriting conditions have continued to improve. Most of our cargo portfolio is written by Lancashire Syndicates and we have grown with the market opportunity – with the discipline shown in the soft cycle allowing us the platform to grow into the better market.

Most of our remaining marine sub-classes such as hull, builders' risks and liability are underwritten from our company platform. Whilst not at the same level as cargo, these sub-classes have also seen pricing improvement during 2019 as supply restrictions manifest themselves.

Our outlook for marine in 2020 is for continued rating improvement. Depending upon the extent of this improvement we will look to develop our marine portfolio further.

Overall

In summary, the rating environment seen in 2019 played out broadly as we predicted at the start of the year. We have been able to grow into the improving market and our new teams have benefited from an improved rating environment, allowing them to develop their portfolios. We are very pleased to produce a combined ratio of 80.9% in a year with several mid-sized natural catastrophe losses as well as some large risk losses. This demonstrates our rigorous approach to risk selection and portfolio management. If the market continues to improve in 2020, as we expect it will, then our aim would be to maximise the underwriting opportunity and deliver appropriate risk-adjusted returns.

Protecting our clients, balancing risk, and generating returns

Hayley Johnston
Chief Underwriting Officer, LUK

James Irvine
Chief Underwriting Officer, LICL

Jon Barnes
Active Underwriter, Syndicate 2010

John Spence
Active Underwriter, Syndicate 3010

Underwriting results

	2019						2018					
	Property $m	Energy $m	Marine $m	Aviation $m	Lancashire Syndicates $m	Total $m	Property $m	Energy $m	Marine $m	Aviation $m	Lancashire Syndicates $m	Total $m
Gross premiums written	**223.8**	**94.9**	**37.3**	**53.2**	**297.5**	**706.7**	214.6	103.0	31.1	33.0	256.8	638.5
Net premiums earned	**121.7**	**66.5**	**28.4**	**23.6**	**181.5**	**421.7**	131.9	75.9	21.5	17.8	166.4	413.5
Net loss ratio	**8.8%**	**14.1%**	**13.0%**	**36.4%**	**53.7%**	**30.8%**	34.0%	(27.1%)	102.3%	2.2%	71.4%	40.0%
Net acquisition cost ratio	**18.6%**	**33.1%**	**30.6%**	**23.3%**	**25.7%**	**25.0%**	23.9%	44.3%	55.8%	47.2%	24.6%	30.6%
Expense ratio	**–**	**–**	**–**	**–**	**–**	**25.1%**	–	–	–	–	–	21.6%
Combined ratio	**27.4%**	**47.2%**	**43.6%**	**59.7%**	**79.4%**	**80.9%**	57.9%	17.2%	158.1%	49.4%	96.0%	92.2%

Premiums

Gross premiums written increased by 10.7% in 2019 compared to 2018. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property

Property gross premiums written increased by 4.3% for the year ended 31 December 2019 compared to the year ended 31 December 2018. The property segment experienced new business growth along with rate and exposure-related premium increases across all classes of business, particularly in the property catastrophe and political risk classes. Business flow in the political risk class is generally less predictable than other classes of business due to the lead time and specific nature of each deal. The new business was partially offset by the impact of multi-year contracts written in the prior year that were not yet due to renew.

Energy

Energy gross premiums written decreased by 7.9% for the year ended 31 December 2019 compared to the year ended 31 December 2018. While there was more new business in the worldwide offshore and onshore energy classes in 2019 compared to 2018, the prior year benefited from the restructuring of an existing Gulf of Mexico multi-year deal in addition to premium adjustments that were made to prior underwriting year risk-attaching business in the worldwide offshore energy class.

Marine

Marine gross premiums written increased by 19.9% for the year ended 31 December 2019 compared to the year ended 31 December 2018. The growth reflects rate and exposure increases and favourable prior underwriting year premium adjustments in the marine builders' risk class. In the prior year there was a reduction in exposure on prior underwriting year risk-attaching business in the other marine class and less pro-rata business.

Aviation

Aviation gross premiums written increased by 61.2% for the year ended 31 December 2019 compared to the year ended 31 December 2018. The growth was primarily driven by new and renewal business in the aviation deductible and other aviation classes of business as that underwriting team continues to build their book. The increase was only partially offset by exposure decreases in the AV52 and satellite classes.

Lancashire Syndicates

In our Lancashire Syndicates segment, our Lloyd's platform, gross premiums written increased by 15.8% for the year ended 31 December 2019 compared to the year ended 31 December 2018. The increase was primarily due to new business in the energy, aviation, marine and terrorism classes of business, offset slightly by lower premiums in the property classes.

Ceded

Ceded premiums increased by $61.2 million, or 27.7%, for the year ended 31 December 2019 compared to the year ended 31 December 2018. The increase was primarily due to a combination of additional cover purchased, including some quota share cover for some of the new lines of business we have entered into, and the timing of renewals.

Earned

Net premiums earned as a proportion of net premiums written were 99.3% for the year ended 31 December 2019, compared to 99.0% for the year ended 31 December 2018.

Losses

The Group's net loss ratio for 2019 was 30.8% compared to 40.0% for the same period in 2018. The accident year loss ratio for 2019, including the impact of foreign exchange revaluations, was 51.3% compared to 70.0% for the same period in 2018.

2019 was impacted by catastrophe activity in the form of hurricane Dorian and typhoons Faxai and Hagibis. Our net losses recorded for these events, excluding the impact of inwards and outwards reinstatement premiums, was $52.1 million. In 2018, our net losses from marine and natural catastrophe events, excluding the impact of inwards and outwards reinstatement premiums, was $104.9 million.

While reserves have been recorded, uncertainty exists on the eventual ultimate net loss estimates in relation to hurricanes, typhoons and wildfires as loss information after these types of events can take some time to obtain. The Group's ultimate net loss estimates for these natural catastrophe events were derived from a combination of market data and assumptions, a limited number of provisional loss advices, limited client loss data and modelled loss projections. As additional information emerges, the Group's actual ultimate net losses may vary, perhaps materially, from the current estimates. The final settlement of all claims is likely to take place over a considerable period of time.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of current accident year catastrophe events on the Group's loss ratio for the year ended 31 December 2019:

	Losses $m	Loss ratio %
Reported at 31 December 2019	**129.8**	**30.8**
Absent all catastrophe events	**77.7**	**18.5**

As reported in the Group's results for the year ended 31 December 2018 and excluding the impact of foreign exchange revaluations, the impact of marine and natural catastrophe loss events on the Group's 2018 loss ratio was as follows:

	Losses $m	Loss ratio %
Reported at 31 December 2018	165.4	40.0
Absent natural catastrophe events	78.6	19.2
Absent large marine losses	147.3	34.7
Absent the combined events	60.5	14.4

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

The total estimated ultimate net loss, excluding the impacts of inwards and outwards reinstatement premiums for the 2018 reported marine and natural catastrophe losses were as follows:

	As at 31 December 2019 $m	As at 31 December 2018 $m
2018 loss events[1]	**100.6**	104.9

1. The 2018 loss events include hurricanes Florence and Michael, typhoons Jebi, Mangkhut and Trami and the California wildfires, plus loss events within our marine portfolio.

Prior year favourable development for 2019 was $88.0 million, compared to $126.9 million of favourable development for the same period in 2018. The favourable development in both periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. In 2019, the Group also benefited from favourable development on the 2017 catastrophe loss events partially offset by 2018 accident year claims in the energy and Lancashire Syndicates' segments. In the prior period, the Group benefited from a reduction on prior accident year property and energy claims.

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

	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Property	**37.3**	46.5	14.4	36.6	26.4
Energy	**20.2**	55.0	21.1	17.3	35.2
Marine	**11.1**	12.1	15.2	1.9	13.8
Aviation	**1.1**	1.4	3.0	3.9	2.9
Lancashire Syndicates	**18.3**	11.9	11.4	26.1	29.4
Total	**88.0**	126.9	65.1	85.8	107.7

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2019 and 2018:

Ultimate loss development by accident year

	2019 $m	2018 $m
2009 accident year and prior	**3.3**	27.0
2010 accident year	**(0.9)**	1.6
2011 accident year	**1.4**	4.7
2012 accident year	**6.6**	8.8
2013 accident year	**4.2**	3.5
2014 accident year	**(1.3)**	3.4
2015 accident year	**5.7**	6.6
2016 accident year	**19.3**	33.3
2017 accident year	**30.8**	38.0
2018 accident year	**18.9**	–
Total	**88.0**	126.9

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 30.9% as at 31 December 2019 compared to 39.3% as at 31 December 2018.

Accident year loss ratios

	2019 %	2018 %	2017 %	2016 %	2015 %
Current accident year loss ratio	**51.3**	65.6	77.6	32.5	30.2
Initial accident year loss ratio	**n/a**	70.0	94.2	46.2	46.0
Change in loss ratio post-accident year	**n/a**	4.4	16.6	13.7	15.8

Note: Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2019.

Other operating expenses

Other operating expenses were $106.0 million in 2019 compared to $89.2 million in the same period last year. The increase was driven primarily by the underlying performance of the Group which has resulted in a higher variable compensation element of employee remuneration costs compared to 2018. Employment costs have also increased due to general salary increases. This was only partially offset by the impact of the depreciation in Sterling relative to the prior period.

The equity-based compensation expense was $9.6 million in 2019 compared to $7.9 million in the same period last year. The equity-based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. Lower equity-based compensation charges were recorded in 2018 as required return thresholds for performance award vesting were not met.

Third-party capital management

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

	2019 $m	2018 $m
LCM underwriting fees	**7.9**	6.6
LCM profit commission	**1.0**	–
LSL fees & profit commission	**2.5**	5.8
Total other income	**11.4**	12.4
Share of profit (loss) of associate	**5.9**	(7.1)
Total third-party capital management income	**17.3**	5.3

The LCM profit commission is driven by the timing of loss experience, settlement of claims and collateral release and therefore varies year on year. Following the significant catastrophe loss activity during 2017 and 2018, and the resulting loss experience, there was no profit commission for any of the 2017 or 2018 underwriting cycles.

The higher underwriting fees in 2019 reflect the increased level of premiums under management compared to 2018.

The LSL fees and profit commission were driven by the relative profitability of the underwriting years impacting the profit commission in each period.

The share of profit (loss) of associate reflects Lancashire's 10% equity interest in the LCM managed vehicle.

Denise O'Donoghue
Group Chief Investment Officer

Investments, liquidity and cash flow

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. As market volatility continues, we position our portfolio to limit downside risk in the event of market shocks. In the first half of 2019, our focus was on managing our interest rate risk, and as such we continued to hold short duration high quality assets. With the Federal Reserve's pivot in June, interest rates declined, however with the very flat yield curve, we did not see a large benefit from increasing duration much. We continue to maintain a short duration fixed maturity portfolio and have been using our risk budget to add products to our portfolio to help diversify from interest rate volatility.

Our portfolio mix illustrates our conservative philosophy, as shown in the table below. With the composition regulated by the Group's investment guidelines, we have three investment portfolio categories: 'core', 'core plus' and 'surplus'. The core and core plus portfolios contain at least enough funds required to meet near-term obligations and cash flow needs following an extreme event. Assets in excess of those required to be held in the core and core plus portfolios may be held in any of the three categories, which are discussed further on page 127.

The composition, duration and asset allocation of the investment portfolio are reviewed 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 tolerance levels, adjustments may be made to reduce the risk in the portfolio. We try to be nimble in our investment strategy while putting our objective of capital preservation first and foremost.

We believe in the application of common sense, and do not place much reliance on 'black box' approaches to investment selection.

Investments are, however, inherently unpredictable and there are risks associated with any investment strategy decisions. Recent market history has been tumultuous, and we remain ever watchful. We will continue to monitor the economic environment closely.

Investment performance

Net investment income excluding realised and unrealised gains and losses was $37.7 million for the year ended 31 December 2019, an increase of 8.6% compared to 2018. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $83.2 million for the year ended 31 December 2019 compared to $12.5 million for 2018.

The Group's investment portfolio generated a strong total return of 4.9% in 2019 with positive returns from all asset classes, driven primarily by the three 25 basis point rate cuts by the Federal Reserve. Credit spreads also tightened during the year. This was in contrast to 2018 which saw an increase in treasury yields and the widening of credit spreads, resulting in an annual return of 0.8%.

Managed investment portfolio allocations

	2019 %	2018 %	2017 %	2016 %	2015 %
Cash	**11.4**	4.8	10.2	10.4	9.6
Short-term investments	**4.9**	12.9	6.0	0.3	1.1
Fixed maturity funds	**0.7**	0.7	1.7	0.8	0.6
Government debt	**12.7**	14.4	17.0	20.3	23.6
Agency debt	**3.5**	5.1	3.8	4.4	0.2
Agency MBS, CMBS	**5.8**	4.9	7.7	6.4	7.3
Non-agency RMBS, ABS, CMBS	**8.2**	8.6	8.5	7.3	8.4
Corporate bonds	**34.4**	29.9	28.2	32.5	33.2
Bank loans	**5.9**	6.3	5.8	6.6	5.9
Fixed maturity – at FVTPL	**2.9**	2.6	1.4	2.8	1.3
Equity securities	**–**	1.3	1.3	1.2	0.8
Private debt fund – at FVTPL	**0.9**	–	–	–	–
Hedge funds – at FVTPL	**8.7**	8.5	8.4	7.0	8.0
Total	**100.0**	100.0	100.0	100.0	100.0

Liquidity

The Group is a short-tail insurance and reinsurance group. As such, the investment portfolio must be liquid, short duration, and highly creditworthy. As noted earlier, the Group's investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims in conjunction with providing a reasonably stable income stream.

Liquid securities will be maintained at an adequate level to more than meet expenses, including unanticipated claims payments. Only once safety, liquidity and investment income requirements are satisfied may additional yield in the investment portfolio be pursued.

Cash flow

The Group's cash inflows are primarily derived from net premiums received, from losses recovered from reinsurers, from net investment income, including dividends and other returns from its associates, and any capital raising activities performed in a given year including the issuance of debt. Excess funds are invested in the investment portfolio, which primarily consists of high-quality, highly liquid fixed maturity securities of short duration. Other cash inflows result from the sale and redemption of investments.

The principal outflows for the Group are the settlement of claims, the payment of premiums for reinsurance cover, payment of general and administrative expenses, the servicing of debt, the purchase of investment products (including LCM), the distribution of dividends and the repurchasing of shares.

Capital management

Lancashire has built a reputation for being one of the best known and most active proponents of capital management in the industry. Capital management is our most important area of focus after underwriting and it is our firm belief that proactive and flexible capital management is crucial in helping to generate a superior risk-adjusted return over time. With our focus on maximising risk-adjusted shareholder return over the long-term we will return capital where this offers the best returns for our shareholders. We have returned 105.0% of comprehensive income generated via dividends or share repurchases since inception.

The Group actively reviews the level and composition of capital on an ongoing basis. 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. The key aim of the capital management process is to maintain a strong balance sheet, whilst:

- 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, regulatory and rating agency requirements.

The subsidiary operating entities also conduct capital requirement assessments under internal measures and in compliance with local regulatory and Lloyd's requirements.

Capital raising can include debt or equity, and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. All capital actions require approval by the Board of Directors. The retention of earnings generated also leads to an increase in capital.

The composition of capital is driven by management's appetite for leverage, amongst other factors, including the cost and availability of different types of capital. Maintaining a strong balance sheet will be the overriding factor in all capital management decisions.

Capital

As at 31 December 2019, total capital available to the Group was $1.517 billion, comprising shareholders' equity of $1.193 billion and $323.5 million of long-term debt. Tangible capital was $1.363 billion. Leverage was 21.3% on total capital and 23.7% on total tangible capital. Total capital and total tangible capital as at 31 December 2018 were $1.391 billion and $1.238 billion respectively.

Dividends

During 2019, the Lancashire Board declared a final dividend of $0.10 per common share in respect of the 2018 financial year and an interim dividend of $0.05 per common share in respect of 2019. The Board of Directors has declared a final dividend for 2019 of $0.10 per common share, subject to a shareholder vote of approval at the AGM to be held on 29 April 2020. On the basis that the final dividend of $0.10 per common share is approved by the shareholders at the 2020 AGM the total capital returns since inception amount to $2.8 billion or 288% of initial capital raised. The final dividend will be paid on 5 June 2020 to shareholders of record on 11 May 2020.

Non pre-emptive issue of shares

As part of the Group's flexible approach to capital management the Board has in recent years requested and received from shareholders authority to issue up to 15% of its shares on a non pre-emptive basis. Lancashire believes that this ability to raise capital quickly is important in securing first mover advantage in the catastrophe insurance and reinsurance business which it underwrites. The Board proposes to put a similar request for authority to shareholders in a resolution at the 2020 AGM to be held on 29 April 2020.

Letters of credit

Lancashire has a syndicated LOC facility which in total amounts to $300.0 million, with a $75.0 million loan sub-limit available for general corporate purposes. Syndicate 2010 has a catastrophe facility in place to assist in paying claims and the gross funding of catastrophes. Up to $80.0 million can be utilised by way of an LOC or a RCF to assist Syndicate 2010's gross funding requirements. With effect from 1 January 2020, while up to $80.0 million in aggregate can be utilised by way of an LOC or an RCF to assist Syndicate 2010's gross funding requirements, only $40.0 million of this amount can be utilised by way of an RCF. Furthermore, a $44.0 million uncollateralised facility is available for utilisation by LICL and guaranteed by LHL for FAL purposes.

There was no outstanding debt under the above facilities at any reporting date. There are no off-balance sheet forms of capital.

Continuous and consistent risk management

Louise Wells
Group Chief Risk Officer

As a short-tail, specialty (re)insurer risk management is key to our success; balancing the risk we take on with the return we receive for that risk is critical. Understanding the risk and seeing the opportunity enables us to deliver for our clients; additionally, balancing the risk and managing our volatility enables us to maximise the return to our shareholders over the cycle. As a result, ensuring we have continuous and consistent risk management embedded across the Group through the Risk Management Framework is a key focus.

Risk strategy

Our risk strategy is the starting point for the development and evolution of our Risk Management Framework and is therefore refreshed on an annual basis in line with the regular development of our framework and the annual review of the business and capital strategy. Our risk strategy must be aligned with our business and capital strategy to ensure the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions.

The Group's financial performance is exposed to risks from several sources. These include insurance risk, strategic risk, market risk, liquidity risk, credit risk, operational risk, group risk and regulatory and legal risk. The primary risk to the Group is insurance risk, which can be subdivided into the core risk of underwriting and the non-core risk of reserving and includes the Group's risk exposures to natural catastrophes including wind storms, wildfires and other loss events linked to climate change trends.

The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary marginally from time-to-time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity-level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on at least a monthly basis, management assesses our modelled potential losses against risk tolerances to ensure that risk levels are managed in accordance with them.

Risk Management Framework

The Group subscribes to a 'three lines of defence' model, the front line being risk ownership by business managers. Responsibility for the management of individual risks has been assigned to, and may form part of, the performance objectives of the risk owners within the business. Risk owners ensure that these risks and the controls that mitigate against these risks are consistent with their day-to-day processes and the entries made in the respective risk registers, which are a direct input into the subsidiary capital models. The second line comprises the risk management team, which is responsible for risk oversight. Within this, the Group CRO provides regular reports to the business outlining the status of the Group's ERM activities and strategy, as well as formal reports to the Board and the boards of the individual operating entities. The Group CRO ultimately has the right to report directly to the Group and entity regulators if she feels that management is not appropriately addressing areas of concern. LSL's CRO provides formal reports to the LSL Board and its RCCC. The third line of defence is the internal audit function, which works closely with the risk management team in providing risk assurance by assessing the operating effectiveness of the controls and the culture.

We continue to perform a quarterly risk and control affirmation process whereby the operation of all key controls is affirmed by the control operators and then reviewed and signed off by the risk owners. In addition, the risk owners are required to affirm that their risks remain appropriately documented and scored. The risks are scored on both a gross basis (i.e. inherent risk pre-controls) and a net basis (i.e. residual risk post the application of controls). The output from this process is reported to the RRC and the Group and operating subsidiary audit and risk committees or boards of directors as appropriate.

As at 31 December 2019, all Group entities were operating within their board-approved risk tolerances.

The quarterly ORSA reports prepared by the Group CRO to the main Board provide a timely analysis of current and potential or emerging

ERM & ORSA

Key activities

- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board

ERM & ORSA

- Group CRO report to Board and Executive Management Committee
- Production of ORSA report and review and approval by the Board

- Risk identification and assessment
- Quarterly risk and control affirmations
- Quarterly internal audit reports to the Audit Committee per a three and four-year rolling programme
- External audit reports to the Audit Committee
- Audit Committee annual review of the effectiveness of financial controls

- Capital and liquidity management frameworks
- Review of internal model policies, capital and solvency appetites
- Full/proxy capital assessments
- Rating agency capital assessments
- Stress and scenario testing

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

- Review of risk management policies
- Assessment of Risk Management Framework maturity
- Integrated assurance assessment
- Emerging risk assessment

- Review and approval of business plan by the Board
- Stress and scenario testing (business plan)
- Assessment of management actions

Key elements of ORSA

- Board sign off and embedding
- Business strategy
- Risks
- Capital and solvency
- Stress and scenario testing

risks, compared against risk tolerances, along with their associated capital requirements.

Our annual ORSA report is now prepared under the requirements of the BMA's regulatory regime which has been recognised as being Solvency II equivalent. The 2020 ORSA will be presented to the Board for review, challenge and approval at the Q1 2020 Board meeting.

As a Lloyd's managing agent, LSL falls within the Society of Lloyd's for Solvency II reporting, preparing ORSA reports for each syndicate. LSL has its own ERM framework to ensure adherence to Lloyd's minimum standards.

The diagram on the previous page illustrates how we balance our ERM and ORSA activities. Our risk culture is driven from the 'top down' via the Board and executive management to the business, with the RRC central to these processes. Culture is also driven from the 'bottom up' through the risk and control affirmation process. The primary role of the Group CRO is to facilitate the effective operation of ERM and the ORSA processes throughout the Group at all levels. The role includes, but is not limited to, the following responsibilities:

- overall management of the risk management system;
- to drive ERM culture, ownership and execution on three levels: Board, executive management and operational within the business;
- to facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board, including the articulation of risk preferences and the adoption of formal risk tolerances;
- to ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision-making process; and
- to be consulted, and opine, on policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and to provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

RRC

The RRC, under the chairmanship of the Group CEO, is the key management tool for monitoring and challenging the assessment of risk on a regular basis. It seeks to optimise risk-adjusted returns and facilitate the appropriate use of the Group's internal models, including considering their effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity boards of directors. The RRC includes the Group CEO, members from the finance, actuarial, modelling, operations, treasury and underwriting functions and both the Group CRO and LSL CRO. The Group CRO reports on the RRC's activities to the Group and individual entity boards of directors and via the LSL CRO to the RCCC of LSL. Through the Group CRO the RRC considers recommendations to the Board and its Committees with regard to the adoption of formal risk tolerances.

Examples of specific items considered by the RRC during 2019 include: the Group strategy and business plan, risk appetite statements, capital and solvency appetite, ERM framework, stress and scenario tests (including the addition of a climate change scenario covering transitional and physical risk factors) and the results of the quarterly affirmation process and related controls testing.

Capital models

We continue to challenge the assumptions used in the individual capital models and make changes where appropriate.

Changes in risk

From an insurance risk perspective, the business has written just over 10% more Gross Written Premium (GWP) than in 2018. This increase reflects an increased appetite to write business as we have seen improving rates across most of our classes of business and increases in business in downstream energy, power and aviation deductible following recruitment of new underwriting teams in these areas in 2018. In addition, as is the case every year, our underwriters have reviewed and refined our purchasing of reinsurance cover. This is designed to ensure our reinsurance buying is aligned to our latest strategy and is targeted to be as responsive as possible, thereby helping to reduce net insurance risk exposures or enabling additional risk taking.

From an operational risk perspective, there have also been a number of important risk and control changes during the year, for example the change of regulatory and tax domicile of the Group from the UK to Bermuda in January 2019. Following this change, the business has documented related controls to help ensure that there is a good understanding of how and where key decisions are to be taken in order to mitigate associated corporate governance and tax risks arising from this change.

Emerging risk

The identification and assessment of emerging risk occurs throughout the Group from individual departments to management and executive committees, to the boards of directors and sub-committees of the boards. The risk department maintains an emerging risk register, which is provided to the executive committees, Board and entity boards of directors each quarter, and is therefore subject to an iterative process of review and oversight. Emerging risks, by their nature, are difficult to quantify, however during 2019 the Group strove to foresee potential areas of new risk, or developments in existing risks, and to assess how those risks could impact the Group. Much of the focus in 2019 was on the continued development of previously reported emerging risks including Brexit, climate change risks (physical, financial, transitional and liability), global tax reform and geopolitical instability. Climate change risk has risen to the top of many political agendas internationally over the last year and has remained an area of risk monitoring and management for us at both management and Board level. The threat which catastrophic weather events poses to individuals, communities and businesses illustrates the social and economic value which our risk management products generate. This is therefore a key area both of strategic opportunity for our business and one of the key drivers of our underwriting risk exposure management. In particular, management and the Board set tolerances for, and monitor, the Group's probable maximum losses for major catastrophe events and in particular weather-related exposures. Please see page 120 for a list of the Group's current PML risk exposures. Climate change risk also informs the way we manage our investment portfolio and associated risk. During 2019, the Group once again participated in the Carbon Disclosure Project, which is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures, which are promoted by the Financial Stability Board and the Bank of England.

Risk universe

We continue to classify risks in three broad classes: (a) Intrinsic Risk: 'Risk that stems from the inherent randomness and uncertainty that exists in the universe in which we operate and that is therefore fundamental to how we manage our business'. This can be core (represents the potential to generate a return as well as a loss) or non-core (offers no direct potential for return); (b) Operational Risk: which can be independent or correlated; and (c) Other Risk: the non-financial category of risks which cannot necessarily be mitigated by holding capital since such risks may not have direct balance sheet implications.

The Board evaluated the risks disclosed, alongside other factors, in the assessment of the Group's viability and prospects as set out in the going concern and viability statement in the Directors' report at page 99.

Risk universe

Type	Category	Description
Intrinsic Core	Underwriting Investment	Intrinsic risks representing the potential to generate a return as well as a loss. In these areas, the Group promotes informed risk taking that considers the risk and return equation in all major decisions, with the intention of maximising risk-adjusted return on equity. We recognise that by insuring fortuitous events we can suffer losses and that within our investment portfolio we can see the value of investments fall. We cannot avoid these risks, so we focus on the correlated operational risks and seek to mitigate them. For example, we know that by insuring the risk of earthquake we are exposed to the risk that losses exceed our plan. We model our portfolio using stochastic modelling to review actual and planned exposures to ensure they remain within tolerances. The correlated risks are that we might fail to design or maintain effective tolerances and limits, and fail to maintain exposures within such limits; or that we fail to keep accurate and timely records of our exposures. We then devise systems and processes to mitigate these risks, such as PML reconciliations and RDS sign offs, with review by the RRC and regular ORSA reports to the Board, which also considers and approves formal risk tolerances.
Intrinsic Non-core	Reserving (Re)Insurance counterparty Liquidity	Intrinsic risks to which we are inevitably exposed as a result of conducting our day-to-day business operations, yet offer no direct potential for return. They are quantified insofar as practicable for the purposes of capital and risk management and avoided or minimised insofar as is economically justifiable.
Operational	Operational	These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. They have the potential either to magnify the adverse impacts of intrinsic risks, for example increased reinsurer default losses arising through the use of non-approved counterparties; or to crystallise separately in their own right, for example losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.
Other	Strategic Group Emerging	These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

Balancing our risks and opportunities

As described under our review of the risk universe on page 33, our classification of risks as Intrinsic Core and Intrinsic Non-core, Operational and Other helps us to focus on our management and mitigation of those risks.

Further details concerning these risks can be found on pages 119 to 142. Within the capital models, insurance risk accounts for over 80% of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place a large number of controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested. For example, we spend a lot of time looking at the implications of emerging capital and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change through the analysis of the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned to our business planning, ORSA processes and time horizons. The selected tests are aligned to our key risk areas and include capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.

Type	Mitigation
Intrinsic risk: Core	
Underwriting: Losses in our classes are hard to predict, in particular as to the specifics of timing and quantum of catastrophe loss events. Additionally, we write lines of business that are subject to accumulations, including accumulations of individual risk losses arising from a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and AV52 portfolios. Losses can also exceed expectations in terms of both frequency and severity. We recognise that through climate change trends, and other influencing factors, weather-related incidences or other actual catastrophe loss events may increase losses in frequency, severity and clustering so, although we model losses, for example using the RMS and AIR stochastic models, we know that these projections can and will be wrong in many instances.	**Modelling:** We apply loads to, and stress test, stochastic models and develop alternative views of losses using exposure damage ratios. We review our assumptions periodically to ensure they remain appropriate. We also back test our portfolio against historic events to assess potential losses. **RRC:** The RRC considers accumulations, clashes and parameterisation of losses and models. **Governance: Board and capital management:** We set our internal capital requirements at a level that allows for buffers above accumulations of extreme events and, further to recommendations, the Board approves risk tolerances at least annually and considers capital requirements on at least a quarterly basis. **Reinsurance:** We buy reinsurance to manage our exposure and protect our balance sheet. The structure of our programme was reviewed for 2020 to ensure it remained aligned to our strategy and risk profile.

Risk trend key:	
Increased	↗
Stable	↔
Decreased	↘

Risk impact key:	
High	↑
Moderate	→
Low	↓

Risk appetite key:	
Acceptable	✓
Reassess	↻
Unacceptable	✕

Trend	Impact	Appetite	Link to strategy	Opportunities	How the Board reviews this risk
Stable	High	Acceptable	Underwriting comes first	As market dynamics change so too do the opportunities available to the Group. We remain creative in being able to provide tailored insurance and reinsurance products and solutions to our core clients across the three platforms of our business. 2019 saw some opportunity for organic growth and there are signs that 2020 will provide further opportunities.	Unsurprisingly, the Board views underwriting as the Group's key risk. As such, the Board continues to focus on underwriting expertise and discipline to effectively balance the equation of risk and return, and operate nimbly through the cycle. The Board is actively engaged in the development and implementation of the Group's underwriting strategy, plus the articulation of, and adherence to, formal underwriting risk tolerances. Quarterly risk data on this is both received and reviewed by the Board's Underwriting and Underwriting Risk Committee (UURC) to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. The UURC and Board also review and approve the structure of the Group's outwards reinsurance programme.

Type	Mitigation
Intrinsic risk: Core (continued)	
Investment: We need to hold sufficient assets in readiness to pay claims, but the markets and products in which we invest can suffer volatility and losses. As a short-tail insurer, we are able to hold the majority of assets in low-duration securities such as fixed maturities. However, this creates an additional source of risk in the current environment where there is an interest rate risk as a result of Federal Reserve policy, such as the pivot in the Federal Reserve's outlook in June 2019. We model our investment portfolios and use various stress scenarios to see what kinds of losses we could expect under a range of outcomes. The Investment Committee adopts a strategy which has a low exposure to the effects of climate change transitional risk over the various asset classes.	**Governance: Board and investment strategy:** Our strategy is that investment income is not expected to be a significant driver of our returns. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored on a quarterly basis by the Investment Committee and Board. A detailed strategic asset allocation study is performed biannually. **IRRC:** The IRRC forms an integral part of our risk management framework, meeting at least quarterly and reporting to the RRC. **External advisers:** Lancashire's Board and management recognise that the Group's principal expertise lies in underwriting so we use the services of internationally recognised investment managers who are experts in their fields. The Group's principal investment managers are signatories to the Principles for Responsible Investment.
Intrinsic risk: Non-core	
Reserving: Because we do not know the amount of losses we are going to incur at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. If these reserves are inadequate and claims exceed them, this may have an impact on earnings, or indeed capital. Independent reserve reviews by external actuaries look at the overall levels of expected losses, as well as individual large events, including benchmarking analyses to provide assurance over the level of reserves booked.	**Short-tail business:** Lancashire's focus is on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty. **Experience data:** We have access to a lot of data, both our own and from the industry as a whole, about losses and loss trends. Actuarial and statistical data are used to set estimates of future losses, and these are reviewed by underwriters, claims staff and actuaries to ensure that they reflect the actual experience of the business. **Governance:** Reserves are reviewed and approved by the Reserve Committee whose members include representation from finance, actuarial and claims; there are additional attendees from finance, actuarial, underwriting, legal and risk. A reserve report is presented and reviewed on a quarterly basis by the Audit Committee. **External review:** Insurers typically facilitate an independent review by external actuaries of their loss reserves. Lancashire retains the services of one of the leading industry experts and our appetite is defined so as to set reserves within a range of reasonable estimates based on both internal and external review. The Audit Committee of the Board receives and considers quarterly reports from management and the Group Chief Actuary. In addition, the Audit Committee receives and considers reports on reserve adequacy from the external actuary six monthly.
(Re)Insurance and intermediary counterparty: Almost all the insurance policies which we write are brought to us by brokers, who act as intermediaries between us and the client, and handle the transaction of payments of claims and premiums on our behalf. This exposes us to the risk of mishandling by, or failure of, the broker concerned. In order to make our portfolio as efficient as possible, we buy reinsurance to protect against severity, frequency and accumulation of losses. Again, this exposes us to the risk that our counterparties may have the inability or unwillingness to pay us in the event of a loss.	**Counterparty credit limits:** The Broker Vetting Committee is responsible for the broker vetting approval process and monitoring credit risk in relation to brokers. In addition, the Group conducts broker business using non-risk transfer TOBAs. This mitigates the risk due to non-payment by brokers and intermediaries as monies are held in separated client accounts. We use counterparty credit limits, seek to deal with reputable reinsurers that meet our minimum rating standards, and use collateral agreements where appropriate. The operating entities of the Group that contract for reinsurance separately maintain and report their own counterparty credit limits at the entity level. The RSC is responsible for approving counterparties and monitoring aggregate limits.

Trend	Impact	Appetite	Link to strategy	Opportunities	How the Board reviews this risk
↔	↓	✓	Effectively balance risk and return	The primary objectives for our investment portfolio remain capital preservation and liquidity. Our conservative approach limits our downside risk but means we are unlikely to equal the returns of peers taking on more investment risk.	The Investment Committee receives and reviews investment strategies, guidelines and policies, risk appetite and associated risk tolerances, and makes recommendations to the Board in this regard. The Committee also monitors performance of the investment strategies within the risk framework and compliance with investment operating guidelines. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances.
↔	↑	✓	Effectively balance risk and return	Whilst our focus is on short-tail lines of business uncertainty still exists on the eventual ultimate losses as loss information can take some time to obtain. As additional information emerges, the Group's actual ultimate loss may vary, perhaps materially, from those initially reported. This may result in reserve releases or a required strengthening of reserves.	The Board reviews this risk in detail on a six-monthly basis through the Audit Committee, which focuses on the appropriateness of the overall reserve levels, informed by the external actuary's independent review of reserve adequacy and the UURC, which receives updates from management on individual large losses.
↔	→	✓	Underwriting comes first and Effectively balance risk and return	As both a purchaser and seller of reinsurance, opportunities exist throughout the insurance cycle. In recent years, with rates suppressed, the quantum of reinsurance coverage purchased has increased and therefore so has counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to ensure monies due are received. As always, it is the case of balancing the risk we are taking with the expected return; reinsurance purchasing is one way of balancing this.	The quarterly ORSA report to the Board includes the top five reinsurance counterparty exposures versus the Board-agreed tolerances. These tolerances are reviewed and approved on an annual basis by the Board and considered as part of the annual strategy review. Amounts owed to intermediary counterparties are included in the underwriting information provided to the UURC on a quarterly basis.

Type	Mitigation

Intrinsic risk: Non-core (continued)

Liquidity: In order to satisfy claims payments we need to ensure that sufficient assets are held in a readily realisable form. This includes holding liquid assets for the modelled payout of loss reserves, as well as ensuring that we can meet claims payments in relatively extreme events.

Portfolio management: The Group maintains liquidity in excess of the Board-agreed tolerances. This is achieved through the maintenance of a highly liquid portfolio with short duration and high creditworthiness. We monitor this through the use of stress tests and mitigate risks through the quality of the investments themselves.

Operational

These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. The Group is also subject to regulatory supervision and oversight, as well as legislation and tax requirements across a number of jurisdictions (see page 46 for more information). Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposures. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system. Furthermore, unauthorised access to IT systems as a result of a breach or failure could result in data loss, including personal data, which may have regulatory and/or reputational risk implications.

Capacity: We mitigate IT availability risk by adding redundancy to the capacity we need and using backups of data, including off-site storage that we test regularly. Additionally, the Group has both Disaster Recovery and Business Continuity Plans in place that are tested annually and which are designed, in particular, to help minimise the risk posed by Bermuda hurricane events or disruptive political or terrorism events in London. The business follows strict tax and regulatory operating guidelines, which are periodically reviewed and approved by the Board.

Testing and access: We mitigate the integrity risk by using independent external penetration tests, and by restricting access to key systems to only those people who are qualified and need to use them.

Personnel: We mitigate the risks associated with staff retention and key-man risk through a combination of resource planning processes and controls. Examples include targeted retention packages, documented position descriptions and employment contracts, resource monitoring and the provision of appropriate compensation and training schemes. In addition, the Group has core values, which all employees subscribe to and which reflect the culture described in our recent staff engagement survey. The Board regularly reviews succession planning arrangements and remuneration structures. Although the Group holds limited personal data, it has a suite of policies and processes, including penetration testing procedures, around data protection which facilitate compliance with the EU General Data Protection Regulation (GDPR) and the Bermuda equivalent of the GDPR, the Personal Information Protection Act (PIPA).

Other – Brexit and climate change

These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as practicable. They include categories such as strategic, group, regulatory and emerging risks. Brexit has been a continued focus of the Group during 2019. With the UK having left the EU at the end of January 2020, our focus for 2020 will be on monitoring what the UK's ongoing trading relationship with the EU will be at the end of the transition period (currently due to end on 31 December 2020), in particular on the financial services industry. We maintain our view that the impact of Brexit is not a significant risk to the Group given our trading profile and the solutions that have been put in place. Whilst we view climate change as a factor relevant principally to our underwriting and investment risks (see above), the Board and business continue to monitor the effects of climate change risk perceptions as a driver of global economic, political and regulatory change.

Qualitative approach: These risks require a qualitative approach, engaging staff in appropriate discussions about sources of risk, and then thinking about possible outcomes. The Group Executive Management Committee and the RRC consider these issues, and the quarterly ORSA reports made by the Group CRO to the Board include standing items on these risk areas. Brexit updates were included throughout the year.

Trend	Impact	Appetite	Link to strategy	Opportunities	How the Board reviews this risk
			Effectively balance risk and return	As previously noted, liquidity is a primary objective of our investment portfolio. It is important we balance the need for liquidity and being able to pay our clients' claims on a timely basis with the opportunity for return from our investments. We do this through different investment portfolio categories.	Liquidity risk is reviewed by the Investment Committee which regularly receives and reviews reports detailing asset allocation and compliance with pre-defined guidelines and tolerances.
			Operate nimbly through the cycle and Effectively balance risk and return	A risk-based approach is followed to determine which areas require strongly controlled processes and procedures (i.e. the key risk areas) and those areas where a more proportionate approach is appropriate (those areas assessed as low risk).	The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process. The Audit Committee reviews this alongside the quarterly updates from internal audit regarding their programme of work and opinion on the effectiveness of controls. In addition, the quarterly ORSA report from the Group CRO to the Board includes details of any operational loss events and changes to the risk register and the drivers for such change. The focus on operational resilience and culture has increased in 2019, with the Audit Committee receiving an internal audit report on IT strategy and the Board receiving the results of the staff engagement survey.
			Effectively balance risk and return	Brexit and climate change risk factors are examples of other risks the Group considers and monitors. As reported last year, to mitigate the impact of Brexit, the Group considers that a significant proportion of LUK's existing EU27 business could be written via Lloyd's Brussels, utilising LSL, which has Lloyd's approval for this arrangement, subject to ongoing approval from Lloyd's and any additional approvals required in relation to the operation of Lloyd's Brussels. Climate change, as Alex Maloney discussed in his report on page 13, and the trend of increased frequency and severity of weather-related loss events illustrate the value of our insurance and reinsurance products to our clients. Whilst we already insure many clients in the renewable energy sector, as the world transitions to non-carbon forms of energy the opportunities within this sector will grow.	As Peter Clarke and Alex Maloney noted in their introductory statements (see page 9 and page 13), climate change is increasingly a topic of debate at the Board and its various Committee meetings. In addition, the stress and scenario testing performed as part of the annual business planning process and regulatory reporting process includes a climate change related scenario looking at both transitional and physical risks, and the Board concluded that the results of this scenario testing did not represent a material risk to the Group.

Delivering our purpose

We are committed to engaging with our people, our stakeholders and society, and creating a healthy and sustainable corporate culture.

The Board and Section 172 responsibilities

At the beginning of 2019, the 2018 UK Corporate Governance Code introduced more formal requirements around the interests of and engagement with stakeholders, and the duties falling upon boards under Section 172 of the UK Companies Act 2006. Although the Company is incorporated in Bermuda and therefore not subject to the UK Companies Act requirements, the Board continues to pay close attention to developments in English law and governance best practice.

In this 2019 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of its stakeholders in their discussions and decision making. To that end, this engagement and sustainability segment should be considered together with the rest of this report as the Company's comprehensive account of its Directors' compliance with their Section 172 duties. The table below directs readers to some illustrative examples of where the Board and business have addressed these duties:

Our stakeholders

Section 172(1):	Duty to promote the success of the company, with regard to:	For further details, see:
a)	The likely consequences of any decision in the long term;	• The Group's statement of purpose – inside cover • The Group's business model for success – pages 10 to 11 • The Group's strategic goal and three priorities: that underwriting comes first; to effectively balance risk and return; and to operate nimbly through the cycle – pages 14 to 15
b)	The interests of the company's employees;	• The importance of our people, and the business's focus on Lancashire's values, culture, diversity & inclusion, training & development and workforce engagement (for example, our 'Engagement in action') – pages 41 to 43 and 74 to 76
c)	The need to foster the company's business relationships with suppliers, customers and others;	• Our business depends upon the strong business relationships that we build and maintain with our core and broader stakeholders. All Board members attend the quarterly Underwriting and Underwriting Risk Committee and, during 2019, gave close consideration to business development opportunities as summarised in the Committee's report – pages 43 and 70 to 71
d)	The impact of the company's operations on the community and the environment;	• Society and the environment form part of our 'core' set of stakeholders. The Board is engaged with the impact of the Company's operations through its oversight of the Lancashire Foundation, the Group's submission to the Carbon Disclosure Project, the annual offsetting of our GHG emissions, and more recently the commitment to report against the UNEP FI Principles for Sustainable Insurance – pages 44 to 45 and 52 to 54
e)	The desirability of the company maintaining a reputation for high standards of business conduct; and	• Through its compliance with the FRC's UK Corporate Governance Code, the Company strives to operate in line with high standards of governance expectation and business conduct. A healthy and sustainable corporate culture is embedded throughout the business, which is assessed by the Board through various channels – pages 40 to 47, 48 to 49 and 64 to 67 • The Audit Committee oversees the Group's implementation of whistleblowing arrangements, and other systems and controls for the prevention of fraud, bribery and money laundering – page 62
f)	The need to act fairly as between members of the company.	• The Board is committed to treating the Company's shareholders fairly, and engaging with them through a broad programme of investor relation activities, meetings (including the AGM), and targeted consultations; be that with our substantial shareholders, the Company's own employees, private individuals, or via shareholder advisory groups – pages 28 to 29, 40 to 47 and 76 • Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of special dividends – pages 8 to 9, 29 and 96

Our approach to stakeholder engagement

The Group has always positively engaged with a broad range of stakeholders. Our 'core' stakeholders are shown at the heart of the diagram, namely our shareholders and our people (who support our business), as well as our policyholders who rely on the (re)insurance products we sell. Through our purpose as a business we aim to benefit society and the environment. The value of these relationships and the responsibilities they entail are recognised throughout the Group, ranging from Board-level decision making through to the day-to-day business activities of our workforce.

The Group's relationship with its broader stakeholders can, of course, at any one time also be of key importance. The Board and the business prioritise underwriting excellence and nimble capital management to serve the best interests of core stakeholders, and ultimately benefit a broader group of stakeholders. It is the fluidity of these relationships which enables the business to deliver on its purpose and strategy.

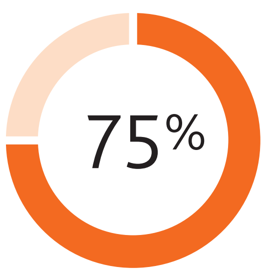
Engagement in action:

2019 employee engagement survey

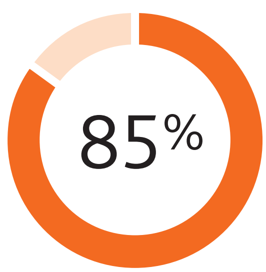
In September 2019, the Group conducted its first employee engagement survey – 'Have Your Say'. The survey was undertaken with the purpose of measuring employee satisfaction, highlighting the key attributes of the business's culture and gaining valuable feedback on areas for potential improvement across the Group. The survey was co-ordinated by an independent company to guarantee the confidentiality of individuals' responses. In light of this being the first iteration of the feedback exercise, the results were benchmarked against similar-sized companies within the financial services sector. The Group Head of HR presented the overall results to the Board and executive teams and, in turn, departmental heads held dedicated sessions with their team members to discuss the results pertinent to that area of the business. Based on the positive feedback received, the Group intends to conduct an employee engagement survey on an annual basis and to implement new initiatives with a view to building on areas of the Group's culture.

Key findings and feedback:

Employee participation



Employees responding positively as engaged with the business



Versus benchmark

14 points

against peer benchmarks

		Vs benchmark
Employee Engagement	85%	+14 points
Leadership	83%	+29 points
My Colleagues	86%	+30 points
Personal Growth	73%	+13 points
Wellbeing	64%	+6 points

		Vs benchmark
Company Alignment	75%	+5 points
My Manager	78%	+3 points
Empowerment	80%	+12 points
Recognition	64%	+8 points
Satisfaction	76%	+19 points

Engagement in action:

The 'Lancashire values' working group

During 2019, a small working group of employee volunteers was assigned the task of devising a new set of 'Lancashire values', based on what they consider to be representative of the business's culture. The values form part of the year-end employee appraisal process and reflect a standard of conduct expected from everyone working within the Group. Following a series of constructive meetings, the working group settled upon the following new values, which were approved by the Group Executive and will be rolled out to the business during 2020:

- **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.

Our people

Culture

Our employees are the lifeblood of the organisation and the Group therefore strives to attract and retain excellent individuals who share our drive and appetite to outperform. Matching the skills, aspirations and values of new recruits to those of the business remains a key priority. We believe the talents of our people and our distinctive culture continue to set us apart from our competitors.

Lancashire offers a rewarding environment within which to work, both in terms of the support and opportunities given to employees to enable them to excel in their role and the competitive and attractive compensation and reward structures. To further enhance the link between our people and the performance of the business, all of our permanent employees are eligible to receive RSS awards, therefore giving them the opportunity to share in the growth and success of the Group and ultimately to become shareholders.

Diversity and inclusion

The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness (see in this regard the Nomination and Corporate Governance Committee report on pages 64 to 67). As an equal opportunities employer, we do not tolerate discrimination of any kind in any aspect of employment. For example, all decisions relating to recruitment, assessment and promotion are based on the ability of the individual to do the job, without consideration to race, age, gender, sexual orientation, disability, beliefs, background (except as may be pertinent to the requirements of a role, such as educational qualifications or prior employment experience) or nationality. Our workforce is represented by employees from 12 different nations and the gender split of males to females (see page 67) is 61.5%/38.5% respectively. The Group is also committed to providing a working environment that is free from any form of bullying or harassment.

We expect our staff to conduct themselves in a professional manner which is reflective of the Group's core values (see page 41 for further details). All new employees are required to attend our Communications Etiquette/Equality, Diversity & Inclusion training sessions as part of their induction. The training sessions aim to highlight employees' responsibilities in ensuring that there is no discrimination in the workplace and in fostering a positive and productive working environment.

Lancashire respects, supports and complies with all relevant local Bermudian and UK legal requirements to which it is subject, in particular with respect to rights of freedom of association, collective bargaining and working time regulations.

Training and development

The Group encourages continuous personal and professional development for all of its employees, through internal and external training, professional qualifications, internships and secondments, performance coaching, and 'lunch and learn' sessions. During 2019, approximately 69.3% of our employees undertook some form of training supported by the Group. As ever, we encourage all our employees to take advantage of the training opportunities offered. Individual training and personal development needs are discussed on a regular and ongoing basis by managers and their team members, and are assessed as part of the formal appraisal process, where principally each employee's success is measured through the attainment of personal performance metrics as well as performance within the Group's values framework. We can confirm that during 2019 9.2% of our employees were promoted within the Group, supported by the training and development opportunities afforded to them.

The Group also delivers compulsory training to all new permanent staff and fixed-term contract staff which covers a range of important topics, including: Tax/Regulatory Operating Guidelines, Disclosure (including the requirements of the Market Abuse Regulation 2016), Inspections, Financial Crime, ERM, Communications Etiquette/ Equality, Diversity & Inclusion, GDPR and Conduct Rules. Other training may be held on an ad hoc, one-off or refresher basis according to an individual's requirements. The training is designed to ensure that all personnel who are employed by the Group are provided with the skills, knowledge and expertise appropriate to their role and responsibilities within the business. There is an expectation that all new staff members will have completed their compulsory training during the first six months of joining the business. Quarterly updates regarding attendance at these compulsory training sessions are provided to the Board for information purposes.

	2019*	2018*
Number of employees (UK and Bermuda)	**218**	218
Percentage of female employees	**38.5%**	39.0%
Percentage of women on the LHL Board	**37.5%**	28.6%
Percentage of women on the Group executive committee	**50.0%**	37.5%
Percentage of women in senior management positions	**38.1%**	29.4%
Number of different nations represented by our employees	**12**	13
Percentage of the workforce composed of third-party contractors	**8.0%**	6.9%
Group employee turnover (annual)	**13.8%**	13.8%
Percentage of employees who undertook training during the year	**69.3%**	65.6%
Percentage of permanent employees eligible for RSS awards	**100.0%**	100.0%
Accredited London Living Wage employer	**Yes**	Yes

* Unless otherwise stated above all figures are as at 31 December.

> "The Group promotes an inclusive, collegiate and positive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness."

Number of employees

218

Percentage of women on the Group executive committee

50.0%

Engagement

The Group benefits from having a relatively small headcount, 218 employees globally, which allows its staff members to interact easily between departments and to access members of the senior management team, including the CEOs at both Group and subsidiary level. Lancashire also encourages a high level of engagement between its workforce and the Board. There are regular opportunities for each of the Directors and staff members to interact at all levels across the organisation in a particular year, and such engagement is encouraged both at the level of the Group's subsidiary boards and the main Board of the Company. This occurs at board dinners (to which UK and Bermuda staff members are routinely invited), interaction with senior employees as part of quarterly activities, semi-formal lunches, 'town hall' quarterly update meetings, periodic attendance at the daily underwriting call and annual attendance at the AGM. Furthermore, both Simon Fraser and Samantha Hoe-Richardson are Non-Executive Directors on the subsidiary boards of LSL and LUK, respectively, and in that capacity each has the opportunity to meet and engage with a range of staff members within those businesses. Please see page 49 of the Chairman's introduction for an account of the Board's engagement with the workforce in 2019 and its plans for 2020.

Our new programme of employee engagement surveys (as conducted in 2019) gives our staff members the opportunity to provide their feedback to peers, senior management, departmental heads and the Board on their experience working for the Lancashire Group. For a fuller account, see our 'Engagement in action' section on page 41.

Our employees also continue to contribute towards the development of our marketplace through their involvement with market committees, boards and working groups. During 2019, our employees actively participated in industry conferences, investor days and symposia, and market education programmes. We also donate to many of the causes supported by our industry partners through the Lancashire Foundation.

Our policyholders

Policyholders are central to our business, so understanding and serving their commercial requirements is at the forefront of everything we do. Through our range of underwriting platforms, we strive to offer clear, fairly-priced and useful products that continue to meet our policyholders' insurance and reinsurance needs across the cycle. In the event of a loss occurring, we remain responsive in order to provide our policyholders with ongoing support and seek to pay their claims as expeditiously as possible, knowing the importance of providing an excellent service. We place the highest value on the relationships we have built over the years with our existing policyholders and work hard at creating a lasting impression with new ones. To this end, we are happy to welcome both our policyholders and their brokers to our offices, but we also travel to see them and their businesses around the world.

A more detailed account of the work we do in meeting the needs of our policyholders can be found in the underwriting review and business review sections of this Annual Report and Accounts on pages 20 to 23 and pages 24 to 29, respectively.

Brokers

We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as independent brokers. The Group depends on brokers to distribute its products and actively assesses these relationships to ensure that it continues to be viewed as a trusted partner and provider of solutions for their clients' (re)insurance needs.

Our shareholders

As a premium-listed company on the LSE, Lancashire understands the importance of its obligations to shareholders. We work hard to foster good investor relations and pride ourselves on having an active programme of engagement with our diverse shareholder community around the world.

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them and certain of the leading shareholder advisory services. This is led by our Group Head of Investor Relations, in collaboration with members of the Board and the executive team, and is achieved through a structured programme of meetings, presentations and periodic consultation initiatives (with both shareholders and industry analysts). These can cover a range of topics including the Group's financial performance and business strategy; ESG matters; and the executive remuneration policy.

The Board meets regularly with the Group's corporate brokers to seek their feedback on investor priorities as well as Lancashire's performance and perception amongst investors within the broader insurance sector. To learn more about the Board's engagement and relationship with its shareholders, please see page 57 of this Annual Report and Accounts.

Society and the environment

Environmental impact and offsetting

The Group is committed to managing the environmental impact of its business. We continue to measure our carbon footprint with a view to minimising its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, as reported in the table below, to remain carbon neutral. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning process (please refer to the Group CEO's review on page 13 and the section on principal risks from pages 33 to 39 for further details). The Group CRO and the Board oversee the Company's annual submission to the Carbon Disclosure Project. The information which is requested as part of the reporting process is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

With operations in London* and Bermuda, and with clients and brokers around the globe, the Lancashire Group incurs the bulk of its carbon footprint as a result of airline travel.

Emissions are collated over a 12-month period from 1 January 2019 to 31 December 2019 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO_2e) using the BEIS 2019 factors (note: this annual publication was previously managed by the UK's Department for Environment, Food and Rural Affairs (DEFRA), though is now published by the Department for Business, Energy and Industrial Strategy (BEIS)).

Using an operational control approach, Lancashire has assessed its boundaries to identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 footprint, along with areas of our Scope 3 footprint with high levels of operational control, as detailed below. Calculations performed follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Group's emissions. Lancashire uses the number of full-time employees (FTE) as its intensity metric. Where data was not available for 2019, values have been extrapolated by using available data or calculated using industry benchmarks.

* The Group's UK operations have been awarded BREEAM excellence for their London offices at 20 Fenchurch Street

Types of Emissions	Activity	2019 tCO_2e	2018 tCO_2e
Direct (Scope 1)	Gas *(measured in kWh)*	**126.9**	60.1
	Refrigerant *(measured in kg)*	**0.0**	0.0
Indirect Energy (Scope 2)	Electricity *(measured in kWh)*	**294.1**	319.9
Indirect Other (Scope 3)	Business Travel *(measured in miles and spend)*	**1,925.9**	1,457.2
	Additional Upstream Activities *(measured in kWh, litres, miles and spend)*	**297.1**	246.4
	Water *(measured in m^3)*	**14.2**	12.9
	Waste *(measured in kg)*	**6.1**	3.7
	Paper *(measured in reams)*	**4.4**	5.6
	Hotels *(measured in hotel nights)*	**26.8**	24.0
Gross Emissions (tCO_2e)		**2,695.5**	2,129.8
Gross Emissions per FTE (tCO_2e/FTE)		**12.4**	9.8
Carbon Credits		**2,696**	2,130
Total Net Emissions after offset (tCO_2e)		**0.0**	0.0

Please note: all numbers quoted have been rounded to one decimal place.

Additional Upstream Activities include Well-to-Tank and Transmission & Distribution emissions. These are emissions associated with the upstream processes of extracting, refining and transporting raw fuel and the emissions associated with the electrical energy lost during transmission to our business.

"Family Centre is an internationally accredited Bermuda registered charity that provides early intervention services to children and families at risk in Bermuda. Our mandate is to strengthen families to create a healthier Bermuda for our children. Family Centre is proud to call Lancashire Foundation a 'Champion of Children'. They have partnered with Family Centre since 2007 and have provided $1,309,407 in vital funding to sustain the delivery of critical intervention and counselling services to children and families in crisis – free of charge. Thanks to the Lancashire Foundation we have many children and families who have successfully turned their crisis into an opportunity to have a positive outcome and brighter future."

Family Centre

The table on page 44 sets out the Group's carbon footprint for the current and prior reporting period, broken down by emission source.

Total emissions for 2019 have increased by 26.6% compared to 2018. As FTEs have remained constant year on year, emissions per FTE have also increased by 26.6%.

Results show that GHG emissions in the year were 2,695.5 tCO_2e, comprised of direct emissions (Scope 1) amounting to 126.9 tCO_2e, and indirect emissions (Scope 2) amounting to 294.1 tCO_2e. The source of other indirect emissions (Scope 3) comprised 2,274.5 tCO_2e. Scope 1 emissions have increased by 111.2% due to improving data quality for natural gas. Scope 2 emissions have decreased by 8.1% compared with 2018 due to the continuing decarbonisation of the UK grid mix. Scope 3 emissions have also increased compared with 2018 due, primarily, to increasing air mileage year-on-year. This is in part a result of the Board's decision to re-establish Group regulatory supervision to Bermuda with effect from 1 January 2019. The Board will continue to monitor and offset the Group's emissions, mindful of the Group's strategic and business operational requirements.

The Group has fully offset its 2019 GHG emissions through an organised programme with EcoAct by purchasing credits in the Wind Power Generation project in India. These offsetting proposals were discussed and agreed with the Group CEO.

Communities, including the Lancashire Foundation

Lancashire is strongly committed to giving back to the communities within which it operates, both locally in the UK and Bermuda and also further afield. The business seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days, mentoring opportunities and fundraising events, to name a few. We utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable environment. In turn, this stimulates a positive culture amongst staff and promotes Lancashire as an ethical and compassionate employer. These goals are primarily achieved through the work of the Lancashire Foundation. Read further on to learn more about the Lancashire Foundation and the charities it supports.

The Group and the Foundation have jointly sponsored an internship programme for Bermuda resident college graduates since 2014. These graduates are afforded the opportunity to work and learn about insurance in the Group's London office.

The Board keeps itself informed of the activities of the Lancashire Foundation through regular reporting and meetings with the Foundation's Trustees. The Board also sets the policy for donations to the Lancashire Foundation.

The Lancashire Foundation

The Lancashire Foundation, our charitable grant-making body, is the cornerstone of our community activity and support, and a key component of our corporate persona.

The Foundation is funded by regular donations from the Company and also retains a shareholding in the Company, therefore benefitting from any dividends paid. This creates a direct link between the success of the Company and the resources available to the Foundation, serving as an additional motivation for our people, as the Foundation is able to support more of the causes that are suggested by employees. In this way we have aligned the Foundation to the Lancashire Group and can share in its success, and leverage that success to causes and communities that do not often receive such material rewards.

Major donations, such as those made to MSF, which operates in crisis relief around the world, and ICM, which works with the poorest of the poor in the Philippines, complement Lancashire's own insurance and reinsurance business by seeking to provide support to those afflicted by unexpected events and extreme poverty in areas where there is no insurance to protect people and their property. Our donation to St Giles Trust seeks to break the cycle of reoffending that blights many of our most vulnerable communities.

Other charities supported by the Lancashire Foundation during 2019 include:

- London Air Ambulance
- Cancer Research UK
- Child Bereavement UK
- Kiva Microfunds
- Knowledge Quest
- Medical Detection Dogs
- Mission Aviation Fellowship

- St Giles Trust
- Family Centre
- Tomorrow's Voices
- Victor Scott (Fruit for Schools)
- Warwick Academy
- Windreach Bermuda
- Team-Up
- The Poppy Factory
- Care for Children
- Vauxhall City Farm

Our broader stakeholders

Government and regulators

In an industry that is subject to strict regulatory supervision and oversight, we recognise the need to work closely and openly with all relevant regulatory bodies. We place great importance on the relationships we have with our regulators and engage actively with them, whether that is through meetings, reporting or routine regulatory reviews. The Board is also kept apprised of communications with regulators and supervisors and, together with management, monitors changes in regulatory and supervisory requirements closely.

In addition, the Group maintains proactive relationships with relevant tax authorities in order to achieve compliance with all its tax obligations. This requires us to keep abreast of developments in tax legislation and to work with the tax authorities to manage our tax risk.

Rating agencies

Lancashire maintains a positive relationship with three major rating agencies: A.M. Best, S&P and Moody's. These rating agencies assess and rate the creditworthiness and claims-paying ability of the Group's insurance subsidiaries, LICL and LUK, based upon established criteria. The syndicates benefit from Lloyd's current ratings. We are proud of the ratings which we have been assigned by each of these rating agencies and we engage with them on the following bases: annually, for our rating review; quarterly, to discuss our results for the period; and on an ad hoc basis as events dictate including after significant industry loss events or a series of loss events. These ratings allow the Group to write business successfully in all major global insurance markets and to comply with reinsurance contracts under which the Group is reinsured, as well as its credit facilities which support underwriting obligations.

The 2019 Project Transform team

The Foundation in action: Project Transform

"Seven members of staff from across the Group were chosen to join the 2019 Project Transform trip. We all volunteered after listening to the stories and feedback from the previous year's team and wanted to experience for ourselves the amazing work that ICM does with Project Transform. Whilst we had a good idea what the trip involved it wasn't until we were on the ground that we could fully appreciate the extraordinary work that ICM does to help the ultra-poor.

The week involved building toilets for two families, a basic need that we all take for granted. We visited communities for house to house visits with the local pastor and provided health and livelihood lessons to help provide the skills to recognise illness and to provide guidance on starting a small business. We also visited the family academy where local volunteers help mothers to become their children's first teachers and prepare their children for school.

The poverty we saw in the Philippines was heart breaking. To see how these ultra-poor communities live and survive was devastating, but with ICM's help there is hope for these people. We thank Lancashire for giving us this amazing opportunity, anyone can give money to a charity but being able to volunteer and give our time to help was so much more rewarding. For the 2019 team this was something we'll never forget."

Service providers, including suppliers and contractors

The Group contracts with a number of third parties for the provision of important services to help run its business. Having developed excellent relationships with its service providers, Lancashire is able to work collaboratively with them. This helps us to respond to technological advances and to develop internal systems and infrastructure to operate efficiently.

For all employers within the ancillary services and limited supply chains used by the Group, Lancashire seeks to receive assurance that its service providers pay a living wage. In particular, the Group's UK operation is an accredited Living Wage employer by the Living Wage Foundation.

The Group operates a policy of paying its service providers in accordance with the individual payment terms agreed. The Group's UK subsidiary, LUK, complies with its statutory reporting duty for payment practices and performance in relation to qualifying contracts on a half-yearly basis.

As a service provider in our own right, Lancashire has its own responsibilities to those within its limited supply chain. Any concerns arising over the human rights records of insureds and potential clients would be considered as part of the underwriting process.

Lenders

The Group has in place a number of long-term debt and financing arrangements with lenders which help to support and fund its underwriting operations and to comply with regulatory capital requirements. The Group's solid relationships with its lenders allow it the flexibility to respond to changing business and economic conditions and to raise capital, when required, to execute its strategy. We routinely publish financial information for the benefit of all our capital providers, including our lenders.

Further details of our long-term debt and financing arrangements are set out in note 18 to the consolidated financial statements from page 162 to 164.

Team Tango – Bermuda

The Foundation in action: Relay for Life

"The Bermuda Relay for Life cancer fundraiser took place on May 17-18 and we had a huge team of almost 100 staff, family and friends participating in the 24-hour event. Team Tango (the LICL team) raised $24,274 through its participation in 2019's event, which raised some $707,804 in total.

Bermuda Cancer and Health Centre is a registered charity engaged in the prevention, detection, treatment and support of cancer and other health concerns in the local community. Their vision is to serve the community by building healthier lives free of cancer and disease. Since 2017, residents no longer have to uproot their lives and travel overseas for radiation treatment. The radiation therapy unit at BCHC can treat 95% of all cancers enabling patients to undergo treatment surrounded by family and friends and to participate in their regular daily activities such as work. Funds raised support Bermuda Cancer and Health Centre's Equal Access Fund; ensuring that everyone can utilise the Centre's services (mammography, ultrasound, breast and prostate biopsies and radiation therapy) without a health insurance co-pay, regardless of their level of health insurance or ability to pay."

Promoting an open, accountable and engaged culture

Peter Clarke
Non-Executive Chairman

We value a nimble governance culture which promotes clear and open communication and constructive engagement with our people, our stakeholders and in society.

In my opening statement, I discussed the Board's oversight of performance, strategy, risk and capital management during 2019. The following section focuses on the work carried out by the Board and each of its Committees in providing challenge and support to the management team and in engaging with the wider business to oversee the development and delivery of an effective strategy.

How does the Board manage and implement environmental, social and governance arrangements for the Group?

Lancashire is a premium-listed company on the LSE, which measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis through the work of our Nomination and Corporate Governance Committee (see page 64 for the Committee report).

In this corporate governance section and throughout the Annual Report and Accounts for the 2019 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under Bermuda law and regulations, having re-established Group supervisory and tax domicile in Bermuda with effect from 1 January 2019. This has not affected the regulation of the Group's UK insurance entities, which continue to be regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

As we reported last year, in 2018 the FRC published a revised UK Corporate Governance Code. During 2019, our Nomination and Corporate Governance Committee systematically tracked and implemented the requirements of the revised Code. The Code has increased its focus on the sustainability of businesses, not only with regard to the operation of formal governance arrangements, but increasingly with regard to social and environmental impacts. The Code specifically stresses the importance of the Section 172 responsibilities of boards under the UK Companies Act 2006, and whilst the Company is incorporated in Bermuda and not formally subject to Section 172 as a matter of law, our Board has for many years operated a strong culture of proactive and constructive stakeholder engagement. Consequently, many of the changes in emphasis in the revised Code had already been focus areas for the Board. For example, workforce and stakeholder engagement and the oversight of a healthy business culture had already been topics of Board focus for many years and the latest Code changes did not require significant change to our existing practices.

On pages 52 to 54 of this report we have included a summary of those matters touching on sustainability, which are areas of focus under the 'Principles for Sustainable Insurance' promoted by the United Nations Environment Programme Finance Initiative. This is the first year for which the Board and business have become signatories to the UN Principles. Readers will also note our account of the way in which the Company engages with its stakeholders in the engagement and sustainability section of this report on pages 40 to 47. This includes the Board's statement in respect of matters covered by Section 172 which can be found on page 40.

Once again, I am pleased to report that, in the judgement of the Board, the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2019. The Board and business continue to use the formal consideration of governance and regulatory requirements as practical working tools to create the dynamic and successful business culture which are a mark of the Group's success.

How does the Board engage with the workforce and create a healthy business culture?

The Board has for many years had a strong culture of 'workforce' engagement in part due to the great advantage of having an employee headcount of a little over 200 people, so all our employees are known personally by our Group CEO or the other members of the Group's executive management team. Most of our Non-Executive Directors have regular opportunities to meet members of staff both as part of the formal business of the Board and informally outside Board meetings. During 2019, the Board addressed the expectations of the revised UK Code in this regard by providing for the direct involvement of one of our Non-Executive Directors, on a rotating basis, in the 'town hall' staff meetings which, for a number of years, Alex Maloney has led on a quarterly basis with all our staff in face to face meetings conducted in both our UK and Bermuda offices. The Board has also held a number of informal buffet lunches where staff members have the opportunity to meet the Directors. Other initiatives during the year have been the introduction within the rolling internal audit programme of a focus upon business culture at a business unit level, which affords the Audit Committee another tool to help monitor the health of the Group's business culture. The Board and business continue to support the work of the Lancashire Foundation, which continues its strong tradition of staff engagement and activism. The business also appointed an employee working group to help review and revise the 'Lancashire values', which form an important part in setting the cultural 'tone' of our business and are used in the year-end employee appraisal process.

In short, the Board engages with the workforce and monitors the Group's business culture through several channels. At our November 2019 meeting we received feedback from a staff engagement survey, conducted on an anonymised basis, which demonstrates that the majority of the staff within the Group are engaged with the business and the successful implementation of our strategy. Whilst there will always be areas for improvement and innovation and the need for ongoing vigilance, the Board is pleased that we operate an open, respectful and successful business culture and that we have the practical tools to ensure strong and effective two way engagement between the workforce and our Board. The Board considers these methods of both formal and informal workforce engagement to be the most effective for our business. For further discussion of the work of the business, the Board and its Committees in the areas of culture and engagement please refer to the engagement and sustainability report (pages 40 to 47), the report from the Audit Committee (pages 59 to 63) and the report from the Nomination and Corporate Governance Committee (pages 64 to 67).

How has Board membership and succession planning evolved during the year?

As we noted in last year's Annual Report and Accounts, Sally Williams joined our Board in January 2019. We have had a year during which the composition of the Board has not changed, although, as Alex mentions in his introductory remarks, Elaine Whelan announced her intention to retire during May 2019 and will step down both as our Group CFO and as a Director, at the end of February 2020. Over the summer of 2019, the Board engaged the firm of Sainty Hird to conduct a search, which enabled us to engage with several external and internal candidates. As we announced in December 2019, Natalie Kershaw has been appointed to the role of Group CFO and as an Executive Director of LHL. I look forward to welcoming Natalie to our Board and to the fresh insights which she will bring to her role.

Over many years Elaine brought to her CFO role a rigorous attention to detail and a profound understanding of the workings of the Group's business. She has also been widely liked and respected in her role as the CEO of LICL in Bermuda. On behalf of the whole Board I would like to thank Elaine for her outstanding contribution to our business and we wish her well for the future.

Are the Board and its Committees operating effectively?

Following the Board performance evaluation which was facilitated by Lintstock Ltd at the end of 2018, we tracked several actions and enhancements during the course of 2019. During 2019, our Board once again carried out a review of its effectiveness, which was facilitated internally by Chris Head, our Group Company Secretary. A summary report was discussed by the full Board and the exercise has again helped us identify certain topics for training or specific focus during the coming year, as well as other enhancements to our Board and Committee reporting and operational processes. Throughout 2019 I have continued to meet regularly with the chairs of each of our principal subsidiary boards and our performance evaluation concluded that the relationship between the main Lancashire Board and the subsidiary boards continues to operate effectively. We concluded that the Board, its members and each of its Committees have a balance of experience and talents that serve the Group well and have the competencies and operational culture necessary to meet the strategic challenges of the business effectively (see page 56 for further details).

I would like to thank all our Directors, our management team and all our employees for their hard work during the year.

Peter Clarke
Non-Executive Chairman

A balanced Board

Peter Clarke B I N R
Non-Executive Chairman

Date of appointment to the Board:
9 June 2014

Board meeting attendance: 4/4

Skills, experience and qualifications:
Peter Clarke was Group Chief Executive of Man Group plc between April 2007 and February 2013. In 1993, Mr Clarke joined Man Group plc, a leading global provider of alternative investment products and solutions as well as one of the world's largest futures brokers. He was appointed to the board in 1997 and served in a variety of roles, including Head of Corporate Finance and Corporate Affairs and Group Company Secretary, before becoming the Group Finance Director in 2000. During this period he was responsible for investing in and developing one of the leading providers of third-party capital insurance and reinsurance products. In November 2005, he was given the additional title of Group Deputy CEO. Mr Clarke has previously served as the Chairman of the National Teaching Awards Trust. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

External appointments/Other roles:
Mr Clarke is currently a Non-Executive Director of RWC Partners Limited, Lombard Odier Asset Management and Sainsbury's Bank plc. He is a member of the Treasury Committee of King's College London.

Alex Maloney B U
Group Chief Executive Officer

Date of appointment to the Board:
5 November 2010

Board meeting attendance: 4/4

Skills, experience and qualifications:
Alex Maloney joined Lancashire in December 2005 and was appointed Group Chief Executive Officer in April 2014. On joining, Mr Maloney was responsible for establishing and building the energy underwriting team and account and, in May 2009, was appointed Group Chief Underwriting Officer. Since November 2010, Mr Maloney has served as a member of the Board. Mr Maloney has also been closely involved in the development of the Group's Lloyd's strategy. Mr Maloney has over 20 years' underwriting experience and has also worked in the New York and Bermuda markets.

Elaine Whelan B I
Group Chief Financial Officer

Date of appointment to the Board:
1 January 2013

Board meeting attendance: 4/4

Skills, experience and qualifications:
Elaine Whelan joined Lancashire in March 2006 and leads both the Group finance function and the Bermuda subsidiary, reporting to the Group Chief Executive Officer. Ms Whelan was previously Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. Prior to joining Zurich, Ms Whelan was an Audit Manager at PricewaterhouseCoopers, Bermuda, where she managed a portfolio of predominantly (re)insurance and captive insurance clients. Ms Whelan graduated from the University of Strathclyde in 1994 with a BA in Accounting and Economics and gained her Chartered Accountancy qualification from the Institute of Chartered Accountants of Scotland in 1997.

Michael Dawson B N R U
Non-Executive Director

Date of appointment to the Board:
3 November 2016

Board meeting attendance: 4/4

Skills, experience and qualifications:
Michael Dawson has more than 35 years' experience in the insurance industry, having started his career at Lloyd's in 1979. He joined Cox Insurance in 1986 where he was the Chief Executive from 1995 to 2002. In 1991, Mr Dawson formed and became the underwriter of Cox's and subsequently Chaucer's specialist nuclear syndicate 1176. Between 2005 and 2008, Mr Dawson was appointed Chief Executive of Goshawk Insurance Holdings PLC and its subsidiary Rosemont Re, a Bermuda reinsurer. Mr Dawson served on the Council of Lloyd's from 1998 to 2001 and on the Lloyd's Market Board from 1998 to 2002.

External appointments/Other roles:
Mr Dawson is Deputy Chairman of the management committee of Nuclear Risk Insurers Limited. He is also a Director of Knoll Investments Limited, a private family investment company.

Board and Committee membership key

Chair | (B) Board of Directors | (A) Audit Committee | (I) Investment Committee | (N) Nomination and Corporate Governance Committee | (R) Remuneration Committee | (U) Underwriting and Underwriting Risk Committee

Simon Fraser B A R
Senior Independent Non-Executive Director

Date of appointment to the Board: 5 November 2013

Board meeting attendance: 4/4

Skills, experience and qualifications:
Simon Fraser was Head of Corporate Broking at Merrill Lynch and subsequently Bank of America Merrill Lynch until his retirement in 2011. He began his career in the City in 1986 with BZW and joined Merrill Lynch in 1997. He led initial public offerings, rights issues, placings, demergers and mergers and acquisitions transactions during his career and advised many UK companies on stock market and LSE issues. Mr Fraser has an MA degree in Modern History from the University of St Andrews.

External appointments/ Other roles:
Mr Fraser is also a Non-Executive Director of Legal and General Investment Management (Holdings) Limited and Senior Independent Director of Derwent London plc, where he sits on the Remuneration, Audit and Nominations Committees. Mr Fraser also serves as a Non-Executive Director of LSL.

Samantha Hoe-Richardson B A N
Non-Executive Director

Date of appointment to the Board: 20 February 2013

Board meeting attendance: 4/4

Skills, experience and qualifications:
Samantha Hoe-Richardson since 2014 has been Chairman of the Audit Committee. Prior to this, she was Head of Environment & Sustainability for Network Rail and formerly Head of Environment for Anglo American plc, one of the world's leading mining and natural resources companies. She was also a director and founder of Anglo American Zimele Green Fund (Pty) Ltd, which supports entrepreneurs in South Africa. Prior to her role with Anglo American, Ms Hoe-Richardson worked in investment banking and audit and she holds a master's degree in Nuclear and Electrical Engineering from the University of Cambridge. She also has a Chartered Accountancy qualification.

External appointments/ Other roles:
Ms Hoe-Richardson is a Non-Executive Director of Unum Ltd and Unum European Holding Company Ltd. She also chairs their Audit Committees. Ms Hoe-Richardson is also a Non-Executive Director for 3i Infrastructure plc and a Non-Executive Director of LUK.

Robert Lusardi B A I R
Non-Executive Director

Date of appointment to the Board: 8 July 2016

Board meeting attendance: 4/4

Skills, experience and qualifications:
Robert Lusardi spent the first phase of his career as a senior investment banker specialising in the insurance and asset management industries. From 1998 until 2005 he was a member of the Executive Management Board of XL Group plc, first as Group CFO then as a segment CEO; from 2005 until 2010 he was an EVP of White Mountains (an insurance merchant bank) and CEO of certain subsidiaries; and from 2010 to 2015 he was CEO of PremieRe Holdings LLC (a private insurance entity). He has been a director of ten insurance-related entities. He received his BA and MA degrees in Engineering and Economics from Oxford University and his MBA from Harvard University.

External appointments/ Other roles:
Mr Lusardi is currently a private investor and has spent his career as a senior executive in the financial services industry. He is also on the boards of Symetra Financial Holdings, Inc., a life insurer, and Oxford University's 501(c)3 charitable organisation.

Sally Williams B A N
Non-Executive Director

Date of appointment to the Board: 14 January 2019

Board meeting attendance: 4/4

Skills, experience and qualifications:
Sally Williams has more than 30 years' experience in the financial services sector, with extensive risk, compliance and governance experience, having held senior positions with Marsh, National Australia Bank and Aviva. Ms Williams is a chartered accountant and spent the first 15 years of her career with PricewaterhouseCoopers, where she was a director specialising in financial services risk management and regulatory relationships. She also undertook a two-year secondment from PwC to the Supervision and Surveillance Department at the Bank of England.

External appointments/ Other roles:
Ms Williams is a Non-Executive Director of Family Assurance Friendly Society Limited (OneFamily), where she is chair of their Audit Committee and a member of the Risk, Nominations, Member and Customer and With Profits Committees. Ms Williams is also a Non-Executive Director of Close Brothers Group plc and Close Brothers Limited, where she is a member of their Audit and Risk Committees.

Christopher Head
Company Secretary

Board meeting attendance: N/A

Skills, experience and qualifications:
Christopher Head joined Lancashire in September 2010. He was appointed Company Secretary of LHL in 2012 and advises on issues of corporate governance and generally on legal affairs for the Group. He also advises on the structuring of Lancashire's third-party capital underwriting initiatives which have included the Accordion and Kinesis facilities. Prior to joining Lancashire, he was in-house Counsel with the Imagine Insurance Group, advising specifically on the structuring of reinsurance transactions. He transferred to Max at Lloyd's in 2008 as Lloyd's and London Counsel. Between 1998 and 2006, Mr Head was Legal Counsel at KWELM Management Services Limited, where he managed an intensive programme of reinsurance arbitration and litigation for insolvent members of the HS Weavers underwriting pool. Mr Head is a qualified solicitor having worked until 1998 at Barlow Lyde & Gilbert in the Reinsurance and International Risk Team. Mr Head has a History MA and legal qualification from Cambridge University.

Principles for Sustainable Insurance

Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance ('the Principles') serve as a global framework for the insurance industry to address ESG risks and opportunities.

The purpose of the Principles for Sustainable Insurance Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.

The Board has opted to report against the Principles and this table directs readers to where the relevant activities of the Board and business are discussed in more detail within this report. This is Lancashire's first report with reference to the Principles. The business will continue to monitor and embed the Principles in the delivery of its strategy.

Principle 1 **We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.**	**For more information please see:**
Company strategy We embed ESG issues within our Board and management's strategic and business planning processes to foster a strong, purposeful and profitable culture of sustainable governance. The business is led by a strong management team accountable to an independent, diverse and effective Board and Committee structure.	Purpose statement (inside cover) Engagement and sustainability – section 172 (page 40) Governance report (pages 48 to 100)
Our principal strategic purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events, including those influenced by the effects of climate change. We are committed to monitoring and offsetting the Group's own carbon emissions.	Purpose statement (inside cover) Chief Executive's review (page 13) Underwriting review (pages 20 to 23) Environmental impacts and offsetting (pages 44 to 45)
Management and the Board actively support the work of the Lancashire Foundation, which promotes engagement of our staff with a range of charitable and social projects, including a record of assistance to disadvantaged communities blighted by catastrophic events.	Communities, including the Lancashire Foundation (pages 45 to 47)
We value our people and the strategic benefits of a healthy business culture. Our management team and Board promote an active programme of engagement and we operate a robust, yet flexible, programme of staff training and opportunities for career development. We offer attractive remuneration and employee benefits packages and have a planned approach to succession, staff retention and employee satisfaction.	Succession planning (pages 13, 49 and 65) Engagement and People (pages 41 to 42) Workforce engagement and culture (page 49) Employees/Health and Safety (page 98)
There is regular engagement with our shareholders and other stakeholders by both management, the Board and the business, touching upon a range of strategic and business issues, including the Group's approach to a range of ESG matters.	Purpose statement (inside cover) Strategic report (pages 1 to 47) Chairman's introduction – ESG implementation (page 48) Governance report (pages 48 to 100)

Principle 1 continued

We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.

	For more information please see:
Risk management and underwriting There is a strong culture of underwriting discipline and risk management within the Group, which values professionalism and embeds risk monitoring and control processes in our underwriting activities. Environmental risk exposures, including assumptions related to climate change, are embedded into our risk management, underwriting processes and capital management.	Chief Executive's review (page 13) Enterprise risk management and principal risks (pages 30 to 39) Risk disclosures (pages 118 to 142)
Management and the Board agree and monitor performance against formal risk tolerances, in particular with regard to the Group's exposures to natural catastrophe loss events, including weather events impacted by climate change.	Risk disclosures – peak zone elemental loss exposures (page 120)
Product and service development Our (re)insurance products and services help our clients manage the threats they face from unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes.	Purpose statement (inside cover) Underwriting review (pages 20 to 23)
The Board and management foster a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world. Included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.	Chief Executive's review (page 13)
Claims management Our experienced teams of claims specialists are well-equipped with specific knowledge of our diverse product lines. We have high levels of expertise that allow us to effectively manage and thoroughly investigate any loss our clients may sustain. Our goal is to ensure timely and equitable claims resolution for our clients.	Business review – losses (pages 25 to 26) Engagement and sustainability – our policyholders (page 43)
Sales and marketing We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as with independent brokers, who distribute our products. We seek to engage with our clients and their brokers to provide relevant and targeted risk solutions based on a sustainable strategy and business model.	Purpose statement (inside cover) Engagement and sustainability – brokers (page 43)
Investment management We actively manage our climate change transitional risk, with sensitivity to, and promotion of, ESG responsible investment. Our principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment'.	Principal risks – investment risk management (pages 36 to 37) Investment Committee report (pages 68 to 69)

Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

	For more information please see:
Clients and suppliers We engage constructively with our clients, brokers and other suppliers to address environmental, social and governance issues relevant to the operation of our business and to address our clients' needs for risk management solutions across a range of specialty and property lines.	Purpose statement (inside cover) Chief Executive's review (page 13) Underwriting review (pages 20 to 23) Chairman's introduction (page 48)
Insurers, reinsurers and intermediaries We engage with industry bodies to develop and promote awareness of market issues (including environmental factors).	Chief Executive's review / comments on climate change impacts and actions (page 13) Engagement and sustainability – (page 43) Chairman's introduction (page 48)

Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

	For more information please see:
Governments, regulators and other policymakers Our Board and business operate constructively within a highly regulated insurance and financial services environment in the UK, Bermuda and internationally. As a listed company, LHL systematically monitors, records and reports its compliance with the FRC's UK Corporate Governance Code.	Chairman's introduction – covering governance and regulation (pages 48 to 49)
The Board and business monitor and comply with relevant law and regulation. Examples include the Board's clearly articulated position regarding slavery and human trafficking, pursuant to the provisions and requirements of the UK Modern Slavery Act 2015. Our Board has also engaged with both the Hampton-Alexander and the Parker Reviews regarding our gender and ethnic diversity.	Nomination and Corporate Governance Committee report (pages 64 to 67)
The Board oversees the Company's annual submission to the Carbon Disclosure Project. The information which is requested as part of this reporting process is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.	Enterprise risk management – emerging risk (page 32) See also: LHL's responses on the Carbon Disclosure Project website

Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

	For more information please see:
We offer clear and transparent ESG reporting through multiple channels, including our Annual Report and Accounts, our website and our work with the Carbon Disclosure Project.	www.lancashiregroup.com See also: LHL's responses on the Carbon Disclosure Project website.
Our decision to report against the Principles in itself demonstrates our commitment to being both transparent and accountable, by publicly disclosing the business's implementation of them.	Chairman's introduction (pages 48 to 49) Chief Executive's review (page 13)

Board Committees

Board and Committee administration

The Board of Directors is responsible for the leadership, strategy and control and the long-term success and sustainability of Lancashire's business. The Board has reserved a number of matters for its decision, including responsibility for setting the Group's values and standards, and approval of the Group's strategic aims and objectives. The Board has delegated certain matters to Committees of the Board, as described below. Copies of the Schedule of Board-Reserved Matters and Terms of Reference of the Board Committees are available on the Company's website at www.lancashiregroup.com.

The Board has approved and adopted a formal division of responsibilities between the Chairman and the Group CEO. The Chairman is responsible for the leadership and management of the Board and for providing appropriate support and advice to the Group CEO. The Group CEO is responsible for the management of the Group's business and for the development of the Group's strategy and commercial objectives. The Group CEO is responsible, along with the executive team, for implementing the Board's decisions.

The Board and its Committees meet on at least a quarterly basis. At the regular quarterly Board meetings, the Directors review all areas of the Group's business, strategy and risk management and receive reports from management on underwriting, reserving, finance, investments, capital management, internal audit, risk, legal and regulatory developments, compliance and other matters affecting the Group. Management provides the Board with the information necessary for it to fulfil its responsibilities. In addition, presentations are made by external advisers such as the independent actuary, the investment managers, the external auditors, the remuneration consultants and the corporate brokers. The Board Committees are authorised to seek independent professional advice at the Company's expense.

The Board also meets to discuss strategic planning matters in addition to the customary schedule of quarterly meetings. Time dedicated to the Board's strategic planning was set aside around the 2019 Q1 Board meetings on 30 April and 1 May 2019.

The Chairman holds regular meetings with the Non-Executive Directors, without the Executive Directors present, to discuss a broad range of matters affecting the Group. The Chairman also holds regular meetings with the Chairs of the Group's principal operating subsidiaries: LICL, LUK, LSL and LCM.

The Directors

Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board considers all of the Non-Executive Directors to be independent within the meaning of the Code.

Michael Dawson, Simon Fraser, Samantha Hoe-Richardson, Robert Lusardi and Sally Williams are independent, as each is independent in character and judgement and has no relationship or circumstance likely to affect his or her independence. Peter Clarke was independent upon his appointment as Chairman on 4 May 2016.

During 2019, Samantha Hoe-Richardson and Sally Williams respectively accepted appointments to the boards of 3i Infrastructure plc and Close Brothers Group plc, these being UK listed entities. In accordance with their LHL letters of appointment, the proposed appointments were discussed with the Board Chairman, including an indication of the time involved and any possible conflicts arising, prior to acceptance.

At the Board meeting held on 12 February 2020, further to a recommendation by the Nomination and Corporate Governance Committee, the Board affirmed its judgement that five of the eight members of the Board are independent Non-Executive Directors. Therefore, in the Board's judgement, the Board's composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

In accordance with the provisions of the Company's Bye-laws and the Code, all the Directors are subject to re-election annually at each AGM.

Information and training

On appointment, the Directors receive written information regarding their responsibilities as Directors and information about the Group. An induction process is tailored for each new Director in the light of his or her existing skill set and knowledge of the Group and includes meetings with senior management and visiting the Group's operations. Information and advice regarding the Company's official listing, legal and regulatory obligations and on the Group's compliance with the requirements of the Code is also provided on a regular basis. An analysis of the Group's compliance with the Code is collated and summarised in quarterly reports together with a more general summary of corporate governance developments, which are prepared by the Group's legal and compliance department for consideration by the Nomination and Corporate Governance Committee. The Directors have access to the Company Secretary who is responsible for advising the Board on all legal and governance matters. The Directors also have access to the Group General Counsel and independent professional advice as required. Regular sessions are held between the Board and management as part of the Company's quarterly Board meetings, during which in-depth presentations covering areas of the Group's business are made. During these presentations the Directors have the opportunity to consider, challenge and help shape the Group's commercial strategy. The Directors are also encouraged to seek supplementary know-how training suitable to their roles offered by the many external providers of training pertinent to governance, in particular the roles of Non-Executive Directors, and to consider their training needs and priorities as part of the year-end performance evaluation for the Board and its Committees.

Board performance evaluation

A formal performance evaluation of the Board, its Committees and individual Directors is undertaken on an annual basis and the process is initiated by the Nomination and Corporate Governance Committee. The aim of this work is to assess the effectiveness of the Board and its Committees in terms of performance and risk oversight, strategic development, composition, skills set, supporting processes and management of the Group. The evaluation is forward-looking in terms of identifying the strategic priorities and actions as well as considering performance, training and development needs for the Directors within the context of the work of each Committee and that of the Board. The 2018 evaluation was conducted externally by Lintstock Limited, a London-based corporate advisory firm with no other connection to the Group. The 2019 evaluation was conducted internally, facilitated by the Company Secretary and the Chairman.

The 2019 evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other Committee members and members of senior management completing a questionnaire designed by the Chairman and the Company Secretary, with input from the Chairs of each of the relevant Committees. Responses to the completed questionnaires were collated and emerging themes explored. A suite of anonymised summary reports was prepared and these were discussed in draft with the Board Chairman and Committee Chairs before being distributed to each of the Directors.

In February 2020, the performance evaluation reports were discussed at meetings of the Nomination and Corporate Governance Committee and the Board, and each of the other Committees discussed the report pertinent to its own operation and performance. The Board discussions were led by the Chairman and focused on such matters as strategic oversight, succession planning, Board composition and training and priorities for 2020.

In summary, in its consideration of the 2019 performance evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The Group CEO and the Group CFO, the Company's Executive Directors, were also found to be operating effectively.

Appropriate infrastructure, processes and governance mechanisms are in place to support the effective performance of the Board and its Committees. The Board is also considered to manage risk effectively. Furthermore, the number of Directors on the Board is considered to be appropriate.

It was noted in the evaluation process that the Board and Committee oversight of underwriting strategy and risk tolerances had operated effectively and within expectations. Engagement between the Board and the wider body of staff is considered to be generally strong and beneficial to the operation of the business. In this regard, it was noted that workforce engagement, in accordance with the expectations of the revised UK Code, had been enhanced during the course of the year. For further information on workforce engagement, please see Peter Clarke's introduction to the Governance report on page 48 and the report from the Nomination and Corporate Governance Committee on page 64. The strategic priorities identified for the year ahead included ensuring that the Group holds sufficient capital and effectively utilises capital tools, and to position the business as a leading (re)insurance market. In particular, the Board plans to keep under review the Group's capital structures. The Board is also committed to underwriting those specialty insurance lines in which the business has expertise and to support management in the identification of new and complementary underwriting classes with a view to achieving controlled organic premium growth where this makes sense.

The reports also highlighted a number of themes which will inform the business of the Board during 2020 including:

- challenges to the investment portfolio posed by the low interest rate environment;
- the importance of maintaining a positive culture which attracts and retains talented people; and
- positioning the business to develop opportunities to grow premium income in an improved underwriting environment.

As part of the evaluation exercise, the Board identified a number of areas for training or specific themes over the coming year including the following:

- the new IFRS 17 accounting requirements;
- ESG developments and investor expectations;
- 'deeper dive' presentations from underwriters on the Group's business classes; and
- a systematic presentation on the Group's IT systems, requirements and risks.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2020.

The Chairman's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2019. The discussion and feedback were positive regarding the Chairman's performance. Particular reference was made to the Chairman's work in facilitating open communication across the business and in encouraging a strong culture, which appropriately balances challenge and insightful support for management and the business.

Following the year end, the Chairman met with the Group CEO, and the Group CEO met with the Group CFO and the incoming Group CFO designate, to conduct a performance appraisal in respect of 2019 and to set targets for 2020. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 74.

Relations with shareholders

During 2019, the Group's Head of Investor Relations, usually accompanied by one or more of the Group CEO, the Group CUO, the Group CFO, the Chairman or a senior member of the underwriting team, made presentations to major shareholders, analysts and the investor community. Formal reports of these meetings were provided to the Board on at least a quarterly basis.

The Chairman of the Remuneration Committee conducted a consultation with the Company's significant shareholders concerning planned changes to the shareholder-approved Directors' Remuneration Policy, which is to be submitted for consideration and approval by shareholders at the 2020 AGM. See the Remuneration Committee report on page 72 and the Directors' Remuneration Report on page 74 for further details.

Conference calls with shareholders and analysts hosted by senior management are held quarterly following the announcement of the Company's quarterly financial results or trading statements. The Group CEO, Group CUO and Group CFO are generally available to answer questions at these presentations.

Shareholders are invited to request meetings with the Chairman, the Senior Independent Director and/or the other Non-Executive Directors by contacting the Group Head of Investor Relations. All of the Directors are expected to be available to meet with shareholders at the Company's 2020 AGM.

The Company commissions regular independent shareholder analysis reports together with research on feedback from shareholders and analysts following the announcement of the Company's results.

Enterprise risk management

The Board is responsible for setting the Group's risk appetites, defining its risk tolerances, and setting and monitoring the Company's risk management and internal control systems, including compliance with risk tolerances. During 2019, the Board carried out a robust assessment of the emerging and principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the emerging and principal risks affecting the Group, as well as the procedures in place to identify and manage them, can be found in the ERM section of this report on pages 30 to 39 and in the risk disclosures section on pages 118 to 142.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from pages 59 to 73 for further detail). The Group CRO reports directly to the Group and subsidiary boards and facilitates the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, any lessons learned from risk events and assurance provided over key risks. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review. In this regard please see the Audit Committee report on pages 59 to 63.

Committees

The Board has established Audit, Investment, Nomination and Corporate Governance, Remuneration, and Underwriting and Underwriting Risk Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website. The Committees' Terms of Reference were reviewed by the Board during 2019 and were considered to be in line with current best practice. The Committees are generally scheduled to meet quarterly, although additional meetings and information updates are arranged as business requirements dictate. Director attendance at the 2019 Board meetings is set out on pages 50 to 51. A report from each of the Committees, which covers Committee attendance, is set out from page 59 to page 73.

Audit Committee

Samantha Hoe-Richardson
Chairman of the Audit Committee

During 2019, one of the areas of heightened focus for the Committee has been the strengthening of its oversight of corporate culture through the reporting of the internal audit function. The Committee has also maintained its focus on the adequacy of loss reserves; the effectiveness of the business's control environment; the integrity of external financial reporting; and the progress of the Group's implementation plans for the IFRS 9 ('Financial Instruments') and IFRS 17 ('Insurance Contracts') accounting standards.

Committee membership

The Audit Committee comprises four independent Non-Executive Directors and is chaired by Samantha Hoe-Richardson, a qualified Chartered Accountant. The Board considers that the four independent Non-Executive Directors all have recent and relevant financial experience. The Audit Committee as a whole has competence in the specialty insurance and reinsurance sectors. The internal and external auditors have the right of direct access to the Audit Committee. The Audit Committee's detailed Terms of Reference are available on the Group's website.

	Meetings attended
Samantha Hoe-Richardson (Chairman)	4/4
Simon Fraser	4/4
Robert Lusardi	4/4
Sally Williams	4/4

Principal responsibilities of the Committee

- Financial reporting: monitors the integrity of the consolidated financial statements of the Group and any other formal statements relating to its financial performance, including public reporting requirements arising under applicable supervisory rules. Reviews and reports to the Board on significant financial reporting issues and judgements which those statements contain. Reviews the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable;
- External audit: oversees the relationship with the external auditors and is responsible for the annual assessment of their independence and objectivity. Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, for the appointment of the Company's external auditors;
- Internal audit: monitors and reviews the effectiveness of the Group's internal audit function, ensuring it has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate in accordance with appropriate professional standards; and
- Internal controls and risk management systems: oversight of internal controls and risk management systems. Reviews the Group's 'whistleblowing' arrangements and other systems and controls for the prevention of fraud, bribery and money laundering.

How the Committee discharged its responsibilities

Financial reporting

Committee responsibility
Monitors the integrity of the Group's consolidated financial statements, including its annual and half-yearly reports, annual reporting arising under applicable supervisory rules, interim management statements and any other formal statements relating to the Group's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the consolidated financial statements.

Committee activities
At each quarterly meeting the Committee reviews the Group's quarterly consolidated financial statements for the purposes of recommending their approval by the Board. The Group's annual Solvency II Pillar 3 reports were reviewed at the April 2019 Audit Committee meeting prior to the recommendation of their approval at the May 2019 Board meeting. Following the change in Group regulatory supervision to the BMA effective from 1 January 2019, the Group's regulatory reporting for the 2019 year end and onwards will be prepared in accordance with the BMA's requirements. The Committee also monitors the activities of the Group's Disclosure Committee and reviews the Group's financial press releases (prepared in respect of the second and fourth quarters) and trading statements (prepared in respect of the first and third quarters), which it recommends to the Board for approval. The Committee receives regular reports from management on:

- loss reserving (see page 114 for further details);
- developments in accounting and financial reporting requirements;
- any new and/or significant accounting treatments/transactions in the quarter;
- the assessment of the Group's ability to continue as a going concern (see page 99 for further details);
- the progress of the Group's IFRS 9 and IFRS 17 implementation project and the related enhancements to the Group's finance IT framework and move to a common Group general ledger;
- the activities of LHL's subsidiary companies, including consideration of any risk issues; and
- the Committee also receives quarterly reports on the consolidated financial statements from the external auditors, including an interim review report and a year-end audit results report. These reports are discussed with the external auditors at the Committee meetings.

Judgements and estimation in the consolidated financial statements
An annual paper is presented by management to the Committee that details the areas of judgement and estimation in the preparation of the consolidated financial statements. Of these, the most significant area of judgement and estimation considered by the Committee during 2019 was the valuation of ultimate loss reserves. The Audit Committee's quarterly review of the adequacy of the loss reserves is explained in detail on page 63. Less significant areas of judgement and estimation are in relation to the Group's two indefinite life assets and determining the fair value of certain financial instruments, specifically Level (iii) investments (see accounting policies pages 113 to 114 for the details of these areas.)

KPMG's 2019 year-end audit report identifies revenue recognition through the estimation of premium revenues as a key audit matter. The Audit Committee considered this and concluded that, whilst some premiums are subject to estimation, revenues are unlikely to be materially different from initial estimates, particularly on a consolidated Group basis.

Reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Chairman of the Committee reviewed the early drafts of the 2019 Annual Report and Accounts in order to keep apprised of its key themes and messages. The Committee reviewed the final draft of the 2019 Annual Report and Accounts at the February 2020 Audit Committee meeting, together with the external auditor's report. The Committee advised the Board that, in its view, the 2019 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

External audit

Committee responsibility	Committee activities
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	The Committee approves the annual external audit plan and receives reports from the external auditors at each quarterly Committee meeting, including an ongoing assessment of the effective performance of the audit compared to the plan. Following the year-end audit, the Committee performs an assessment of the effectiveness of the external audit process. This assessment was last conducted at the April 2019 Audit Committee meeting and it was concluded that the external audit process was operating effectively, both with respect to the service provided by KPMG and management's support of the audit process. The Committee also formally reviews the independence of the external auditors, in particular at the half-year and year-end meetings, taking into account any non-audit services provided. The Committee considers that KPMG remain independent. The Committee Chairman conducts informal meetings with the external auditors and the Group CFO prior to, during, and after the review of the quarterly results. The Committee meets quarterly in executive session with the external auditors to discuss any issues arising from the audit, and with management to obtain feedback on the audit process.
The development and implementation of a formal policy on the provision of non-audit services by the external auditors, taking into consideration any threats to the independence and objectivity of the external auditors.	The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis. The policy was last reviewed and discussed by the Group CFO and Committee Chairman in October 2019, and it was considered fit for purpose. Given the changes to the Ethical Standard announced by the FRC in December 2019, the policy will be revised in 2020. The policy, which stipulates the approvals required for various types of non-audit services that may be provided by the external auditors, is on the Group's website. During 2019, KPMG provided $0.4 million of non-audit services to the Group relating to the audit of Solvency II and Lloyd's regulatory returns.
Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Group's external auditors.	Following a competitive external audit tender process undertaken during 2016, the appointment of KPMG as external auditors was first approved by shareholders at the 2017 AGM. Following KPMG's re-appointment at the 2019 AGM, further to a recommendation from the Committee and the full Board, the 2019 financial year was the third financial year in which KPMG acted as the Group's external auditors. The lead audit partner is Rees Aronson. The Committee and the Board are recommending the re-appointment of KPMG as external auditors at the 2020 AGM. The Committee continues to monitor the developments and recommendations arising from the Independent Review of the FRC, led by Sir John Kingman, the final report published by UK Competition and Markets Authority on the statutory audit services market, and Sir Donald Brydon's report setting out his views on the quality and effectiveness of audit.

Internal audit

Committee responsibility	Committee activities
Monitors and assesses the role and effectiveness of the Group's internal audit function in the overall context of the Group's risk management system.	The Group's internal audit function reports directly to the Committee. Each year, the Group Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are considered for audit annually, whilst less critical risks are audited periodically as part of a flexible multi-year programme. The findings of each internal audit are reported to the Committee at the quarterly meetings and the Committee reviews the actions taken by management to implement the recommendations of internal audit. Consideration is also given to the assessment of the Group's culture for each audit undertaken and an overall summary of observations identified in respect of the Group's culture is presented to the Committee on a quarterly basis. The Committee meets in executive session with the Group Head of Internal Audit usually on a quarterly basis. During 2019, the Committee reviewed and approved the Internal Audit Charter. This can be viewed on the Group's website. An external assessment of the effectiveness of the internal audit function was commissioned by the Committee and conducted by Mazars LLP (Mazars), with a report issued to the Committee. The Committee discussed the report and its findings with Mazars and the Group Head of Internal Audit and noted that no significant issues were raised. The Committee concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system. Following a selection process run in 2018, Samantha Churchill joined the Group as the new Group Head of Internal Audit in January 2019.

Internal controls and risk management systems

Committee responsibility	Committee activities
Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management and the viability statement.	The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee receives from the Group CRO periodic reports detailing results of the quarterly risk and control affirmation review. The Committee receives from the Group Head of Internal Audit an annual assessment of the Group's governance, risk and control framework, together with an analysis of themes and trends from the internal audit work and their impact on the Group's risk profile. In 2019, the Committee and Board were satisfied that the governance, risk and control framework continue to remain both effective and appropriate for the Lancashire Group.
Reviews for adequacy and security the Group's compliance, 'whistleblowing' and fraud controls.	During 2019, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls and recommended the adoption by the Board of updated policies and procedures in respect of anti-money laundering, bribery and financial crime (including fraud), conflicts of interest and whistleblowing. There were no suspicious transactions or whistleblowing reports made during the year (whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or impropriety). The Committee also keeps under review the adequacy and effectiveness of the Group's legal and compliance function and requires regular updates on compliance training delivered across the Group (see page 42 for further details).

Significant area of judgement and estimation

The valuation of loss reserves and expenses

As detailed on pages 125 to 126 of the consolidated financial statements, the valuation of ultimate loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Chief Actuary. KPMG conduct a detailed reprojection of the Group's loss reserves as part of the half-year review and full-year audit. The Committee also receives independent estimates of the Group's loss reserves from an external actuary and compares these third-party estimates to those of the Group at its second and fourth quarter Audit Committee meetings. During 2019, the Committee focused its discussions around the Group's loss reserves on: the range of reasonable actuarial estimates and the difference between the Group's and the independent review from external actuaries (these differences being viewed by management, the external third parties and the Committee to be within a reasonable actuarial range); current and prior year loss development, including 'back-testing' of the Group's prior year reserves; and reserving for each insurance operating subsidiary. Having reviewed and challenged these areas, the Committee concurred with management's valuation of the Group's loss reserves and the relevant disclosures around loss reserving in the Group's consolidated financial statements.

Systems changes relating to the implementation of IFRS 9 and IFRS 17

During 2019, the Committee monitored on a quarterly basis the preparation by the Group for the implementation of IFRS 9 and IFRS 17. This project encompasses changes to the Group's finance IT framework and general ledger, as well as the presentation of the Group's consolidated financial statements on an IFRS 9 and IFRS 17 basis. The project management and governance of this project were covered by an internal audit review during 2019, with no significant issues highlighted to the Audit Committee. The prospective deferral of the implementation date for the standard has not had a significant impact on the Group's implementation project timetable.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To ensure the continued effectiveness of the Group's control environment, the operation of the business's financial reporting systems and the integrity of external financial reporting;
- To continue to monitor the preparation by the Group for the implementation of IFRS 9 and IFRS 17;
- To ensure the ongoing constructive engagement of the Committee with the new Group CFO and the maintenance of high standards of financial controls and reporting;
- To continue to monitor and embed aspects of positive business culture in quarterly reporting, in particular regarding the Group's financial and risk control environment;
- To continue to monitor developments and recommendations with regard to audit practice, including areas of potential change and reform; and
- To review the Group's segmental reporting in the light of recent systems enhancements.

Nomination and Corporate Governance Committee

Peter Clarke
Chairman of the Nomination and Corporate Governance Committee

Following the revisions to the UK Corporate Governance Code in 2018 the Committee oversaw a programme for the quarterly monitoring of the requirements of the revised Code. The Company systematically developed its governance practices during 2019, including enhanced measures for engagement between the Board and the workforce which included the attendance of Non-Executive Directors at the quarterly staff 'town hall' meetings and the use of a Group-wide workforce feedback questionnaire.

Committee membership

The majority of the Nomination and Corporate Governance Committee members are independent Non-Executive Directors. The Committee Chairman is Peter Clarke, who is the Chairman of the Board.

	Meetings attended
Peter Clarke (Chairman)	4/4
Michael Dawson	4/4
Samantha Hoe-Richardson	4/4
Sally Williams	4/4

Principal responsibilities of the Committee

- Reviews the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board;
- Considers succession planning for Directors and other senior executives;
- Nominates candidates to fill Board vacancies;
- Makes recommendations to the Board concerning Non-Executive Director independence, membership of Committees, suitable candidates for the role of Senior Independent Director, and the re-election of Directors by shareholders;
- Reviews the Company's corporate governance arrangements and compliance with the Code; and
- Makes recommendations to the Board concerning the charitable and corporate social responsibility activities of the Company and donations to the Lancashire Foundation.

How the Committee discharged its responsibilities

Corporate governance

Board composition and effectiveness	In accordance with the provisions of the Code, all of the Directors are subject to annual (re)election by shareholders. All of the Directors were elected or re-elected by shareholders at the 2019 AGM. The Committee also reviewed the composition of the Board at its November 2019 meeting and it was agreed that the balance of skills, knowledge, independence, experience and diversity continues to be appropriate for the Group's business to meet its strategic objectives. The Committee also regularly discussed in its meetings whether any additional skills and experience were needed to complement those already on the Board. In July 2019, the Committee carried out a review and revision of the document describing the division of responsibilities between the Group CEO and the LHL Chairman, in particular articulating the respective responsibilities for the oversight and implementation of a healthy corporate culture for the Group. The Committee oversaw the process for the year-end review of the effectiveness of the Board, the Committees and each of the Directors, which was internally facilitated by the Company Secretary. The Committee and the Board were satisfied that the Board and each of its Committees were operating effectively. Further details of the performance evaluation process can be found on page 56.
UK Code compliance	The Committee keeps under review the Company's corporate governance arrangements, particularly the Company's compliance with the FRC's UK Corporate Governance Code ('the Code'). The Committee introduced its monitoring of the revised Code from the beginning of 2019 and reviewed the Company Secretariat's checklist record of the Company's compliance with the Code on a quarterly basis – with a particular view to ensuring that the Board and business were meeting any new governance requirements under the revised Code.
Appointments and succession planning	The Committee reviewed and recommended the approval and adoption by the Board of the Company's succession plan and talent management and development programme for the 2019/2020 year. This is with the objective of fostering a diverse workforce and pipeline to meet the needs of the business. The Committee reviewed training and development proposals for a number of key employees across the Group as part of the succession planning process. The Committee reviewed a number of senior appointments across the Group including those of Emma Woolley as the CEO of LSL, John Cadman as the CEO of LUK, Hayley Johnston as the CEO of LICL (to take effect in early 2020) and James Flude as the CUO of LUK (also to take effect in early 2020), subject to regulatory approval. Due to the upcoming retirement of the Group's CFO, Elaine Whelan, the Committee oversaw the appointment of her successor and approved the appointment of Sainty Hird, an independent recruitment agency. The Committee approved a search brief and oversaw the creation of a detailed list of potential external and internal candidates. Following a series of informal and formal meetings with both members of management and the Board, the Committee constituted a CFO Appointment Panel and empowered the Group CEO and Chairman to agree to the formal terms of appointment for the recommended candidate. Natalie Kershaw was appointed to the role of Group CFO in December 2019; she joins the Board on 1 March 2020 (see page 49 for further details).
Workforce engagement	During 2019, the Company continued the practice of the Group CEO holding 'town hall' meetings with employees following the announcement of the Company's quarterly results. In order to further enhance arrangements for engagement between the Directors and members of the workforce, the Committee arranged for these 'town hall' meetings to be periodically attended by the Chairman of the Board or another Non-Executive Director. Peter Clarke and Alex Maloney attended the 'town hall' meeting in Bermuda in July 2019, Samantha Hoe-Richardson attended the 'town hall' meeting in London in August 2019 and Sally Williams attended the same in November 2019. Staff feedback from these 'town hall' meetings and from other avenues was subsequently shared with the relevant Committees and the Board. The Committee and Board intend for these arrangements to continue in 2020.
Audit reform	The Committee has monitored developments in the area of audit market reform, regulation and practice during 2019, including the Kingman Review, the Brydon report and the recommendations of the UK Competition and Markets Authority.

Brexit	The Committee has considered the impact of Brexit on both the Company and its business, for more detail please see page 38.
Subsidiary boards	The Committee monitored the composition of subsidiary boards during 2019 and recommended appointments to the boards of LUK, LSL and LICL.
ESG reporting	The Committee and Board have also approved the use in this Annual Report of the UN sponsored Principles for Sustainable Insurance as a framework for our ESG reporting. Please see pages 52 to 54 for further details.

Environment

	The Committee also periodically reviews developments in the areas of the environment and climate change and the management of related risks and opportunities within the context of sustainability and social responsibility. For more information on these issues, please see the Chief Executive's review on page 13 and the principal risks report on pages 34 to 39.

Social responsibility

Diversity	The Committee considered statistics relevant to the gender composition of the Board, Group management excluding LHL Non-Executive Directors, and overall Group employees. These statistics are shown opposite and illustrate the progress made in relation to the obtainment of the Company's stated goals with regard to diversity. The Committee also reviewed 2019 comparative pay data by gender within the Lancashire Group. The Committee recommended approval by the Board of an updated diversity policy, which is posted on the Company's website. The Board remains of the view that the skills and experience needed to take the business of the Company forward are of paramount importance in selecting Board members and employees. Lancashire's approach to recruitment and ensuring the benefits of a broad diversity throughout the business is discussed further on page 42 in the discussion of the workplace culture.
The Lancashire Foundation	The Committee is responsible for monitoring and making recommendations to the Board in relation to the Company's charitable giving policy and the operation of, and reporting requirements for, the Lancashire Foundation. During 2019, the Committee received a report on the Foundation, including its objectives, governance, approach to funding for 2020 and beyond, investment strategy, donations policy and charitable activities, and considered the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that the Company make a donation to the Foundation of 0.75% of full year Group profits (subject to a cap of $750,000 and a $250,000 collar).
UK Modern Slavery Act 2015	During 2019, the Committee recommended the approval by the Board of an updated Anti-Slavery and Human Trafficking statement, a copy of which is posted on the Company's website.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To ensure that the Company is able to discharge effectively its governance responsibilities under the Code;
- To continue to develop the succession plans for Directors and senior executives, in line with the Group's strategic objectives, and to support management in the development of the talent pipeline; and
- To monitor the Company's progress on gender diversity and other diversity metrics.

Gender diversity

LHL Board members

- Male: 5 (62.5%)
- Female: 3 (37.5%)

Group management excluding LHL Non-Executive Directors

- Male: 13 (61.9%)
- Female: 8 (38.1%)

Overall Group employees

- Male: 134 (61.5%)
- Female: 84 (38.5%)

Senior management

- Male: 13 (61.9%)
- Female: 8 (38.1%)

Direct reports to senior management

- Male: 49 (62.0%)
- Female: 30 (38.0%)

All gender composition data is shown as at 31 December 2019.

Investment Committee

Robert Lusardi
Chairman of the
Investment Committee

The Committee was pleased with the investment returns for the year, which made a meaningful contribution to the Group's RoE.

The Committee works to articulate and support the Board's investment philosophy, which continues to be conservative in nature, and is intended to help support the Group's underwriting strategy and to provide appropriate liquidity to match the Group's risk exposures.

Robert Lusardi reflects on the Group's investment performance and strategy

How did investment returns contribute to the Group's performance in 2019?

Lancashire experienced a very good performance in 2019 with the investment portfolio returning 4.9%, notwithstanding a conservative asset allocation strategy. Put differently, the investment portfolio generated over half of the Company's 14.1% RoE, highlighting the importance of the investment function to shareholder returns. Our duration remained under two years and VaR was only 2.7% of shareholders' equity at year end. More details of the Group's investment performance can be found on page 27.

How does the business think about the strategic balance between investment and underwriting risks and opportunities?

In 2020, we will complete a biennial strategic asset allocation study which will factor in risk/return expectations of our various asset classes, current underwriting strategy and market conditions including related capital requirements, and potential liquidity and claims needs. With the improvement in underwriting conditions we will likely increase our overall investment risk appetite slightly while remaining relatively conservative. At the same time, we will be reallocating a significant portion of our hedge fund portfolio into other risk assets where we believe we can earn slightly better risk adjusted returns. Since the majority of our policies and claims are U.S. dollar denominated, the bulk of our investment portfolio is invested in U.S. dollar fixed income instruments. The U.S. Federal Reserve has signalled that it is less willing to lower rates in 2020; accordingly we are not anticipating a significant shift in our overall investment philosophy, although we could be increasing our portfolio duration slightly.

Committee membership

The Terms of Reference of the Investment Committee provide that the Committee shall comprise at least two Non-Executive Directors (one of whom may be the Chairman of the Board) and the Group CFO and/or the Group CIO. Any Executive Director may also serve on the Committee.

The Investment Committee comprises one independent Non-Executive Director, the Chairman of the Board, one Executive Director (the Group CFO) and the Group CIO (who is not a Director).

	Meetings attended
Robert Lusardi (Chairman)	4/4
Peter Clarke	4/4
Denise O'Donoghue	4/4
Elaine Whelan	4/4

Principal responsibilities of the Committee

- Recommends investment strategies, guidelines and policies to the Board and other members of the Group to approve annually;
- Recommends and sets risk asset definitions and risk tolerance levels;
- Recommends to the relevant boards the appointment of investment managers to manage the Group's investments;
- Monitors the performance of investment strategies within the risk framework; and
- Establishes and monitors compliance with investment operating guidelines relating to the custody of investments and the related internal controls.

How the Committee discharged its responsibilities

The Committee focused on the consequences of U.S.-China trade friction and related developments in the U.S. Federal Reserve's interest rate policy and the implications of Brexit developments within the UK, with a particular focus on resultant exchange rate volatility. The Committee regularly reviewed these and other macro-economic, capital markets and global political developments during the year, often in discussion with our professional investment managers. The Committee received two presentations: the first from Payden & Rygel regarding specific U.S. economic data, emerging market growth, emerging market debt growth and the implications of a no-deal Brexit; and the second from Pinebridge Investments on a market overview of the fixed income and loan market, with a particular focus on the Collateralised Loan Obligations (CLO) market.

The Committee also considered regular reports on the performance of the Group's investment portfolios, including asset allocation and compliance with pre-defined guidelines and tolerances; and recommended amendments to portfolio investment guidelines to the Board and operating boards of LICL, LUK and LSL.

The Committee works to articulate and support the Board's investment philosophy, which continues to be conservative in nature, and is intended to help support the Group's underwriting strategy and to provide appropriate liquidity to match the Group's risk exposures. The Committee establishes and monitors a number of investment risk metrics, including certain 'Black Swan' scenarios, which might impair the Group's investment portfolio. The Committee is also mindful of the potential impact of climate change transitional risk to certain asset classes, although it considers that the current portfolio has only very limited exposure in this regard. The Committee considers the Group's responsibility to act as a responsible investor. To that end the Group's principal investment managers (with the exception of some of the Group's hedge fund managers) are signatories to the Principles for Responsible Investment, with a commitment to incorporate ESG issues into investment analysis and decision-making processes.

Following the Company's move of Group insurance regulatory supervision and tax residence to Bermuda at the beginning of 2019, the Committee considered potential adjustments to the investment strategy and asset allocation in light of the transition from the UK's Solvency II Group supervision regime.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To maintain a continued focus on a diversified and sustainable portfolio, the preservation of capital, the maintenance of liquidity and the management of interest rate and other investment risks;
- To focus on the implication of macro-economic trends, in particular the U.S. domestic and international political environment and Brexit developments in the UK; and
- To conduct a biennial asset allocation review.

Underwriting and Underwriting Risk Committee

Alex Maloney
Group CEO and Chairman of the Underwriting and Underwriting Risk Committee

The Committee's focus is on the Group's underwriting, which is central to our purpose as a business. The Committee's role is to oversee the development and implementation of underwriting strategy, including areas of opportunity and the prudent management of the Group's underwriting risk exposures.

Committee membership

During 2019, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and one Non-Executive Director, together with the Group CUO, the CUO of LICL, the CUO of LUK, the Active Underwriters for Syndicates 2010 and 3010 and the Group Chief Actuary (who are not Directors).

	Meetings attended
Alex Maloney (Chairman)	4/4
Jon Barnes	4/4
Michael Dawson	4/4
Paul Gregory	4/4
James Irvine	4/4
Hayley Johnston	4/4
Ben Readdy	4/4
John Spence	4/4

Principal responsibilities of the Committee

- Reviews Group underwriting strategy, including consideration of new lines of business;
- Oversees the development of, and adherence to, underwriting guidelines by operating company CUOs;
- Reviews underwriting performance;
- Reviews significant changes in underwriting rules and policies;
- Establishes, reviews and maintains strict underwriting criteria and limits; and
- Monitors underwriting risk and its consistency with the Group's risk profile and risk appetite.

How the Committee discharged its responsibilities

The Committee has been actively engaged during 2019 in the development and implementation of the Group's underwriting strategy. It considers the articulation of and adherence to formal underwriting risk tolerances, which are approved and monitored by the Committee and the Board. Underwriting risk is the key risk faced by the business. Specifically, the Committee receives quarterly risk data, tracking movements in the Group's exposures to modelled PMLs and RDSs.

The Committee monitors underwriting performance on a quarterly basis to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. This is facilitated through regular update reports from the Active Underwriters of Syndicates 2010 and 3010, the CUOs for LUK and LICL and the CEO of LCM. The Committee also receives quarterly reports of significant claims and related developments.

Another equally important underwriting risk management tool is the programme of reinsurance protections purchased across the Group. In this regard, the Committee reviewed the structure, pricing and operation of the outwards reinsurance programmes and regularly discussed management reports covering outwards reinsurance developments.

Within the context of climate change risk, the Committee discussed the Group's exposures to California wildfire risk and the articulation of an appropriate underwriting and risk management strategy and management preference for wildfire exposures. The Committee considered developing trends in the frequency and severity of weather-related 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. For more detail, please see the ERM report on page 30 and the Group's PML exposures on page 120.

Regarding business development opportunities, the Committee:

- Reviewed management plans for the expansion of the Group's property risk exposures in the Florida market;
- Monitored the development of risk and opportunity in the marine, war and onshore energy markets;
- Reviewed management plans for the re-establishment of a property direct and facultative underwriting capacity at LUK; and
- Received management reports on the progress and approval by Lloyd's of the business plans for Syndicates 2010 and 3010.

The Committee reviewed developments in the third-party reinsurance capital markets and the progress of the Kinesis facility, which is underwritten by LCM, which underwrote reinsured limits in excess of $500 million during 2019. The Committee also monitored the operation of the Group's reinsurance fronting protocol between LICL and the Kinesis facility.

During 2019, the Committee meetings were open to attendance by all Board members. The Committee and Board seek to match the Company's capital to the underwriting requirements of the business in all parts of the underwriting cycle.

A more detailed analysis of the Group's underwriting performance appears in the business review section of this Annual Report and Accounts on pages 24 to 26.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To continue to monitor the development and implementation of a forward-looking and disciplined underwriting strategy appropriate for the Group's underwriting platforms, within a framework of appropriate risk tolerances;
- To work actively with management in the identification, analysis and consideration of new underwriting opportunities, including potential new lines of business and opportunities for the managed 'organic' growth in the Group's specialty and catastrophe lines; and
- To continue to foster a nimble, sustainable and responsive underwriting culture, capable of responding to the needs of clients, investors, employees and other stakeholders.

Remuneration Committee

Simon Fraser
Chairman of the Remuneration Committee

Our remuneration structures are designed to incentivise, reward and retain talented people across the business, within an appropriate framework of risk management. The Remuneration Policy and its implementation are proportional, predictable and straightforward. Remuneration structures and outcomes are aligned to the objective of embedding a healthy and sustainable corporate culture which is consistent with the Group's purpose, values and strategy.

Committee membership

The Remuneration Committee comprises three independent Non-Executive Directors and the Chairman of the Board.

	Meetings attended
Simon Fraser (Chairman)	4/4
Peter Clarke	4/4
Michael Dawson	4/4
Robert Lusardi	4/4

Principal responsibilities of the Committee

- Sets the Remuneration Policy for, and determines the total individual remuneration packages, including pension arrangements of, the Company's Chairman, the Executive Directors, Company Secretary and other designated senior executives, to deliver long-term benefits to the Group;
- Agrees personal objectives for each Executive Director and the related performance and pay-out metrics for the performance element of the annual bonus;
- Determines each year whether awards will be made under the Group's RSS and, if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives, and the performance targets to be used;
- Ensures that contractual terms on termination or retirement, and any payments subsequently made, are fair to the individual and the Company; and
- Oversees any major changes in employee benefit structures throughout the Group.

How the Committee discharged its responsibilities

During 2019, the Committee reviewed the Group incentive packages to ensure that remuneration is structured appropriately in order to promote the long-term success of the Company. The Committee also reviewed the RSS structure for Executive Directors to ensure that the performance metrics continue to align the interests of the Company with its investors and management. The Committee considered the salary and bonus awards for the Executive Directors, as well as other designated senior executives, and in this context had regard to remuneration levels and practices across the workforce. The Committee also approved the grant of awards under the Company's RSS.

The Committee reviewed the Directors' Remuneration Policy, which has a three-year life following its approval by shareholders at the 2017 AGM. The Committee held discussions throughout the year on areas of developing best practice, regulation and investor expectation. Towards the end of 2019, the Committee requested a shareholder consultation with the Group's principal shareholders, as well as several of the leading shareholder advisory groups, in relation to the areas for potential change in the shareholder-approved Policy. The consultation was led by Simon Fraser (as the Chair of the Committee) who sent a consultation letter and held a number of follow-up meetings. The Committee consulted in certain areas where there were considered to be opportunities to amend and further enhance policy, in particular:

- the development of malus and clawback triggers to cover instances of corporate failure or material damage to the business or its reputation;
- the introduction of post-cessation shareholding requirements for Executive Directors, to supplement the in-post shareholding guidelines currently operated by the Group;
- the introduction within the Group RSS rules, which govern the use of equity-based incentivisation for Executive Directors and across the Group, of a downward discretion which may be exercised by the Committee, which is intended to be limited to use in exceptional circumstances; and
- the clarification of policy in the area of the alignment of Executive Director pension entitlements with practice across the wider workforce.

The revised 2020 Remuneration Policy for Executive Directors is set out in the Directors' Remuneration Report between pages 74 and 95 and will be put to shareholders for approval at the 2020 AGM.

During 2019, the Committee reviewed Executive Directors' shareholdings in the context of the Company's share ownership guidelines for senior/key executives.

The Committee continued to monitor progress made during the year on the alignment of remuneration practices across the Group and reviewed the operation of the Group's Remuneration Policy. The Committee also considered a number of proposals relating to the treatment of RSS awards held by departing employees.

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 74 to 95. The Annual Report on Remuneration highlights those areas of debate and focus within the Committee and the Board on the alignment of remuneration and Group performance, both in the current year and over a longer timeframe. The Committee considers the remuneration practices across the Group and the internal and external measures used to be appropriate and aligned with Group strategy and risk management. In particular, the Committee considers that the Group's remuneration practices as set out in the Annual Report on Remuneration are clear and transparent, and appropriately simple in their structure and operation.

Priorities for 2020

The Committee's key priorities for 2020 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, risk profile, objectives, risk management practices and long-term interests;
- To ensure that remuneration across the wider Group meets the staffing needs and staff retention requirements of the business;
- To seek shareholder support for the revised 2020 Directors' Remuneration Policy at the 2020 AGM; and
- To work with the Group's independent remuneration advisers to keep abreast of compensation levels amongst the Group's London, Bermudian and other peers, and the latest remuneration-related regulation, guidance and market practices.

Annual statement

Dear Shareholder,

I am pleased to present the 2019 Directors' Remuneration Report to shareholders.

Shareholder engagement and Remuneration Policy review and proposals

Lancashire's Directors' Remuneration Policy was last approved by shareholders at the May 2017 AGM. There were no changes to the Policy proposed last year and at the 2019 AGM we received support from 89% of shareholders that voted for our Annual Report on Remuneration. Given the three year shareholder-approval cycle for the Directors' Remuneration Policy under the UK rules, during 2019 the Committee considered options for updating the Policy in the light of changes to the Code and other best practice recommendations. The Committee identified a number of areas for potential change, and in November 2019 I wrote to our major shareholders and certain of the leading shareholder governance advisory services setting out our proposals for changes.

In summary, the Committee and Board have proposed changes to the Directors' Remuneration Policy for approval at the 2020 AGM including the following:

- **Malus and clawback triggers** – the Committee has introduced two additional triggers for both the annual bonus and the LTI awards made under the RSS to cover corporate failure and material damage to the Group's business or reputation;
- **Executive Directors' shareholding guidelines and requirements** – for new RSS awards made during 2020, the Committee proposes that the shareholding requirement for Executive Directors should be contractually enforceable under the terms of the awards and that for departing Executive Directors there should be a requirement to maintain a qualifying holding for a period of 24 months following cessation of employment;
- **Discretionary override of formulaic outcomes** – the proposed Policy now states that the Committee may, in exceptional circumstances, use discretion to scale back RSS vesting outcomes;
- **Directors' pension alignment** – the proposed Policy has been clarified to provide that the maximum payable (to both existing and new Executive Directors) will be at a rate not greater than that which is available to the majority of the Group workforce. All Executive Directors have a 10% pension contribution which is aligned with the standard practice for the Group workforce.

The full 2020 Directors' Remuneration Policy is set out on pages 76 to 80 and includes the detail of where the 2020 Policy has introduced changes to the 2017 Policy.

Remuneration and strategy

The Committee has once again debated the appropriate remuneration structures to be used in 2020 in some detail and (as I set out below) we have decided to follow the same structure for the remuneration of our Executive Directors as was used in 2019.

The Group's goal continues to be to reward its employees fairly and responsibly by providing an appropriate balance between fixed remuneration and variable remuneration linked to the achievement of suitably challenging Group and individual performance measures.

There is a strong link between the Remuneration Policy and the business strategy. As highlighted elsewhere in this Annual Report and Accounts, our strategy focuses on the effective operation of the business necessary to maximise long-term RoE and the delivery of superior total shareholder returns on a risk-adjusted basis over the course of the insurance cycle. Our Remuneration Policy and the way it is implemented are closely aligned to this strategy.

The Board and management continue to believe that the insurance industry is cyclical in its fundamental characteristics. The Board's strategic objective is to achieve attractive returns appropriate to overall risk levels across the (re)insurance market cycle.

Performance outcomes for 2019 – generating an attractive return

After two years of well above average industry losses in 2017 and 2018, with the resulting impact on the Company's financial performance and therefore executive compensation, we are pleased that 2019 has been a much stronger year for Lancashire, and can report that our total Group CEO and the retiring Group CFO remuneration has increased by 114% and 87% respectively (see the comparison table for single figure remuneration on page 86). The Group has produced a strong RoE of 14.1% in an environment which has seen some modest improvement in the (re)insurance pricing environment whilst once again being impacted by a number of natural catastrophe losses, in particular in Japan and the Caribbean (see the strategy and performance reviews of this Annual Report and Accounts on pages 14 to 19).

The Board and Committee were satisfied that, in light of the 2019 market environment, this performance represents a strong outcome for the year and a return to a more attractive level of profitability following the severely market loss impacted results of 2017 and 2018. This has been a year in which catastrophe loss activity has been markedly lower than the previous two years. The business is well-positioned to compete in the market as we enter 2020 in what we hope to be an improving pricing environment.

Our business will continue to explore opportunities for organic growth, where this makes sense, whilst ensuring a rigorous focus on the balanced management of risk and reward.

The Executive Directors' annual bonus performance targets set at the beginning of 2019 for personal and financial performance were stretching. The financial element which made up 75% of the annual bonus opportunity resulted in a bonus at 162.4% of target for that element given the Company's strong return in 2019. The Board also considered that both the Executive Directors had performed strongly in managing risk within the business, in driving profitability, in further integrating the Group's business platforms during the year and in positioning the Group well for the underwriting opportunity which we expect to develop during 2020, and a bonus at 150% of target was awarded for the personal component in respect of 2019 performance. In summary, annual bonuses for our Executive Directors were achieved above target level at 80% of maximum bonus for both the Group CEO and the retiring Group CFO (see pages 86 to 88 for further details).

In relation to long-term incentives for Executive Directors and other senior management, the 2017 Performance RSS awards were 75% based on absolute RoE targets and 25% on relative TSR against specified peer group companies over the three-year period to 31 December 2019. Our TSR performance (in U.S. dollars) over this period ranked the Company below the median of the designated peer group of companies, resulting in 0% vesting for the TSR component.

Our average RoE performance over this three-year performance period was 3.5% against a threshold target of the 13-week Treasury bill rate plus 6% and a maximum pay out of the 13-week Treasury bill rate plus 13%, resulting in 0% of the RoE component of the 2017 Performance RSS awards vesting. This was below the target threshold level for the RoE element of the 2017 awards, principally on account of the impact of the lower returns generated during 2017 and 2018. Therefore overall, the 2017 Performance RSS awards vested at 0%. This compared with the 0% vesting of the 2016 Performance RSS awards due to 0% vesting of the RoE and TSR portions of those awards, which we reported last year. The Committee remains concerned at the impact of catastrophe losses in the recent 2017 and 2018 years, which has now resulted in the low or non-vesting of RSS awards for Executive Directors over a period of several years. The RSS scheme is intended to generate long-term equity alignment between our management and shareholders, and the 0% vesting of both the 2016 and 2017 awards is a cause of concern for the Committee and the Board. It was for this reason that the Committee and Board moved to the annual measurement of each year of the three-year performance awards at the beginning of 2018, principally to avoid the vesting levels of awards being dragged down on account of one or more years of exceptional loss activity. We therefore anticipate that RSS vesting levels will in future years be more balanced and less prone to volatility, which is in the best interests of shareholders and executive alignment.

The Committee believes in setting challenging performance criteria and having a significant proportion of the overall package linked to Company performance. However, the Committee also continues to recognise the need to ensure that Executive Directors are appropriately remunerated and incentivised even in the more challenging phases of the insurance cycle, as at present.

It is also important that the Committee and the Board ensure that Executive Director compensation is structured in such a way as to discourage excessive risk to the business.

Overall, in light of the annual and three-year performance delivered, the Committee notes the 0% vesting of the 2017 RSS awards but remains satisfied that there has been sufficient linkage between performance and reward for Executive Directors, albeit that arguably the overall remuneration outcomes for 2019 have been lower than might have been hoped for on account of the series of above average catastrophe loss events to the global insurance markets and the Group during 2017 and 2018, which were beyond the power of our Executive Directors to control, but which have been appropriately planned for. The Committee will continue to work towards ensuring that there is appropriate alignment between executive remuneration and Company performance in line with the Group's cross-cycle return expectations.

Application of Remuneration Policy for 2020

As mentioned above the Remuneration Committee conducted a full review of the Directors' Remuneration Policy in 2019, and the revised 2020 Policy will be put to shareholders for consideration at the 2020 AGM.

At the end of this section is the Annual Report on Remuneration, which provides detailed disclosure on how the Policy will be implemented for 2020 and how Directors have been paid in relation to 2019. During the year, Elaine Whelan decided to step down as an Executive Director from LHL with effect from 28 February 2020 and Natalie Kershaw has been appointed as her successor (see pages 9 and 13 for further details). The Board has decided to apply the targets for the annual bonus to be used in 2020 and to implement the three-year RSS awards for Executive Directors on substantially the same basis as agreed for 2019.

The disclosures provide our shareholders with the information necessary to form a judgement as to the link between Company performance and how the Executive Directors are paid. This Annual Statement, together with the Annual Report on Remuneration, will be subject to an advisory vote, alongside the binding vote on the Remuneration Policy, and I hope that you will be able to support both resolutions at the forthcoming AGM. The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters and I welcome any feedback you may have.

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

As a company incorporated in Bermuda, LHL is not bound by UK law or regulation in the area of Directors' remuneration to the same extent that it applies to UK incorporated companies. However, by virtue of the Company's premium listing on the LSE, and for the purposes of explaining its compliance against the requirements of the Code, the Board is committed to providing full information on Directors' remuneration to shareholders. The Committee discussed the changes to the Code during 2018, for implementation during 2019, in particular with regard to the responsibilities of the Remuneration Committee and Board concerning the review and cognisance of workforce remuneration structures and the mechanisms for employees' engagement and feedback.

The Company's Remuneration Policy was approved by shareholders at the 2017 AGM, which was effective for a period of three years. The 2017 Remuneration Policy was developed taking into account the principles of the Code and the views of our major shareholders. As noted earlier, the Committee conducted a full review of the Remuneration Policy in 2019, with the amended 2020 Policy being put to shareholders for consideration at the 2020 AGM, and will be effective for the next three years (or until amended in any material respect by a decision of shareholders, if earlier).

The revised 2020 Remuneration Policy contains details of the Company's policy to govern future payments that will be made to Directors. Changes to the Policy are outlined by Simon Fraser on page 74 and are shown in italics in the Remuneration Policy table on pages 77 to 80. The Annual Report on Remuneration also details the remuneration paid to Directors in respect of the 2019 financial year in accordance with the shareholder-approved Policy.

Governance and approach

The Company's Remuneration Policy is geared towards providing a level of remuneration which attracts, retains and motivates Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters. The Remuneration Policy also seeks to ensure that Executive Directors are provided with appropriate incentives to drive individual performance and to reward them fairly for their contribution to the successful performance of the Company.

The Remuneration Committee and the Board have again considered whether any element of the Remuneration Policy could conceivably encourage Executive Directors to take inappropriate risks and have concluded that this is not the case, given the following:

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- there is a high level of share ownership amongst current Executive Directors, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, corporate failure and material damage to the Group's business or reputation or the Executive Director ceasing to be a Director and/or employee due to gross misconduct (see page 78 for the full Policy details).

How the views of shareholders are taken into account

The Committee Chairman and, where appropriate, the Company Chairman consult with major investors and representative bodies on any significant remuneration proposal relating to Executive Directors. Views of shareholders at the AGM, and feedback received at other times, will be considered by the Committee. As noted above, in November 2019 the Committee Chairman conducted a consultation on behalf of the Committee with various shareholders and proxy advisory agencies to seek feedback on the Committee's plans for amendments to the 2020 Remuneration Policy and the plans for implementation for the Executive Directors for 2020. Feedback received was broadly supportive of the Committee's approach.

How the views of employees are taken into account

The Remuneration Committee takes into account levels of pay elsewhere in the Group when determining the pay levels for Executive Directors. The Remuneration Policy for all staff is, in principle, broadly the same as that for Executive Directors in that any of the Group's employees may be offered similarly structured packages, with participation in annual bonus and long-term incentive plans, although award types (restricted cash, restricted stock or performance shares) and size may vary between different categories of staff. For Executive Directors, with higher remuneration levels, a higher proportion of the compensation package is subject to performance pay, share-based remuneration and deferral. This ensures that there is a strong link between remuneration, Company performance and the interests of shareholders.

Reflecting good practice in this area, Executive Directors' pension provision is the same as the standard pension contributions made to employees in the Group (in percentage of salary terms).

Whilst the Company does not consult with employees on Executive Directors' remuneration, the Board and Committee did receive employee feedback. However, as noted above, the Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors. The Committee also reviews and approves the size of any annual bonus pot to be distributed amongst the staff population and the allocation of RSS awards, and its practice in this regard is well aligned with the expectations introduced within the revised Code.

Remuneration Policy table

Fixed pay	*2020 Remuneration Policy* *(showing material changes to the 2017 approved Remuneration Policy)* Note: changes introduced for the 2020 Policy are shown throughout the table in italics.
Base salary	
Purpose and link to strategy	Helps recruit, motivate and retain high-calibre Executive Directors by offering salaries at market competitive levels. Reflects individual experience and role.
Operation	Normally reviewed annually and fixed for 12 months, typically effective from 1 January. Positioning and annual increases influenced by: • role, experience and performance; • change in broader workforce salary; • changes to the size and complexity of the business; and • changes in responsibility or position. Salaries are benchmarked periodically against insurance company peers in the UK, U.S. and Bermuda.
Opportunity	No maximum.
Benefits	
Purpose and link to strategy	Market competitive structure to support recruitment and retention. Medical cover aims to ensure minimal business interruption as a result of illness.
Operation	Executive Directors' benefits may include healthcare, dental, vision, gym membership and life insurance. Other additional benefits may be offered from time to time that the Committee considers appropriate based on the Executive Director's circumstances. Executive Directors who are expatriates or are required to relocate may be eligible for a housing allowance or other relocation-related expenses. Any reasonable business-related expense can be reimbursed, including any personal tax thereon if such expense is determined to be a taxable benefit.
Opportunity	No maximum.
Pension	
Purpose and link to strategy	Contribution towards funding post-retirement lifestyle.
Operation	The Company operates a defined contribution pension scheme (via outsourced pension providers) or cash-in-lieu of pension. There is a salary sacrifice structure in the UK. There is the opportunity for additional voluntary contributions to be made by individuals, if elected.
Opportunity	Company contribution is currently 10% of base salary. *The maximum pension payable to both existing and new Executive Directors will be at a rate not greater than that which is available to the majority of the Group workforce.*

Remuneration Policy table continued

Annual bonus[1,2]	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
Purpose and link to strategy	Rewards the achievement of financial and personal targets.
Operation	The annual bonus is based on financial and personal performance. The precise weightings may differ each year, although there will be a greater focus on financial as opposed to personal performance. The Committee will have the ability to override the bonus outcome by either increasing or decreasing the amount payable (subject to the cap) to ensure a robust link between reward and performance. At least 25% of each Executive Director's bonus is automatically deferred into shares as nil-cost options or conditional awards over three years, with one-third vesting each subsequent year. A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil-cost options up to the point of exercise. The bonus is subject to clawback if: (i) the financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions of the bonus; *(ii) the Company has suffered an instance of corporate failure which has resulted in the appointment of a liquidator or administrator or resulted in the Company reaching a compromise arrangement with its creditors;* *(iii) the Company or the relevant business unit for which the participant works suffers damage to its business or reputation which, in the determination of the Committee, is at least partly due to a breach of corporate risk policies/tolerances and to a failure in the management of the Company or relevant business unit and to which the participant made a material contribution: and/or* (iv) the Executive ceased to be a Director or employee due to gross misconduct.
Opportunity	The maximum bonus for Executive Directors for achieving the target level of performance as a percentage of salary is 200% of salary. Maximum opportunity is two times target. Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.
Performance metrics	The weightings that apply to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will be at least 75% of the overall opportunity, and no more than 25% will be based on personal or strategic objectives. **Financial performance** The financial component is based on the Company's key financial measures of performance. For any year, these may include RoE, growth in BVS, profit, comprehensive income, combined ratio, investment return or any other financial KPI[3]. Typically, a sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. Up to 25% of the total bonus opportunity is payable for achieving threshold/median, rising to maximum bonus for stretch/upper quartile performance. The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. **Personal performance** Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the payout for this part of the bonus.

Long Term Incentives (LTI)	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
Purpose and link to strategy	Rewards Executive Directors for achieving superior returns for shareholders over a longer time frame. Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.
Operation[2,3]	RSS awards are normally made annually in the form of nil-cost options (or conditional awards) with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years. The number of awards will normally be determined by reference to the share price around the time of grant unless the Committee, at its discretion, determines otherwise. The Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set. Awards are subject to clawback if there is a material misstatement in the Company's financial statements, an error in the calculation of any performance conditions, *the Company has suffered an incident of corporate failure, material damage to the Group's business or reputation* or if the Executive Director ceases to be a Director or employee due to gross misconduct. A dividend equivalence provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise. The Committee has the discretion, in exceptional circumstances, to settle an award made to Executive Directors in cash. *The Committee has the discretion, in exceptional circumstances, to scale back RSS vesting outcomes or to impose additional vesting conditions. The use of such discretion should be limited to exceptional circumstances, such as a downturn in the performance of the individual or the Company or Group.* A two-year post-vesting holding period applies to awards made to Executive Directors since 2016.
Opportunity	Award levels are determined primarily by seniority. A maximum individual grant limit of 350% of salary applies. Note: The Committee may set the normal level of award at less than the percentage set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.
Performance metrics	Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant. These may include measures such as TSR, RoE/BVS, Company profitability, or any other relevant financial measures. If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remains appropriate. A sliding scale of targets applies for financial metrics with no more than 25% vesting for threshold performance. For TSR, none of this part of the award will vest below median ranking or achievement of an index. No more than 25% of this part of the award will vest for achieving median or index.

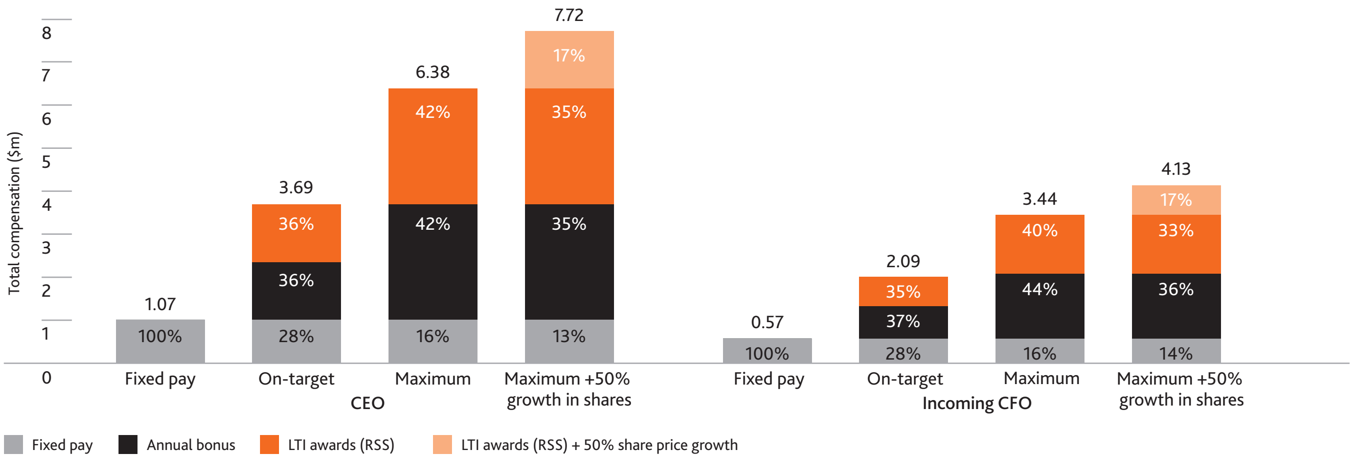
Remuneration Policy table continued

Share ownership guidelines and requirements[4]	2020 Remuneration Policy *(showing material changes to the 2017 approved Remuneration Policy)*
	Under the guidelines, Executive Directors are expected to maintain an interest equivalent in value to no less than two times salary over time. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50% of the net of tax value of awards that vest under the RSS. *In respect of performance RSS and deferred bonus RSS awards made after 1 January 2020 there is to be a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.* *A nominee account may be established into which shares acquired under RSS awards (i.e. on exercise of (nil cost) options) will ordinarily be directed for the purposes of enforcing the guidelines and requirements.* *The Remuneration Committee shall retain a discretion to waive the requirements, in whole or in part, in exceptional circumstances such as death, critical illness or personal financial hardship.* *In the event of a change of control (takeover) of LHL the guidelines and requirements shall cease to apply on the date of such change of control.*
Chairman and Non-Executive Directors' fees	
Purpose and link to strategy	Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.
Operation	The Chairman is paid a single fee for his responsibilities as Chairman. The level of these fees is reviewed periodically by the Committee and the Group CEO by reference to broadly comparable businesses in terms of size and operations. In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken, including a Non-Executive Director role on a subsidiary board. Any reasonable business-related expenses (including any personal tax payable) can be reimbursed.
Opportunity	No maximum.

1. The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this Policy.
2. All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the Policy.
3. Performance measures: these may include the KPIs shown on pages 18 to 19 or others described within the Annual Report and Accounts Glossary commencing on page 171 or any other measure that supports the achievement of the Company's short to long-term objectives.
4. Share ownership interest equivalent is defined as wholly owned shares or the net of tax value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2020 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2020 Salary + Actual Value of 2019 Benefits + 2020 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2020 RSS grant (assuming 50% vesting with the face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2020 RSS grant (assuming 100% vesting with the face values of grant).

Maximum + 50% growth over performance period = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2020 RSS grant + 50% share price appreciation (assuming 100% vesting with the face values of grant).

Approach to recruitment remuneration

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and would take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. The Committee retains the flexibility to set base salary for a newly appointed Executive Director below the mid-market level and allow them to progress quickly to or around mid-market level once expertise and performance have been proven. This decision would take into account all relevant factors noted above.

The annual bonus and LTI potential would be in line with the Policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different bonus performance measures for the performance year during which he or she became an Executive Director. The Committee may grant an LTI award to an Executive shortly after joining, up to the plan limits set out in the Remuneration Policy table (assuming the Company is not in a closed period).

In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an Executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods (which may be less than three years), expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may agree that the Company will meet certain relocation expenses as appropriate and is able to provide expatriate benefits including housing, a relocation allowance, assignment-related costs or tax equalisation.

Service contracts and loss of office payment policy for Executive Directors

Executive Directors have service contracts with six-month notice periods. In the event of termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary plus the value of benefits to which the Executive Directors are contractually entitled for the unexpired portion of the notice period. The Company may pay statutory claims. No Executive Director has a contractual right in their employment terms to a bonus for any period of notice not worked.

The service contract for a new appointment will be on similar terms as existing Executive Directors, with the facility to include a notice period of no more than 12 months from either party.

The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service contract of any Executive Director. There are no special provisions in the service contracts for payments to Executive Directors on a change of control of the Company.

In the event of an exit of an Executive Director, the overriding principle will be to honour contractual remuneration entitlements and determine, on an equitable basis, the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Depending on the leaver classification, an Executive Director may be eligible for certain payments or benefits continuation after cessation of employment.

If an Executive Director resigns or is summarily dismissed, salary, pension and benefits will cease on the last day of employment and there will be no further payments.

Leaver on arranged terms or good leaver

If an Executive Director leaves on agreed terms, including compassionate circumstances, there may be payments after cessation of employment. Salary, pension and benefits will be paid up to the length of the agreed notice period or agreed period of gardening leave.

Subject to performance, a bonus may be payable at the discretion of the Committee pro-rata for the portion of the financial year worked.

Vested but unexercised deferred bonus RSS awards will remain exercisable. Unvested deferred bonus RSS awards will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date.

Vested but unexercised RSS awards may remain exercisable for 12 months. Unvested awards may vest on the normal vesting date unless the Committee determines that such awards shall instead vest at the time of cessation. Unvested awards will only vest to the extent that the performance conditions have been satisfied (over the full or curtailed period as relevant). A pro-rata reduction in the size of awards may apply, based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year or other relevant vesting period.

The Committee has discretion to permit unvested RSS awards to vest early rather than continue on the normal vesting timetable and also retains discretion as to whether or not to apply (or to apply to a lesser extent) the pro-rata reduction to the RSS awards where it feels the reduction would be inappropriate.

Depending upon circumstances, the Committee may consider other payments in respect of any claims in connection with a termination of employment where deemed appropriate, including an unfair dismissal award, outplacement support and assistance with legal fees.

Terms of appointment for Non-Executive Directors

The Non-Executive Directors serve subject to the Company's Bye-laws and under letters of appointment. They are appointed subject to re-election at the AGM and are also terminable by either party on six months' notice except in the event of earlier termination in accordance with the Bye-laws. The Non-Executive Directors are typically expected to serve for up to six years, although the Board may invite a Non-Executive Director to serve for an additional period. Their letters of appointment are available for inspection at the Company's registered office and at each AGM.

In accordance with best practice under the Code, the Board ordinarily submits the Directors individually for re-election by the shareholders at each AGM.

Legacy arrangements

In approving the Policy, authority is given to the Company for the duration of the Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company, which was approved by shareholders and was in effect at the time they were made); or (ii) to an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the revised Policy.

For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy approved at the 2014 AGM and the current Policy which was approved by shareholders at the 2017 AGM, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this Annual Report and Accounts (including for current Executive Directors as detailed on page 90 of the Annual Report on Remuneration) remain eligible for vesting or exercise based on their original award terms.

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chairman's statement, as detailed on pages 74 and 75, will be subject to an advisory vote at the 2020 AGM. The following sections in respect of Directors' emoluments have been audited by KPMG:

- Single figure of remuneration.
- Non-Executive Director fees.
- 2020 annual bonus payments in respect of 2019 performance.
- Long-term share awards with performance periods ending in the year – 2017 RSS awards.
- Scheme interests awarded during the year.
- Loss of office payments.
- Performance and deferred bonus awards under the RSS.
- Directors' shareholdings and share interests.

Implementation of Remuneration Policy for 2020

Base salary and fees

Executive Directors

Increases and resulting salaries effective from 1 January 2020 are set out below:

- CEO – salary increased by 3% to $895,544.
- Outgoing CFO – salary increased by 3% to $614,941.
- Incoming CFO – salary has been set at $500,000.
- For 2020, increases of 3% are in line with the standard salary increases for Group employees.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2020:

- The fee for the Chairman (Peter Clarke) will remain at $350,000 per annum.
- The Non-Executive Director fee will remain at $175,000 per annum.

Other fees

- Samantha Hoe-Richardson is a Non-Executive Director of LUK in which capacity she will receive a fee of approximately $63,644 per annum depending on prevailing exchange rates at times of payment as Samantha is remunerated in GBP.
- Simon Fraser is a Non-Executive Director of LSL in which capacity he will receive a fee of $80,000 per annum.

Annual bonus

For 2020, the Group CEO, outgoing Group CFO and incoming Group CFO will have a target bonus of 150% of salary and, therefore, a maximum opportunity of 300% of salary. This is within the approved policy limit and is in line with last year's opportunity and represents a maximum bonus opportunity which is 100% of salary less than the set policy limit.

The financial and personal portions of the annual bonus will remain unchanged with 75% on financial performance and 25% on personal performance.

Financial performance (75%)

The Company's most important financial KPI is RoE, which is the core indicator of the delivery of its strategic priorities of ensuring underwriting comes first, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on pages 14 and 15 of this Annual Report and Accounts). For 2020, the financial component for the annual bonus is to be based on the performance of the Group's RoE, measured as the internal rate of return of the change in FCBVS plus accrued dividends.

A sliding scale range of RoE targets has been set by reference to the Risk Free Rate of Return as follows:

- 25% of target bonus shall be payable at a threshold level of RoE equal to RFRoR + 6% (0% will be payable below this threshold).
- 50% of target bonus shall be payable at a level of RoE equal to RFRoR + 7%.
- 100% of target bonus shall be payable at a level of RoE equal to RFRoR + 8%.
- 200% of target bonus shall be payable at a level of RoE equal to RFRoR + 14%.

There shall be linear interpolation between these points. The Board considers that these target ranges are appropriately challenging, given the current insurance market conditions, and will help to ensure a strong link between remuneration for the Executive Directors and the Company's financial performance, the strategy and risk profile of the business and the investment return environment, without encouraging excessive risk-taking.

Personal performance (25%)

This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2020 personal objectives for each Executive Director.

Executive Director	Personal performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values.
Elaine Whelan	Effective transition of responsibilities to incoming CFO and incoming CEO for the LICL office. Contribution aligned to the Lancashire Group values.
Natalie Kershaw	Effective transition planning and implementation. Effective management of the finance function and participation in Group management and the Board. Innovative contribution to strategic planning with particular focus on capital and business planning processes. Contribution aligned to the Lancashire Group values.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2020 annual performance reviews, each Executive Director will receive a performance rating which will determine the level of personal performance bonus payout for which each Executive Director will be eligible.

Restricted Share Scheme

Performance conditions

For Executive Directors, 2020 RSS awards are subject to a range based on (i) annual growth in FCBVS plus accrued dividends; and (ii) absolute TSR performance conditions, both measured by reference to a period ending on 31 December 2022. These metrics aim to provide an appropriate focus on the Company's underlying financial performance and cycle management, and in the case of absolute TSR to provide an objective reward for delivering value to shareholders.

Weighting

For 2020, the weighting is 85% on annual growth in FCBVS plus accrued dividends and 15% on absolute TSR.

Target ranges

The annual growth in FCBVS plus accrued dividends target range for 2020 awards is:

- threshold – 6%; and
- maximum – 13%.

Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. In each year, performance will be measured against the target range to determine the ultimate level of vesting in respect of one-third of the RSS award. Vesting will only occur after completion of the full three-year performance period, and continued employment of the Executive Director at the time of vesting.

The relevant element of the RSS award will not vest if annual growth in FCBVS plus accrued dividends is below threshold, 25% of the relevant element of the RSS award will vest at threshold, and 100% of the relevant element of the RSS award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

The TSR target range for 2020 awards is:

- threshold – 8% compound annual growth; and
- maximum – 12% compound annual growth.

Absolute TSR will be measured over the full three-year performance period rather than looking at each year separately.

None of the award will vest if TSR is below threshold, 25% of the award will vest at threshold, and 100% of the award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

Overriding downwards discretion

If any year produces a return that the Committee believes is significantly worse than competitors and reflects poor management decisions, the Remuneration Committee will use its discretion to determine that no part (or a lesser part) of the RSS award accrued over the full three-year period shall vest.

Award levels

2020 RSS award levels are as follows:

- Group CEO – RSS awards in respect of shares to the value of $2,686,632 (being 300% of salary)
- Outgoing Group CFO will receive no RSS awards in respect of 2020
- Incoming Group CFO – RSS awards in respect of shares to the value of $1,375,000 will be awarded upon commencement (being 275% of salary)

The number of RSS awards in respect of shares which are awarded shall be determined based on the closing average share price for a period of five trading days immediately prior to the date of the award.

Post-vesting holding period

For RSS awards made in 2016 or subsequent years, Executive Directors are expected to hold vested RSS awards (or the resultant net of tax shares), which had a performance period of at least three years, for a further period of not less than two years following vesting.

Post-employment holding requirements

In respect of performance RSS awards made after 1 January 2020, there is a requirement on each Executive Director to retain 50% of the net of tax shares resulting on exercise in order to hold an interest equivalent in value of up to two times salary for a period of two years (or such other period or amount as the Committee may in future determine) following the date of termination of employment of the relevant Executive Director.

Single figure of remuneration

The following table presents the Executive Directors' emoluments in U.S. dollars in respect of the years ended 31 December 2019 and 31 December 2018.

Executive Directors		Salary $	Pension $	Taxable benefits[1] $	Annual bonus[5] $	Long-term incentives (RSS)[2,3] $	Total[4] $
Alex Maloney[4], CEO	**2019**	**867,361**	**86,736**	**21,921**	**2,077,754**	**0**	**3,053,772**
	2018	846,910	84,691	24,879	474,826	0	1,431,306
Elaine Whelan[4], CFO	**2019**	**597,030**	**59,703**	**152,112**	**1,426,726**	**0**	**2,235,571**
	2018	579,967	57,795	234,144	326,048	0	1,197,954

The following charts set out the above disclosed 2019 total remuneration received by Executive Directors as a percentage of their total 2019 remuneration.

Alex Maloney

Elaine Whelan

1. Benefits comprise Bermuda payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the CFO), but exclude UK National Insurance contributions.
2. For 2019, the long-term incentive values are based on the 2017 RSS awards which vest at 0% and are based on a three-year performance period that ended on 31 December 2019.
3. For 2018, the long-term incentive values were based on the 2016 RSS awards which vested at 0% and were based on a three-year performance period that ended on 31 December 2018.
4. Some amounts were paid in Sterling and converted at the average exchange rate of 1.2738 for the year as they are set in U.S. dollars.
5. Bonus targets were set at the beginning of 2019 and are based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component paid out at 162.4% of target as the RoE for 2019 was 14.1% against a target level of RFRoR +8%. Final bonus payout to Executive Directors will be 80% of the maximum for the CEO and 80% of the maximum for the retiring CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 84 and 85. 25% of Executive Directors' annual bonus is deferred into RSS awards without performance conditions, vesting at 33.3% per year over a three-year period.

Non-Executive Directors' fees

		Fee $	Other $	Total $
Current Non-Executive Directors				
Peter Clarke	**2019**	**350,000**	**–**	**350,000**
	2018	350,000	–	350,000
Michael Dawson	**2019**	**175,000**	**–**	**175,000**
	2018	175,000	–	175,000
Simon Fraser	**2019**	**175,000**	**80,000**	**255,000**
	2018	175,000	80,000	255,000
Samantha Hoe-Richardson[1]	**2019**	**175,000**	**63,644**	**238,644**
	2018	175,000	67,099	242,099
Robert Lusardi	**2019**	**175,000**	**–**	**175,000**
	2018	175,000	–	175,000
Sally Williams[2]	**2019**	**168,884**	**–**	**168,884**
	2018	–	–	–
Former Non-Executive Directors				
Tom Milligan[3]	**2019**	**–**	**–**	**–**
	2018	43,750	–	43,750

1. Samantha Hoe-Richardson's LUK fees are paid in GBP and converted at the average exchange rate at the time of payment.
2. Sally Williams was appointed on 10 July 2018 as a Non-Executive Director and her appointment took effect on 14 January 2019. Her 2019 fees were proportionally pro-rated for the year.
3. Tom Milligan retired as a Non-Executive Director effective 31 March 2018. His 2018 fees were proportionally pro-rated for the year and no fees were paid for 2019.

2020 annual bonus payments in respect of 2019 performance

As detailed in the Remuneration Policy, each Executive Director participates in the annual bonus plan, under which performance is measured over a single financial year.

The target value of bonus was 150% of salary for the Group CEO and Group CFO respectively, and the maximum payable was two times the target value. The RoE is 14.1%.

Financial performance

75% of the 2019 bonus was based on Company performance conditions and the extent to which these were achieved is as follows:

Performance measure	Financial performance weighting (of total bonus) %	Threshold %	Target %	Max %	Actual performance %	% payout
Absolute RoE	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	14.1	162.4% of target payable in respect of Company performance

In 2019, financial returns were above the target levels. Bonus targets were set at the beginning of 2019 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The Company financial performance component paid out at 162.4% of target as RoE was 14.1% against a target level of RFRoR +8% and a threshold of RFRoR +6%.

Personal performance

25% of the 2019 bonus was based on performance against clearly defined personal objectives set at the start of the year.

The table below sets out a summary of the 2019 personal objectives for each Executive Director.

Executive Director	Personal performance	Factors relevant to the Board's determination for the 2019 performance year
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group values.	Delivering a team of employees with strong professional skills at all levels throughout the Group. Achieving controlled organic growth in the business during the year (see pages 16 to 17 for further details). Global employee engagement survey delivered exceptional results giving evidence of a healthy corporate culture within the business (see pages 40 to 43 for further details).
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Group values.	Delivering a team of employees with strong professional skills at all levels throughout the Group. Delivering strong leadership of the Group's investment function (see pages 68 to 69 for further details). Material progress made on the IFRS 17 implementation project (see pages 63 and 112 for further details) which marks an enhancement to the Group's IT and finance systems.

The personal targets were broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles and performance targets relating to areas of personal development.

During the 2019 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus payout for which each Executive Director was eligible.

For the 2019 performance against personal objectives, the ratings were determined following a process for the evaluation of performance of the Executive Directors against the agreed personal targets and discussion and agreement of the outcomes with the Chairman and members of the Board. The outcomes are expressed as a percentage of the maximum award as illustrated in the table below. The Board considers the business to be well positioned for the business opportunities and challenges which lie ahead.

A table of performance measures and total 2019 bonus achievement is set out below:

Executive Director	Financial performance (max % of total bonus) %	Personal performance (max % of total bonus) %	Bonus % of maximum awarded %	Total bonus value[1] $	Value of bonus paid in cash (75% of total bonus) $	Value of bonus deferred into RSS awards (25% of total bonus)[1] $
Alex Maloney	75	25	80	2,077,754	1,558,315	519,439
Elaine Whelan	75	25	80	1,426,726	1,070,044	356,682

1. 25% of total bonus award will be deferred into RSS awards with one-third vesting annually, each year, over a three-year period with the first third becoming exercisable in February 2021, subject to the Company not being in a closed period. These awards vest on the relevant dates subject to continued employment.

Long-term share awards with performance periods ending in the year – 2017 RSS awards

The 2017 RSS awards were based on a three-year performance period ending on 31 December 2019 and vest following the determination of financial results by the Board. The tables below set out the achievement against the performance conditions attached to the award, resulting in aggregate vesting of 0%, and the actual number of awards vesting.

	TSR (relative to a comparator group of 11 companies) (relevant to 25% of the 2017 RSS awards)		Average annual RoE (over three years in excess of 13-week Treasury bill rate) (relevant to 75% of the 2017 RSS awards)	
Performance level	Performance required	% vesting	Performance required (%)	% vesting
Below threshold	Below median	0	Below 6	0
Threshold	Median	25	6	25
Stretch or above	Upper quartile or above	100	13 or above	100
Actual achieved	Below median	0	3.5	0

Details of the vesting for each Executive Director, based on the above, are shown in the table below:

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[1] $	Value of shares including dividend accrual[2] $
Alex Maloney	286,666	286,666	0	0	0
Elaine Whelan	180,441	180,441	0	0	0

1. Dividends accrue on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards net of tax required.
2. The value of the vested shares is based on the 2017 RSS awards which vest at 0% and are based on a three-year performance period that ended on 31 December 2019.

Scheme interests awarded during the year

The table below sets out the performance RSS awards that were granted as nil-cost options on 22 February 2019.

Executive Director	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] $	% vesting at threshold performance
Alex Maloney	22-Feb-2019	306,915	2,608,388	25
Elaine Whelan	22-Feb-2019	193,186	1,641,836	25

1. The awards were based on the five-day average closing share price prior to the award date, being £6.54 (a share price of $8.50 based on the exchange rate of 1.2995) and the awards were granted as nil-cost options.
2. These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2021 and becoming exercisable in the first open period following the release of the Company's 2021 year-end results after the meeting of the Board in February 2022.
3. The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Loss of office payments

There were no loss of office payments during the 2019 year.

Details of all outstanding share awards

In addition to awards made during the 2019 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

Performance and deferred bonus awards under the RSS

		Grant date[1]	Exercise price	Awards held at 1-Jan-19	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-19	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	18-Feb-16	–	219,254	–	–	**219,254**	–	–	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	18,741	–	**18,741**	–	**18,741**	–	
	Performance RSS[2,3]	14-Mar-17	–	286,666	–	–	–	–	**286,666**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	35,477	–	**17,739**	–	**17,739**	**17,738**	
	Performance RSS[3,5]	23-Feb-18	–	315,762	–	–	–	–	**315,762**	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	13,090	–	**4,363**	–	**4,363**	**8,727**	
	Performance RSS[3,5]	22-Feb-19	–	–	**306,915**	–	–	–	**306,915**	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	–	**13,968**	–	–	–	**13,968**	
Total				**888,990**	**320,883**	**40,843**	**219,254**	**40,843**	**949,776**	
Elaine Whelan, Group CFO & LICL CEO	Performance RSS[2,3]	18-Feb-16	–	157,104	–	–	**157,104**	–	–	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	12,869	–	**12,869**	–	**12,869**	–	
	Performance RSS[2,3]	14-Mar-17	–	180,441	–	–	–	–	**180,441**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	24,361	–	**12,181**	–	**12,181**	**12,180**	
	Performance RSS[3,5]	23-Feb-18	–	198,755	–	–	–	–	**198,755**	31-Dec-20
	Deferred Bonus RSS[4]	23-Feb-18	–	9,663	–	**3,221**	–	**3,221**	**6,442**	
	Performance RSS[3,5]	22-Feb-19	–	–	**193,186**	–	–	–	**193,186**	31-Dec-21
	Deferred Bonus RSS[4]	22-Feb-19	–	–	**9,592**	–	–	–	**9,592**	
Total				**583,193**	**202,778**	**28,271**	**157,104**	**28,271**	**600,596**	

1. The market values of the common shares on the dates of grant were:
   - 18 February 2016 £6.17
   - 11 March 2016 £5.37
   - 14 March 2017 £7.02
   - 23 February 2018 £5.69
   - 22 February 2019 £6.54
2. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 25% of each award is subject to a performance condition measuring the TSR performance of the Company against the TSR performance of a select group of comparator companies (see page 92 for a list of comparator companies for each grant year), over a three-year performance period. 25% of this part of the award vests for median performance by the Company, rising to 100% vesting of this part of the award for upper quartile performance by the Company or better (with proportionate vesting between these two points).
   - The other 75% of each award is subject to a performance condition based on average annual RoE over a three-year performance period. 25% of this part of the award will vest if average annual RoE over the performance period exceeds the criteria set out in the table on page 91, whilst all of this part of the award will vest if the Company's average RoE is equal to the more stringent criteria set out in the table on page 91. Between these two points vesting will take place on a straight-line basis from 25% to 100% for RoE performance.
3. The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:
   - 2016 – 14 February 2019;
   - 2017 – 13 February 2020;
   - 2018 – first open period following the release of the Company's 2020 year-end results; and
   - 2019 – first open period following the release of the Company's 2021 year-end results.
4. The vesting dates of the RSS deferred bonus awards are subject to being out of a closed period and, for the 2016 to 2019 deferred bonus awards, are as follows:
   - 2016 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2016, 2017 and 2018;
   - 2017 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2017, 2018 and 2019;
   - 2018 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2018, 2019 and 2020; and
   - 2019 – vest 33.33% per year over a three-year period at the first open period following the release of the Company's year-end results for 2019, 2020, and 2021.
5. The vesting of the RSS performance awards above is subject to two performance conditions as follows:
   - 15% of each award is subject to a performance condition measuring the absolute TSR performance of the Company over a three-year performance period. 25% of this part of the award vests for threshold performance (8% compound annual growth) by the Company, rising to 100% vesting of this part of the award for maximum performance (12% compound annual growth) by the Company or better. Performance between threshold and maximum is determined on a straight-line basis.
   - The other 85% of each award is subject to a performance condition based on the annual growth in FCBVS plus accrued dividends over a three-year performance period. 25% of this part of the award will vest if annual growth in FCBVS plus accrued dividends over the performance period exceeds the criteria set out in the table on page 91, whilst all of this part of the award will vest if the Company's annual growth in FCBVS plus accrued dividends is equal to the more stringent criteria set out in the table on page 91. Between these two points vesting will take place on a straight-line basis. Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. Details of this calculation method were disclosed on page 79 of the 2018 Annual Report and Accounts.

Relative TSR targets for RSS (25% weighting)

	2016	2017
100%	75th percentile	75th percentile
25%	= median	= median
Nil	< median	< median

ROE targets for RSS (75% weighting)

	2016	2017*
100%	RFRoR +15%	13%
25%	RFRoR + 6%	6%
Nil	< RFRoR + 6%	< 6%

* Average annual growth in FCBVS plus accrued dividends.

Absolute TSR targets for RSS (15% weighting)

	2018*	2019*	2020*
100%	12%	12%	12%
25%	8%	8%	8%
Nil	< 8%	< 8%	<8%

Annual growth in FCBVS plus accrued dividends targets for RSS (85% weighting)

	2018*	2019*	2020*
100%	13%	13%	13%
25%	6%	6%	6%
Nil	< 6%	< 6%	<6%

* See pages 85 and 86 for the vesting methodology to be applied for the 2018 and onwards RSS awards.

Historical peer group data for 2017 and prior RSS awards (relative TSR element)

Peer companies[10]	2016 awards	2017 awards
Arch Capital Group Limited[1, 3]	X	X
Argo Group International Holdings, Ltd.	X	X
Aspen Insurance Holdings Limited[2]	X	X
Axis Capital Holdings Limited	X	X
Beazley plc	X	X
Endurance Specialty Holdings Ltd.[3,6]	X	–
Everest Re Group, Ltd.[4]	X	X
Greenlight Capital Re, Ltd.[8]	X	X
The Hanover Insurance Group[5]	X	X
Hiscox Ltd.	X	X
Novae Group plc[6,7]	X	X
Renaissance Re Holdings Ltd.	X	X
Third Point Reinsurance Ltd.[9]	X	X
Validus Holdings Ltd.[8]	X	X
XL Group Ltd[7,9]	X	X

1. Arch Capital Group Limited was added to the peer group of companies with effect from 1 October 2016 as a replacement for Endurance Specialty Holdings Ltd.
2. Apollo Funds announced on 28 August 2018 that it intended to acquire all outstanding common shares of Aspen Insurance Holdings Limited ('Aspen'). As a result of this acquisition, Aspen ceased to be in the comparator peer group from 30 June 2018.
3. Sompo Holdings Inc. announced on 5 October 2016 that it intended to acquire Endurance Specialty Holdings Ltd. ('Endurance'). The transaction subsequently achieved shareholder approval. Accordingly, the Committee decided to use Arch Capital Group Limited as a comparator company with effect from 1 October 2016 as a replacement for Endurance.
4. Everest Re Group, Ltd. was added to the peer group of companies with effect from 1 July 2015 as a replacement for Amlin plc.
5. The Hanover Insurance Group was added to the peer group of companies with effect from 1 January 2015 as a replacement for Montpelier Re Holdings Ltd.
6. Novae Group plc was added to the peer group of companies with effect from 1 January 2015 as a replacement for Catlin Group Ltd.
7. Novae Group plc was acquired by Axis Capital Holdings Limited with effect from 2 October 2017 and so was used as a comparator company up to 30 June 2017 and was replaced by XL Group Ltd as of 1 July 2017.
8. American International Group, Inc. announced on 22 January 2018 that it was set to acquire Validus Holdings Ltd. ('Validus'). Accordingly, the Committee decided to use Greenlight Capital Re, Ltd as a comparator company with effect from 1 January 2018 as a replacement for Validus.
9. AXA announced on 5 March 2018 that it had entered into an agreement to acquire 100% of XL Group Ltd, which was approved by XL Group Ltd's common shareholders on 6 June 2018. Accordingly, the Committee decided to use Third Point Reinsurance Ltd as a comparator company with effect from 1 January 2018 as a replacement for XL Group Ltd.
10. For 2018 and onwards RSS awards the Board adopted a range of absolute TSR targets. See page 91 for further details.

Directors' shareholdings and share interests

Formal shareholding guidelines were first introduced in 2012 and have subsequently been modified. The guidelines require the Group CEO and Group CFO to build and maintain a shareholding in the Company worth two times annual salary as set out in the Policy Report.

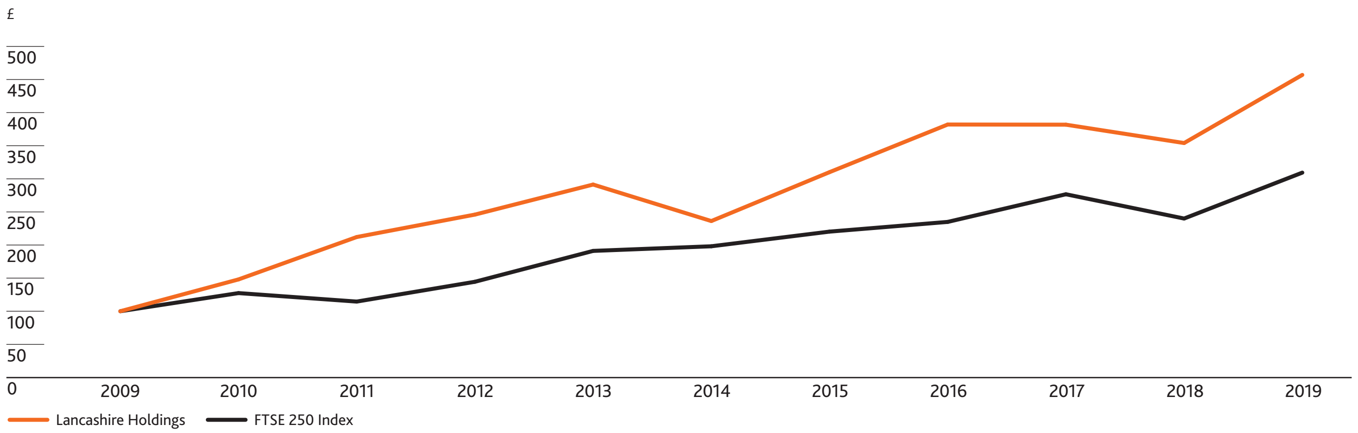
Details of the Directors' interests in shares are shown in the table below.

	Number of common shares						
	Total as at 1 January 2019	As at 31 December 2019					
Directors		Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	Shareholding guideline achieved?
Alex Maloney	1,546,714	**679,308**	**40,433**	**909,343**	**N/A**	**1,629,084**	**Yes**
Elaine Whelan	1,210,362	**654,106**	**28,214**	**572,382**	**N/A**	**1,254,702**	**Yes**
Peter Clarke	60,000	**60,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Michael Dawson	11,000	**15,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Simon Fraser	1,000	**1,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Samantha Hoe-Richardson	5,356	**5,356**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Robert Lusardi	8,000	**8,000**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Sally Williams	N/A	**1,422**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Note: Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Performance graph and total remuneration history for Group CEO

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index. The Company's common shares commenced trading on the main market of the LSE on 16 March 2009 and the Company joined the FTSE 250 Index on 22 June 2009 and is currently a constituent of this.



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2019, of £100 invested in LHL on 31 December 2008 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

The table below sets out the total single figure of remuneration for the CEOs over the last ten years with the annual bonus paid as a percentage of the maximum and the percentage of long-term share awards vesting in each year.

	2010	2011	2012	2013	2014[1]	2014[2]	2015	2016	2017	2018	2019
Total remuneration ($000s)	9,945	9,623	10,460	10,175	10,072	2,405	**3,853**	**3,800**	**1,943**	**1,431**	**3,054**
Annual bonus (%)	94	73	73	80	80	73	**72**	**76**	**17**	**19**	**80**
LTI vesting (%)	99.6	100	99	100	61[1]	50	**75**	**67**	**22.5**	**0**	**0**

1. Richard Brindle was the Group CEO from 2005 until he retired from the Group and as a Director on 30 April 2014. Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.
2. Alex Maloney was appointed Group CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.

The table above shows the total remuneration figure for the former Group CEO during each of the relevant financial years; figures for the current Group CEO are shown since his appointment to the position on 1 May 2014. The total remuneration figure includes the annual bonus and LTI awards which vested based on performance in those years. The annual bonus and LTI percentages show the payout for each year as a percentage of the maximum.

Percentage change in Group CEO remuneration

The following table sets out the percentage change in the aggregate value of salary, benefits and bonus for the Group CEO from the preceding year and the average percentage change in respect of the employees of the Group taken as a whole.

	Year-on-year change CEO[2] %	Average year-on-year change employees[1,3] %
Base salary	2	15
Benefits	-1	34
Bonus[4]	338	93

1. Employee numbers were calculated on a per permanent employee headcount basis for the years ending 31 December 2019 and 31 December 2018, adjusted for any joiners and leavers during this period.
2. The underlying salary increase from 2018 to 2019 for the Group CEO was 3%. However some amounts were paid in Sterling and converted at the average exchange rate of 1.2738 for the year, which has resulted in the overall 2% base salary year-on-year change above.
3. The underlying salary increase from 2018 to 2019 for Group employees was a standard 3%. The 15% increase reflects staff promotions and other adjustments made during the year.
4. The year-on-year bonus increase is reflective of the better performance year observed in 2019 compared to the higher than normal catastrophe year of 2018.

Relative importance of the spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in the year ended 31 December 2019 compared with the year ended 31 December 2018.

	2019 $m	2018 $m	Percentage change %
Employee remuneration costs	**78.5**	56.9	38
Dividends	**30.2**	70.2	-57

The principal factor influencing the year-on-year increase in employee remuneration costs was the improvement in RoE for 2019 to 14.1% from RoE of 2.4% for 2018.

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2019, please refer to page 72 of this Annual Report and Accounts. The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website. These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

The Remuneration Committee is advised by the Executive Compensation practice at Aon plc ('Aon'). Aon was appointed by the Remuneration Committee in 2007. Aon has discussions with the Remuneration Committee Chairman regularly on Committee process and topics which are of particular relevance to the Company.

Aon Reinsurance Solutions (which is part of Aon but is a separate business division) provides reinsurance broking services to the Group.

The primary role of Aon is to provide independent and objective advice and support to the Committee's Chairman and members. In order to manage any possible conflict of interest, Aon operates as a distinct business within the Aon Group and there is a robust separation between the business activities and management of Aon and all other parts of the wider Aon Group. The Committee is satisfied that the advice that it receives is objective and independent. Aon is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to Aon in respect of its services to the Committee for the year ended 31 December 2019 were $81,643 (2018 – $71,334). Fees are predominantly charged on a 'time spent' basis.

Engagement with shareholders

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below along with the votes to approve the 2017 Remuneration Policy; any matters discussed with shareholders during the year are provided in the Annual Statement for 2019 starting on page 74.

	Vote to approve 2018 Annual Report on Remuneration (at the 2019 AGM)		Vote to approve 2017-2019 Remuneration Policy (at the 2017 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	**148,941,195**	**89.4**	144,229,951	94.8
Against	**17,672,221**	**10.6**	7,870,777	5.2
Total	**166,613,416**	**100.0**	152,100,728	100.0
Abstentions	**526,656**		9,125,993	

Approved by the Board of Directors and signed on behalf of the Board.

Simon Fraser
Chairman of the Remuneration Committee

12 February 2020

Overview of the Group

LHL is a Bermuda incorporated company (Registered Company No. 37415) with operating subsidiaries in Bermuda and London, and two syndicates at Lloyd's.

The Company's common shares were admitted to trading on AIM in December 2005 and were subsequently moved up to the Official List and to trading on the main market of the LSE on 16 March 2009. The shares have been included in the FTSE 250 Index since 22 June 2009 and have a premium listing on the LSE.

Principal activities

The Company's principal activity, through its wholly-owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, the holding company of LSL, and in June 2013 established Kinesis (now LCM), a third-party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the business review on pages 24 to 29.

Dividends

During the year ended 31 December 2019, the following dividends were declared:

- a final dividend of $0.10 per common share was declared on 13 February 2019 and paid on 27 March 2019 in pounds sterling at the pound/U.S. dollar exchange rate of 1.3029 or £0.0768 per common share; and
- an interim dividend of $0.05 per common share was declared on 24 July 2019 and paid on 6 September 2019 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2091 or £0.0414 per common share.

Dividend policy

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) ordinary dividend, supplemented by special dividends from time-to-time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual ordinary dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

Current Directors

- Peter Clarke (Non-Executive Chairman)
- Michael Dawson (Non-Executive Director)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Robert Lusardi (Non-Executive Director)
- Alex Maloney (Chief Executive Officer)
- Elaine Whelan (Chief Financial Officer)
- Sally Williams (Non-Executive Director)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2019 and 2018, including interests held by family members, were as follows:

Directors	Common shares held as at 31 December 2019	Common shares held as at 31 December 2018
Peter Clarke	**60,000**	60,000
Michael Dawson[1]	**15,000**	11,000
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**5,356**	5,356
Robert Lusardi	**8,000**	8,000
Alex Maloney[2]	**679,308**	657,724
Elaine Whelan[3]	**654,106**	627,169
Sally Williams[4]	**1,422**	N/A

There have been no changes in Directors' shareholdings between the end of the financial year and the date of this report.

1. Michael Dawson conducted the following transactions in the Company's shares during 2019:
   - 26 July – purchase of 4,000 shares at a price of £7.05 costing £28,200.
2. Includes 155,722 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2019:
   - 2 August – exercise of 40,843 deferred bonus RSS awards and related sale of 19,259 shares to cover tax liabilities, at a price of £7.03 realising £135,390.77.
3. Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2019:
   - 20 February – exercise of 28,271 deferred bonus RSS awards and related sale of 1,334 shares to cover tax liabilities, at a price of £6.50 realising £8,671.
4. Sally Williams was appointed to the Board with effect from 14 January 2019 and conducted the following transactions in the Company's shares during 2019:
   - 26 July – purchase of 1,414 shares at a price of £7.09 costing £10,018.19.
   - 10 September – acquired 8 shares through an automatic dividend reinvestment scheme at a price of £7.10 costing £56.84.

Transactions in own shares

The Company did not repurchase any of its own common shares during 2019 or 2018.

The Company's current repurchase programme has 20,194,192 common shares remaining to be purchased as at 31 December 2019 (approximately $205.4 million at the 31 December 2019 share price). Further details of the share repurchase authority and programme are set out in note 19 to the consolidated financial statements on page 165. The repurchase programme is subject to renewal at the 2020 AGM for an amount of up to 10% of the then issued common share capital.

Directors' remuneration

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 74 to 95.

Substantial shareholders

As at 12 February 2020, the Company was aware of the following interests of 3% or more in the Company's issued share capital:

Name	Number of shares as at 12 February 2020	% of shares in issue
Invesco Limited	31,911,749	15.72
Setanta Asset Management Limited	27,400,626	13.51
Merian Global Investors	11,087,705	5.46
Frank W Cawood & Associates	9,302,300	4.58
Troy Asset Management Limited	8,824,666	4.35
Vanguard Group	8,565,704	4.22
BlackRock, Inc.	8,297,885	4.09
GLG Partners	7,661,224	3.78
Dimensional Fund Advisors LP	7,469,834	3.68

Corporate governance – compliance statement

The Company's compliance with the Code is summarised in the corporate governance section of this Annual Report and Accounts on pages 48 to 49.

The Board considers, and the Company confirms, in accordance with the principle of 'comply or explain' that the Company has applied the principles and complied with the provisions and guidance set out in the UK Corporate Governance Code throughout the year ended 31 December 2019.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions

The Group's greenhouse gas emissions are detailed in the engagement and sustainability section of this Annual Report and Accounts on page 44.

Employees

The Group is an equal opportunity employer, and does not tolerate unfair discrimination of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other employment policies are available to all employees in the staff handbook which is located on the Group's intranet.

Creditor payment policy

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 30 to 32 and in the risk disclosures section on pages 118 to 142 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 131 to 133.

Accounting standards

The Group's consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

Annual General Meeting

The Notice of the 2020 AGM, to be held on 29 April 2020 at the Company's head office, Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The Notice of the AGM is also available on the Company's website.

Electronic and web communications

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

Going concern and viability statement

The business review section on pages 24 to 29 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 33 to 39. Starting on page 118, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The three-year strategic plan was last approved by the Board on 24 July 2019. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

During 2019, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of severe but plausible scenarios and the impact on capital evaluated. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2022, being the period considered under the Group's current three-year strategic plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2020 AGM to re-appoint KPMG as the Company's auditors and to authorise the Directors to set the auditor's remuneration.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

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

Approved by the Board of Directors and signed on behalf of the Board.

Christopher Head
Company Secretary

12 February 2020

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU. Where IFRS, as adopted by the EU, is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. Further detail on the basis of preparation is described in the consolidated financial statements. In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS as adopted by the EU are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance;
- assess the Group'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 Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, and also have general responsibility for safeguarding the assets of the Group and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- the strategy and the business review sections of this Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

12 February 2020

1. Our opinion is unmodified

We have audited the consolidated financial statements of Lancashire Holdings Limited ("the Group") for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income , the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the statement of consolidated cash flows, and the related notes, including the accounting policies on pages 111 to 117.

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

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 have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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 consolidated 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. These matters were addressed in the context of our audit of the consolidated 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:

Valuation of insurance contract liabilities for losses and loss adjustment expenses on a gross basis and net of outwards reinsurance

(2019: $874.5m gross, $547.0m net of outwards reinsurance, of which incurred but not reported represented $383.7m gross, $168.2m net of outwards reinsurance; 2018: $915.0m gross, $592.1m net of outwards reinsurance, of which incurred but not reported represented $389.3m gross, $233.0m net of outwards reinsurance)

Refer to page 59 (Audit Committee report), page 114 (accounting policy) and pages 158 to 160 (financial disclosures)

Risk vs 2018: ◀▶

Risk	Response
The Group maintains reserves 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 Group. **Subjective valuation:** Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of ultimate premium and of the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex. These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets. In setting the provision for insurance liabilities, an allowance is made for specific risks. The determination of the allowance is a subjective judgement based on the perceived uncertainty and potential for volatility in the underlying claims. The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount. The consolidated financial statements (note 13) discloses the sensitivity estimated by the Group. **Completeness and accuracy of data:** The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.	We have used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: • **Control operation** Evaluating and testing the design and implementation of key controls around review and approval of reserves as well as the completeness and accuracy of the data used in the reserving process. • **Methodology assessment** Assessing and challenging the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness and consistency year on year based on our knowledge and understanding of the reserving policy within the Group. This has also involved comparing the Group's reserving methodology with industry practice and understanding the rationale for key differences. • **Historical experience** Challenging the quality of the Group's historical reserving estimates by monitoring the development of losses against initial estimates. • **Independent re-projections** Applying our own assumptions, across all classes of business, to perform re-projections on the insurance contract liabilities on both a gross and net basis and comparing these to the Group's projected results including any allowance for specific risks. Where there were significant variances in the results, we have challenged the Group's assumptions. • **Sector experience and benchmarking of large losses** Assessing and challenging the reserving assumptions by comparing the Group's loss experience to peers in the market, on a gross and net basis, including on a contract by contract basis for large loss and catastrophe events. In addition to the procedures above, the audit team performed the following procedures: • **Data reconciliations** Checking the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems. We have also checked the completeness and accuracy of the data flow from the claims and policy systems into the financial systems primarily by performing substantive testing over data reconciliations. • **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of insurance liabilities

Valuation of premiums which are estimated, included in gross premiums written

(2019: $706.7m, 2018: $638.5m) and included in inwards premiums receivable from insureds and cedants (2019: $350.5m, 2018: $318.1m)

Refer to page 59 (Audit Committee report), page 113 (accounting policy) and pages 144 and 145 (financial disclosures)

Risk vs 2018: ◀▶

Risk	Response
Subjective valuation: There are adjustments made to gross premiums written to reflect adjustments to ultimate premium estimates such declarations received on binding authority contracts, reinstatement premiums on reinsurance contracts and other routine adjustments to premium income due to policy amendments. There is a material proportion of premium which is written through the Syndicates and UK insurer, pricing for which is based on a best estimate of ultimate premiums. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised, impacting gross written premiums in the consolidated statement of comprehensive income and inwards premiums receivable from insureds and cedants recorded on the consolidated balance sheet. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of gross premium written estimates included within the inwards premiums receivable from insureds and cedants at the year-end 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. It should however be noted that it is only a portion of the total gross premiums written and inwards premiums receivable from insureds and cedants figures noted above that are subject to this valuation risk.	Our procedures included: • **Control operation** Evaluating and testing the design and implementation of key controls over the periodic review of premium estimates booked. • **Retrospective analysis** Assessing the Group's past expertise in making premium estimates by comparing the estimates and actuals for prior years for a sample of policies. • **Methodology assessment** Assessing estimated premium income for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time. • **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of premiums which are estimated.

Valuation of level 3 investments

(2019: $165.5m, 2018: $149.2m)

Refer to page 59 (Audit Committee report), pages 114 and 115 (accounting policy) and pages 152 to 156 (financial disclosures)

Risk vs 2018: ▲

Risk	Response
Subjective valuation: A proportion of the Group's investment assets are comprised of investments in hedge funds and are classified as level 3 investments. The valuation of these investments are based on hedge fund manager's valuation reports. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the year-end date. The effect of these matters is that, as part of our risk assessment, we determined that valuation of hedge funds 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.	Our procedures included: • **Control operation** Evaluating and testing the design and implementation of the controls associated with the valuation of level 3 investments. • **Comparing valuations** Obtaining the hedge fund manager's valuation reports and comparing the valuations recorded by the Group to assess for any material valuation differences. • **Benchmarking hedge funds** Understanding the strategy for each hedge fund held by the Group to identify relevant comparable funds and comparing their valuations with the hedge funds held by the Group. Where this benchmarking identifies a material difference we investigate the possible reasons for differences and assess if any adjustment is required at the year-end. • **Historical accuracy** Retrospectively assessing the historical accuracy of the valuations used by the Group by comparing interim fund manager valuation reports to the final year-end reports for prior periods. Where this identifies a material difference we investigate the possible reasons for differences and assess if any adjustment is required at the year-end. • **Assessing transparency** Considering the adequacy of the Group's disclosures in respect of the valuation of hedge funds.

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

Materiality for the consolidated financial statements as a whole was set at $6.3 million (2018: $5.1 million), determined with reference to a benchmark of Group gross written premiums (2018: Group profit before tax normalised by averaging over the last five years due to fluctuations in the frequency and severity of catastrophe loss events), of which it represents 0.9% (2018: 5%). We have changed our benchmark from the prior year as we consider Group gross written premiums to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.32 million (2018: $0.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 9 (2018:9) reporting components, including the parent company, UK insurance company, Bermuda insurance company, UK service entity and Lloyd's operations, we subjected 5 (2018:5) to full scope audits for Group purposes. Including the audit of the consolidation adjustments our scope covered 100% (2018: 100%) of gross premiums written, loss before tax and total assets.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities, which ranged from $1.6 million to $6.2 million (2018: $0.8 million to $5.0 million), having regard to the mix of size and risk profile of the Group across the components.

The Group team visited all component locations in Bermuda and the UK (2018: Bermuda and the UK). Video and telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group'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 period of twelve months from the date of approval of the consolidated financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in the accounting policies section to the consolidated financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the consolidated financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the consolidated financial statements. Our opinion on the consolidated financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' Remuneration Report

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company was required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within viability statement page 99 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 absence of anything to report on these statements is not a guarantee as to the Group's longer-term viability.

Corporate governance disclosures

We are required to report to you if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or the section of the Annual Report and Accounts describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 100, the Directors are responsible for: the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group'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 Group 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), 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, other irregularities 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 consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Rees Aronson

REES ARONSON
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square, London, E14 5GL

12 February 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 $m	2018 $m
Gross premiums written	2	**706.7**	638.5
Outwards reinsurance premiums	2	**(282.0)**	(220.8)
Net premiums written		**424.7**	417.7
Change in unearned premiums	2	**(35.8)**	(19.7)
Change in unearned premiums on premiums ceded	2	**32.8**	15.5
Net premiums earned		**421.7**	413.5
Net investment income	3	**37.7**	34.7
Net other investment income (losses)	3	**8.0**	(4.2)
Net realised gains (losses) and impairments	3	**8.9**	(5.1)
Share of profit (loss) of associate	16	**5.9**	(7.1)
Other income	5	**11.4**	12.4
Net foreign exchange losses		**(1.5)**	(1.6)
Total net revenue		**492.1**	442.6
Insurance losses and loss adjustment expenses	2, 13	**264.5**	307.4
Insurance losses and loss adjustment expenses recoverable	2, 13	**(134.7)**	(142.0)
Net insurance losses		**129.8**	165.4
Insurance acquisition expenses	2, 4	**124.4**	131.0
Insurance acquisition expenses ceded	2, 4	**(19.0)**	(4.6)
Equity based compensation	7	**9.6**	7.9
Other operating expenses	6, 7, 21	**106.0**	89.2
Total expenses		**350.8**	388.9
Results of operating activities		**141.3**	53.7
Financing costs	8	**21.8**	20.1
Profit before tax		**119.5**	33.6
Tax (charge) credit	9	**(1.3)**	4.0
Profit for the year		**118.2**	37.6
Profit for the year attributable to:			
Equity shareholders of LHL		**117.9**	37.5
Non-controlling interests		**0.3**	0.1
Profit for the year		**118.2**	37.6
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 11	**28.6**	(12.9)
Tax (charge) credit on net change in unrealised gains/losses on investments	11	**(0.8)**	0.1
Other comprehensive income (loss)		**27.8**	(12.8)
Total comprehensive income for the year		**146.0**	24.8
Total comprehensive income attributable to:			
Equity shareholders of LHL		**145.7**	24.7
Non-controlling interests		**0.3**	0.1
Total comprehensive income for the year		**146.0**	24.8
Earnings per share			
Basic	23	**$0.59**	$0.19
Diluted	23	**$0.58**	$0.19

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Notes	2019 $m	2018 $m
Assets			
Cash and cash equivalents	10, 18	**320.4**	154.6
Accrued interest receivable		**7.2**	6.8
Investments	11, 12, 18	**1,525.1**	1,659.0
Inwards premiums receivable from insureds and cedants	14	**350.5**	318.1
Reinsurance assets			
– Unearned premiums on premiums ceded		**89.5**	56.7
– Reinsurance recoveries	13	**327.5**	322.9
– Other receivables	14	**16.9**	9.8
Other receivables	14	**51.7**	35.3
Investment in associate	12, 16	**108.3**	67.1
Property, plant and equipment		**1.2**	1.4
Right-of-use assets	21	**18.2**	–
Deferred acquisition costs		**81.7**	74.2
Intangible assets	17	**154.5**	153.8
Total assets		**3,052.7**	2,859.7
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	13	**874.5**	915.0
– Unearned premiums		**406.4**	370.6
– Other payables		**27.4**	36.0
Amounts payable to reinsurers		**126.6**	81.3
Deferred acquisition costs ceded		**17.6**	7.1
Other payables		**47.5**	45.4
Corporation tax payable		**2.4**	0.9
Deferred tax liability	15	**9.6**	11.2
Interest rate swap	18	**1.1**	0.4
Lease liabilities	21	**21.9**	–
Long-term debt	18	**323.5**	324.3
Total liabilities		**1,858.5**	1,792.2
Shareholders' equity			
Share capital	19	**101.5**	101.0
Own shares	19	**(13.3)**	(9.4)
Other reserves	20	**881.3**	869.0
Accumulated other comprehensive income (loss)	11	**13.5**	(14.3)
Retained earnings		**210.6**	120.9
Total shareholders' equity attributable to equity shareholders of LHL		**1,193.6**	1,067.2
Non-controlling interests	24	**0.6**	0.3
Total shareholders' equity		**1,194.2**	1,067.5
Total liabilities and shareholders' equity		**3,052.7**	2,859.7

The consolidated financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:

Peter Clarke
Director/Chairman

Elaine Whelan
Director/CFO

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other comprehensive income (loss) $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2017		100.7	(12.1)	866.2	(1.5)	153.6	1,106.9	0.4	1,107.3
Total comprehensive income for the year		–	–	–	(12.8)	37.5	24.7	0.1	24.8
Shares purchased by the trust	19, 20, 24	0.3	(4.6)	4.3	–	–	–	–	–
Distributed by the trust	19, 20	–	7.3	(9.9)	–	–	(2.6)	–	(2.6)
Purchase of shares from non-controlling interest	20	–	–	(0.1)	–	–	(0.1)	(0.2)	(0.3)
Dividends on common shares	19	–	–	–	–	(70.2)	(70.2)	–	(70.2)
Equity based compensation	20	–	–	8.5	–	–	8.5	–	8.5
Balance as at 31 December 2018		101.0	(9.4)	869.0	(14.3)	120.9	1,067.2	0.3	1,067.5
Initial application of IFRS 16 – Leases		**–**	**–**	**–**	**–**	**2.0**	**2.0**	**–**	**2.0**
Total comprehensive income for the year		**–**	**–**	**–**	**27.8**	**117.9**	**145.7**	**0.3**	**146.0**
Shares purchased by the trust	19, 20, 24	**0.5**	**(9.3)**	**8.8**	**–**	**–**	**–**	**–**	**–**
Distributed by the trust	19, 20	**–**	**5.4**	**(6.7)**	**–**	**–**	**(1.3)**	**–**	**(1.3)**
Dividends on common shares	19	**–**	**–**		**–**	**(30.2)**	**(30.2)**	**–**	**(30.2)**
Equity based compensation	20	**–**	**–**	**10.2**	**–**	**–**	**10.2**	**–**	**10.2**
Balance as at 31 December 2019		**101.5**	**(13.3)**	**881.3**	**13.5**	**210.6**	**1,193.6**	**0.6**	**1,194.2**

STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 $m	2018 $m
Cash flows from (used in) operating activities			
Profit before tax		**119.5**	33.6
Tax paid		**(2.1)**	(3.3)
Depreciation	6, 21	**3.9**	1.4
Interest expense on long-term debt	8	**18.5**	18.1
Interest expense on lease liabilities	21	**1.3**	–
Interest and dividend income	3	**(39.7)**	(36.6)
Net amortisation of fixed maturity securities		**(1.3)**	(0.6)
Equity based compensation	7	**9.6**	7.9
Foreign exchange losses (gains)		**2.5**	(4.3)
Share of (profit) loss of associate	16	**(5.9)**	7.1
Net other investment (income) losses		**(8.8)**	3.9
Net realised (gains) losses and impairments	3	**(8.9)**	5.1
Net unrealised losses (gains) on interest rate swaps		**0.7**	(1.6)
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**(46.0)**	(51.5)
– Other assets and liabilities		**(8.8)**	18.3
Net cash flows from (used in) operating activities		**34.5**	(2.5)
Cash flows from (used in) investing activities			
Interest and dividends received		**41.1**	35.9
Purchase of property, plant and equipment		**(1.1)**	(0.2)
Purchase of underwriting capacity	17	**(0.7)**	–
Investment in associate	24	**(35.3)**	(14.8)
Purchase of investments		**(948.3)**	(1,143.1)
Proceeds on sale of investments		**1,127.7**	1,115.8
Net cash flows from (used in) investing activities		**183.4**	(6.4)
Cash flows used in financing activities			
Interest paid		**(18.5)**	(18.0)
Lease liabilities paid	21	**(3.6)**	–
Dividends paid	19	**(30.2)**	(70.2)
Distributions by trust		**(1.3)**	(2.6)
Purchase of shares from non-controlling interest		**–**	(0.3)
Net cash flows used in financing activities		**(53.6)**	(91.1)
Net increase (decrease) in cash and cash equivalents		**164.3**	(100.0)
Cash and cash equivalents at beginning of year		**154.6**	256.5
Effect of exchange rate fluctuations on cash and cash equivalents		**1.5**	(1.9)
Cash and cash equivalents at end of year	10	**320.4**	154.6

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The consolidated financial statements are prepared on a going concern basis in accordance with IFRS as adopted by the EU. The Directors performed an assessment of the Group's ability to continue as a going concern and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. In the course of preparing the consolidated financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations as noted in the 'Use of Estimates' section on page 112 , that have had a significant effect on amounts recognised in the consolidated financial statements.

The consolidated balance sheet is presented in order of decreasing liquidity. All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

CHANGES IN ACCOUNTING STANDARDS

The Group adopted IFRS 16, with an initial date of application of 1 January 2019, using the modified retrospective approach (previously disclosed as the fully retrospective transition approach in the consolidated financial statements for the year ended 31 December 2018). The cumulative effect of applying IFRS 16 is recognised as an adjustment against the opening balance in shareholders' equity as at the date of initial application.

On initial application of IFRS 16, the weighted average discount rate applied to lease liabilities was 5.4%.

Lease liability impact on date of initial application of IFRS 16 – Leases	$m
Operating lease commitment as at 31 December 2018	**41.8**
Discounted using the incremental borrowing rate at 1 January 2019	**28.9**
Recognition exemption for extension and termination options	**(5.0)**
Operating lease commitment disclosed in 2019 for contracts incepting in 2020	**(4.4)**
Recognition exemption for short-term leases	**(0.2)**
Lease liability recognised as at 1 January 2019	**19.3**

For lessees, IFRS 16 removes the distinction between operating and finance leases and requires the recognition of a right-of-use asset and lease liability at the commencement of all leases, except for short-term leases or low value assets. The Group has made use of the practical expedient to grandfather the definition of a lease on transition to IFRS 16. Accordingly, the definition of a lease under IAS 17 and IFRIC 4 continues to be applied to leases entered into or modified before 1 January 2019. The Group previously classified operating leases based on its assessment of whether or not the lease transferred significantly all of the risk and rewards incidental to ownership of the underlying asset.

The change in definition of a lease under IFRS 16 mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the Group has the right to control the use of an identified asset, for a period of time, in exchange for consideration. The Group applied the IFRS 16 definition of a lease and the related guidance to all lease contracts entered into or modified on or after 1 January 2019.

IAS 17 did not require assets and liabilities arising from operating leases to be recognised on the balance sheet but did require disclosure of operating lease commitments in the notes to the consolidated financial statements.

Applying IFRS 16, the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated balance sheet;
- Recognises depreciation of right-of-use assets and interest expense on lease liabilities in the consolidated statement of comprehensive income; and
- Separates the total amount of cash paid into a principal portion and an interest portion in the consolidated statement of cash flows.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases, which have a lease period of 12 months or less and low-value assets. The Group recognises these lease payments in other operating expenses within the consolidated statement of comprehensive income on a straight-line basis over the lease term.

While a number of other amended IFRS standards and IFRIC interpretations have become effective this year, none of these standards have had a material impact on the Group.

FUTURE ACCOUNTING CHANGES

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts by an insurer. The new standard is likely to be effective for accounting periods beginning on or after 1 January 2022, following an IASB meeting in December 2019 where a number of changes to IFRS 17 were agreed. 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. The Group will continue to assess the impact that the new standard will have on its results and its presentation and disclosure requirements. IFRS 17 has not yet been endorsed by the EU.

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Group qualifies for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until accounting periods beginning on or after 1 January 2022, subject to the proposed deferral of IFRS 17 as noted above, and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17, Insurance Contracts. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. Applying the new requirements of IFRS 9, the Group currently anticipates that all investments held by the Group will be classified as at FVTPL mandatory, because they are managed on a fair value basis. As a result all investments currently disclosed in note 11 as AFS will be reclassified as at FVTPL mandatory with changes in unrealised gains (losses) currently recorded within other comprehensive income (loss) to be reclassified and recorded within net investment income in profit or loss. The reclassification from AFS to FVTPL mandatory will not result in a change in the carrying value of the investments disclosed in note 11 of the consolidated financial statements. The change in classification from AFS to FVTPL mandatory will result in balances within accumulated other comprehensive income (loss) being reclassified to retained earnings on the date of transition.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. This is discussed on page 114 and also in the risk disclosures section from page 125.

Less significant estimates are made in determining the estimated fair value of certain financial instruments and management judgement is applied in determining impairment charges. The estimation of the fair value, specifically “Level (iii)” investments is discussed on pages 114 and 115 and in note 11.

Whilst not significant, estimates are also utilised in the valuation of intangible assets. The fair value of intangible assets recognised on the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The assumptions made by management in performing annual impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are contained in note 17.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2019. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The Group participates in two syndicates at Lloyd’s, which are managed by the Group’s managing agent subsidiary. In view of the several liability of underwriting members at Lloyd’s, the Group recognises its proportion of all the transactions undertaken by the syndicates in which it participates within its consolidated statement of comprehensive income. Similarly, the Group’s proportion of the syndicates’ assets and liabilities have been reflected in its consolidated balance sheet. This proportion is calculated by reference to the Group’s participation as a percentage of each syndicate’s total capacity for each year of account.

Subsidiaries’ accounting policies are generally consistent with the Group’s accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

ASSOCIATE

Investments, in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income or (loss) from such investments in its consolidated statement of comprehensive income for the period. Adjustments are made to associate accounting policies, where necessary, in order to be consistent with the Group’s accounting policies.

FOREIGN CURRENCY

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency for each entity 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 consolidated statement of comprehensive income within net foreign exchange 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.

INTANGIBLE ASSETS

The Group's intangible assets comprise syndicate participation rights and goodwill. The cost of syndicate participation rights and goodwill acquired in a business combination is their fair value as at the date of acquisition. Additional syndicate participation rights may be purchased from time to time and are recorded as the cost at date of auction. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the CGU and related intangible assets. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Syndicate participation rights and goodwill are considered to have an indefinite life.

INSURANCE CONTRACTS

CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the later of a contract's binding or inception date. The Group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned rateably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are regularly reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for the reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses and ACR, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to profit or loss as they are incurred.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all insurance claims arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reported losses received from third parties. ACR are determined where management's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are estimated by management using various actuarial methods as well as a combination of the Group's own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

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 Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

LIABILITY ADEQUACY TESTS

At each balance sheet date, the Group performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums for the period of unexpired risk by using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the consolidated balance sheet 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 Group's fixed maturity and equity securities include quoted and unquoted investments that are classified as either AFS or at FVTPL and are carried at estimated fair value. The classification of the Group's financial assets is determined at the time of initial purchase and depends on the nature of the investment. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis or if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Equity securities classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. Fixed maturity securities classified as AFS are those that are intended to be held for an indefinite period, the composition, duration and allocation of these investments are reviewed by management on a regular basis in order to respond to needs for liquidity, changes in interest rates and other market conditions. The Group has elected to designate certain fixed maturity securities and its private debt fund at FVTPL upon initial recognition. This category includes instruments in which the cash flows are linked to the performance of an underlying pool of securities. Presentation of these securities in the FVTPL category is consistent with how management monitors and evaluates the performance of these securities.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at estimated fair value. Estimated fair values are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager.

Regular way purchases and sales of investments are recognised at estimated fair value including, in the case of investments not carried at FVTPL, transaction costs attributable to the acquisition of that investment on the trade date and are subsequently carried at estimated fair value. The estimated fair values of quoted and unquoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains and losses from changes in the estimated fair value of AFS investments are included in accumulated other comprehensive income (loss) in shareholders' equity. Changes in estimated fair value of investments classified at FVTPL are recognised in the consolidated statement of comprehensive income within net other investment income (losses).

Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. On derecognition of an AFS investment, previously recorded unrealised gains and losses are recycled from accumulated other comprehensive income (loss) in shareholders' equity and included in the consolidated statement of comprehensive income as a realised gain or loss within net realised gains (losses) and impairments.

Amortisation and accretion of premiums and discounts on AFS fixed maturity securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income 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. Dividends on equity securities are recorded as income on the date the dividends become payable to the holders of record.

The Group regularly reviews the carrying value of its AFS investments for evidence of impairment. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive income (loss) in shareholders' equity and charged to current period profit or loss. Impairment losses on fixed maturity securities may be subsequently reversed through profit or loss while impairment losses on equity securities are not subsequently reversed through profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are classified as financial assets or liabilities at FVTPL. They are initially recognised at estimated fair value on the date a contract is entered into, the trade date, and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative estimated fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of derivative instruments are recognised in the consolidated statement of comprehensive income within net other investment income (losses). The Group does not currently apply hedge accounting to any derivative contracts. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled or expired.

OTHER INCOME

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties.

NATURE OF SERVICES

The table below details the type of services from which the Group derives its other income, which are within the scope of IFRS 15, Revenue from Contracts with Customers and disclosed in note 5.

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
LCM underwriting fees	The Group recognises underwriting fees over the underwriting cycle based on the underlying exposure of the covered contracts. Underwriting fees are received by or before the collateral funding date, which is prior to commencement of the underwriting cycle.
LCM profit commission	The Group recognises profit commission following the end of the underwriting cycle based on the underlying performance of the covered contracts and as collateral is released. Profit commissions may only be received once the profit commission hurdle has been met.
LSL consortium management fees	The Group recognises consortium fees over the risk period based on the underlying exposure of the covered contracts. Consortium fees are received quarterly.
LSL consortium profit commission	The Group recognises profit commission in line with the underlying performance of covered contracts once the year of account closes, which is also when the profit commissions are received.
LSL managing agency fees	The Group recognises managing agency fees in line with services provided for each year of account. Managing agency fees are received quarterly.
LSL managing agency profit commission	The Group recognises profit commission on open years of account when measurement is highly probable. Profit commissions are received once the year of account closes.

LONG-TERM DEBT

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to profit or loss as incurred.

LEASES

Policy application prior to 1 January 2019

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Policy application from 1 January 2019

The Group assesses whether a contract is, or contains, a lease at the inception of a contract for all contracts that have been entered into or modified on or after 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the future lease payments at the lease commencement date. Lease payments are discounted using the rate implicit in the lease, if readily determinable, or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; or
- Payments in respect of purchase options, lease termination options or lease extension options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability and the related right-of-use asset whenever:

- The lease term changes as a result of the Group changing its assessment of whether it will exercise a purchase, extension or termination option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

Both the right-of-use assets and lease liabilities are presented as separate financial statement line items on the consolidated balance sheet.

EMPLOYEE BENEFITS

EQUITY COMPENSATION PLANS

The Group currently operates a RSS under which nil-cost options have been granted. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as equity based compensation expense in the consolidated statement of comprehensive income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred to other reserves in shareholders' equity.

PENSIONS

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive income in the period when the services are rendered.

TAX

Income tax represents the sum of 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 consolidated statement of comprehensive income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the carrying value of the assets and liabilities in the consolidated balance sheet and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely 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.

Where the current estimated fair value of equity based compensation awards differs from the estimated fair value at the time of grant, adjusted where applicable for dividends, the related corporation tax and deferred tax charge or credit is recognised directly in other reserves.

The Group determines, based on its tax compliance and transfer pricing study, the probability/certainty of the tax treatments being accepted by the taxation authorities and accounts for these in line with its determination.

OWN SHARES

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

RISK DISCLOSURES: INTRODUCTION

The Group is exposed to risks from several sources, classified into six primary risk categories. These are insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM framework is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review 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.

ECONOMIC CAPITAL MODELS

The Group maintains economic capital models at the LICL, LUK and syndicate levels. These models are primarily focused on insurance risks, however they are also used to model other risks including market, credit and operational risks. The syndicate models are vetted by Lloyd's as part of its own capital and solvency regulations.

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.

The six primary risk categories are discussed in detail on pages 119 to 142.

A. INSURANCE RISK

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts 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 Group'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 Group considers insurance risk at an individual contract level, at a segment level, 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 four principal classes of business for the Group, excluding the Lancashire Syndicates segment, are Property, Energy, Aviation and Marine. These classes, plus the Group's Lancashire Syndicates segment, are deemed to be the Group's five operating segments. The level of insurance risk tolerance per peril is set by the Board and the boards of directors at individual entity level.

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

- the Group has a rolling three-year strategic plan that helps establish the over-riding business goals that the Board of Directors aims to achieve;
- a detailed business plan is produced annually, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for LSL, the syndicates' business forecasts and business plans are subject to review and approval by Lloyd's;
- economic capital models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks;
- 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;
- risk levels versus tolerances are monitored on a regular basis;
- a daily underwriting call is held for LICL and LUK to peer review insurance proposals, opportunities and emerging risks;
- a daily post-binding review process with exception reporting to management based on underwriting authority operates at LSL;
- sophisticated pricing and aggregation models are utilised in certain areas of the underwriting process;
- a number of modelling tools are deployed to model catastrophes and resultant losses to the portfolio and the Group; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a facultative, excess of loss treaty or proportional treaty basis.

Some of the Group'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 Group'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 Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group 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. The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associate.

The Group's exposures to certain peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis. The exposure to catastrophe losses that would result in an impairment to the investment in associate is included in the figures below.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2019		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**139.7**	**10.3**	**311.0**	**22.8**
California	Earthquake	**85.2**	**6.3**	**161.1**	**11.8**
Non-Gulf of Mexico – U.S.	Hurricane	**72.8**	**5.3**	**307.8**	**22.6**
Pan-European	Windstorm	**59.8**	**4.4**	**88.1**	**6.5**
Japan	Earthquake	**51.3**	**3.8**	**165.7**	**12.2**
Japan	Typhoon	**26.8**	**2.0**	**36.4**	**2.7**
Pacific North West	Earthquake	**12.7**	**0.9**	**56.1**	**4.1**

1. Landing hurricane from Florida to Texas.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2018		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	163.2	13.2	242.8	19.6
California	Earthquake	78.0	6.3	129.5	10.5
Non-Gulf of Mexico – U.S.	Hurricane	110.2	8.9	241.6	19.5
Pan-European	Windstorm	70.7	5.7	118.0	9.5
Japan	Earthquake	45.0	3.6	81.2	6.6
Japan	Typhoon	36.3	2.9	49.1	4.0
Pacific North West	Earthquake	22.7	1.8	73.1	5.9

1. 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, the models contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2019		2018	
	$m	%	$m	%
U.S. and Canada	**226.2**	**32.0**	188.2	29.5
Worldwide, including the U.S. and Canada[1]	**151.9**	**21.5**	129.8	20.3
Worldwide offshore	**109.3**	**15.5**	118.6	18.6
Europe	**72.7**	**10.3**	51.3	8.0
Far East	**32.4**	**4.5**	29.0	4.5
Worldwide, excluding the U.S. and Canada[2]	**15.5**	**2.2**	13.4	2.1
Middle East	**8.3**	**1.2**	8.2	1.3
Rest of world	**90.4**	**12.8**	100.0	15.7
Total	**706.7**	**100.0**	638.5	100.0

1. Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
2. Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Details of annual gross premiums written by business segment are provided below:

	2019		2018	
	$m	%	$m	%
Lancashire Syndicates	**297.5**	**42.1**	256.8	40.2
Property	**223.8**	**31.7**	214.6	33.6
Energy	**94.9**	**13.4**	103.0	16.1
Aviation	**53.2**	**7.5**	33.0	5.2
Marine	**37.3**	**5.3**	31.1	4.9
Total	**706.7**	**100.0**	638.5	100.0

Further details of the gross premiums written and the risks associated with each of these five principal business segments are described on the following pages.

I. LANCASHIRE SYNDICATES

Gross premiums written, for the year:

	2019 $m	2018 $m
Property reinsurance	**80.6**	82.3
Property direct and facultative	**71.2**	74.4
Other aviation and satellite	**47.9**	37.7
Marine cargo	**39.6**	31.9
Energy	**33.2**	19.0
Aviation deductible	**18.5**	6.4
Terrorism	**6.5**	5.1
Total	**297.5**	256.8

Property reinsurance predominantly includes property catastrophe excess of loss, property per risk excess of loss and property retrocession lines of business. Property catastrophe excess of loss and property per risk excess of loss provide protection for elemental and non-elemental risks and are written on an excess of loss treaty basis within the U.S. and internationally. The U.S. property catastrophe excess of loss book is particularly focused on regional clients. Property retrocession is written on an excess of loss basis through treaty arrangements. It provides coverage for elemental risks when sold on a catastrophe basis and both elemental and non-elemental risks when sold on a per risk retrocession basis. Protection is generally given on a regional basis and may cover specific property risks or all catastrophe perils. It is also generally written on an UNL basis, meaning loss payments are linked to the ceding company's own loss.

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. 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.

Other aviation and satellite includes aviation reinsurance, aviation war, general aviation, airlines hull and liability and satellite lines of business. Aviation reinsurance provides excess of loss catastrophe cover to the insurers of the world's major airlines and aircraft and aircraft manufacturers whilst the airlines hull and liability line provides cover to the airlines directly. Both lines include cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers. Aviation war covers loss or damage to aviation assets from war, terrorism and similar causes. General aviation covers fixed wing and rotor wing aircraft, typically with 50 passenger seats or less, and covers both commercial and private clients. A significant part of the satellite account is written through SATEC, a specialist underwriting agency, to which underwriting authority is delegated. Satellite insurance is purchased by launch operators, satellite manufacturers and satellite operators to protect against launch or deployment failure or subsequent failure in orbit. Policies are typically written for launch plus one year in orbit. Thereafter, orbit cover is normally provided on an annual basis.

Marine cargo is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

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. Worldwide offshore energy policies are typically package policies which may include physical damage, well control, 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 risk carriers. Construction energy contracts generally cover all risks of platforms, FPSO and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written. Power generation and utility business can be written either ground-up or on a primary or excess basis. The core composition of the portfolio is operational conventional thermal power generation, renewable energy and associated transmission & distribution assets. Midstream exposures encompass the onshore movements of electricity, oil, gas and water and can include treatment and processing plants. Risks associated with the processing or refining of oil or petroleum by-products are excluded. Our underwriting appetite targets well engineered and operated power and midstream opportunities, whilst carefully balancing the associated natural catastrophe and business interruption exposures.

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.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber 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. The term of these contracts may be multi-year, reflecting the term of the underlying exposures.

Reinsurance may be purchased to reduce the exposure to large risk losses and large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to mitigate an accumulation of smaller, attritional losses. Reinsurance may be purchased on a facultative, excess of loss treaty or proportional treaty basis.

II. PROPERTY

Gross premiums written, for the year:

	2019 $m	2018 $m
Property catastrophe excess of loss	**109.1**	103.7
Terrorism	**33.5**	41.3
Property political risk	**33.1**	35.4
Property retrocession	**15.8**	10.0
Property risk excess of loss	**13.8**	15.0
Other property	**18.5**	9.2
Total	**223.8**	214.6

Property catastrophe excess of loss covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber 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. The term of these contracts is often multi-year reflecting the term of the underlying exposures. 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 Group provides in the political risk book is split between confiscation perils coverage and sovereign/quasi-sovereign obligor coverage. Confiscation perils coverage protects against CEND 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 term of these contracts is often multi-year reflecting the term of the underlying exposures. The Group does not provide cover against purely private obligor credit risk.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on an ILW basis, meaning that loss payments are linked to the overall industry insured loss as measured by independent third-party loss index providers.

Property risk excess of loss is written on an excess of loss basis through UNL treaty arrangements, predominantly covering fire and allied perils in addition to natural catastrophe exposure. The portfolio is written on a worldwide basis, with particular focus on the U.S. market.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming property catastrophe excess of loss and property retrocession portfolio risks. 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 Group's appetite and exposure guidelines for large losses are set out on pages 119 and 120.

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 Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or proportional treaty arrangements may be entered into.

III. ENERGY

Gross premiums written, for the year:

	2019 $m	2018 $m
Worldwide offshore energy	**55.5**	63.8
Onshore energy	**21.1**	14.6
Gulf of Mexico offshore energy	**6.0**	10.6
Energy liabilities	**3.3**	3.1
Construction energy	**2.7**	4.1
Other energy	**6.3**	6.8
Total	**94.9**	103.0

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. Worldwide offshore 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 risk carriers.

Onshore energy risks are generally those with an operational hydrocarbon risk – either processing and/or storage and/or transmission – and may also include the 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. 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 where it is not deemed the policy's primary exposure. Third-party liabilities are not covered except where required under legislation for small sub-limited property damage.

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 Group's appetite and exposure guidelines to large losses are set out on pages 119 and 120.

The Group writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that Lancashire 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.

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.

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, proportional treaty arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

IV. AVIATION

Gross premiums written, for the year:

	2019 $m	2018 $m
Aviation deductible	**33.0**	11.1
AV52	**16.1**	19.4
Other aviation	**4.1**	2.5
Total	**53.2**	33.0

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.

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 U.S. commercial airlines.

Other aviation includes airlines hull and liability and satellite lines of business.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis. Proportional treaty reinsurance is typically used to reduce the Group's exposure to aviation deductible business.

V. MARINE

Gross premiums written, for the year:

	2019 $m	2018 $m
Marine hull and total loss	**12.3**	14.0
Marine builders' risk	**10.7**	6.0
Marine P&I clubs	**8.2**	7.3
Marine hull war	**3.6**	5.5
Marine excess of loss	**(0.3)**	(3.9)
Other marine	**2.8**	2.2
Total	**37.3**	31.1

With the exception of the marine P&I clubs, where excess layers are written, most policies are written on a ground-up 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 and their testing and commissioning. Marine P&I clubs is mostly the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities. Marine hull war is mostly direct insurance of the loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance. Marine excess of loss is written on a treaty basis and covers ocean and inland marine risks.

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 for removal of wrecks.

Reinsurance may be purchased to reduce the Group's exposure to both large risk losses and an accumulation of smaller, attritional losses. Reinsurance is typically purchased on a treaty excess of loss basis.

REINSURANCE

The Group, 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 by entering into reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst 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 would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. The RSC monitors the Group's reinsurers on an ongoing basis and formally reviews the Group's reinsurance arrangements at least quarterly.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include 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 sub-class. The Group regularly reviews its catastrophe and other exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group 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 Group will retain some losses, as the cover purchased is unlikely to transfer the totality of the Group's exposure. Any loss amount which exceeds the reinsurance programme would be retained by the Group. 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 limited.

INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group, particularly given the nature of the business written.

Under GAAP, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Group's reserves are reported on an undiscounted basis.

Losses and loss adjustment expense reserves are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilised. This represents management's best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual independent review by external actuaries. The results of the independent review are presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent to which the reserving process relies on management's judgement is dependent on a number of factors including whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or pro-rata basis. Generally, the Group writes most of its business on a direct excess of loss basis and the Group does not currently write a significant amount of long-tail business

INSURANCE VERSUS REINSURANCE

Loss reserve calculations whether reserving for direct insurance business or for reinsurance classes are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. The estimates and judgements relied on in making loss reserve calculations are based on a number of factors and may be revised as additional experience or other data becomes available.

Loss reserve calculations are also reviewed as new or improved methodologies are developed and as laws or regulations change. Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Group, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and whether the losses are from policies in force with insureds, primary insurers, reinsurers or vendor binding authorities.

EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Group's business, management is aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity across many of our classes makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month time lag.

UNCERTAINTY

As a result of the time lag described above, an estimate must be made of IBNR reserves, which consists of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Group underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and are therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

As at 31 December 2019, management's estimates for IBNR represented $168.2 million or 30.9% of total net loss reserves (31 December 2018 – $233.0 million or 39.3%). The majority of the estimate relates to catastrophe events from 2017-2019, in addition to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Group was not made aware by the balance sheet date.

B. MARKET RISK

The Group is at risk of loss due to movements in market factors. 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 RISK

The Group 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 Group's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment including the UK's exit from the EU and the implications for ongoing business passporting within the EEA.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group 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 rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting meeting for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for LSL;
- 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;
- holds a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio. Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. 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 Committee and the Board of Directors.

The Group's fixed maturity portfolios are managed by four external investment managers. The Group also has a diversified low volatility multi-strategy portfolio of hedge funds, a principal protected equity linked note, a credit funds and note and a private debt fund. The performance of the managers is monitored on an ongoing basis.

Within the Group's investment guidelines are subsets of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. These guidelines add a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the core and core plus portfolios and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core and core plus portfolios are invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The combined core and core plus portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core and core plus portfolios are typically held in the surplus portfolio. The surplus portfolio is invested in fixed maturity securities, principal protected equity-linked notes, derivative instruments, cash and cash equivalents, a private debt fund and hedge funds. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolios.

The Group 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 tolerance levels, adjustments 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 Group endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. The Group 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 Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The IRRC meets quarterly to ensure that the Group'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 fixed maturity portfolios is as follows:

	Core		Core plus		Surplus		Total	
As at 31 December 2019	$m	%	$m	%	$m	%	$m	%
– Short-term investments	**37.7**	**2.8**	**43.0**	**3.2**	**4.1**	**0.3**	**84.8**	**6.3**
– Fixed maturity funds	**12.8**	**0.9**	**–**	**–**	**–**	**–**	**12.8**	**0.9**
– U.S. treasuries	**80.1**	**5.9**	**74.1**	**5.4**	**7.4**	**0.5**	**161.6**	**11.8**
– Other government bonds	**15.0**	**1.1**	**23.3**	**1.7**	**9.2**	**0.7**	**47.5**	**3.5**
– U.S. municipal bonds	**2.2**	**0.2**	**6.2**	**0.5**	**–**	**–**	**8.4**	**0.7**
– U.S. government agency debt	**2.8**	**0.2**	**37.5**	**2.8**	**20.4**	**1.5**	**60.7**	**4.5**
– Asset backed securities	**3.5**	**0.3**	**65.3**	**4.8**	**56.2**	**4.1**	**125.0**	**9.2**
– U.S. government agency mortgage backed securities	**16.0**	**1.2**	**17.2**	**1.3**	**64.3**	**4.7**	**97.5**	**7.2**
– Non-agency mortgage backed securities	**0.1**	**–**	**13.8**	**1.0**	**1.5**	**0.1**	**15.4**	**1.1**
– Agency commercial mortgage backed securities	**–**	**–**	**1.2**	**0.1**	**1.0**	**0.1**	**2.2**	**0.2**
– Bank loans	**–**	**–**	**–**	**–**	**101.7**	**7.5**	**101.7**	**7.5**
– Corporate bonds	**186.7**	**13.7**	**371.2**	**27.3**	**34.3**	**2.5**	**592.2**	**43.5**
Total fixed maturity securities – AFS	**356.9**	**26.3**	**652.8**	**48.1**	**300.1**	**22.0**	**1,309.8**	**96.4**
Fixed maturity securities – at FVTPL	**–**	**–**	**–**	**–**	**50.3**	**3.6**	**50.3**	**3.6**
Total fixed maturity securities	**356.9**	**26.3**	**652.8**	**48.1**	**350.4**	**25.6**	**1,360.1**	**100.0**

	Core		Core plus		Surplus		Total	
As at 31 December 2018	$m	%	$m	%	$m	%	$m	%
– Short-term investments	48.1	3.2	175.6	11.8	1.8	0.1	225.5	15.1
– Fixed maturity funds	11.4	0.8	–	–	–	–	11.4	0.8
– U.S. treasuries	69.6	4.7	113.1	7.6	3.9	0.3	186.6	12.6
– Other government bonds	15.9	1.0	29.5	2.0	13.3	0.9	58.7	3.9
– U.S. municipal bonds	1.0	0.1	4.4	0.3	–	–	5.4	0.4
– U.S. government agency debt	13.1	0.9	69.6	4.7	5.4	0.4	88.1	6.0
– Asset backed securities	16.5	1.1	62.2	4.2	50.6	3.4	129.3	8.7
– U.S. government agency mortgage backed securities	4.8	0.3	15.0	1.0	60.1	4.0	79.9	5.3
– Non-agency mortgage backed securities	3.8	0.3	10.4	0.7	6.9	0.5	21.1	1.5
– Agency commercial mortgage backed securities	–	–	1.9	0.1	3.3	0.2	5.2	0.3
– Non-agency commercial mortgage backed securities	0.4	–	–	–	0.1	–	0.5	–
– Bank loans	–	–	–	–	109.1	7.3	109.1	7.3
– Corporate bonds	200.1	13.5	277.9	18.7	43.6	2.9	521.6	35.1
Total fixed maturity securities – AFS	384.7	25.9	759.6	51.1	298.1	20.0	1,442.4	97.0
Fixed maturity securities – at FVTPL	–	–	–	–	45.0	3.0	45.0	3.0
Total fixed maturity securities	384.7	25.9	759.6	51.1	343.1	23.0	1,487.4	100.0

Bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds by country are as follows:

As at 31 December 2019	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	**185.9**	**325.6**	**511.5**	**–**	**511.5**
United Kingdom	**41.8**	**21.2**	**63.0**	**5.6**	**68.6**
Canada	**17.3**	**8.7**	**26.0**	**20.6**	**46.6**
France	**15.5**	**11.4**	**26.9**	**0.6**	**27.5**
Japan	**10.7**	**13.4**	**24.1**	**–**	**24.1**
Netherlands	**5.8**	**5.6**	**11.4**	**6.9**	**18.3**
Switzerland	**9.6**	**5.5**	**15.1**	**–**	**15.1**
Sweden	**5.7**	**–**	**5.7**	**5.0**	**10.7**
Spain	**9.4**	**–**	**9.4**	**–**	**9.4**
Germany	**1.3**	**5.1**	**6.4**	**3.0**	**9.4**
Italy	**4.7**	**3.8**	**8.5**	**–**	**8.5**
Australia	**8.3**	**–**	**8.3**	**–**	**8.3**
Supranational	**7.2**	**–**	**7.2**	**–**	**7.2**
Luxembourg	**–**	**7.0**	**7.0**	**–**	**7.0**
China	**1.7**	**1.2**	**2.9**	**1.2**	**4.1**
Other	**5.8**	**5.0**	**10.8**	**4.6**	**15.4**
Total	**330.7**	**413.5**	**744.2**	**47.5**	**791.7**

1. Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
2. Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

As at 31 December 2018	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	171.7	295.7	467.4	–	467.4
United Kingdom	33.3	18.7	52.0	0.1	52.1
Canada	10.7	10.9	21.6	19.8	41.4
Japan	17.9	7.8	25.7	–	25.7
Netherlands	4.6	8.6	13.2	7.2	20.4
France	13.0	2.2	15.2	1.8	17.0
Switzerland	7.8	7.5	15.3	–	15.3
Germany	1.7	3.3	5.0	7.5	12.5
Spain	9.8	0.7	10.5	–	10.5
Sweden	4.1	–	4.1	6.1	10.2
Denmark	4.9	–	4.9	3.4	8.3
Supranational	7.0	–	7.0	–	7.0
Australia	6.8	–	6.8	–	6.8
Italy	1.5	3.5	5.0	–	5.0
Belgium	–	4.0	4.0	0.5	4.5
Other	5.2	12.8	18.0	12.3	30.3
Total	300.0	375.7	675.7	58.7	734.4

1. Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
2. Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

The sector allocation of bank loans, corporate bonds and fixed maturity securities at FVTPL is as follows:

	2019		2018	
As at 31 December	$m	%	$m	%
Industrial	**390.4**	**52.5**	344.8	51.0
Financial	**323.5**	**43.5**	293.0	43.4
Utility	**23.1**	**3.1**	30.9	4.6
Supranationals	**7.2**	**0.9**	7.0	1.0
Total	**744.2**	**100.0**	675.7	100.0

The Group'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.

The Group'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 Group also has a hedge fund portfolio as well as an equity linked note and has invested in a private debt fund. The estimated fair value of the Group's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group'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 Group's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

	2019		2018	
As at 31 December	$m	%	$m	%
Immediate shift in yield (basis points)				
100	**(26.8)**	**(2.0)**	(22.4)	(1.5)
75	**(20.1)**	**(1.5)**	(16.8)	(1.1)
50	**(13.4)**	**(1.0)**	(11.2)	(0.8)
25	**(6.7)**	**(0.5)**	(5.6)	(0.4)
(25)	**7.5**	**0.5**	6.4	0.4
(50)	**15.0**	**1.1**	12.7	0.9
(75)	**22.5**	**1.6**	19.1	1.3
(100)	**29.9**	**2.2**	25.5	1.7

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. 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 core plus portfolio is between zero and four years and for the surplus portfolio is between one and five years.

The total durations of the externally managed portfolios, which are comprised of fixed maturity, cash and cash equivalents and certain derivatives, are as follows:

As at 31 December	2019 years	2018 years
Core portfolio	**1.9**	1.8
Core plus portfolio	**1.9**	1.7
Surplus portfolio[1]	**2.0**	1.3
Overall external portfolio[1]	**1.9**	1.6

1. Including duration overlay.

The overall duration for fixed maturity, internally and externally managed cash and cash equivalents and certain derivatives is 1.8 years (2018 – 1.5 years).

In addition to duration management, the Group 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 portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many 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 Group's annual VaR calculations are as follows:

	2019		2018	
As at 31 December	$m	% of shareholders' equity	$m	% of shareholders' equity
99th percentile confidence level[1]	**32.2**	**2.7**	26.0	2.4

1. Including the impact of internal foreign exchange hedges.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, and OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use OTC or exchange-traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group currently invests in the following derivative financial instruments:

a. Futures;

b. Options;

c. Forward foreign currency contracts; and

d. Swaps.

The net gains (losses) on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive income are as follows:

As at 31 December 2019	Net realised gains $m	Net foreign exchange gains $m	Financing losses $m
Interest rate futures	**0.1**	–	–
Forward foreign currency contracts	–	**0.4**	–
Interest rate swaps	–	–	**(1.0)**
Total	**0.1**	**0.4**	**(1.0)**

As at 31 December 2018	Net realised losses $m	Net foreign exchange gains $m	Financing gains $m
Interest rate futures	(1.0)	–	–
Forward foreign currency contracts	–	1.6	–
Interest rate swaps	–	–	0.9
Total	(1.0)	1.6	0.9

The estimated fair values of the Group's derivative instruments are as follows:

As at 31 December	2019 Other investments $m	2019 Other receivables $m	2019 Other payables $m	2019 Interest rate swaps $m	2018 Other investments $m	2018 Other receivables $m	2018 Other payables $m	2018 Interest rate swaps $m
Forward foreign currency contracts	**(0.5)**	**1.4**	**(0.6)**	**–**	(0.3)	1.1	(1.0)	–
Interest rate swaps	**–**	**–**	**–**	**(1.1)**	–	–	–	(0.4)
Total	**(0.5)**	**1.4**	**(0.6)**	**(1.1)**	(0.3)	1.1	(1.0)	(0.4)

A. FUTURES

The Group's investment guidelines permit the use of futures which provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed maturity and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

The Group's exposure to interest rate futures are as follows:

As at 31 December	2019 Notional long $m	2019 Notional short $m	2019 Net notional long (short) $m	2018 Notional long $m	2018 Notional short $m	2018 Net notional long (short) $m
Interest rate futures	**107.2**	**15.4**	**91.8**	69.1	94.1	(25.0)
Total	**107.2**	**15.4**	**91.8**	69.1	94.1	(25.0)

B. OPTIONS

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Euro dollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is $nil as at 31 December 2019 and 2018.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

C. FORWARD FOREIGN CURRENCY CONTRACTS

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt, insurance related currency exposures and/or expenses.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

	2019			2018		
As at 31 December	Notional long $m	Notional short $m	Net notional long (short) $m	Notional long $m	Notional short $m	Net notional long (short) $m
Canadian Dollar	–	**20.7**	**(20.7)**	–	20.3	(20.3)
Euro	–	**27.0**	**(27.0)**	22.9	38.0	(15.1)
Australian Dollar	–	**5.1**	**(5.1)**	–	5.8	(5.8)
Japanese Yen	–	**7.1**	**(7.1)**	–	3.6	(3.6)
Swedish Krona	–	**2.7**	**(2.7)**	–	2.8	(2.8)
Mexican Peso	**0.4**	–	**0.4**	0.7	–	0.7
Malaysian Ringgit	**3.9**	–	**3.9**	3.9	–	3.9
British Pound	**69.2**	**1.8**	**67.4**	67.3	3.5	63.8
Total	**73.5**	**64.4**	**9.1**	94.8	74.0	20.8

D. SWAPS

The Group's investment guidelines permit the use of interest rate swaps and credit default swaps which are traded primarily OTC.

Interest rate swaps are used to manage interest rate exposure, portfolio duration or to capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio is not material as at 31 December 2019 and 2018. Through the use of interest rate swaps, the Group has fixed the interest rate on Lancashire's subordinated loan notes until December 2020. As at 31 December 2019 the notional amount of interest rate swaps held for hedging purposes was $123.9 million (31 December 2018 – $124.5 million).

The Group may utilise credit default swaps to add or reduce credit risk to an individual issuer, or a basket of issuers, without investing directly in their securities. The Group did not hold any credit default swaps at 31 December 2019 or 31 December 2018.

III. DEBT RISK

The Group has issued long-term debt as described in note 18. The LHL subordinated loan notes due in 2035 bear interest at a floating rate that is reset on a quarterly basis, plus a fixed margin of 3.70%. The Group is subject to interest rate risk on the coupon payments of these subordinated loan notes. The Group has mitigated the interest rate risk on the LHL subordinated loan notes by entering into interest rate swap contracts on the following loan notes:

	Maturity date	Interest hedged
Subordinated loan notes $97.0 million	15 December 2035	100%
Subordinated loan notes €24.0 million	15 June 2035	100%

The Group has a fixed interest rate of 5.80% on the LHL subordinated loan notes due in 2035, until 15 December 2020, when the interest rate swaps expires.

The senior unsecured notes maturing 1 October 2022 bear interest at a fixed rate of 5.70% and therefore the Group is not exposed to cash flow interest rate risk on this long-term debt.

The Group is subject to interest rate risk on the coupon payments on CCHL's long-term debt described in note 18. An increase of 100 basis points on the EURIBOR and LIBOR three-month deposit rates would result in an increase in the interest expense on long-term debt for the Group of approximately $0.7 million on an annual basis.

The FCA has announced that it will no longer publish the LIBOR benchmark interest rate from 2021. LIBOR is used as a reference rate in some of the Group's long-term debt and financing arrangements (see note 18). The Group has determined that it currently has limited exposure to the transition from LIBOR and will continue to monitor the risks and challenges of a potential replacement of LIBOR.

IV. CURRENCY RISK

The Group underwrites from two locations, Bermuda and London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact profit or loss.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable, dividends payable and the Euro denominated subordinated loan notes discussed in note 18. The Group uses forward foreign currency contracts for the purposes of managing currency exposures. See page 133 for a listing of the Group's open forward foreign currency contracts.

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

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	242.9	14.3	29.4	5.4	28.4	320.4
Accrued interest receivable	7.0	0.1	0.1	–	–	7.2
Investments	1,415.3	18.1	60.5	3.4	27.8	1,525.1
Inwards premiums receivable from insureds and cedants	276.5	22.4	37.0	2.0	12.6	350.5
Reinsurance assets	362.8	40.3	26.0	1.8	3.0	433.9
Other receivables	40.8	10.7	0.1	–	0.1	51.7
Investment in associate	108.3	–	–	–	–	108.3
Property, plant and equipment	0.4	0.8	–	–	–	1.2
Right-of-use assets	3.6	14.6	–	–	–	18.2
Deferred acquisition costs	57.8	5.2	13.2	1.0	4.5	81.7
Intangible assets	153.8	0.7	–	–	–	154.5
Total assets as at 31 December 2019	**2,669.2**	**127.2**	**166.3**	**13.6**	**76.4**	**3,052.7**

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	670.7	92.3	54.7	22.8	34.0	874.5
Unearned premiums	299.5	22.9	53.6	8.3	22.1	406.4
Insurance contracts – other payables	22.1	2.7	1.2	–	1.4	27.4
Amounts payable to reinsurers	93.5	10.2	18.7	2.2	2.0	126.6
Deferred acquisition costs ceded	12.3	0.2	4.6	0.1	0.4	17.6
Other payables	16.7	30.7	–	–	0.1	47.5
Corporation tax payable	–	2.4	–	–	–	2.4
Deferred tax liability	7.8	1.8	–	–	–	9.6
Interest rate swap	0.4	–	0.7	–	–	1.1
Lease liabilities	3.7	18.2	–	–	–	21.9
Long-term debt	284.4	–	39.1	–	–	323.5
Total liabilities as at 31 December 2019	**1,411.1**	**181.4**	**172.6**	**33.4**	**60.0**	**1,858.5**

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	86.0	15.2	19.4	9.0	25.0	154.6
Accrued interest receivable	6.6	0.1	0.1	–	–	6.8
Investments	1,546.0	18.0	69.8	–	25.2	1,659.0
Inwards premiums receivable from insureds and cedants	270.9	11.2	20.6	5.3	10.1	318.1
Reinsurance assets	361.1	13.6	12.1	–	2.6	389.4
Other receivables	26.7	8.2	–	–	0.4	35.3
Investment in associate	67.1	–	–	–	–	67.1
Property, plant and equipment	0.2	1.2	–	–	–	1.4
Deferred acquisition costs	48.4	8.0	11.6	1.0	5.2	74.2
Intangible assets	153.8	–	–	–	–	153.8
Total assets as at 31 December 2018	2,566.8	75.5	133.6	15.3	68.5	2,859.7

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	685.4	59.5	113.7	19.7	36.7	915.0
Unearned premiums	265.8	25.4	43.3	10.4	25.7	370.6
Insurance contracts – other payables	26.9	4.7	2.9	–	1.5	36.0
Amounts payable to reinsurers	75.8	2.8	2.5	–	0.2	81.3
Deferred acquisition costs ceded	4.7	–	2.1	–	0.3	7.1
Other payables	23.9	21.0	0.4	–	0.1	45.4
Corporation tax payable	–	0.9	–	–	–	0.9
Deferred tax liability	7.8	3.4	–	–	–	11.2
Interest rate swap	(0.8)	–	1.2	–	–	0.4
Long-term debt	284.4	–	39.9	–	–	324.3
Total liabilities as at 31 December 2018	1,373.9	117.7	206.0	30.1	64.5	1,792.2

The impact on net income of a proportional foreign exchange movement of 10.0% up and 10.0% down against the U.S. dollar at the year end spot rates would be an increase or decrease of $0.6 million (2018 – $5.4 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 Group's main exposures to liquidity risk are with respect to its insurance and investment activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group 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 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 Group's fixed maturity portfolio are as follows:

As at 31 December 2019	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	**106.6**	**139.6**	**35.4**	**281.6**
Between one and two years	**81.4**	**113.3**	**16.2**	**210.9**
Between two and three years	**56.8**	**123.6**	**15.1**	**195.5**
Between three and four years	**42.8**	**74.7**	**24.8**	**142.3**
Between four and five years	**32.9**	**71.3**	**28.7**	**132.9**
Over five years	**16.8**	**32.8**	**107.2**	**156.8**
Asset backed and mortgage backed securities	**19.6**	**97.5**	**123.0**	**240.1**
Total fixed maturity securities	**356.9**	**652.8**	**350.4**	**1,360.1**

As at 31 December 2018	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	100.2	245.3	11.9	357.4
Between one and two years	104.9	156.0	35.3	296.2
Between two and three years	76.2	89.1	20.5	185.8
Between three and four years	30.0	66.4	18.0	114.4
Between four and five years	34.4	75.3	28.4	138.1
Over five years	13.5	38.0	108.0	159.5
Asset backed and mortgage backed securities	25.5	89.5	121.0	236.0
Total fixed maturity securities	384.7	759.6	343.1	1,487.4

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

As at 31 December 2019	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	**874.5**	**467.8**	**278.8**	**87.5**	**40.4**	**874.5**
Insurance contracts – other payables	**27.4**	**27.1**	**0.3**	–	–	**27.4**
Amounts payable to reinsurers	**126.6**	**126.6**	–	–	–	**126.6**
Other payables	**47.5**	**47.5**	–	–	–	**47.5**
Interest rate swap	**1.1**	**1.1**	–	–	–	**1.1**
Long-term debt[1]	**323.5**	**14.6**	**164.4**	**19.7**	**313.2**	**511.9**
Total	**1,400.6**	**684.7**	**443.5**	**107.2**	**353.6**	**1,589.0**

1. The maturity profile of long-term debt includes interest.

As at 31 December 2018	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	915.0	497.9	269.4	89.9	57.8	915.0
Insurance contracts – other payables	36.0	35.7	0.3	–	–	36.0
Amounts payable to reinsurers	81.3	81.3	–	–	–	81.3
Other payables	45.4	45.4	–	–	–	45.4
Interest rate swap	0.4	0.1	0.3	–	–	0.4
Long-term debt[1]	324.3	16.2	37.3	160.0	344.3	557.8
Total	1,402.4	676.6	307.3	249.9	402.1	1,635.9

1. The maturity profile of long-term debt includes interest.

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses 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.

The Group manages its liquidity risks via its investment strategy to hold high quality, liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core and core plus portfolios with their subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group 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 Group monitors market changes and outlook and reallocates assets as it deems necessary.

D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed maturity portfolio is mitigated through the Group'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 15.0% of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt, should exceed 5.0% of shareholders' equity. The Group 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 and other highly-rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and settling of unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral amounts exceeding predetermined thresholds to be posted for positions which have accrued gains.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security, as discussed on page 124.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2019	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	**409.6**	**–**	**–**
AA+, AA, AA-	**471.2**	**–**	**–**
A+, A, A-	**509.6**	**133.2**	**200.3**
BBB+, BBB, BBB-	**204.9**	**–**	**–**
Other[1]	**85.2**	**285.9**	**127.2**
Total	**1,680.5**	**419.1**	**327.5**

1. Reinsurance recoveries classified as 'other' include $111.6 million of reserves that are fully collateralised.

As at 31 December 2018	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	335.9	–	–
AA+, AA, AA-	586.2	–	3.6
A+, A, A-	402.6	87.0	208.3
BBB+, BBB, BBB-	219.7	–	–
Other[1]	97.6	276.2	111.0
Total	1,642.0	363.2	322.9

1. Reinsurance recoveries classified as 'other' include $100.5 million of reserves that are fully collateralised.

The counterparty to the Group's long-term debt interest rate swaps is currently rated A by S&P.

The following table shows inwards premiums receivable that are past due but not impaired:

	2019 $m	2018 $m
Less than 90 days past due	**13.2**	8.5
Between 91 and 180 days past due	**5.1**	5.5
Over 180 days past due	**2.9**	8.4
Total	**21.2**	22.4

Provisions of $4.1 million (31 December 2018 – $2.9 million) have been made for impaired or irrecoverable balances and $1.2 million (2018 – $0.5 million) was charged to the consolidated statement of comprehensive income in respect of bad debts.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems or external events. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modelled within the subsidiaries' capital models. The Group 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 Group CRO's quarterly ORSA report to the LHL Board and entity boards and in the LSL RCCC reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Group'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 substantive 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.

F. STRATEGIC RISK

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required; and
- the risks of succession planning, staff retention and key man risks.

I. BUSINESS PLAN RISK

The Group 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 and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results; and
- periodic review and re-forecasting as market conditions change.

II. CAPITAL MANAGEMENT RISK

The total capital of the Group is as follows:

As at 31 December	2019 $m	2018 $m
Shareholders' equity	**1,193.6**	1,067.2
Long-term debt	**323.5**	324.3
Total capital	**1,517.1**	1,391.5
Intangible assets	**(154.5)**	(153.8)
Total tangible capital	**1,362.6**	1,237.7

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

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the LSL management team regarding Lloyd's 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 industry groups such as the International Underwriters Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group 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.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board of Directors.

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 Group's aim is to maximise risk-adjusted returns for its shareholders across the long term. The return is generated within a broad framework of risk parameters. The return is measured by management in terms of the IRR of the increase in FCBVS in the period, adjusted for dividends accrued. This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs – adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

IRR achieved is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2019	**14.1**	**17.4**	**847.5**
31 December 2018	2.4	17.5	716.3

IRR achieved in excess of the three-month treasury yield is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2019	**12.0**	**16.3**	**830.0**
31 December 2018	0.5	16.4	701.1

The primary source of capital used by the Group is equity shareholders' funds and borrowings (note 18). As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

Effective 1 January 2019, the Company's supervisory and tax domiciles are in Bermuda and as such regulatory supervision of the Group is overseen by the BMA. Between 2014 and 2018 the PRA operated as the Group's Solvency II supervisor and the Group was subject to the requirements of the UK's Solvency II regime.

Both the Group and LICL are regulated by the BMA and are required to monitor their enhanced capital requirement under the BMA's regulatory framework, which has been assessed as equivalent to the EU's Solvency II regime. The Group and LICL's capital requirement are calculated using the BSCR standard formula model. For the years ended 31 December 2019 and 2018, both the Group and LICL were more than adequately capitalised under the BMA's regulatory regime.

The Group's UK regulated insurance companies are required to comply with the EU's Solvency II regime and are regulated by the PRA and FCA. LSL is also regulated by Lloyd's. Under Solvency II, the basis for assessing capital and solvency comprises a market-consistent economic balance sheet and an SCR, determined using either an internal model or the standard formula.

LUK calculates its SCR using the standard formula. LUK's Solvency II own funds are primarily comprised of Tier 1 items for the years ended 31 December 2019 and 31 December 2018. 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 2019 and 2018 LUK was more than adequately capitalised under the Solvency II regime.

The Group's underwriting capacity in its Lloyd's syndicates must be supported by providing a deposit in the form of cash, securities or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage. Solvency II internal models are used to determine capital requirements for Syndicate 2010 and Syndicate 3010 based on the uSCR. Lloyd's has the discretion to take into account other factors at syndicate or member level to uplift the calculated uSCR. This may include perceived deficiencies in the internal model result as well as the need to maintain Lloyd's overall security rating. Currently, as a minimum, Lloyd's applies a 35.0% uplift to each syndicate's uSCR to arrive at the ECA.

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirements, which is backed by FAL. For the 2020 calendar year the Group's corporate member's FAL requirement was set at 66.8% (2019 – 67.8%) of underwriting capacity supported. Further solvency adjustments are made to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has met its FAL requirement of £222.3 million as at 31 December 2019 (31 December 2018 – £187.8 million).

For the years ended 31 December 2019 and 2018 the capital requirements of all the Group's regulatory jurisdictions were met.

III. RETENTION RISK

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;
- the identification of key team profit generators and function holders with targeted retention packages;
- 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; and
- training schemes.

1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in London and Bermuda. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the Official List and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007, LHL's shares have had a secondary listing on the BSX. LHL's head office and registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

The consolidated financial statements for the year ended 31 December 2019 include the Company's subsidiary companies, the Company's investment in associate, and the Group's share of the syndicates' assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 24.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lancashire Syndicates. These segments are therefore deemed to be the Group'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 on pages 121 to 124. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

2. SEGMENTAL REPORTING CONTINUED

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2019	Property $m	Energy $m	Marine $m	Aviation $m	Lancashire Syndicates $m	Total $m
Gross premiums written by geographic area						
U.S. and Canada	104.7	6.3	–	–	115.2	226.2
Worldwide, including the U.S. and Canada[1]	26.4	3.6	–	53.2	68.7	151.9
Worldwide offshore	0.1	71.9	37.3	–	–	109.3
Europe	32.3	2.6	–	–	37.8	72.7
Far East	17.3	1.3	–	–	13.8	32.4
Worldwide, excluding the U.S. and Canada[2]	5.0	4.3	–	–	6.2	15.5
Middle East	1.0	3.2	–	–	4.1	8.3
Rest of world	37.0	1.7	–	–	51.7	90.4
Total	223.8	94.9	37.3	53.2	297.5	706.7
Outwards reinsurance premiums	(112.1)	(32.2)	(11.1)	(24.0)	(102.6)	(282.0)
Change in unearned premiums	(4.6)	4.2	1.2	(13.4)	(23.2)	(35.8)
Change in unearned premiums on premiums ceded	14.6	(0.4)	1.0	7.8	9.8	32.8
Net premiums earned	121.7	66.5	28.4	23.6	181.5	421.7
Insurance losses and loss adjustment expenses	(80.2)	(17.7)	(0.3)	(18.0)	(148.3)	(264.5)
Insurance losses and loss adjustment expenses recoverable	69.5	8.3	(3.4)	9.4	50.9	134.7
Insurance acquisition expenses	(29.5)	(22.7)	(8.9)	(8.6)	(54.7)	(124.4)
Insurance acquisition expenses ceded	6.9	0.7	0.2	3.1	8.1	19.0
Net underwriting profit	88.4	35.1	16.0	9.5	37.5	186.5
Net unallocated income and expenses						(67.0)
Profit before tax						119.5
Net loss ratio	8.8 %	14.1 %	13.0 %	36.4 %	53.7 %	30.8 %
Net acquisition cost ratio	18.6 %	33.1 %	30.6 %	23.3 %	25.7 %	25.0 %
Expense ratio	–	–	–	–	–	25.1 %
Combined ratio	27.4 %	47.2 %	43.6 %	59.7 %	79.4 %	80.9 %

1. Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
2. Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2018	Property $m	Energy $m	Marine $m	Aviation $m	Lancashire Syndicates $m	Total $m
Gross premiums written by geographic area						
U.S. and Canada	78.9	1.8	–	–	107.5	188.2
Worldwide, including the U.S. and Canada[1]	30.7	6.5	–	32.9	59.7	129.8
Worldwide offshore	0.3	87.0	31.3	–	–	118.6
Europe	27.4	1.9	–	–	22.0	51.3
Far East	15.3	0.5	–	–	13.2	29.0
Worldwide, excluding the U.S. and Canada[2]	6.7	1.5	–	0.1	5.1	13.4
Middle East	4.4	2.3	–	–	1.5	8.2
Rest of world	50.9	1.5	(0.2)	–	47.8	100.0
Total	214.6	103.0	31.1	33.0	256.8	638.5
Outwards reinsurance premiums	(90.8)	(28.9)	(20.2)	(11.0)	(69.9)	(220.8)
Change in unearned premiums	(4.9)	7.9	10.6	(7.3)	(26.0)	(19.7)
Change in unearned premiums on premiums ceded	13.0	(6.1)	–	3.1	5.5	15.5
Net premiums earned	131.9	75.9	21.5	17.8	166.4	413.5
Insurance losses and loss adjustment expenses	(93.0)	22.0	(70.5)	(3.6)	(162.3)	(307.4)
Insurance losses and loss adjustment expenses recoverable	48.2	(1.4)	48.5	3.2	43.5	142.0
Insurance acquisition expenses	(34.8)	(34.1)	(11.4)	(9.4)	(41.3)	(131.0)
Insurance acquisition expenses ceded	3.3	0.5	(0.6)	1.0	0.4	4.6
Net underwriting profit (loss)	55.6	62.9	(12.5)	9.0	6.7	121.7
Net unallocated income and expenses						(88.1)
Profit before tax						33.6
Net loss ratio	34.0%	(27.1%)	102.3%	2.2%	71.4%	40.0%
Net acquisition cost ratio	23.9%	44.3%	55.8%	47.2%	24.6%	30.6%
Expense ratio	–	–	–	–	–	21.6%
Combined ratio	57.9%	17.2%	158.1%	49.4%	96.0%	92.2%

1. Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
2. Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the year ended 31 December 2019	Net investment income and net other investment income (losses)[1] $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains/losses on AFS[2] $m	Total investment return excluding foreign exchange $m	Net foreign exchange gains (losses) $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	**33.4**	**(0.3)**	**31.3**	**64.4**	**(0.5)**	**63.9**
Fixed maturity securities – at FVTPL	**3.9**	**1.4**	**–**	**5.3**	**–**	**5.3**
Equity securities – AFS	**–**	**6.5**	**(2.7)**	**3.8**	**–**	**3.8**
Hedge funds – at FVTPL	**1.8**	**1.2**	**–**	**3.0**	**–**	**3.0**
Other investments	**2.3**	**0.1**	**–**	**2.4**	**0.3**	**2.7**
Cash and cash equivalents	**4.3**	**–**	**–**	**4.3**	**1.6**	**5.9**
Total investment return	**45.7**	**8.9**	**28.6**	**83.2**	**1.4**	**84.6**

1. Net unrealised gains/(losses) on our FVTPL investments are included within net investment income and net other investment income.
2. Applying IFRS 9, net change in unrealised gains /losses on AFS will be classified within net investment income and net other investment income.

For the year ended 31 December 2018	Net investment income and net other investment income (losses)[1] $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains/losses on AFS[2] $m	Total investment return excluding foreign exchange $m	Net foreign exchange gains (losses) $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	31.8	(6.4)	(12.4)	13.0	(5.4)	7.6
Fixed maturity securities – at FVTPL	(0.7)	–	–	(0.7)	–	(0.7)
Equity securities – AFS	–	–	(0.5)	(0.5)	–	(0.5)
Hedge funds – at FVTPL	(4.7)	2.3	–	(2.4)	–	(2.4)
Other investments	1.2	(1.0)	–	0.2	3.8	4.0
Cash and cash equivalents	2.9	–	–	2.9	(0.3)	2.6
Total investment return	30.5	(5.1)	(12.9)	12.5	(1.9)	10.6

1. Net unrealised gains/(losses) on our FVTPL investments are included within net investment income and net other investment income.
2. Applying IFRS 9, net change in unrealised gains /losses on AFS will be classified within net investment income and net other investment income.

Net investment income includes $39.7 million (2018 – $36.6 million) of interest income on our AFS investment portfolio and cash and cash equivalents.

Net realised gains (losses) and impairments includes impairment losses of $0.3 million (2018 – $0.4 million) recognised on fixed maturity securities.

Refer to pages 131 to 133 in the risk disclosures section for the estimated fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments.

Included in net investment income and net other investment income is $4.4 million (2018 – $4.4 million) of investment management, accounting and custodian fees.

4. NET INSURANCE ACQUISITION EXPENSES

	2019 $m	2018 $m
Insurance acquisition expenses	**131.9**	128.5
Changes in deferred insurance acquisition expenses	**(7.5)**	2.5
Insurance acquisition expenses ceded	**(29.5)**	(9.2)
Changes in deferred insurance acquisition expenses ceded	**10.5**	4.6
Total net insurance acquisition expenses	**105.4**	126.4

5. OTHER INCOME

	2019 $m	2018 $m
Lancashire Capital Management		
– underwriting fees	**7.9**	6.6
– profit commission	**1.0**	–
Lancashire Syndicates		
– managing agency fees	**1.1**	1.2
– consortium fees	**0.7**	0.5
– consortium profit commission	**0.7**	1.4
– profit commission	**–**	2.7
Total other income	**11.4**	12.4

As at 31 December 2019, contract assets in relation to other income amounted to $9.4 million (31 December 2018 – $10.9 million).

6. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

	2019 $m	2018 $m
Depreciation on owned assets	**1.3**	1.4
Auditor's remuneration		
– Group audit fees	**1.2**	1.7
– Other services	**0.4**	–
Total	**2.9**	3.1

During 2019, KPMG provided non-audit services in relation to Solvency II and Lloyd's reporting. Fees for non-audit services provided in 2019 totalled $0.4 million. During 2018, KPMG provided non-audit services in relation to specific U.S. taxation advisory work. Fees for non-audit services provided in 2018 totalled fifteen thousand dollars.

7. EMPLOYEE BENEFITS

	2019 $m	2018 $m
Wages and salaries	**39.3**	32.4
Pension costs	**3.2**	2.6
Bonus and other benefits	**26.4**	14.0
Total cash compensation	**68.9**	49.0
RSS – performance	**3.4**	1.5
RSS – ordinary	**5.7**	5.0
RSS – bonus deferral	**0.5**	1.0
RSS – LSL acquisition grant	**–**	0.4
Total equity based compensation	**9.6**	7.9
Total employee benefits	**78.5**	56.9

EQUITY BASED COMPENSATION

The Group's equity based compensation scheme is its RSS. All outstanding and future RSS grants have an exercise period of ten years from the grant date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

7. EMPLOYEE BENEFITS CONTINUED

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2019 and 2018:

Assumptions	2019	2018
Dividend yield	–	–
Expected volatility[1]	**24.3%**	24.1%
Risk-free interest rate[2]	**0.7%**	0.8%
Expected average life of options	**3.0 years**	3.0 years
Share price	**$8.39**	$7.95

1. The expected volatility of the LHL share price is calculated based on the movement in the share price over a period prior to the grant date, equal in length to the expected life of the award.
2. The risk-free interest rate is consistent with three-year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – PERFORMANCE

The performance RSS options vesting periods range from one to three years from the date of grant and are dependent on certain performance criteria. A maximum of 85.0% (2018 – 85.0%) of the performance RSS options will vest only on the achievement of an RoE in excess of a required amount. A maximum of 15.0% (2018 – 15.0%) of the performance RSS options will vest only on the achievement of an absolute TSR in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Total number of restricted stock
Outstanding as at 31 December 2017	3,458,211
Granted	1,041,567
Exercised	(381,359)
Forfeited	(47,260)
Lapsed	(1,090,376)
Outstanding as at 31 December 2018	2,980,783
Granted	**978,331**
Exercised	**(81,137)**
Forfeited	**(113,828)**
Lapsed	**(811,957)**
Outstanding as at 31 December 2019	**2,952,192**

Exercisable as at 31 December 2018	183,141
Exercisable as at 31 December 2019	**145,658**

	2019 Total restricted stock	2018 Total restricted stock
Weighted average remaining contractual life	**8.0 years**	8.0 years
Weighted average fair value at date of grant during the year	**$7.63**	$6.96
Weighted average share price at date of exercise during the year	**$9.38**	$8.14

RSS – ORDINARY

The ordinary RSS options were issued for the first time in 2016 and vest three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. The 2016 awards became exercisable in February 2019.

	Total number of restricted stock
Outstanding as at 31 December 2017	1,286,746
Granted	1,018,951
Forfeited	(205,500)
Outstanding as at 31 December 2018	2,100,197
Granted	**809,397**
Exercised	**(324,860)**
Forfeited	**(101,290)**
Outstanding as at 31 December 2019	**2,483,444**
Exercisable as at 31 December 2019	**159,999**

	2019 Total restricted stock	2018 Total restricted stock
Weighted average remaining contractual life	**8.1 years**	8.4 years
Weighted average fair value at date of grant during the year	**$8.44**	$7.96
Weighted average share price at date of exercise during the year	**$8.59**	–

RSS – BONUS DEFERRAL

The bonus deferral RSS options vesting periods range from one to three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted stock
Outstanding as at 31 December 2017	547,638
Granted	31,941
Exercised	(220,047)
Forfeited	(18,943)
Outstanding as at 31 December 2018	340,589
Granted	**35,060**
Exercised	**(177,135)**
Forfeited	**(1,993)**
Outstanding as at 31 December 2019	**196,521**
Exercisable as at 31 December 2018	73,963
Exercisable as at 31 December 2019	**66,269**

	2019 Total restricted stock	2018 Total restricted stock
Weighted average remaining contractual life	**7.3 years**	7.7 years
Weighted average fair value at date of grant during the year	**$8.39**	$7.95
Weighted average share price at date of exercise during the year	**$8.73**	$8.25

RSS – LANCASHIRE SYNDICATES LIMITED ACQUISITION

The LSL acquisition RSS options vesting periods ranged from three to five years and were dependent on certain performance criteria. A maximum of 75.0% of the LSL acquisition RSS options vested on the achievement of a combined ratio for Cathedral Capital Limited, the ultimate holding company of LSL, below a required amount. A maximum of 25.0% of the LSL acquisition RSS options vested on the achievement of an LHL RoE in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vested.

7. EMPLOYEE BENEFITS CONTINUED

	Total number of restricted stock
Outstanding as at 31 December 2017	369,478
Exercised	(199,370)
Forfeited	(1,850)
Outstanding as at 31 December 2018	168,258
Exercised	**(61,016)**
Outstanding as at 31 December 2019	**107,242**

Exercisable as at 31 December 2018	168,258
Exercisable as at 31 December 2019	**107,242**

	2019 Total restricted stock	2018 Total restricted stock
Weighted average remaining contractual life	**3.9 years**	4.9 years
Weighted average fair value at date of grant	**$13.01**	$13.01
Weighted average share price at date of exercise during the year	**$8.51**	$7.99

8. FINANCING COSTS

	2019 $m	2018 $m
Interest expense on long-term debt	**18.5**	18.1
Net losses (gains) on interest rate swaps	**1.0**	(0.9)
Interest expense on lease liabilities	**1.3**	–
Other financing costs	**1.0**	2.9
Total	**21.8**	20.1

Refer to note 18 for details of long-term debt and financing arrangements.

9. TAX

BERMUDA

LHL, LICL, LUK and LCM have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

From 1 January 2019, LHL ceased to be tax resident in the UK and subject to UK corporation tax. The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

	2019 $m	2018 $m
Corporation tax charge for the period	**5.8**	2.9
Adjustments in respect of prior period corporation tax	**(2.0)**	(1.9)
Deferred tax credit for the period	**(3.0)**	(5.1)
Adjustments in respect of prior period deferred tax	**0.5**	0.1
Total tax charge (credit)	**1.3**	(4.0)

Tax reconciliation[1]	2019 $m	2018 $m
Profit before tax	**119.5**	33.6
Tax calculated at the standard corporation tax rate applicable in Bermuda 0% (2018 – United Kingdom 19.0%)	**–**	6.4
Non-taxable income	**–**	(13.3)
Effect of income taxed at a higher rate	**1.0**	–
Adjustments in respect of prior period	**(1.5)**	(1.8)
Differences related to equity based compensation	**(0.6)**	0.4
Other expense permanent differences	**2.4**	4.3
Total tax charge (credit)	**1.3**	(4.0)

1. All tax reconciling balances have been classified as recurring items.

The current tax charge (credit) as a percentage of the Group's profit before tax is 1.1% (2018 – 11.9% credit). Non-taxable income relates to profits of companies within the Group that are non-tax resident in the UK and the share of profit (loss) of associate.

Refer to note 11 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive income (loss) within shareholders' equity.

10. CASH AND CASH EQUIVALENTS

	2019 $m	2018 $m
Cash at bank and in hand	**167.7**	97.5
Cash equivalents	**152.7**	57.1
Total cash and cash equivalents	**320.4**	154.6

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Refer to note 18 for the cash and cash equivalent balances on deposit as collateral. Cash and cash equivalents include managed cash of $196.6 million (31 December 2018 – $83.7 million).

11. INVESTMENTS

As at 31 December 2019	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value[1] $m
Fixed maturity securities – AFS				
– Short-term investments	84.8	–	–	84.8
– Fixed maturity funds	12.8	–	–	12.8
– U.S. treasuries	160.8	0.9	(0.1)	161.6
– Other government bonds	47.1	0.5	(0.1)	47.5
– U.S. municipal bonds	8.2	0.2	–	8.4
– U.S. government agency debt	59.5	1.3	(0.1)	60.7
– Asset backed securities	127.8	0.5	(3.3)	125.0
– U.S. government agency mortgage backed securities	96.8	1.1	(0.4)	97.5
– Non-agency mortgage backed securities	15.4	–	–	15.4
– Agency commercial mortgage backed securities	2.2	–	–	2.2
– Bank loans	101.7	0.6	(0.6)	101.7
– Corporate bonds	581.2	11.4	(0.4)	592.2
Total fixed maturity securities – AFS	1,298.3	16.5	(5.0)	1,309.8
Fixed maturity securities – at FVTPL	45.7	4.6	–	50.3
Private debt fund – at FVTPL	15.5	–	–	15.5
Hedge funds – at FVTPL	140.6	14.5	(5.1)	150.0
Other investments	–	–	(0.5)	(0.5)
Total investments	1,500.1	35.6	(10.6)	1,525.1

1. When IFRS 9, Financial Instruments: Classification and Measurement is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

As at 31 December 2018	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value[1] $m
Fixed maturity securities – AFS				
– Short-term investments	225.5	–	–	225.5
– Fixed maturity funds	11.4	–	–	11.4
– U.S. treasuries	187.5	0.3	(1.2)	186.6
– Other government bonds	59.8	0.1	(1.2)	58.7
– U.S. municipal bonds	5.4	–	–	5.4
– U.S. government agency debt	88.2	0.4	(0.5)	88.1
– Asset backed securities	131.1	1.0	(2.8)	129.3
– U.S. government agency mortgage backed securities	82.2	0.2	(2.5)	79.9
– Non-agency mortgage backed securities	21.3	–	(0.2)	21.1
– Agency commercial mortgage backed securities	5.3	–	(0.1)	5.2
– Non-agency commercial mortgage backed securities	0.5	–	–	0.5
– Bank loans	114.7	0.1	(5.7)	109.1
– Corporate bonds	528.8	1.0	(8.2)	521.6
Total fixed maturity securities – AFS	1,461.7	3.1	(22.4)	1,442.4
Fixed maturity securities – at FVTPL	45.7	–	(0.7)	45.0
Equity securities – AFS	20.0	2.7	–	22.7
Hedge funds – at FVTPL	143.0	9.3	(3.1)	149.2
Other investments	–	0.1	(0.4)	(0.3)
Total investments	1,670.4	15.2	(26.6)	1,659.0

1. When IFRS 9, Financial Instruments: Classification and Measurement is implemented, all investments held above will be classified as at FVTPL (mandatory), with no resulting changes in the estimated fair value.

Accumulated other comprehensive income (loss) in relation to the Group's AFS fixed maturity and equity securities is as follows:

	2019 $m	2018 $m
Unrealised gains	**16.5**	5.8
Unrealised losses	**(5.0)**	(22.4)
Net unrealised foreign exchange losses on fixed maturity securities – AFS	**2.6**	2.1
Tax provision	**(0.6)**	0.2
Accumulated other comprehensive income (loss)	**13.5**	(14.3)

Fixed maturity securities are presented in the risk disclosures section on page 137. Refer to note 18 for the investment balances in trusts in favour of ceding companies and on deposit as collateral.

The Group determines the estimated fair value of each individual security utilising the highest-level inputs available. Prices for the Group's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors and broker-dealers. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

The Group 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 Group'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.

11. INVESTMENTS CONTINUED

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. The Group determines securities classified as Level (iii) to include hedge funds and the private debt fund.

The estimated fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The Group invested in a private debt fund on 20 December 2019. The original investment cost, where pricing was based on fair value, is the best approximation of fair value as at 31 December 2019.

During 2019, the Company engaged a third-party service provider to assess the levelling of our investment portfolio. This resulted in a refinement in our levelling methodology with securities from the same asset class being included in multiple levelling categories. 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 $nil and transfers from Level (ii) to (i) securities amounted to $169.2 million during the year ended 31 December 2019.

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

As at 31 December 2019	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
– Short-term investments	**80.7**	**4.1**	**–**	**84.8**
– Fixed maturity funds	**–**	**12.8**	**–**	**12.8**
– U.S. treasuries	**161.6**	**–**	**–**	**161.6**
– Other government bonds	**13.2**	**34.3**	**–**	**47.5**
– U.S. municipal bonds	**–**	**8.4**	**–**	**8.4**
– U.S. government agency debt	**50.6**	**10.1**	**–**	**60.7**
– Asset backed securities	**–**	**125.0**	**–**	**125.0**
– U.S. government agency mortgage backed securities	**–**	**97.5**	**–**	**97.5**
– Non-agency mortgage backed securities	**–**	**15.4**	**–**	**15.4**
– Agency commercial mortgage backed securities	**–**	**2.2**	**–**	**2.2**
– Bank loans	**0.8**	**100.9**	**–**	**101.7**
– Corporate bonds	**225.4**	**366.8**	**–**	**592.2**
Total fixed maturity securities – AFS	**532.3**	**777.5**	**–**	**1,309.8**
Fixed maturity securities – at FVTPL	**–**	**50.3**	**–**	**50.3**
Private debt fund – at FVTPL	**–**	**–**	**15.5**	**15.5**
Hedge funds – at FVTPL	**–**	**–**	**150.0**	**150.0**
Other investments	**–**	**(0.5)**	**–**	**(0.5)**
Total investments	**532.3**	**827.3**	**165.5**	**1,525.1**

As at 31 December 2018	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
– Short-term investments	216.8	8.7	–	225.5
– Fixed maturity funds	–	11.4	–	11.4
– U.S. treasuries	186.6	–	–	186.6
– Other government bonds	–	58.7	–	58.7
– U.S. municipal bonds	–	5.4	–	5.4
– U.S. government agency debt	–	88.1	–	88.1
– Asset backed securities	–	129.3	–	129.3
– U.S. government agency mortgage backed securities	–	79.9	–	79.9
– Non-agency mortgage backed securities	–	21.1	–	21.1
– Agency commercial mortgage backed securities	–	5.2	–	5.2
– Non-agency commercial mortgage backed securities	–	0.5	–	0.5
– Bank loans	–	109.1	–	109.1
– Corporate bonds	–	521.6	–	521.6
Total fixed maturity securities – AFS	403.4	1,039.0	–	1,442.4
Fixed maturity securities – at FVTPL	–	45.0	–	45.0
Equity securities – AFS	22.7	–	–	22.7
Hedge funds – at FVTPL	–	–	149.2	149.2
Other investments	–	(0.3)	–	(0.3)
Total investments	426.1	1,083.7	149.2	1,659.0

11. INVESTMENTS CONTINUED

The table below analyses the movements in investments classified as Level (iii) investments:

	Private debt fund $m	Hedge funds $m	Total $m
As at 31 December 2017	–	154.0	154.0
Purchases	–	17.6	17.6
Sales	–	(21.5)	(21.5)
Total net realised and unrealised losses recognised in profit or loss	–	(0.9)	(0.9)
As at 31 December 2018	–	149.2	149.2
Purchases	**15.5**	**17.7**	**33.2**
Sales	–	**(21.3)**	**(21.3)**
Total net realised and unrealised gains recognised in profit or loss	–	**4.4**	**4.4**
As at 31 December 2019	**15.5**	**150.0**	**165.5**

12. INTERESTS IN STRUCTURED ENTITIES

CONSOLIDATED STRUCTURED ENTITIES

The Group's two consolidated structured entities are the EBT and the Orange Fund.

- the Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT (see note 24).
- the investment in the Orange Fund was exited during 2019. The Group was the only investor in the Orange Fund which held short duration high-quality cash equivalents and fixed maturity securities. The primary objectives of the fund were to preserve capital and to provide liquidity to support the Group's operations.

UNCONSOLIDATED STRUCTURED ENTITIES IN WHICH THE GROUP HAS AN INTEREST

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

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

As at 31 December 2019	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
– Asset backed securities	**125.0**	–	**125.0**
– U.S. government agency mortgage backed securities	**97.5**	–	**97.5**
– Non-agency mortgage backed securities	**15.4**	–	**15.4**
– Agency commercial mortgage backed securities	**2.2**	–	**2.2**
Total fixed maturity securities	**240.1**	–	**240.1**
Investment funds			
– Private debt fund	**15.5**	–	**15.5**
– Hedge funds	**150.0**	–	**150.0**
Total investment funds	**165.5**	–	**165.5**
Specialised investment vehicles			
– KHL (note 16)	–	**108.3**	**108.3**
Total	**405.6**	**108.3**	**513.9**

As at 31 December 2018	Orange Fund $m	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities				
– Asset backed securities	12.5	116.8	–	129.3
– U.S. government agency mortgage backed securities	–	79.9	–	79.9
– Non-agency mortgage backed securities	4.9	16.2	–	21.1
– Agency commercial mortgage backed securities	–	5.2	–	5.2
– Non-agency commercial mortgage backed securities	0.5	–	–	0.5
Total fixed maturity securities	17.9	218.1	–	236.0
Investment funds				
– Hedge funds	–	149.2	–	149.2
Total investment funds	–	149.2	–	149.2
Specialised investment vehicles				
– KHL (note 16)	–	–	67.1	67.1
Total	17.9	367.3	67.1	452.3

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 Group 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 consolidated balance sheet 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 the 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 are provided on pages 127 to 139. 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 Group holds as at 31 December 2019 and 31 December 2018. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and regularly through the holding period for the security. The Group 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.

As at 31 December 2019 the Group has a commitment of $100.0 million (31 December 2018 – $100.0 million) in respect of two credit facility funds. The Group, via the funds, provides collateral for revolving credit facilities purchased at a discount from financial institutions and is at risk for its portion of any defaults on those revolving credit facilities. The Group's proportionate share of these revolving credit facilities purchased by the funds as at 31 December 2019 is $59.6 million (31 December 2018 – $54.4 million), which currently remains unfunded. The maximum exposure to the credit facility funds is $100.0 million and as at 31 December 2019 there have been no defaults under these facilities.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at 31 December 2017	933.5	(284.1)	649.4
Net incurred losses for:			
Prior years	(124.4)	(2.5)	(126.9)
Current year	431.8	(139.5)	292.3
Exchange adjustments	(7.2)	0.6	(6.6)
Incurred losses and loss adjustment expenses	300.2	(141.4)	158.8
Net paid losses for:			
Prior years	261.5	(99.1)	162.4
Current year	57.2	(3.5)	53.7
Paid losses and loss adjustment expenses	318.7	(102.6)	216.1
As at 31 December 2018	915.0	(322.9)	592.1
Net incurred losses for:			
Prior years	**(66.0)**	**(22.0)**	**(88.0)**
Current year	**330.5**	**(112.7)**	**217.8**
Exchange adjustments	**5.3**	**(1.8)**	**3.5**
Incurred losses and loss adjustment expenses	**269.8**	**(136.5)**	**133.3**
Net paid losses for:			
Prior years	**269.6**	**(126.3)**	**143.3**
Current year	**40.7**	**(5.6)**	**35.1**
Paid losses and loss adjustment expenses	**310.3**	**(131.9)**	**178.4**
As at 31 December 2019	**874.5**	**(327.5)**	**547.0**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 125. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20.0% increase in estimated losses would lead to a $174.9 million (31 December 2018 – $183.0 million) increase in gross loss reserves. There was no change to the Group's reserving methodology during the year. The split of losses and loss adjustment expenses between notified outstanding losses, ACR assessed by management and IBNR is shown below:

	2019		2018	
As at 31 December	$m	%	$m	%
Outstanding losses	**352.0**	**40.2**	315.2	34.4
Additional case reserves	**138.8**	**15.9**	210.5	23.0
Losses incurred but not reported	**383.7**	**43.9**	389.3	42.6
Total	**874.5**	**100.0**	915.0	100.0

The Group's reserve as at 31 December 2019 and 2018 had an estimated duration of approximately two years.

CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of LSL in 2013, the Group assumed additional loss reserves relating to 2001 and subsequent years.

Accident year	2009 and prior $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	Total $m
Gross Group losses												
Estimate of ultimate liability[1]												
At end of accident year	711.8	297.4	397.0	250.3	280.0	274.8	276.0	298.5	580.1	429.7	332.4	
One year later	607.3	209.4	371.9	350.4	259.8	226.7	214.6	310.7	547.1	462.0		
Two years later	526.1	204.2	447.0	338.8	224.0	206.0	196.2	274.4	511.3			
Three years later	511.8	235.8	450.4	326.9	224.4	196.5	189.6	235.0				
Four years later	592.9	229.4	460.0	313.3	222.1	193.4	184.1					
Five years later	579.0	231.4	450.7	308.7	218.4	192.4						
Six years later	569.6	229.8	452.6	299.5	213.7							
Seven years later	585.7	229.6	446.9	292.8								
Eight years later	583.3	228.3	446.0									
Nine years later	552.7	236.6										
Ten years later	543.5											
Current estimate of cumulative liability	**543.5**	**236.6**	**446.0**	**292.8**	**213.7**	**192.4**	**184.1**	**235.0**	**511.3**	**462.0**	**332.4**	**3,649.8**
Paid	**(516.9)**	**(221.6)**	**(425.8)**	**(271.4)**	**(202.6)**	**(177.9)**	**(164.6)**	**(203.6)**	**(325.0)**	**(225.2)**	**(40.7)**	**(2,775.3)**
Total Group gross liability	**26.6**	**15.0**	**20.2**	**21.4**	**11.1**	**14.5**	**19.5**	**31.4**	**186.3**	**236.8**	**291.7**	**874.5**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2019.

Accident year	2009 and prior $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	Total $m
Reinsurance												
Estimate of ultimate recovery[1]												
At end of accident year	52.7	33.8	56.2	48.9	9.9	17.8	15.3	73.1	177.6	139.3	114.6	
One year later	47.9	23.6	52.6	121.8	8.9	14.1	12.2	98.5	185.0	189.9		
Two years later	44.9	24.1	92.4	122.0	8.8	13.1	12.6	96.7	179.7			
Three years later	41.9	33.5	88.9	121.2	8.0	11.5	13.0	76.5				
Four years later	79.8	34.4	103.3	121.2	8.0	11.9	13.0					
Five years later	76.0	34.6	102.8	121.2	8.0	9.6						
Six years later	71.7	35.7	106.1	120.9	7.4							
Seven years later	71.2	36.2	105.4	120.9								
Eight years later	68.9	36.5	105.5									
Nine years later	65.3	44.0										
Ten years later	57.4											
Current estimate of cumulative recovery	**57.4**	**44.0**	**105.5**	**120.9**	**7.4**	**9.6**	**13.0**	**76.5**	**179.7**	**189.9**	**114.6**	**918.5**
Paid	**(46.3)**	**(38.5)**	**(102.5)**	**(118.1)**	**(7.4)**	**(8.7)**	**(12.8)**	**(71.7)**	**(106.9)**	**(72.5)**	**(5.6)**	**(591.0)**
Total Group gross recovery	**11.1**	**5.5**	**3.0**	**2.8**	**–**	**0.9**	**0.2**	**4.8**	**72.8**	**117.4**	**109.0**	**327.5**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2019.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

Accident year	2009 and prior $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	Total $m
Net Group losses												
Estimate of ultimate liability[1]												
At end of accident year	659.1	263.6	340.8	201.4	270.1	257.0	260.7	225.4	402.5	290.4	217.8	
One year later	559.4	185.8	319.3	228.6	250.9	212.6	202.4	212.2	362.1	272.1		
Two years later	481.2	180.1	354.6	216.8	215.2	192.9	183.6	177.7	331.6			
Three years later	469.9	202.3	361.5	205.7	216.4	185.0	176.6	158.5				
Four years later	513.1	195.0	356.7	192.1	214.1	181.5	171.1					
Five years later	503.0	196.8	347.9	187.5	210.4	182.8						
Six years later	497.9	194.1	346.5	178.6	206.3							
Seven years later	514.5	193.4	341.5	171.9								
Eight years later	514.4	191.8	340.5									
Nine years later	487.4	192.6										
Ten years later	486.1											
Current estimate of cumulative liability	**486.1**	**192.6**	**340.5**	**171.9**	**206.3**	**182.8**	**171.1**	**158.5**	**331.6**	**272.1**	**217.8**	**2,731.3**
Paid	**(470.6)**	**(183.1)**	**(323.3)**	**(153.3)**	**(195.2)**	**(169.2)**	**(151.8)**	**(131.9)**	**(218.1)**	**(152.7)**	**(35.1)**	**(2,184.3)**
Total Group net liability	**15.5**	**9.5**	**17.2**	**18.6**	**11.1**	**13.6**	**19.3**	**26.6**	**113.5**	**119.4**	**182.7**	**547.0**

1. Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2019.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2019 $m	2018 $m
2009 accident year and prior	**3.3**	27.0
2010 accident year	**(0.9)**	1.6
2011 accident year	**1.4**	4.7
2012 accident year	**6.6**	8.8
2013 accident year	**4.2**	3.5
2014 accident year	**(1.3)**	3.4
2015 accident year	**5.7**	6.6
2016 accident year	**19.3**	33.3
2017 accident year	**30.8**	38.0
2018 accident year	**18.9**	–
Total favourable development	**88.0**	126.9

The favourable prior year development in both 2019 and 2018 was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. In 2019, the Group also benefited from favourable development on the 2017 catastrophe loss events partially offset by 2018 accident year claims in the energy and Lancashire Syndicates segments. 2018 also included reductions on some prior accident year property and energy reserves.

There were no individually significant net loss events for the year ended 31 December 2019 and 31 December 2018.

14. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

All receivables are considered current other than $39.5 million (31 December 2018 – $54.1 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Group's receivables.

15. PROVISION FOR DEFERRED TAX

	2019 $m	2018 $m
Equity based compensation	**(4.1)**	(2.5)
Claims equalisation reserves	**3.9**	6.2
Syndicate underwriting profits	**(1.6)**	(3.6)
Syndicate participation rights	**12.5**	12.7
Other temporary differences	**(1.1)**	(1.6)
Net deferred tax liability	**9.6**	11.2

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 Group in 2020 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the years ended 31 December 2019 and 2018, the Group had no uncertain tax positions.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2016, reducing the rate to 17.0% from 1 April 2020.

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

16. INVESTMENT IN ASSOCIATE

The Group holds a 10.0% interest in the preference shares of each segregated account of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2019, the carrying value of the Group's investment in KHL was $108.3 million (31 December 2018 – $67.1 million). The Group's share of comprehensive income (loss) for KHL for the period was $5.9 million (2018 – $7.1 million loss). Key financial information for KHL is as follows:

	2019 $m	2018 $m
Assets	**1,266.7**	905.2
Liabilities	**183.4**	234.2
Shareholders' equity	**1,083.3**	671.0
Gross premium earned	**99.9**	81.9
Comprehensive income (loss)	**59.0**	(71.2)

The Group has the power to participate in the operational and financial policy decisions of KHL and KRL through the provision of essential technical information by LCM and has therefore classified its investment in KHL as an investment in associate.

When IFRS 9, Financial Instruments: Classification and Measurement is implemented, KHL will continue to classify all its financial assets at FVTPL. There will therefore be no impact on the estimated fair value of the assets disclosed in the table above.

Refer to note 24 for details of transactions between the Group and its associate.

17. INTANGIBLE ASSETS

	Syndicate participation rights $m	Goodwill $m	Total $m
Net book value as at 31 December 2018 and 2017	82.6	71.2	153.8
Additions	**0.7**	**–**	**0.7**
Net book value as at 31 December 2019	**83.3**	**71.2**	**154.5**

On 24 October 2019, the Group's corporate member acquired additional syndicate participation rights in Syndicate 2010, increasing its share on the 2020 year of account from 57.8% to 59.7%.

Indefinite life intangible assets are tested annually for impairment. For the purpose of impairment testing, the syndicate participation rights and goodwill have been allocated to the LSL's CGU.

17. INTANGIBLE ASSETS CONTINUED

The recoverable amount of the LSL's CGU is determined based on value in use. Value in use is calculated using projected cash flows of the LSL's CGU. These are approved by management and cover a three-year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outwards reinsurance expenditure and investment returns. A pre-tax discount rate of 7.5% (2018 – 6.4%) has been used to discount the projected cash flows, which reflects a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows is 3.0% (2018 – 3.0%) based on historical growth rates and management's best estimate of future growth rates.

The results of this exercise indicate that the recoverable amount exceeds the syndicate participation rights and the goodwill's carrying values and would not be sensitive to any reasonably possible changes in assumptions. No impairment has therefore been recognised for the years ending 31 December 2019 and 2018.

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

LONG-TERM DEBT

On 5 October 2012, LHL issued $130.0 million 5.70% senior unsecured notes due 2022 pursuant to a private offering to U.S. Qualified Institutional Buyers. Interest on the principal is payable semi-annually. The notes were listed and admitted to trading on the LSE on 16 October 2012.

On 15 December 2005, LHL issued $97.0 million and €24.0 million in aggregate principal amount of floating rate subordinated loan notes. The U.S. dollar subordinated loan notes are repayable on 15 December 2035. Interest on the principal is based on a set margin, 3.70%, above the three-month LIBOR rate and is payable quarterly. The loan notes were issued via a trust company. The Euro subordinated loan notes are repayable on 15 June 2035. Interest on the principal is based on a set margin, 3.70%, above the EURIBOR rate and is payable quarterly. On 21 October 2011, the CSX admitted to the official list the LHL U.S. dollar and Euro subordinated loan notes.

In 2013, the Group assumed loan notes, issued by CCHL and listed on the ISE, as part of the LSL acquisition. The loan notes acquired are set out as follows:

- €12.0 million floating rate subordinated loan note issued on 18 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75%, above the three-month EURIBOR;
- $10.0 million floating rate subordinated loan note issued on 26 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75%, above the three-month LIBOR;
- $25.0 million floating rate subordinated loan note issued on 13 May 2005 and repayable in June 2035, paying interest quarterly based on a set margin, 3.25%, above the three-month LIBOR; and
- $25.0 million floating rate subordinated loan note issued on 18 November 2005 and repayable in December 2035, paying interest quarterly based on a set margin, 3.25%, above the three-month LIBOR.

The Group has the option to redeem its senior unsecured notes and all of its subordinated loan notes, in whole or in part, prior to the respective maturity dates.

The terms of the $130.0 million senior unsecured notes include standard default and cross-default provisions which require certain covenants to be adhered to. These include a maximum debt to capital ratio of 30.0%, where the subordinated loan notes are included as both total consolidated debt and total consolidated capital in this calculation.

There are no such covenants for either the $97.0 million and €24.0 million in aggregate floating rate subordinated loan notes or the loan notes issued by CCHL.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The carrying values of the notes are shown below:

As at 31 December	2019 $m	2018 $m
Long-term debt $130.0 million	**130.0**	130.0
Long-term debt $97.0 million	**97.0**	97.0
Long-term debt €24.0 million	**26.9**	27.5
Long-term debt €12.0 million	**12.2**	12.4
Long-term debt $10.0 million	**10.0**	10.0
Long-term debt $25.0 million	**23.7**	23.7
Long-term debt $25.0 million	**23.7**	23.7
Carrying value	**323.5**	324.3

The Group is exposed to cash flow interest rate risk and currency risk on its long-term debt. Further information is provided in the risk disclosures section on pages 134 to 136.

The fair value of the long-term debt is estimated as $375.3 million (31 December 2018 – $359.2 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy. The fair value is estimated by reference to similar financial instruments quoted in active markets.

The interest accrued on the long-term debt was $2.4 million (31 December 2018 – $2.4 million) at the balance sheet date and is included in other payables.

Refer to note 8 for details of the interest expense for the year included in financing costs.

INTEREST RATE SWAPS

The Group hedges its floating rate borrowings using interest rate swaps to transfer floating to fixed rate. These instruments are held at estimated fair value. Refer to the risk disclosures section from page 133 for further details. The Group has the right to net settle these instruments.

The net fair value position owed by the Group on the swap agreements is $1.1 million (31 December 2018 – $0.4 million). Further information is provided on pages 131 to 133. Cash settlements are completed on a quarterly basis and the total of the next cash settlements in the first quarter of 2020 on these instruments is $0.2m. The net impact from cash settlements and changes in estimated fair value are included in financing costs.

The interest rate swaps are held at estimated fair value, priced using observable market inputs, and are therefore classified as Level (ii) securities in the fair value hierarchy.

Refer to note 8 for the net impact from cash settlement and changes in estimated fair value included in financing costs.

LETTERS OF CREDIT

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral. The following LOCs have been issued:

As at 31 December	2019 $m	2018 $m
Issued to third parties	**38.2**	30.2

These LOCs are required to be fully collateralised.

LHL and LICL have a $300.0 million syndicated collateralised credit facility with a $75.0 million loan sub-limit that has been in place since 24 March 2016 which will expire on 24 March 2021. There was no outstanding debt under this facility as at 31 December 2019 and 2018.

The existing facility is available for the issue of LOCs to ceding companies. The facility is also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The terms of the $300.0 million syndicated collateralised credit facility include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the subordinated loan notes are excluded from this calculation;
- a maximum indebtedness regarding the subordinated loan notes of $250.0 million; and
- a maximum indebtedness regarding the Syndicate 2010 and 3010 catastrophe facilities of $150.0 million.

A $31.0 million uncollateralised facility has been in place since 30 July 2019, for an original amount of $31.0 million. The facility was increased from $31.0 million to $44.0 million on 25 October 2019 and will expire on 31 December 2023. It is available for utilisation by LICL and guaranteed by LHL for FAL purposes. As at 31 December 2019 $44.0 million of LOCs were issued under this facility.

The terms of the $44.0 million uncollateralised facility included standard default and cross-default provisions and require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt to capital ratio of 30.0%, where the subordinated loan notes are excluded from this calculation;
- a maximum subordinated unsecured indebtedness of $350.0 million; and
- maintenance of a minimum net worth requirement.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

SYNDICATE BANK FACILITIES

As at 31 December 2019 and 2018, Syndicate 2010 had in place an $80.0 million catastrophe facility. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $80.0 million can be utilised by way of an LOC or an RCF to assist Syndicate 2010's gross funding requirements. With effect from 1 January 2020, while up to $80.0 million in aggregate can be utilised by way of an LoC or an RCF to assist Syndicate 2010's gross funding requirements, only $40.0 million of this amount can be utilised by way of an RCF.

18. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

There are no balances outstanding under the Syndicate bank facility as at 31 December 2019 or 2018. The Syndicate bank facility is not available to the Group other than through its participation on the syndicates it supports.

TRUSTS AND RESTRICTED BALANCES

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and /or the regulatory requirements of certain jurisdictions.

In 2012, LICL entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at and for the years ended 31 December 2019 and 2018, LICL had been granted accredited or trusteed reinsurer status in all U.S. States. The MBRT is subject to the rules and regulations of the aforementioned States and the respective deeds of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at and for the years ended 31 December 2019 and 2018, the Group was in compliance with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacities of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See page 142 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying the syndicates' claims and expenses. See page 142 for more information regarding the capital requirements for Syndicate 2010 and Syndicate 3010.

The following cash and cash equivalent and investment balances were held in trust, other collateral accounts in favour of third parties, or are otherwise restricted:

	2019			2018		
As at 31 December	Cash and cash equivalents $m	Fixed maturity securities $m	Total $m	Cash and cash equivalents $m	Fixed maturity securities $m	Total $m
FAL	**3.4**	**308.9**	**312.3**	6.2	306.7	312.9
MBRT accounts	**48.7**	**125.9**	**174.6**	1.4	174.7	176.1
Syndicate accounts	**72.1**	**93.7**	**165.8**	15.9	90.4	106.3
In favour of LOCs	**2.7**	**39.4**	**42.1**	2.3	38.7	41.0
In trust accounts for policyholders	**2.9**	**23.0**	**25.9**	3.4	24.9	28.3
In favour of derivative contracts	**1.9**	**–**	**1.9**	1.4	–	1.4
Total	**131.7**	**590.9**	**722.6**	30.6	635.4	666.0

19. SHARE CAPITAL

Authorised common shares of $0.50 each	Number	$m
As at 31 December 2019 and 2018	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
As at 31 December 2017	201,341,918	100.7
Shares issued	600,000	0.3
As at 31 December 2018	201,941,918	101.0
Shares issued	**1,000,000**	**0.5**
As at 31 December 2019	**202,941,918**	**101.5**

The new common shares issued during 2019 and 2018 were to fund future RSS exercises. Refer to note 24 for further details on the share issuance.

Own shares	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2017	1,333,227	12.1	1,333,227	12.1
Shares distributed	(800,776)	(7.3)	(800,776)	(7.3)
Shares purchased by trust	600,000	4.6	600,000	4.6
As at 31 December 2018	1,132,451	9.4	1,132,451	9.4
Shares distributed	**(644,148)**	**(5.4)**	**(644,148)**	**(5.4)**
Shares purchased by trust	**1,000,000**	**9.3**	**1,000,000**	**9.3**
As at 31 December 2019	**1,488,303**	**13.3**	**1,488,303**	**13.3**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2019 was 202,941,918 (31 December 2018 – 201,941,918).

SHARE REPURCHASES

At the AGM held on 1 May 2019, LHL's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 20,194,192 shares, with such authority to expire on the conclusion of the 2020 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed. There were no share repurchases during either 2019 or 2018.

DIVIDENDS

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	23 Feb 2018	21 Mar 2018	20.0
Interim	$0.05	17 Aug 2018	12 Sep 2018	10.1
Special	$0.20	9 Nov 2018	12 Dec 2018	40.1
Final	**$0.10**	**22 Feb 2019**	**27 Mar 2019**	**20.1**
Interim	**$0.05**	**9 Aug 2019**	**6 Sep 2019**	**10.1**

20. OTHER RESERVES

Other reserves consist of the following:

	Contributed surplus $m	Equity based compensation $m	Total other reserves $m
As at 31 December 2017	839.1	27.1	866.2
Shares purchased by the trust	4.3	–	4.3
Distributed by the trust	(9.9)	–	(9.9)
Purchase of shares from non-controlling interest	(0.1)	–	(0.1)
Equity based compensation – exercises	10.3	(10.3)	–
Equity based compensation	–	8.5	8.5
As at 31 December 2018	843.7	25.3	869.0
Shares purchased by the trust	**8.8**	–	**8.8**
Distributed by the trust	**(6.7)**	–	**(6.7)**
Equity based compensation – exercises	**8.1**	**(8.1)**	–
Equity based compensation	–	**10.2**	**10.2**
As at 31 December 2019	**853.9**	**27.4**	**881.3**

21. LEASES

The Group leases three properties and several items of office equipment.

RIGHT-OF-USE ASSETS

For the year ended 31 December 2019 the Group had the following right-of-use assets in relation to leases entered into.

	Property	Equipment	Total
	$m	$m	$m
As at 31 December 2018	–	–	–
Initial application of IFRS 16	**16.0**	**0.4**	**16.4**
Additions	**4.4**	**–**	**4.4**
Depreciation charge	**(2.4)**	**(0.2)**	**(2.6)**
As at 31 December 2019	**18.0**	**0.2**	**18.2**

LEASE LIABILITIES

As at 31 December 2019	$m
Due in less than one year	**3.6**
Due between one and five years	**13.0**
Due in more than five years	**10.7**
Total undiscounted lease liabilities	**27.3**
Total discounted lease liabilities	**21.9**
Current	**2.5**
Non-current	**19.4**

The Group does not face a significant liquidity risk with regards to its lease liabilities.

AMOUNTS RECOGNISED IN PROFIT OR LOSS

	2019 $m
Depreciation of right-of-use assets	**2.6**
Interest expense on lease liabilities	**1.3**
Expenses relating to short-term leases, low value leases and variable leases	**1.2**
Total	**5.1**

Total lease payments included in the consolidated cash flow statement amounted to $3.6 million for the year ended 31 December 2019.

22. COMMITMENTS AND CONTINGENCIES

CREDIT FACILITY FUND

As at 31 December 2019 the Group has a commitment of $100.0 million (31 December 2018 – $100.0 million) relating to two credit facility funds (refer to note 12).

PRIVATE DEBT FUND

On 5 November 2019, the Group entered into an agreement to invest in a private debt fund. The initial commitment was $25.0 million in addition to rebalancing amounts and fees and expenses. As at 31 December 2019, there was a remaining undrawn commitment in the amount of $9.8 million. This remaining capital commitment is expected to be drawn in the first quarter of 2020.

LEGAL PROCEEDINGS AND REGULATIONS

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

23. EARNINGS PER SHARE

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	2019 $m	2018 $m
Profit for the year attributable to equity shareholders of LHL	**117.9**	37.5

	2019 Number of shares	2018 Number of shares
Basic weighted average number of shares	**201,240,104**	200,655,440
Dilutive effect of RSS	**2,629,528**	1,960,322
Diluted weighted average number of shares	**203,869,632**	202,615,762

Earnings per share	2019	2018
Basic	**$0.59**	$0.19
Diluted	**$0.58**	$0.19

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares.

24. RELATED PARTY DISCLOSURES

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998	Lloyd's corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
LSL	Lloyd's managing agent	United Kingdom
LCM[2]	Insurance agent services	Bermuda
LCMMSL	Support services	United Kingdom
LICL	General insurance business	Bermuda
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LMSCL	Support services	Canada
LUK	General insurance business	United Kingdom
ORANGE FUND[3]	Investment fund	United States
Associate		
KHL[4]	Holding company	Bermuda
Other controlled entities		
EBT	Trust	Jersey
LHFT	Trust	United States

1. Unless otherwise stated, the Group owns 100% of the ordinary share capital and voting rights in its subsidiaries listed below.
2. 93.5% owned by the Group.
3. The investment in the Orange Fund was exited during 2019.
4. 10.0% interest in the preference shares of each segregated account of KHL.

24. RELATED PARTY DISCLOSURES CONTINUED

The Group has issued subordinated loan notes via a trust vehicle – LHFT, refer to note 18. The Group effectively has 100.0% of the voting rights in LHFT. These rights are subject to the property trustee's obligations to seek the approval of the holders of LHFT's preferred securities in case of default and other limited circumstances where the property trustee would enforce its rights. While the ability of the Group to influence the actions of LHFT is limited by the trust agreement, LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes, and is in essence controlled by the Group, and is therefore consolidated.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT and the ability of the Group to influence the actions of the EBT is limited by the trust deed, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes, and is in essence controlled by the Group, and is therefore consolidated.

The Group has a Loan Facility Agreement (the 'Facility') with RBC Cees Trustee Limited, the trustee of the EBT. The Facility is an interest free revolving credit facility under which the trustee can request advances on demand, within the terms of the Facility, up to a maximum aggregate amount of $80.0 million. The Facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2019, the Group had made advances of $nil (2018 – $1.5 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2019, the Group issued 1,000,000 common shares to the EBT at a par value of $0.5 million and a total value of $9.3 million at the prevailing market rate. During the year ended 31 December 2018, the Group issued 600,000 common shares to the EBT at a par value of $0.3 million and a total value of $4.6 million at the prevailing market rate.

LICL holds $203.3 million (31 December 2018 – $191.9 million) of cash and cash equivalents, fixed maturity securities and accrued interest in trust for the benefit of LUK relating to intra-group reinsurance agreements. In addition, LICL is required to provide 85.0% of the required FAL to support the underwriting activities of Syndicate 2010 and 3010 and holds $265.4 million (31 December 2018 – $267.9 million) of cash and cash equivalents and fixed maturity securities in FAL in relation to intra-group reinsurance agreements.

The senior management team shareholding in LCM represents a minority interest of 6.5% (2018 – 6.5%). This investment represents the non-controlling interest listed in the Group's consolidated balance sheet.

As at 31 December 2019 and 2018, Mr Alex Maloney, a Director of LHL, had a 1.2% (2018 – 1.2%) interest in LCM.

Mr Maloney and his spouse acquired 100.0% of the shares in Nameco on 7 November 2016. Nameco provides capacity to a number of Lloyd's syndicates including Syndicate 2010 which is managed by LSL. Nameco has provided $0.2 million of capacity to Syndicate 2010 for the 2020 year of account (2019 year of account – $0.2 million). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

KEY MANAGEMENT COMPENSATION

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

For the year ended 31 December	2019 $m	2018 $m
Short-term compensation	**4.6**	2.3
Equity based compensation	**2.0**	1.2
Directors' fees and expenses	**2.2**	1.9
Total	**8.8**	5.4

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

TRANSACTIONS WITH ASSOCIATE AND ITS SUBSIDIARY

In 2013, LCM entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the year ended 31 December 2019, the Group recognised $8.9 million (2018 – $6.6 million) of service fees and profit commissions in other income (refer to note 5) in relation to this agreement.

During 2019, the Group committed an additional $48.0 million (31 December 2018 – $35.8 million) of capital to KHL. During 2019, KHL returned $12.7 million (31 December 2018 – $21.0 million) of capital to the Group.

Refer to note 16 for further details on the Group's investment in associate.

During 2019, the Group entered into a reinsurance agreement with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated balance sheet	2019 $m
Unearned premiums on premiums ceded	3.8
Amounts payable to reinsurers	3.3
Deferred acquisition cost ceded	0.5

Consolidated statement of comprehensive income	2019 $m
Outwards reinsurance premiums	(7.6)
Change in unearned premiums on premiums ceded	3.8
Insurance acquisition expenses ceded	0.5

25. SUBSEQUENT EVENTS

DIVIDEND

On 12 February 2020, the Board of Directors declared the payment of an ordinary dividend of $0.10 per common share, subject to a shareholder vote of approval at the AGM on 29 April 2020, which will result in an aggregate payment of approximately $20.1 million. On the basis that the final dividend is so approved by the shareholders at the AGM, then the dividend will be paid on 5 June 2020 to shareholders of record on 11 May 2020. An amount equivalent to the dividend accrues on all RSS awards and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Annual General Meeting

The Company's AGM is scheduled for 29 April 2020 and is to be held at the Company's registered and head office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Notice of this year's AGM and forms of proxy and direction accompany this Annual Report. If you have any queries regarding the notice or return of the proxy please contact Chris Head, Company Secretary, using Tel: +44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Further information about the Group including this Annual Report and Accounts, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements containing the words 'believes', 'anticipates', 'plans', 'projects', 'forecasts', 'guidance', 'intends', 'expects', 'estimates', 'predicts', 'may', 'can', 'likely', 'will', 'seeks', 'should' or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: the actual development of losses and expenses impacting estimates for typhoon Hagibis in the fourth quarter of 2019, hurricane Dorian and typhoon Faxai in the third quarter of 2019, the Californian wildfires and hurricane Michael which occurred in the fourth quarter of 2018, hurricane Florence, the typhoons and marine losses that occurred in the third quarter of 2018, hurricanes Harvey, Irma and Maria and the earthquakes in Mexico, that occurred in the third quarter of 2017 and the wildfires which impacted parts of California during 2017; the impact of complex and unique causation and coverage issues associated with attribution of losses to wind or flood damage or other perils such as fire or business interruption relating to such events; potential uncertainties relating to reinsurance recoveries, reinstatement premiums and other factors inherent in loss estimations; the Group's ability to integrate its business and personnel; the successful retention and motivation of the Group's key management; the increased regulatory burden facing the Group; the number and type of insurance and reinsurance contracts that the Group writes or the Group may write; the Group's ability to successfully implement its business strategy during 'soft' as well as 'hard' markets; the premium rates which may be available at the time of such renewals within its targeted business lines; the possible low frequency of large events; potentially unusual loss frequency; the impact that the Group's future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than the Group's underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; increased competition from existing alternative capital providers and insurance-linked funds and collateralised special purpose insurers, and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in the Group's operating subsidiaries' rating with A.M. Best, S&P Global Ratings, Moody's or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed maturity investments; the impact of swings in market interest rates, currency exchange rates and securities prices; changes by central banks regarding the level of interest rates; the impact of inflation or deflation in relevant economies in which the Group operates; the effect, timing and other uncertainties surrounding future business combinations within the insurance and reinsurance industries; the impact of terrorist activity in the countries in which the Group writes risks; a rating downgrade of, or a market decline in, securities in its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its Bermudian subsidiaries becoming subject to income taxes in the United States or in the United Kingdom; the impact of the change in tax residence on stakeholders of the Group; and the impact of 'Brexit' (following the UK's notification to the European Council under Article 50 of the Treaty on European Union on 29 March 2017) and future negotiations regarding the UK's relationship with the European Union on the Group's business, regulatory relationships, underwriting platforms or the industry generally.

Any estimates relating to loss events involve the exercise of considerable judgement and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgements in relation to loss arising from natural catastrophe and man-made events are influenced by complex factors. The Group cautions as to the preliminary nature of the information used to prepare such estimates as subsequently available information may contribute to an increase in these types of losses.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the LSE) to disseminate any updates or revisions to any forward-looking statement to reflect any changes in the Group's expectations or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

ABS

Asset backed securities

Accident year loss ratio

The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned

Active Underwriter

The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate

Additional case reserves (ACR)

Additional reserves deemed necessary by management

AFS

Available for sale

Aggregate

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

AGM

Annual General Meeting

AIM

A sub-market of the LSE

AIR

AIR Worldwide

A.M. Best Company (A.M. Best)

A.M. Best is a full-service credit rating organisation dedicated to serving the financial services industries, focusing on the insurance sector

APMs

Alternative performance measures

BMA

Bermuda Monetary Authority

Board of Directors; Board

Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)

Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BREEAM

Building Research Establishment Environmental Assessment Method

BSCR

Bermuda Solvency Capital Requirement

BSX

Bermuda Stock Exchange

CCHL

Cathedral Capital Holdings Limited

CCL

Cathedral Capital Limited

CCL 1998

Cathedral Capital (1998) Limited

CCL 1999

Cathedral Capital (1999) Limited

Ceded

To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEND

Confiscation, Expropriation, Nationalisation and Deprivation

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CGU

Cash generating unit

CIO

Chief Investment Officer

CMBS

Commercial mortgage backed securities

The Code

UK Corporate Governance Code published by the UK FRC

Combined ratio

Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned

Consolidated financial statements

Includes the independent auditor's report, consolidated primary statements, accounting policies, risk disclosures and related notes

Consolidated primary statements

Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

Coverholder at Lloyd's

A coverholder is a company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it in accordance with the terms of a binding authority

CRO

Chief Risk Officer

CSX

Cayman Islands Stock Exchange

CUO

Chief Underwriting Officer

D&F

Direct and facultative (re)insurance

Deferred acquisition costs

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

DEFRA

Department for Environment, Food and Rural Affairs

Delegated authorities

Arrangements under which a managing agent or (re)insurer delegates its authority to another to enter into contracts of insurance on its behalf

Diluted earnings per share

Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity-based compensation awards into common shares under the treasury stock method

Directors' fees and expenses

Unless otherwise stated includes fees and expenses of all Directors across the Group

Dividend yield

Calculated by dividing the annual dividends per share by the share price on the last day of the given year

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 in to the calculation

Earnings per share (EPS)

Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT

Lancashire Holdings Employee Benefit Trust

ECA

Economic Capital Assessment

EEA

European Economic Area

ERM

Enterprise Risk Management

ESG

Environmental, Social and Governance matters

EU

European Union

EURIBOR

The Euro Interbank Offered Rate

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

FAL

Funds at Lloyd's

FCA

Financial Conduct Authority

FPSO

Floating production storage and offloading

FRC

Financial Reporting Council

FSMA

The Financial Services and Markets Act 2000 (as amended from time to time)

FTE

Full-Time Employee

Fully converted book value per share (FCBVS)

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

FVTPL

Fair value through profit or loss

G10

Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States

GHG

Greenhouse gas emissions covers carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), nitrogen trifluoride (NF_3) and sulphur hexafluoride (SF_6)

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

The Group or the Lancashire Group

LHL and its subsidiaries

ICM

International Care Ministries

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standard(s)

IFRS 9

International Financial Reporting Standard on Financial Instruments

IFRS 17

International Financial Reporting Standard on Insurance Contracts

ILS

Insurance Linked Securities

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

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

Internal Audit Charter

A formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors and regulatory bodies of the internal audit function with the Company and its subsidiaries

International Accounting Standard(s) (IAS)

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

International Accounting Standards Board (IASB)

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

IRR

Internal rate of return

IRRC

Investment Risk and Return Committee

ISA

International Standards on Auditing (UK)

ISE

Irish Stock Exchange

KHL

Kinesis Holdings I Limited

Kinesis

The Group's third-party capital management division encompassing LCM, LCMMSL and the management of KHL and KRL

KPMG

KPMG LLP, a UK limited liability partnership

KPI

Key performance indicator

KRL (Kinesis Re)

Kinesis Reinsurance I Limited

Lancashire Foundation or Foundation

The Lancashire Foundation is a charity registered in England and Wales

LCM

Lancashire Capital Management Limited. Formerly Kinesis Capital Management Limited

LCMMSL

LCM Marketing Services Limited. Formerly KCM Marketing Services Limited

LHFT

Lancashire Holdings Financing Trust I Limited

LHL (The Company)

Lancashire Holdings Limited

LIBOR

London Interbank Offered Rate

LICL

Lancashire Insurance Company Limited

LIHL

Lancashire Insurance Holdings (UK) Limited

LIMSL

Lancashire Insurance Marketing Services Limited

LISL

Lancashire Insurance Services Limited

Listing Rules

The listing rules made by the FCA under part VI of FSMA (as amended from time to time)

Lloyd's

The Society of Lloyd's

Lloyd's Brussels

Lloyd's Insurance Company SA, the insurer that Lloyd's has established in Brussels

LMSCL

Lancashire Management Services (Canada) Limited

LOC

Letter of credit

Losses

Demand by an insured for indemnity under an insurance contract

LSE

London Stock Exchange

LSL

Lancashire Syndicates Limited. Formerly Cathedral Underwriting Limited

LUK

Lancashire Insurance Company (UK) Limited

Managed cash

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

MBRT

Multi-beneficiary reinsurance trust

MBS

Mortgage backed securities

Moody's investors services (Moody's)

Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

MSF

Médecins Sans Frontières

Nameco

Nameco (No. 801) Ltd

NAV

Net asset value

Net acquisition cost ratio

Ratio, in per cent, of net insurance acquisition expenses to net premiums earned

Net expense ratio

Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned

Net loss ratio

Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums earned

Net premiums earned is equal to net premium written less the change in unearned premiums and change in unearned premiums on premiums ceded

Net premiums written

Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

Official List

The official list of the UK Listing Authority

Orange Fund

A Series of Payden Active Cash Management, LLC

ORSA

Own Risk and Solvency Assessment

OTC

Over the counter

PML

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

PRA

Prudential Regulation Authority

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

RCCC

Risk Capital and Compliance Committee

RCF

Revolving credit facility

RDS

Realistic Disaster Scenarios

Retrocession

The insurance of a reinsurance account

Return on Equity (RoE)

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

Risk Free Rate of Return (RFRoR)

Being the 13 week U.S. Treasury bill rate, unless otherwise stated

RMBS

Residential mortgage backed securities

RMF

Risk Management Framework

RMS

Risk Management Solutions

Renewal Price Index (RPI)

The RPI is an internal methodology that management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI written in the respective segments is calculated on a per-contract basis and reflects management's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The RPI does not include new business, to offer a consistent basis for analysis. The calculation involves a degree of judgment in relation to comparability of contracts and assessment noted above. To enhance the RPI methodology, management may revise the methodology assumptions underlying the RPI, so that the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in the portfolio of contracts. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates. RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in the corresponding year.

RRC

Risk and Return Committee

RSC

Reinsurance Security Committee

RSS

Restricted share scheme

S&P Global Ratings (S&P)

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

SATEC

SATEC Underwriting, a privately owned insurance underwriting agency operating at national and international level in specialty classes of business. SATEC Underwriting is a coverholder at Lloyd's

SCR

Solvency Capital Requirement

Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL. The Group provides capital to support 59.7% of the stamp for the 2020 underwriting year

Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL. The Group provides capital to support 100.0% of the stamp

The syndicates

Syndicate 2010 and 3010

TOBA

Terms of business agreement

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

Total Shareholder Return (TSR)

The IRR of the increase/(decrease) in share price in the period, measured in U.S. dollars, adjusted for dividends

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

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

UNEP FI

The United Nations Environment Programme Finance Initiative

UNL

Ultimate net loss

uSCR

Ultimate solvency capital requirement

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

UURC

The Underwriting and Underwriting Risk Committee, a committee of the Board

Value at Risk (VaR)

A measure of the risk of loss of a specific portfolio of financial assets

Alternative Performance Measures ('APMs')

As is customary in the insurance industry, the Group also utilises certain non-GAAP measures in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. In compliance with the Guidelines on APMs of the European Securities and Markets Authority, we give information on APMs in the table below. This information has not been audited.

Management believes that the APMs included in the Annual Report and Accounts are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly-labelled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

Refer to pages 171 to 175 of the Glossary for definitions on each of the below APMs. Below is an explanation of the APMs as well as information regarding their relevance:

APM	Relevance
Net loss ratio	This ratio gives an indication of the amount of claims expected to be paid out per $1.00 of net premium earned in the financial year.
Net acquisition cost ratio	This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per $1.00 of net premium earned in the financial year.
Net expense ratio	This ratio gives an indication of the amount of operating expenses expected to be paid out per $1.00 of net premium earned in the financial year.
Combined ratio (KPI)	The Group aims to price its business to ensure that the combined ratio across the cycle is significantly less than 100%.
Accident year loss ratio	This ratio shows the amount of claims expected to be paid out per $1.00 of net premium earned in an accident year.
Fully converted book value per share ('FCBVS') attributable to the Group	Shows the Group net asset value on a diluted per share basis for comparison to the market value per share.
Return on equity ('RoE') (KPI) **(RoE is also sometimes referred to as the change in FCBVS adjusted for dividends)**	The Group's aim is to maximise risk-adjusted returns for shareholders across the cycle.
Total investment return (KPI)	The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.
Total shareholder return (KPI)	The Group's aim is to maximise RoE over the longer term and we would expect that to be reflected in our share price and multiple. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management's ability to maximise the RoE in the immediate term.
Comprehensive income returned to shareholders (KPI)	The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through proactive and flexible capital management across the cycle, we aim to maximise risk-adjusted returns for shareholders.
Dividend yield (KPI)	The Group aims to maintain a strong balance sheet whilst maximising risk-adjusted return for shareholders across the cycle. Lancashire's dividend yield demonstrates our ability to operate nimbly through the cycle through the active capital management that underpins our business model. We aim to pay annual ordinary dividends, and when we decide not to retain our profits as additional underwriting capital we return them to shareholders by way of special dividends.

Registered and Head office

Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

Bermuda office

Lancashire Insurance Company Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

UK office

Lancashire Insurance Company (UK) Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

Lancashire Syndicates Limited

Lancashire Syndicates Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7170 9000
Fax: + 44 (0) 20 7170 9001

Lancashire Capital Management

Lancashire Capital Management Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

Legal counsel to the Company

As to English and U.S. law:
Willkie Farr & Gallagher (UK) LLP
City Point
1 Ropemaker Street
London EC2Y 9AW
United Kingdom

As to Bermuda law:

Walkers (Bermuda) Limited
Park Place
55 Par-la-Ville Road
Third Floor
Hamilton HM11
Bermuda

Auditors

KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Registrar

Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT
Channel Islands

Depositary

Link Market Services Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Lancashire
Holdings Limited

www.lancashiregroup.com

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www.fsc.org
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