THE LANCASHIRE WAY

Finding the right solutions

The Lancashire way is our distinct way of doing things – always shaped by our values, which are at the centre of our culture. We take a long-term view that delivers on our strategic objectives.

THE LANCASHIRE VALUES

LEADERSHIP

Exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are…

ASPIRATIONAL

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

NIMBLE

in our decisions, actions and business processes, and considerate of our environment and wider society, we are…

COLLABORATIVE

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

STRAIGHTFORWARD

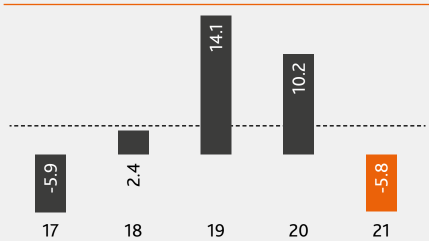
in conducting our business in an accountable, open, honest and sustainable way.

Group performance in a challenging year

Change in FCBVS

-5.8%

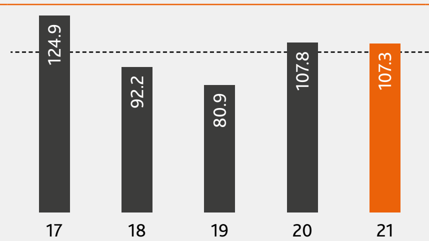
The negative change in FCBVS is primarily due to our underwriting result which was adversely impacted by **net insurance losses of $470.5 million**. Additionally the Group incurred higher than normal financing costs due to one-off expenses totalling $18.7 million related to the refinancing of the Group's debt. Investment returns were low at $1.3 million.



Combined ratio

107.3%

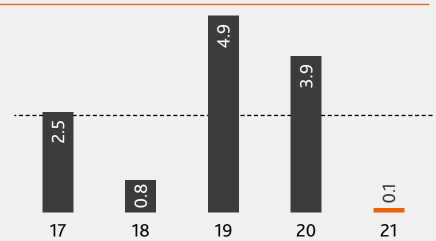
The combined ratio reflects the heightened loss activity during the year, with the industry's natural catastrophe losses alone estimated at around $130 billion, making 2021 one of the largest ever industry loss years on record. The combined ratio of 107.3% demonstrates that the portfolio is more robust than in previous years as **net premiums earned grew to $696.5 million** from $475.8 million in 2020.



Total investment return

0.1%

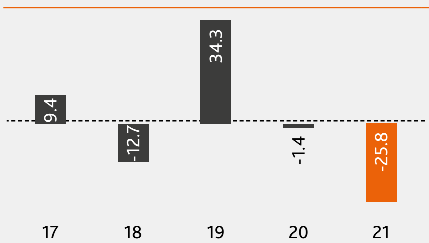
In a year of significant volatility, the investment portfolio generated a financial market return of 0.1%. The low returns were driven primarily by the fixed maturity portfolios, given the significant increase in treasury yields, resulting **in unrealised investment losses of $31.6 million** recognised in other comprehensive loss. These losses were mitigated by the majority of the risk assets which generated strong returns, notably the bank loans, hedge funds and the private investment funds.



Total shareholder return

-25.8%

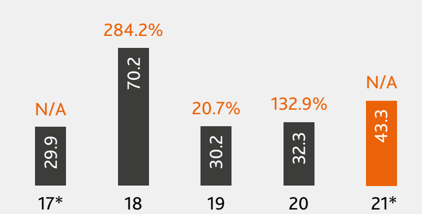
The decline in our share price during 2021 reflected the industry catastrophe loss environment. In addition, sentiment around climate change and the potential for increased frequency of weather events also weighed on our total shareholder return.



Comprehensive income returned to shareholders

$43.3m

The Group has made a **comprehensive loss of $92.9 million** in 2021. We continued to deploy excess capital into the business to fund growth opportunities and paid ordinary dividends of $36.4 million and repurchased shares of $6.9 million.



■ Ordinary / special dividends and shares repurchased ($)

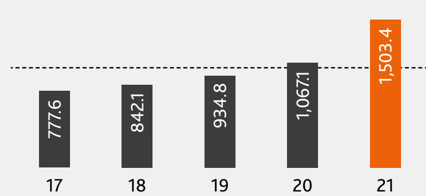
% Comprehensive income returned to shareholders

* Due to 2021 and 2017 being N/A the five year % average is not calculated.

Gross premiums written under management

$1.5b

During the course of the year, and in light of a 'hardening' pricing cycle, the Group was able to grow **gross premiums written to $1.2 billion**. Including the external Name's portion of premiums written in Syndicate 2010 plus the premiums written in LCM on behalf of KRL we were able to grow our gross premiums written under management to $1.5 billion.



Bold text refers to GAAP measures

Key

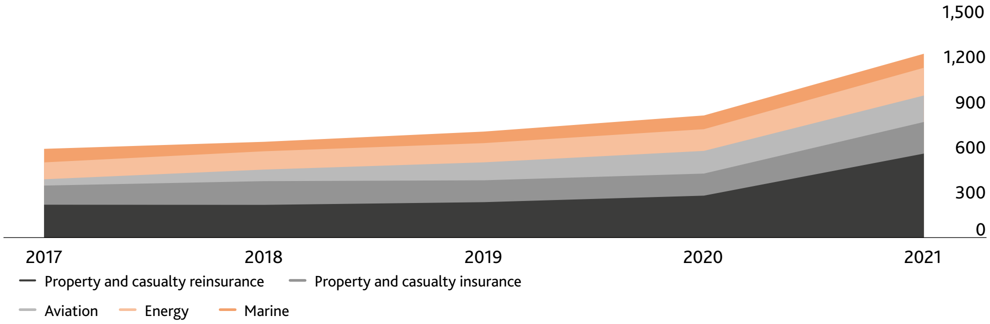
KPI linked to Executive Directors' remuneration. For more information see pages 88 to 111.

APMs refer to page 188.

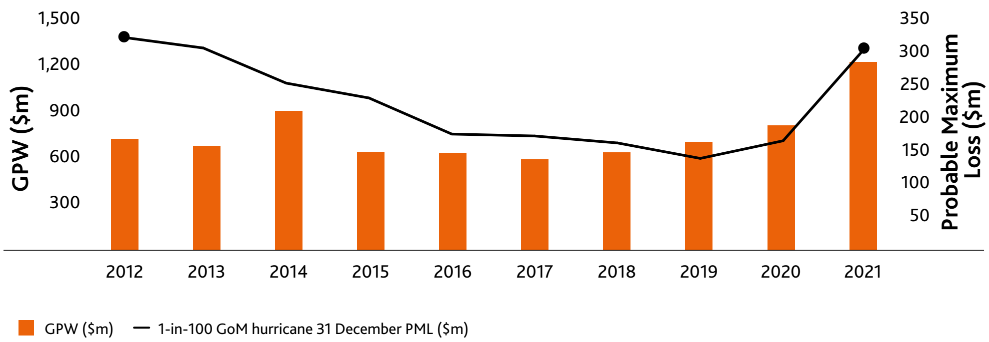
----- Five-year average

To generate attractive returns across the insurance cycle

Gross premiums written



Actively managing exposure dependent on market conditions



Strongly capitalised

$1.9b

2021 refinanced debt and capital raised in 2020 deployed to fund record growth.

Valuing diversity

50%

Percentage of women in Group senior management.

Sustainable operations

15%

Target to reduce own emissions per FTE by 2030 and carbon net-zero by 2050. Calculated GHG emissions fully offset.

Rating momentum continues

109%

Group RPI of 109% for 2021 with strengthening in market pricing.

Responsible business

$21.8m

Donated to charitable organisations since 2007 through the Lancashire Foundation.

Top employer

Top 10

LICL named a 'Top 10 Employer' in Bermuda in October 2021.

Building the franchise

Ongoing investment in new products and expertise with the addition of three new teams of highly experienced underwriters adding to our existing talent. In 2021 gross premium written increased by 50.5% year-on-year to a record $1.2 billion.

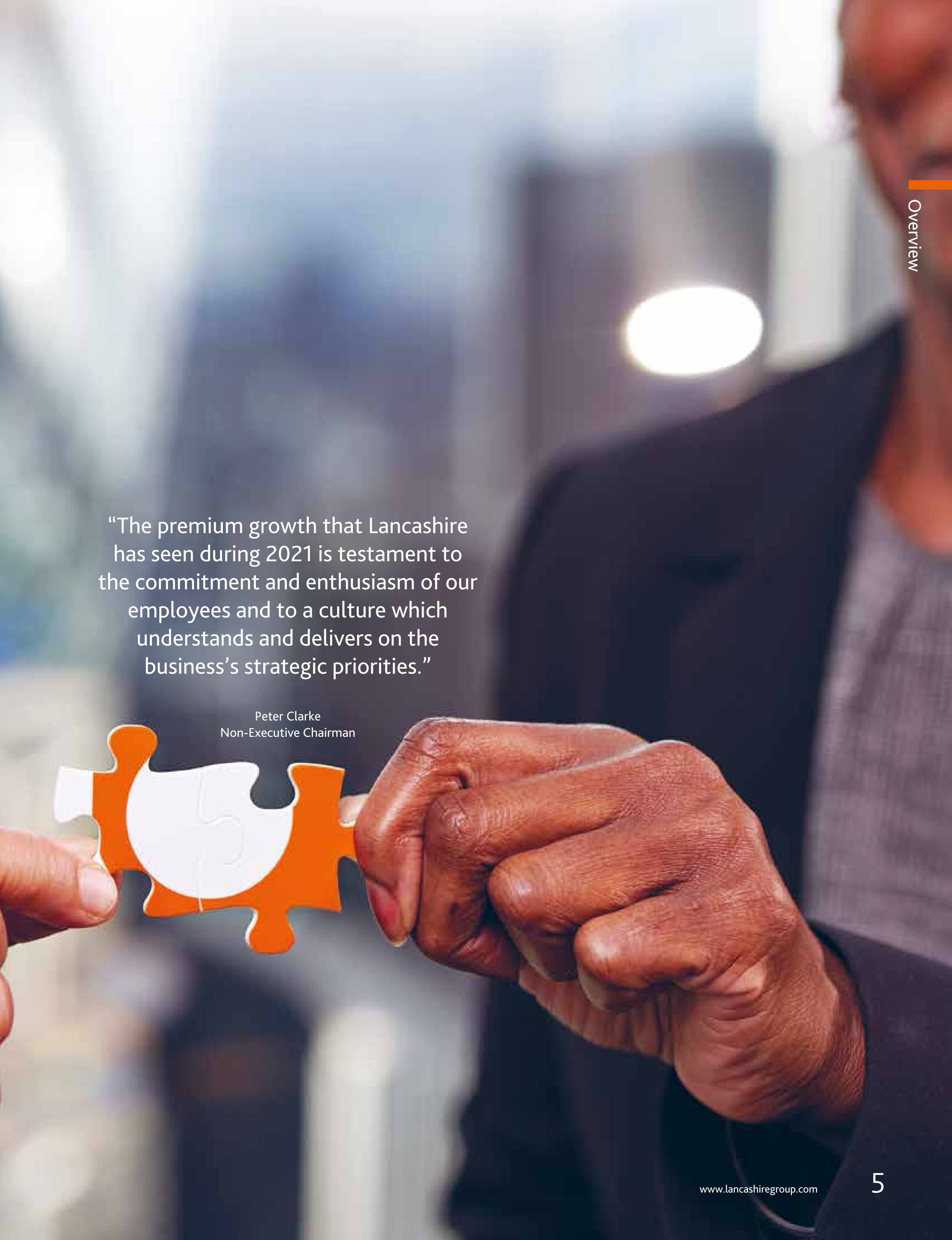
Strong ratings

Strong ratings from major rating agencies.

A.M. Best Company: A (Excellent)
Standard & Poor's Global Ratings: A-
Moody's Investor Service: A3

LEADERSHIP

We exhibit passion and commitment in all aspects of Lancashire life and inspire others to do the same



"The premium 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."

Peter Clarke
Non-Executive Chairman

Responding nimbly through the cycle

"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."

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

A model for success

OUR STRENGTHS

Customer focus

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

Expert people and specialised products

- Experienced management team and skilled operational teams with proven ability
- A lean business operation allows us to remain nimble and make decisions efficiently
- Highly-specialised multi-class products with market 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 Insurance companies; Lancashire Syndicates; and Lancashire Capital Management
- Access to multiple markets providing clients with versatile solutions and ourselves with underwriting opportunities
- A stable core book of business and disciplined underwriting

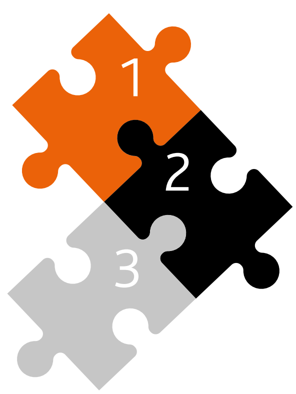
OUR STRATEGY

Underwriting comes first

Delivering bespoke risk solutions in a sustainable framework

Operate nimbly through the cycle

Maximise risk-adjusted returns



Effectively balance risk and return

Peak-zone PML limits of 25% of capital

THE VALUE WE CREATE

Our people

88%

overall engagement score

Our policyholders

$312.1m

gross losses paid in 2021

Our shareholders

16.9%

Compound annual change in FCBVS since inception

Society and the environment

$21.8m

Donations since 2007 by the Lancashire Foundation

Our culture

The bedrock of our business is a culture of cooperation and respect based on open challenge

Our strategy

Our goal

Maximising risk-adjusted returns for shareholders

Our strategic priorities

1

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.

2

Effectively balance risk and return

Exploring opportunities for top-line growth in markets where we believe the right long-term opportunities exist and rigorously monitoring and managing our risk exposures.

3

Operate nimbly through the cycle

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

	1 Underwriting comes first	2 Effectively balance risk and return	3 Operate nimbly through the cycle
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.	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 on risk exposures and mitigation to the Board.	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	We continue to add new expertise to the Group. In 2021, we added a construction and engineering team, an Australian D&F property team, and underwriting talent to our existing expertise in our marine and energy segments.	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.	In line with our active capital management strategy, during 2021 the Group decided to refinance its debt obligations to make them more capital-efficient and allow for additional funding of profitable growth opportunities. The Group also distributed regular dividends during the year.
Associated strategic risk	Strong risk selection remains the key risk for the Group. We mitigate this by maintaining our underwriting standards, whilst growing with the market opportunity.	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.	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.

Taking advantage of the opportunities

"Our focus on the long term means that we have the people and expertise to drive profitable growth."

Alex Maloney
Group Chief Executive Officer

Q: How did the loss environment in 2021 impact the Group's performance?

A: Financial losses are always disappointing but 2021 was only the second full financial year that Lancashire has made an overall loss since its inception, with a negative change in FCBVS of 5.8%.

Industry-wide estimates place insured losses from natural catastrophes during the year between $105 billion and $130 billion making it one of the most expensive on record and resulting in a combined ratio for Lancashire of 107.3%.

As always, we have followed our established reserving philosophy, which has served us well over time, and the losses were within the risk tolerances for each of the lines.

The weather and large risk events, which were distributed across a number of classes, offset our strong underlying profitability after nearly four years of rate increases, as shown by improvement in our attritional loss ratio.

In the face of 2021's heightened loss activity, the build-out of our franchise that we have targeted over the past few years still had a positive impact. We went into 2021, and go into 2022, with a more diversified portfolio of products because we believe these offer the best underwriting opportunities for long-term profitability.

Our underwriting expertise across classes – both catastrophe and non-catastrophe – means that we have a much more stable business. For example, our 2021 combined ratio compares favourably with that of 2017, which saw lower total catastrophe losses.

This transformation of the business into one which is better able to withstand and absorb significant loss events is testament to the groundwork that we have put in during recent years.

As a risk business, we are always going to be exposed to a variety of events, across classes, which can impact our performance but the growth we have seen during 2021 has been outstanding and I believe significantly increases our resilience over the long-term.

Despite the disappointing returns of the past year, we are fully energised by the prospects for 2022 and profitable growth remains our main goal.

Q: In which areas has the business seen growth during the year?

A: For the last few years, we have focussed on putting in place strong foundations on which to build when the market cycle offered significant opportunities for growth. Our long-held strategy is to operate nimbly through the cycle, and I am a firm believer in the cyclical nature of (re)insurance markets. 2021 was a year when we saw strong momentum in the right direction for a business like Lancashire, which has taken the time and effort to build a bench of underwriting talent and the internal processes needed to take advantage of more positive pricing.

I am pleased to say that we are seeing growth across most classes of business that we underwrite. In fact, many are now in their fourth year of positive rate changes, and we believe that will continue into 2022. For 2021, we reported an increase in gross premiums written of 50.5% to $1.2 billion which is an exceptional achievement. Much of this growth was driven by the property and casualty reinsurance segment where we have seen both new business and rate increases. We never stand still when there are opportunities for profitable and considered growth and I am pleased about the performance of our casualty, accident and health, and specialty reinsurance classes. We have a

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

A: It's the way that parts of the business can come together creatively to find the right solution, whatever the question. It is our distinct way of doing things always shaped by our values, which are at the centre of our culture. We regularly challenge ourselves and ask whether we are living up to those principles. These values are so embedded within our company DNA that we don't always realise how special that is.

A strong and positive corporate culture isn't a by-product of success but the reason for it. Despite our recent growth, we are still a relatively small company, so we get to know each other, and our flat hierarchy gives everyone a voice and an opportunity to do their best.

The Lancashire way also means listening to our people and encouraging them to challenge us, bring in new ideas, and find new ways of doing things. One thing that has become clear during my time as Group CEO is that you will only succeed if you work as a team and feed off the energy that comes from collaboration and finding the right answers together.

A practical example of this in 2021 was in the evolution of how the business addresses ESG themes.

To better align our consideration of sustainability and governance matters I took action to establish the Lancashire ESG Coordination Committee (the ESG Committee) and the CCWG, both of which include senior representatives from across the business. They analyse a range of topics and make recommendations to senior management and ultimately the Board.

Every employee has been on a personal journey to get here. They bring those experiences with them and that helps to create an incredibly vibrant and stimulating environment. We don't cut corners, but we do find the quickest route to a solution. At its heart, the Lancashire way is harnessing the skill, passion and dedication of our people. I am incredibly proud to lead this company and I want to take this opportunity to thank every one of our employees for their hard work and support.

pipeline of premiums coming through and I am confident that our investment in new talent was the right thing to do. The premium growth also reflects the growing diversity of our risk portfolio which will allow us to more effectively deploy our capital and manage volatility within our portfolio. We have great people at Lancashire and our new teams join what I believe is already one of the strongest companies in the sector.

Q: How has the business strategy changed in 2021?

A: When you set a strategy, you have to believe in it. It has to be the essence of how you operate. Our strategy hasn't changed in its fundamentals since the business was founded – we believe that underwriting comes first; we need to balance risk and return; and importantly have the agility to operate through the cycle. 2021 was undoubtedly a challenging year, due to the impact of a series of industry loss events, which in the short term have adversely affected our profitability and growth in book value, but we will continue to deploy our long-term strategy at this stage of the cycle. Sometimes you also need a little patience, and I am excited that we are now seeing the positive market changes that we have been predicting. Everything we do is driven by the underwriting opportunity. I believe in the long-term and in navigating the Group with a clear focus on what we are doing and where we are going. That means future-proofing the business through investment in talent and ensuring operational efficiency with a laser-sharp focus on getting the fundamentals of the business right.

Q: What opportunities are you seeing going into 2022?

A: This is a really exciting time in the market cycle. But you can't just go with the flow, you have to be in a position to take advantage of the opportunities it offers. In the last couple of years, we have raised equity and restructured our debt which has put us in a great position from a capital perspective to support our underwriting plans. We have a strong capital position and it's one that I am very comfortable with.

The challenges of 2021, where we saw a particularly active catastrophe year, can also offer opportunities for growth as others in the market move out of some classes. Our focus on the long-term means that we have the people and expertise to drive profitable growth where it makes sense for us to do so and take advantage of the rate improvement that comes following a year of heightened loss activity. The opportunities for 2022 are there, with expected rate increases on our existing portfolio, our new teams delivering additional premiums, and new business growth within existing lines of business both catastrophe and non-catastrophe. While we aim to grow during 2022, we will do so with a business that is better balanced through the diversity that our specialty and casualty non-natural catastrophe business brings. This is not diversification for diversification's sake but a clear delivery of our strategy to take the opportunity to write classes of business that contribute profitably to our portfolio mix.

Alex Maloney
Group Chief Executive Officer