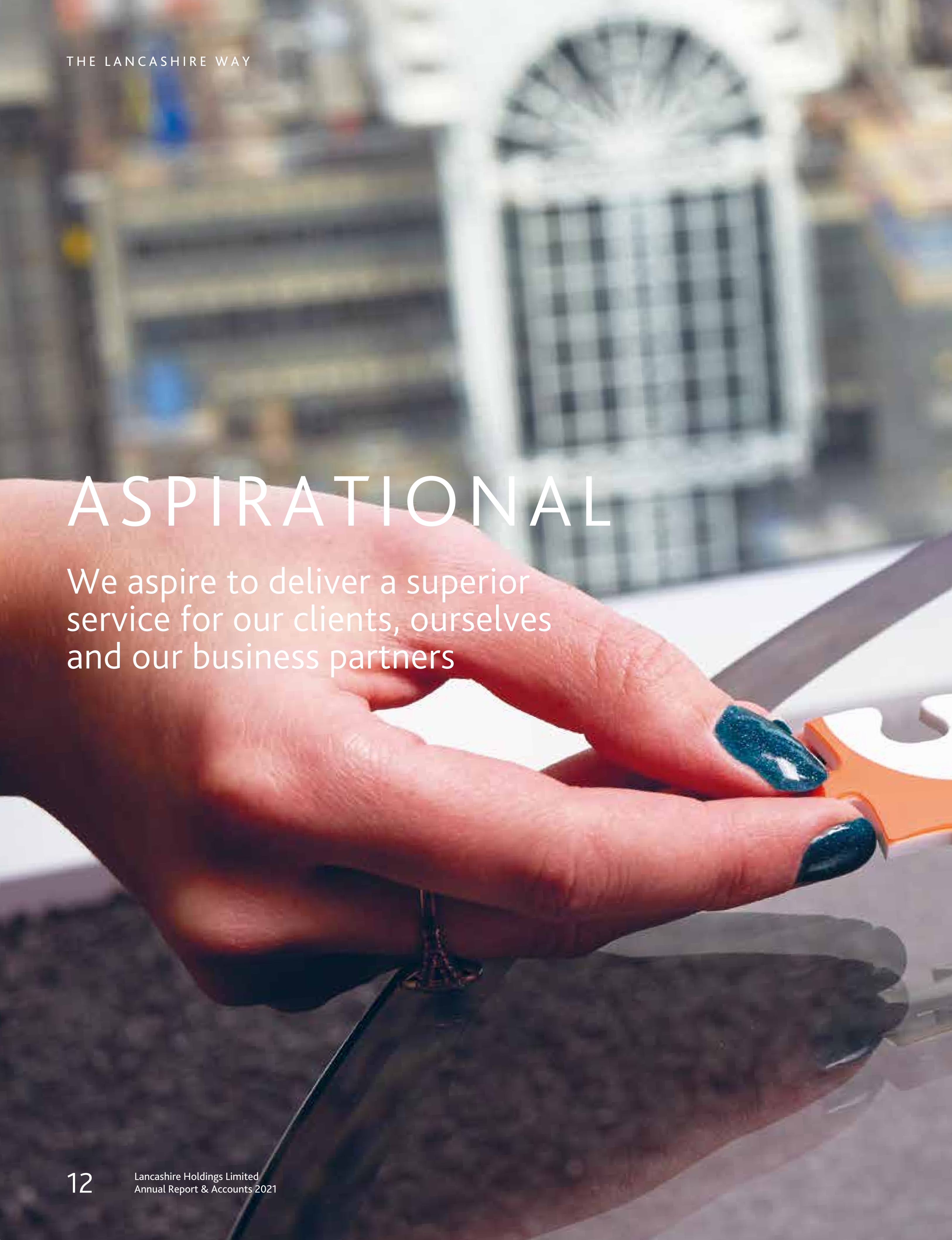
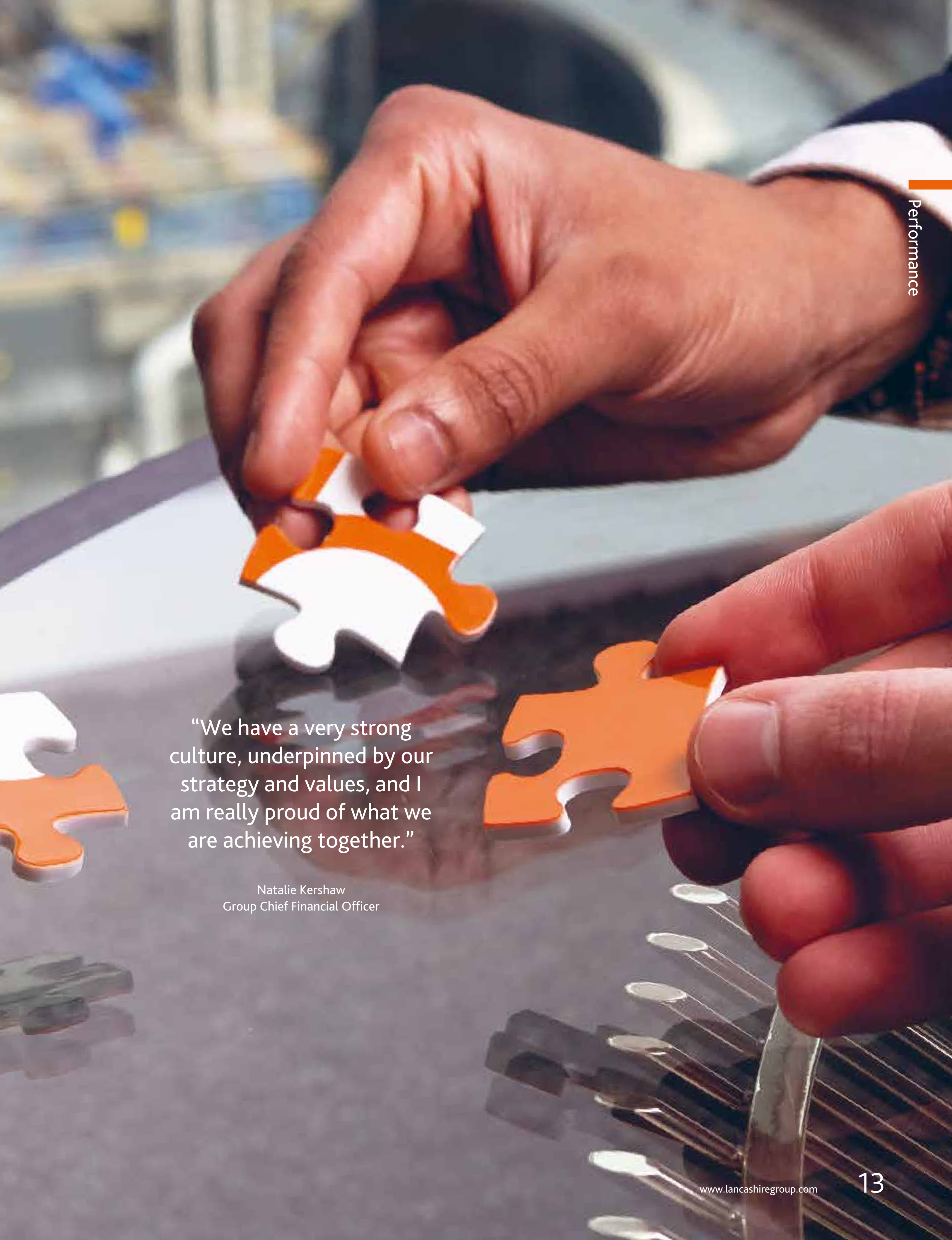


ASPIRATIONAL

We aspire to deliver a superior service for our clients, ourselves and our business partners



"We have a very strong culture, underpinned by our strategy and values, and I am really proud of what we are achieving together."

Natalie Kershaw
Group Chief Financial Officer

Building for growth

"We are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing."

Natalie Kershaw
Group Chief Financial Officer

Q: What has 2021 been like from your perspective?

A: In a year characterised by an active loss environment, we remained resilient and importantly continued to build on our strong foundations for the future. We have been busy developing our teams for new underwriting opportunities, including in support functions, to provide a strong platform for the growth that we have seen this year and expect to continue in 2022.

Although the extent of losses in 2021 is obviously disappointing for us, it is estimated to be among the costliest years for insured losses since 1970. Our efforts to grow the business and diversify our portfolio of products over the past couple of years were successful in providing a ballast to the catastrophe losses, with total catastrophe and large losses of $306.4 million resulting in a combined ratio of 107.3%. For comparison, Lancashire's 2017 catastrophe and large losses totalled $213.7 million and resulted in a combined ratio of 124.9%.

Our overall comprehensive loss of $92.9 million was also impacted by unrealised losses on our fixed maturity investments, given increases in treasury yields in the year, as well as one-off financing costs due to our Tier 2 debt issuance.

So while 2021 was a frustrating year, we have made a lot of progress including refinancing all our debt to make our capital structure more efficient.

Q: Has Lancashire's reserving philosophy changed during 2021?

A: Our approach to reserving for catastrophe losses is well established. We utilise actuarial modelling techniques, historical loss experience analysis and professional judgement to estimate ultimate losses. For catastrophe loss events we bring together a highly-skilled team from across the Group, including underwriters, claims and actuarial staff, as well as senior management to review all our potentially exposed lines of business. This enables us to assess the likelihood of claims arising within our underwriting portfolio.

Financial highlights

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Gross premiums written	**1,225.2**	814.1	706.7	638.5	591.6
Net underwriting profit (loss)	**69.0**	77.0	186.5	121.7	(23.1)
(Loss) profit after tax[1]	**(62.2)**	4.2	117.9	37.5	(71.1)
Comprehensive (loss) income[1]	**(92.9)**	24.3	145.7	24.7	(66.2)
Dividends[2]	**36.4**	32.3	30.2	70.2	29.9
Diluted (loss) earnings per share	**($0.26)**	$0.02	$0.58	$0.19	($0.36)
Fully converted book value per share	**$5.77**	$6.28	$5.84	$5.26	$5.48
Change in FCBVS	**(5.8%)**	10.2%	14.1%	2.4%	(5.9%)
Combined ratio	**107.3%**	107.8%	80.9%	92.2%	124.9%
Accident year loss ratio	**81.0%**	71.4%	51.3%	70.0%	94.2%
Total investment return	**0.1%**	3.9%	4.9%	0.8%	2.5%

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.

Q: What does the 'Lancashire way' mean to you?

A: I've been with Lancashire for 12 years and have held a number of different roles in both London and Bermuda before becoming the Group CFO in 2020. During my time here I have come to recognise and value the people that we have throughout the organisation. We have a very strong culture, underpinned by our strategy and values, and I am really proud of what we are achieving together. We attract high-quality people to the business who are not only technically skilled in their individual areas but who also add something more personal to the Group. This strengthens not just what we do, but also how we do it. As a meritocratic business we also work hard to promote from within when we are able to do so (see page 46).

Due to the types of specialty and casualty business that we write, we are also exposed to large risk claims, which can take some time, often years, to settle. This means that there is uncertainty in the reserving process and we can experience substantial swings in prior years' reserves either moving for or against us. However, I would stress that we have had overall favourable prior year loss development in every calendar year since the Company was founded.

Q: How would you summarise the Group's capital position following the 2021 industry losses?

A: 2021 was undoubtedly a challenging year for the whole industry. Despite the significant loss events we have seen, I remain very comfortable with our robust capital position. Our strategy is to actively manage our exposures dependent on market conditions and match our capital to support the underwriting environment. This means having the available capital to support profitable growth opportunities when they arise. We raised $340.3 million in equity capital during 2020 and an additional $123.0 million of debt capital in 2021. This has enabled us to substantially grow our premium base. We see opportunities to grow our premium continuing into 2022 and we are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing. Looking forward, the planned growth in 2022 is expected to be focused in less capital-intensive lines of business. The small repurchase programme of one million common shares totalling $6.9 million in the fourth quarter of 2021 funded future exercises of awards under our RSS.

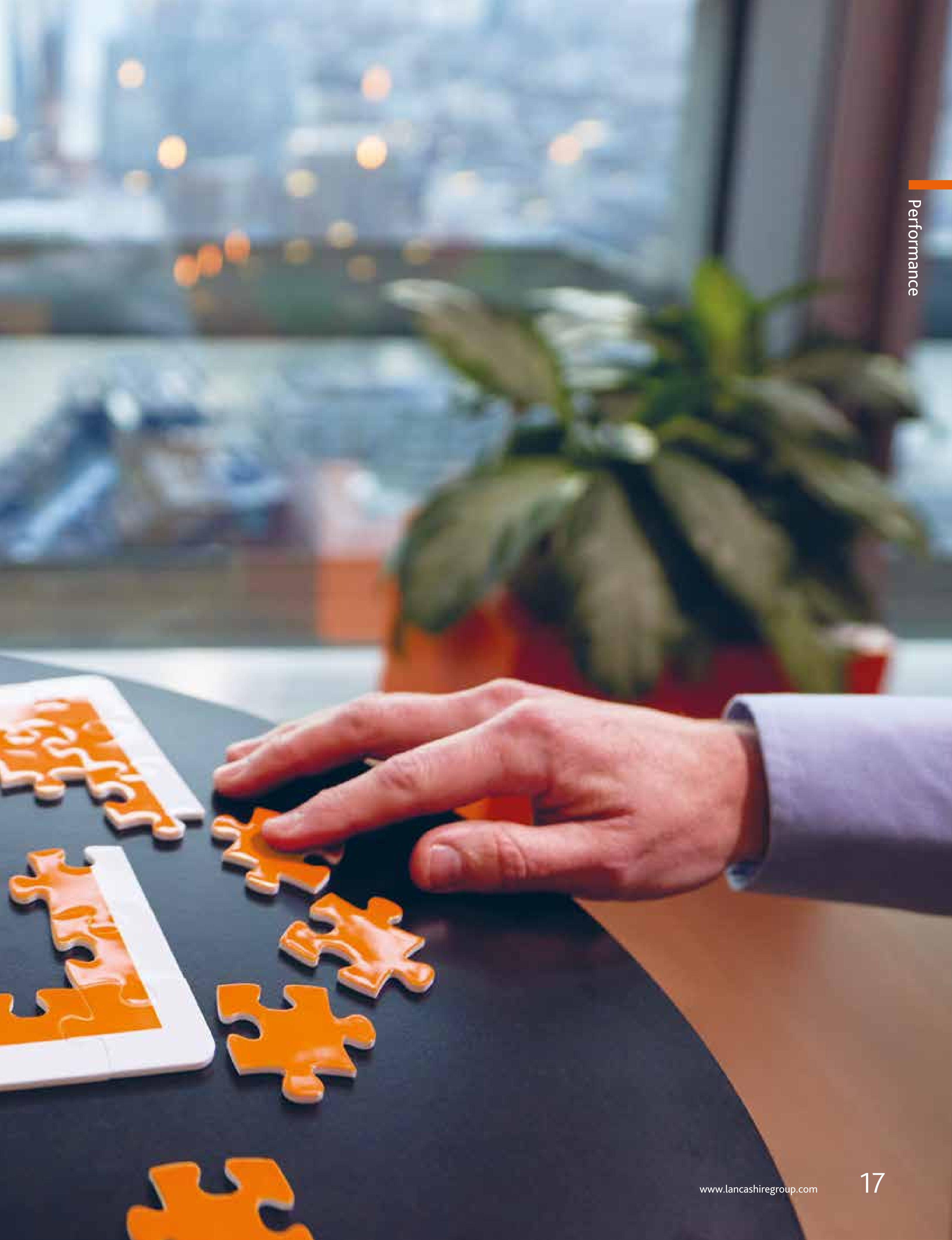
Q: How has the business approached preparations for the IFRS 17 changes?

A: The transition to IFRS 17 is the biggest insurance accounting change for more than a generation. We have been working hard to ensure that our systems, data, processes and people are ready for the parallel testing in 2022 and final implementation in 2023. This has been a real collaborative effort with teams from accounting, actuarial and IT working together. It has also been an opportunity to review how we work and to make sure that we are delivering financial information to the business in the most efficient way possible. The transition to IFRS 17 is just one of the business transformation projects that Lancashire is currently undertaking. Going forward we aim to harness data more effectively to position the business for future growth while reducing operating costs and inefficiencies.

Natalie Kershaw
Group Chief Financial Officer

NIMBLE

We are nimble in our decisions, actions and business processes, and considerate of our environment and wider society



A transformational year

> "Our strategy is to build when market conditions are favourable, and we have been doing so since 2018, and in 2021 the pace of this build accelerated. We have an opportunity to future-proof our business and during the year we have continued to make that happen."
>
> **Paul Gregory**
> Group Chief Underwriting Officer

We will look back at 2021 as a transformational year for the future of Lancashire underwriting. The pieces of the puzzle that we have been putting together over the past few years are coming together to create a far more robust underwriting portfolio and team that will be better placed to navigate the inevitable market cycles that await us in future years. At the same time, 2021 has been an extremely difficult loss year and frustratingly this masks the progress we have made.

Our strategy is to build when market conditions are favourable, and we have been doing so since the turn of the market in 2018, and in 2021 the pace of this build accelerated. We have an opportunity to future-proof our business and during the year we have continued to make that happen. We have made great strides with further investment in people and teams, both existing and new, as well as having a record year for premium growth. This is exactly what you would expect Lancashire to do. We manage risk levels according to the underwriting cycle. This underwriting philosophy has never changed.

Our investment in people continued as we build out our underwriting bench strength. By the end of 2021 our underwriting team had increased by approximately 50% since 2017. We remain a people business and therefore this investment is crucial to our development.

Throughout our history we have been a big believer in promoting from within and this continues with a number of our existing underwriters being promoted into more senior roles. This allows for career progression at Lancashire whilst a new set of voices provides constructive challenge. Alongside this we continue to invest in new talent to complement the team we already have. This can be underwriters joining us to develop new classes of business or new talent within existing classes to bolster our expertise. Adding new staff from outside the business brings with it fresh ideas that help the business to improve further. As we continue to build and grow, ensuring we add underwriting talent is critical to our future success.

In 2021, we have delivered 50.5% of year-on-year premium growth with total premium of $1.2 billion – more than double the premium we underwrote at the end of the soft cycle in 2017. The various capital actions in recent years, retained earnings and a capital raise and debt

Q: How do the underwriting teams at Lancashire incorporate ESG thinking into their decision making?

A: Sustainable underwriting is one of the pillars of our Group ESG strategy (see page 44). However, in a complex world there are many challenges and we understand that there are not always easy solutions. The risk solutions that we provide help protect people, companies and economies from uncertainty and give them confidence and stability. Our property (re)insurance products insure clients against the risk of major weather and other catastrophic events and we have long-standing expertise in this area. In our energy portfolio we support our clients' transition to renewable energy and insure a number of projects, from wind and solar farms to biomass facilities and others. Our product offering will continue to evolve to meet the changing needs of our clients in supporting the world's net-zero target. Within our political risk team, we also insure infrastructure projects which include those designed to improve access to clean water for communities in the developing world. We are committed to playing our part in making the world more sustainable

in an open and honest way. To help us with this, during 2021, we put in place a number of internal underwriting guidelines focused on consideration of climate change and other ESG factors in line with our values.

issuance, positioned us for growth at a time when market conditions across most lines of business were in their fourth year of rate increases. A further improvement of rating and the addition of new lines of business combined to produce the significant level of growth we have seen. We maintain a very healthy capital position to fund future growth should the opportunity dictate.

Whilst the investments in people and growth in the underwriting portfolio have been very pleasing, obviously a combined ratio that is the wrong side of 100% is far less so. We know that significant progress has been made within our underwriting function which should ultimately benefit the Group profitability for the long term.

The combined ratio of 107.3% does however demonstrate the portfolio is far more robust than in previous years. There were heightened levels of loss activity in 2021 with natural catastrophe losses alone estimated at around $130 billion making 2021 one of the largest ever loss years on record. Our strategy, to broaden our underwriting footprint when the market rating has been improving, has strengthened our portfolio to be better positioned to absorb larger losses and build a more robust business for the future. As our investments of recent years continue to mature we should continue to see the benefit of this in our underwriting returns across the cycle.

Property and casualty reinsurance

	2021 $m	2020 $m
Gross premiums written	**560.0**	279.8
RPI	**109%**	108%

This is the segment within which we have seen the majority of our premium growth in 2021 and also the segment most challenged by loss activity.

Premiums grew by 100.1% year-on-year. In existing product lines growth came via rate improvements, with a segment RPI of 109%, plus new business as our risk appetite broadened given the more favourable rating environment. The segment also includes three new classes of business for the Group: accident and health, casualty reinsurance and specialty reinsurance which all contributed to premium growth.

In line with our underwriting strategy, we grew our property reinsurance lines, property catastrophe reinsurance and retrocession, through 2021 as pricing improved. The capital actions of recent years provided the platform for this growth and the continued improvement in market conditions provided the opportunity to execute it.

In the new product lines market conditions were in line with expectations, albeit the support we received from clients and brokers meant that from a premium perspective we are ahead of our original plans, which is very pleasing. These product lines will continue to develop over the coming years as we continue to invest.

Although the development of this segment was very positive, the catastrophe exposed products endured a difficult year from a loss activity perspective. Throughout the entire year Mother Nature produced numerous challenges from winter storms, flooding, hurricanes and tornadoes. 2021 highlights the value of our products to communities and economies impacted by these events. These products are volatile by their nature and even with improved pricing there can still be years where underwriting profits cannot be generated.

Our challenge in these classes remains to understand the changing risk landscape. This includes longer-term impacts such as climate change or shorter-term impacts such as inflation and we must ensure that our pricing and exposure management capabilities cater for these. Throughout our history we have adapted our pricing and exposure models to capture new risks or reflect lessons learned from recent loss activity. This process is one of continual development and improvement.

Property and casualty insurance

	2021 $m	2020 $m
Gross premiums written	**210.5**	147.1
RPI	**106%**	108%

The segment contains a variety of product lines with very different market dynamics. The principal classes include D&F property insurance plus the terrorism and political risk sub-classes. Premium grew 43.1% year on year. The segment RPI of 106% was a combination of strong rate momentum in the D&F class offset by the relative flat rates seen in the terrorism and political risk sub-classes.

D&F saw a continuation of improved rating conditions and we grew our footprint in line with our underwriting strategy. We have continued to invest in this class with a build-out of specialism across the Group platforms which will include an Australian operation in 2022. This investment has delivered increased premiums helped by the improved rate environment.

In the terrorism and political risk sub-classes the rating environment was broadly stable. There were no significant changes to demand and supply, hence the status quo. Within the terrorism and political violence products, premiums year-on-year were overall stable, albeit within the political and sovereign risk products, which are closely linked to economic activity, we did see an uptick in premium year-on-year as the world economy started to awaken post the global COVID-19 lockdowns.

For all products in this segment there were challenges from a loss perspective. Like our reinsurance products, D&F is exposed to natural catastrophe events of which there were many during 2021. We assess the changing impacts in D&F in exactly the same way as with our reinsurance products to ensure our pricing and exposure models are constantly evolving.

Historically our terrorism and political risk portfolio consistently produces healthy underwriting returns. In fact, until 2021 every single year since the Company's formation had produced a profit. In 2021 we had a first ever loss of significance following social unrest in South Africa. Even with product lines that are usually profitable they all contain risk and, with that, the potential to have years that do not deliver returns. As the world continues to change, particularly in a post COVID-19 economy, the risk associated with terrorism and political risk products is changing and our job as underwriters will be to adapt our underwriting accordingly.

Aviation

	2021 $m	2020 $m
Gross premiums written	**176.4**	151.0
RPI	**108%**	121%

Our aviation segment continued to blossom in 2021. We have made significant investments in our aviation segment in previous years. This product line highlights that investment made at the right time of the cycle should deliver strong underwriting results in the future. We were extremely patient during the soft cycle with a relatively small aviation footprint which only started to expand when the rating environment improved and we are now seeing the benefits of this.

Market conditions have helped this development. The 2021 RPI of 108% follows a number of years of positive rate improvement, making the compounding effect of this year-on-year rate improvement significant. 2021 saw an historic high of $176.4 million in premium despite the challenges the segment, and the clients that we service, have faced as a result of COVID-19. The past two years have been incredibly difficult for the aviation industry and this has created challenges for the insurance sector as a result. We have supported our clients and brokers as best we can whilst simultaneously delivering portfolio growth and underwriting profits.

Given the lack of air traffic during the COVID-19 period, the loss environment has been relatively benign by historical standards. This has obviously helped deliver underwriting profits although we remain acutely aware that as the world returns to some form of normality and air traffic increases so will loss activity. This will remain a key area of underwriting focus in the coming years.

Energy

	2021 $m	2020 $m
Gross premiums written	**184.8**	144.7
RPI	**110%**	113%

The various sub-classes within energy have all had different experiences in 2021. Within the energy segment we underwrite upstream energy, downstream energy, renewable energy and power and utilities. All sub-classes have experienced positive rating momentum highlighted by the segment RPI of 110%. The positive rating environment has aided premium growth alongside the continued build out of the product lines, such as power and downstream, which are now well established following their formation in 2018. Premium year-on-year increased by 27.7% to 184.8 million.

We have continued to invest in our energy offering and 2022 will see us broaden our footprint in sub-classes such as energy liability following the addition of new underwriters. We also continue to invest in established energy product lines with the development of existing talent as well as external hires. Continued investment in expertise is vital as the energy sector continues to evolve considerably given the energy transition that the world is undertaking. It is very important that the products and services we offer our clients keep pace with the risks our clients face as they transition their businesses. Insurance remains a key risk management tool for the energy industry, supporting the global net-zero goals, and will remain as such as the energy industry transitions.

From a loss perspective the energy segment was relatively benign during 2021. Energy can be a volatile class of business and we have had years when the loss environment has been challenging, albeit historically very profitable. 2021 has seen minimal large loss activity, which combined with an improved rate environment has helped generate a strong underwriting profit.

Marine

	2021 $m	2020 $m
Gross premiums written	**93.5**	91.5
RPI	**109%**	116%

All sub-classes of marine have continued to see improved rating throughout 2021. The segment RPI of 109% demonstrates this. Our marine segment encompasses a number of areas, with Lancashire providing insurance cover for both physical and liability risks ranging from marine cargo to LNG tankers. Despite pricing improvement our premium only increased by $2.0 million to $93.5 million. This is a result of some multi-year contracts not due for renewal in 2021, exposures reducing in some sub-classes as a result of reduced activity due to COVID-19 and the decision to non-renew certain contracts given unsatisfactory renewal terms. These factors offset the better rating environment and new business we underwrote.

The underlying conditions for our marine business remain favourable and we continue to invest in the class. We have hired new underwriting talent to the Group to further enhance our marine product offering for clients and brokers, and market conditions should allow us to grow further.

The rate momentum of the past few years has aided the profitability of the marine portfolio in 2021, despite a reasonable level of loss activity. Marine is always a difficult class of business to underwrite and will have years which experience heightened volatility. However, our historical underwriting performance has been profitable through the cycle and our increased breadth of product offering, aligned with the stronger rating environment, puts our portfolio on very strong foundations for continued profitable growth.

Conclusion

We are a risk business and exposed to a variety of risks across all of our lines of business, from natural catastrophes to political unrest. We have seen years with very little loss activity and, by contrast, years like 2021, when loss activity is heightened.

Our classes exposed to natural catastrophe will always be inherently more volatile. The period from 2012 to 2016 was incredibly benign from a natural catastrophe loss perspective yet the period from 2017 through 2021 has been the opposite. Our underwriting philosophy, however, has always remained the same. If pricing adequacy dictates it, we are willing to grow just as we were willing to shrink risk levels in the soft market. In a risk business writing more business in a hard market never guarantees an underwriting profit but makes the chances far greater.

To counter balance our natural catastrophe-exposed products we will continue to invest in our product lines with less volatility, and in products that are generally far less capital intensive, which will provide a more robust and capital efficient underwriting portfolio.

As we look ahead to 2022, we will continue to make investments across our underwriting function. We do this to further balance out our portfolio and make the business more resilient, with the over-arching intention of improving the risk-adjusted returns for our shareholders across the cycle. These investments will be in our people and in our underwriting processes to ensure that as the world changes our underwriting changes with it.

Underwriting results

James Flude
Chief Underwriting Officer, LUK

James Irvine
Chief Underwriting Officer, LICL

Jon Barnes
Active Underwriter, Syndicate 2010

John Spence
Active Underwriter, Syndicate 3010

	2021						2020					
	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m	Property and casualty reinsurance $m	Property and casualty insurance $m	Aviation $m	Energy $m	Marine $m	Total $m
Gross premiums written	**560.0**	**210.5**	**176.4**	**184.8**	**93.5**	**1,225.2**	279.8	147.1	151.0	144.7	91.5	814.1
Net premiums earned	**297.1**	**122.0**	**83.5**	**122.8**	**71.1**	**696.5**	152.0	99.6	70.4	91.3	62.5	475.8
Net loss ratio	**91.9%**	**84.9%**	**22.3%**	**34.4%**	**46.4%**	**67.6%**	66.2%	44.4%	45.6%	73.2%	64.2%	59.6%
Net acquisition cost ratio	**19.4%**	**26.1%**	**14.0%**	**24.8%**	**36.0%**	**22.5%**	16.7%	26.9%	19.0%	29.4%	36.2%	24.2%
Expense ratio	**–**	**–**	**–**	**–**	**–**	**17.2%**	–	–	–	–	–	24.0%
Combined ratio	**111.3%**	**111.0%**	**36.3%**	**59.2%**	**82.4%**	**107.3%**	82.9%	71.3%	64.6%	102.6%	100.4%	107.8%

Premiums

Gross premiums written increased by 50.5% in 2021 compared to 2020. The Group's five principal segments, and key market factors impacting them, are discussed below.

Property and casualty reinsurance

Gross premiums written in this segment have doubled since 2020, both from increases in existing lines of business and the addition of new lines. These classes also include reinstatement premiums received after the catastrophe losses in the year. A significant amount of the capital raised in 2020 was used to fund expansion in the property catastrophe and property retrocession lines where the rating environment continued to improve in 2021.

The segment also benefited from the addition of new underwriting teams and three new classes of business comprising accident and health, casualty reinsurance and specialty reinsurance. In these new product lines the support from clients and brokers enabled us to grow the premium base ahead of our initial expectations.

Property and casualty insurance

The increase in the property and casualty insurance segment was principally due to growth in the property direct and facultative class as we continued to build out our book of business, again utilising the capital raised in 2020 to support the growth. We also saw opportunities to write new business in the property political risk class which benefited from increasing transactions globally and opportunities in new territories. New business flow in the political risk class of business is generally less predictable than other classes due to the specific one-off nature of each deal.

Aviation

Our aviation segment continued to grow as market conditions improved, with an overall RPI of 108%. The increase in this segment was mostly driven by new business growth in the aviation hull and liability class of business and rate and exposure increases in the aviation war class. More than half of the increase in gross premiums written occurred during the fourth quarter which is the major renewal period for the aviation segment and the majority of this premium will be earned in 2022.

Energy

Significant increases in the energy segment were achieved in the power, energy liabilities and downstream energy classes. In the power class, the Group expanded its offering across underwriting platforms to take advantage of improving market conditions. There was also strong new business growth in the energy liabilities class of business, where the Group has added additional underwriting expertise. Rate and exposure increases drove the growth in the downstream energy class which is now well established after we commenced underwriting this class in 2018.

Marine

In the Marine segment, new business growth was seen across all products. This growth was largely offset by timing differences in the marine liability and marine hull and total loss products where a number of multi-year or non-annual policies were not yet up for renewal.

Outwards reinsurance premiums

Although the proportion of outwards reinsurance premiums to gross premiums written decreased as we retained more risk in the hardening market, there was an overall increase in reinsurance spend of $114.4 million, or 38.8%, in 2021 compared to 2020. This increase was due to cover purchased to protect the new classes of inwards business that were entered into as well as reinstatement premiums, rate increases and increased limits, particularly within our property and casualty reinsurance segment.

Net insurance losses

The Group's net loss ratio for 2021 was 67.6% compared to 59.6% in 2020. The accident year loss ratio for 2021, including the impact of foreign exchange revaluations, was 81.0% compared to 71.4% in 2020.

During 2021, we experienced net losses from significant weather and large loss events of $306.4 million, excluding the impact of reinstatement premiums. Within this, catastrophe losses for the full year, excluding the impact of reinstatement premiums, were $237.6 million, including the impacts of winter storm Uri, hurricane Ida and European storms and floods, and Q4 weather events including the Midwest tornadoes in the U.S., and the Australian storms.

Large risk losses for the year amounted to $68.8 million, and were principally related to unrest in South Africa in July 2021.

These loss events reflect the nature of the insurance products offered by the Group's trading subsidiaries as part of their usual business and were within the Group's risk tolerances. The Group's final ultimate losses may vary, perhaps materially, from the current estimates.

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

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

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

In 2020 our total net catastrophe and large losses, excluding the impact of reinstatement premiums, were $149.5 million. These included the impact of COVID-19 related losses, hurricanes Laura and Sally, the Midwest Derecho storm, the wildfires in California, as well as other large losses.

Excluding the impact of foreign exchange revaluations, the table below shows the impact of prior year loss events on the Group's net loss ratio for the year ended 31 December 2020:

	Losses $m	Loss ratio %
Reported at 31 December 2020	283.8	59.6
Absent catastrophe events	216.8	45.5
Absent COVID-19 losses	244.1	51.0
Absent catastrophe and COVID-19 losses	177.1	36.9

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

Prior year loss development

Prior year favourable development for 2021 was $86.5 million, compared to $52.0 million of favourable development in 2020. The favourable development in 2021 was primarily driven by general IBNR releases on the 2020 accident year across most lines of business due to a lack of reported claims. 2021 also included favourable development on the 2017 accident year, mainly from reserve releases on natural catastrophe loss events within the property and casualty reinsurance segment, as well as some beneficial claims settlements from earlier accident years. The Group's COVID-19 related losses remained stable during 2021.

In the prior year, the Group benefited from general IBNR releases across most lines of business due to a lack of reported claims. There was favourable development on the 2017 catastrophe loss events partially offset by a number of late reported losses from the 2019 accident year, reserve deterioration on a couple of marine claims in the 2017 and 2019 accident years, and adverse development on the 2010 New Zealand earthquake.

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

	2021 $m	2020 $m
Property and casualty reinsurance	**22.8**	25.0
Property and casualty insurance	**21.9**	21.6
Aviation	**12.2**	3.3
Energy	**24.9**	17.2
Marine	**4.7**	(15.1)
Total	**86.5**	52.0

Note: Positive numbers denote favourable development.

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

Ultimate loss development by accident year

	2021 $m	2020 $m
2016 accident year and prior	**17.7**	(0.9)
2017 accident year	**18.4**	20.7
2018 accident year	**7.1**	25.3
2019 accident year	**8.8**	6.9
2020 accident year	**34.5**	–
Total	**86.5**	52.0

Note: Positive numbers denote favourable development.

Investment results

Denise O'Donoghue
Group Chief Investment Officer

Investments and liquidity

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity, and we position our portfolio to limit down-side risk in the event of market shocks. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. In this environment of very low rates and a relatively flat yield curve anchored at the front end, it does not pay to increase duration. With the expectation of rate increases in the next couple of years, our focus will be on maintaining a defensive portfolio with short duration and high credit quality, although we have been using our risk budget to add products to our portfolio to help diversify from interest rate volatility and inflation risk.

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

Investment performance

Net investment income, excluding realised and unrealised gains and losses, was $23.0 million for 2021, a decrease of 20.7% compared to 2020. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of $1.3 million for 2021 compared to a gain of $69.1 million for 2020.

In a year of significant volatility, the investment portfolio generated a return of 0.1%. The returns were driven primarily by unrealised losses in the fixed maturity portfolios, given the significant increase in treasury yields, particularly between the two-year and five-year treasuries. These losses were mitigated somewhat by the majority of the risk assets which generated strong returns, notably the bank loans, hedge funds, and the private investment funds.

In 2020, the investment portfolio generated a strong total return of 3.9%, with positive returns generated from all asset classes. The returns were driven primarily by the fixed maturity portfolios, given the decline in treasury yields and the tightening of credit spreads during the year. The tighter spreads and stronger equity markets also drove significant returns in the hedge fund and private debt portfolios. All other asset classes also had positive returns on a year-to-date basis, similar to 2019.

Conservative portfolio structure – quality

- Private investment funds: 5%
- Hedge funds: 4%
- Index Linked Securities: 1%
- Corporates and bank loans: 35%
- Agency structured products: 4%
- Non-agency structured products: 7%
- Managed cash and short-term securities: 13%
- U.S. government bonds and agency debt: 28%
- Other government bonds and debt: 3%

- AAA: 12%
- AA: 39%
- A: 29%
- BBB: 14%
- BB or below: 6%

Other financial information

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

Emma Woolley
Chief Executive Officer
Lancashire Syndicates
Limited

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

Third-party capital management

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

	2021 $m	2020 $m
LCM underwriting fees	**10.6**	10.0
LCM profit commission	**5.2**	1.8
LSL fees & profit commission	**2.4**	3.5
Total other income	**18.2**	15.3
Share of (loss) profit of associate	**(3.9)**	10.7
Total third-party capital management income	**14.3**	26.0

The amount of Lancashire Capital Management profit commission recognised is driven by the timing of loss experience, settlement of claims and collateral release and therefore varies year on year. The share of (loss) profit of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle. The loss of $3.9 million in 2021 is primarily driven by the active natural catastrophe loss environment experienced during the first and third quarters of 2021.

Other operating expenses

Other operating expenses increased by $5.2 million compared to 2020. Higher employment costs due to an increase in number of employees from 255 in the prior year to 306 in the current year were more than offset by a reduction in variable compensation given the Group's financial performance in 2021. Non-employment costs increased due to a number of project initiatives during the year. The strengthening of the Sterling/U.S. dollar exchange rate in the year also contributed to an overall increase in other operating expenses.

Capital

As at 31 December 2021, total capital available to Lancashire was approximately $1.9 billion, comprising shareholders' equity of $1.4 billion and $0.5 billion of long-term debt. Tangible capital was $1.7 billion. Leverage was 24.0% on total capital and 26.2% on total tangible capital. Total capital and total tangible capital as at 31 December 2020 were $1.9 billion and $1.7 billion respectively.

Long-term debt

During 2021, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes due 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with $400.0 million issued on 18 March 2021 and $50.0 million issued on 31 March 2021. The fixed-rate interest is payable semi annually.

The majority of the net proceeds from the long-term debt issuance was used by the Group to redeem its then-existing senior and subordinated indebtedness, with the balance being used for general corporate purposes. Included in financing costs of $45.8 million during 2021 were $18.7 million of one-off costs associated with the refinancing of the long-term debt.

The new long-term debt was approved as 'Tier 2 Ancillary Capital' by the BMA and has further improved the Group's coverage ratio of available statutory capital and surplus over the BMA's enhanced capital requirement.

Share repurchases

Pursuant to and in accordance with the general authority granted by shareholders at Lancashire's Annual General Meeting held on 28 April 2021, Lancashire purchased 1,000,000 of its common shares in order to satisfy a number of future exercises of awards under its RSS.

Dividends

Lancashire announces that its Board of Directors has declared a final dividend for 2021 of $0.10 (approximately £0.07) per common share, subject to a shareholder vote of approval at the AGM to be held on 27 April 2022, which will result in an aggregate payment of approximately $24.2 million. On the basis that the final dividend is approved by shareholders at the AGM, the dividend will be paid in Pounds Sterling on 10 June 2022 (the 'Dividend Payment Date') to shareholders of record on 13 May 2022 (the 'Record Date') using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

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