

Responding nimbly through the cycle



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Peter Clarke
Non-Executive Chairman

Q: How did the business perform in 2021 and what effect did the heavy loss year have on the Group?

A: The catastrophe (re)insurance business which the Group underwrites is subject to variability in losses and, in 2021, we saw above average volatility with a number of large weather-related loss events, as well as specialty losses, which have impacted many across the industry. Industry-wide estimates place 2021 as one of the costliest years for insured losses on record. For Lancashire the losses affected our returns with a combined ratio of 107.3% and a negative change in FCBVS of 5.8%. Naturally, any losses are disappointing, but it is important to stress that those we saw during 2021, while they were both diverse in their nature and unusually frequent, were otherwise within our expectations and risk tolerances for events of this magnitude.

The modelling, risk management and pricing for catastrophe loss events, including those driven by climate change factors, is constantly evolving and a central part of our business model.

While losses for the industry mean disruption and extreme hardship for communities and individuals we should always recognise the human impact these events have. Lancashire's purpose is first and foremost to deliver risk solutions that protect people, economies and businesses from the effects of uncertain events. We are here to get our clients back on their feet as soon as possible.

For the 2021 year the strategic imperative for our business was to deploy the capital which we raised during 2020 into an improving (re) insurance pricing environment. The business delivered strongly on this priority with an increase in gross premiums written of 50.5%, in line with our strategic ambitions. This represents our strongest year-on-year top-line growth since the business was established in 2005. As market pricing has improved, Lancashire has taken advantage of new opportunities. We are continuing to build out our franchise, adding new product lines, while always retaining our strict focus on underwriting discipline to deploy our capital nimbly through the cycle.

Our reserving philosophy is also well established. Despite the challenges of the last year, we remain comfortable with our capital position and Natalie talks more about this in her Financial Review on page 14.

So, on balance, the Board is satisfied that despite the negative impacts of losses on our short-term profitability for 2021, the impressive growth achieved during 2021 positions the Group strongly to deliver attractive returns across the cycle.

Q: What were the main areas of focus for the Board during 2021?

A: The primary focus of the Board has been continued oversight of the Company strategy and its delivery, and operational performance. Our Board has challenged and discussed the business's operational resilience during the COVID-19 pandemic, and I am pleased that management have led a strong and nimble response during testing times.

Lancashire's strategy has been consistent for many years and the Board has discussed with the management team the opportunities that have been presented by a 'hardening' market and how we can best deploy our available capital to match the underwriting opportunities.

Q: What is the 'Lancashire way'?

A: The 'Lancashire way' is what makes Lancashire unique. Many businesses say they have solid values or that they respect and support their staff, but Lancashire does both with distinction. The (re)insurance industry can be challenging, but it is how you meet and overcome those challenges that is important. It is vital to have strong leadership, and Alex Maloney and the senior team have a clear vision of how to deliver on our strategy and purpose: to prioritise underwriting excellence in delivering risk solutions for our clients; effectively balancing risk and returns; and responding nimbly through the (re) insurance market cycle. It involves a focus on our people and our stakeholders and creating a sustainable business which contributes positively for our investors and for wider society.

The Lancashire way is how the whole business supports that vision and how every employee, regardless of their seniority or function, has a role to play.

The growth that Lancashire has seen during 2021 is testament to the commitment and enthusiasm of our employees and to a culture which understands and delivers on the business's strategic priorities. We have added a number of new underwriting teams, and others in support functions, during 2021 and this has been achieved against a backdrop of above average market losses and the operational disruption resulting from the COVID-19 pandemic. Our new employees are attracted to the business because of the Lancashire way of doing things – approaching each task with an open mind, a willingness to collaborate, and a focus on acting responsibly.



These opportunities include the continued growth in the underwriting portfolio in both existing lines and in new initiatives such as the casualty reinsurance book and Direct and Facultative (D&F) commercial property within the Australia and New Zealand markets. Our careful monitoring of exposure and capital to meet the strategic requirements of the business has allowed us the flexibility to deliver the significant growth in premiums we have seen during 2021.

The Board has also addressed the importance of operational effectiveness and is confident that the business has the talent required, within both its underwriting and support functions, to best position the company to deliver its strategy over the coming years. This includes oversight of various business transformation projects currently underway with a clear emphasis on strengthening our capabilities to grow and move the organisation forward in an efficient way.

Q: How are you addressing issues of climate and wider societal change?

A: Sustainability and strong governance have become an increasing focus for all businesses. Across sectors, people are increasingly alive to the issues facing the planet and, during 2021, we have seen considerable efforts by governments and others to gather a consensus for a way forward. The Board has discussed issues of climate change, sustainability and governance regularly and we will continue to monitor developments. The Lancashire way is being straightforward, open and honest. Many of our clients, and other stakeholders, are working towards mitigating their impact on the environment or assisting in tackling some of society's broader issues of dislocation and we will continue to give them our support. There are no easy solutions, but we recognise the importance of constructively supporting our clients through this period of global transition. In our TCFD report

on pages 56 to 63 we set out those steps we have taken during the year in monitoring, measuring and controlling the impacts of climate change within our business in particular in our core activities of underwriting and investments.

The Board is extremely pleased to note that 2021 marked the 15th year of charitable donations from the Lancashire Foundation. These donations, totalling \$21.8 million during this time, have been given to long-standing charitable partners such as Médecins Sans Frontiers, in recognition of their phenomenal work assisting those affected by natural disasters, and other charities nominated and supported by our employees. A comprehensive review of our sustainability and governance activities begins on page 40.

Q: What is the company's strategy regarding dividends?

A: We have not changed our dividend and capital management strategy in 2021. Our position is understood by our shareholders, and we will continue to redeploy excess capital into the business to fund growth opportunities where we consider this is the right thing to do. The Group paid an interim dividend during September 2021 and, subject to the shareholder vote at the 2022 AGM, we propose to pay a final ordinary dividend of \$0.10 per common share unchanged on prior years. Further information can be found in the notice of the 2022 AGM on page 113. Our dividend policy is also set out on page 112.

Peter Clarke
Non-Executive Chairman