Lancashire Holdings Limited

2021 ESG REVIEW

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.

Sustainability

Our 2021 ESG Review

The pages in this ESG Review have been extracted from the Lancashire 2021 Annual Report and Accounts.

References to page numbers indicated by this icon AR direct the reader to the full report which is available on our website.

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.

"Effective and responsive governance is an essential aspect of the Lancashire way. We foster a culture of open, honest and constructive debate in our discussion of strategy and risk, and in the creation of a sustainable and vibrant business model."

Peter Clarke
Non-Executive Chairman of the Board

How has the Board addressed the increasing focus on ESG themes?

Matters of sustainability and governance continue to be an increased focus for businesses across a range of sectors. This reflects enhanced awareness of issues of corporate citizenship and the impact activities of companies have on wider society.

Since its foundation, Lancashire has had a strong track-record in a number of areas which are now considered part of the ESG agenda, particularly our commitment to transparent corporate governance, support for those less fortunate in our communities, as a caring and attractive employer and, perhaps most importantly, in the social and economic value of the risk management products that we sell.

As Alex discusses in his review on pages 10 and 11 AR, the business has established an ESG Committee and a CCWG whose work is now informing the discussion of risk and strategy within the business and the Board.

It is important to note that, to date, (with the exception of certain requirements under the FRC's UK Corporate Governance Code) there has been no universal framework for reporting on ESG themes and, in September 2021, the World Economic Forum cited an "alphabet soup of competing standards" that businesses are required to navigate. Therefore, meeting ESG expectations for global (re)insurers and others presents both challenges and opportunities.

During 2021, and following the COP26 Climate Change Summit, a number of new initiatives have been announced regarding potential future reporting requirements for corporations. We recognise the importance of a global transition away from reliance on carbon-based forms of energy and towards net-zero, and we will closely monitor the development of a framework for action and reporting in this area to allow us to make the appropriate preparations to meet these expectations.

The Board is committed to transparency in our reporting of sustainability and governance matters, whilst acknowledging that there are no easy answers or solutions.

Creating a truly sustainable business requires an ongoing commitment to evolve over time and during 2021 we have retained a focus on business discipline whilst also making tangible progress in a number of areas to further embed a sustainable business model.

This strategy has been developed within the context of the United Nations Principles for Sustainable Insurance and the recommendations of the TCFD which are aligned with the principles set out in the 2015 Paris Agreement. The Group's reporting against the UN Principles can be found on our website. Our progress in the area of climate change management of risk and opportunity is outlined in our TCFD Report on pages 56 to 63 of this report.

Aligned to our own activities in matters of sustainability and governance, Lancashire is supportive of its clients' actions to transition their businesses to meet requirements – particularly those around fossil fuels and impacts on climate change – and is committed to working with them as a supportive and active partner. We welcome the wider debate regarding the global energy transition, whilst also being mindful of the potential short to medium-term impact on communities where little alternative non-carbon infrastructure exists.

We understand that there are no simple solutions to the challenges of today's complex world and value our open and honest relationships with all our stakeholders as we make this journey together. We are committed to playing our part in meeting sustainability, environmental and governance expectations.

How does the Board manage the governance arrangements for the Group and what are its priorities for engaging with the Company's stakeholders?

As a premium-listed company on the LSE, Lancashire measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. This requires each company with a premium listing 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 Board's Nomination Corporate Governance and Sustainability Committee monitors the Group's compliance quarterly and more information can be found in the report on pages 81 to 83 AR. In addition, the Company also monitors compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the BMA, which also regulates LICL, the Group's Bermuda-incorporated (re) insurance entity. The Group's UK insurance entities are regulated by the PRA and the FCA, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

For many years, our Board has continued to focus on proactive and constructive stakeholder engagement aligned to the Section 172 responsibilities of boards under the UK Companies Act 2006. While not formally subject to Section 172 as a matter of law, due to the Company's incorporation in Bermuda, we believe that, as a responsible business, complying with those responsibilities is a matter of importance and that they provide practical working tools by which we can monitor our engagement. The Board's statement regarding matters covered by Section 172 can be found on page 65 which outlines examples of how the Board and the business have factored in the needs of our stakeholders in their discussions and decision making.

I am pleased to say 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 2021 and has appropriately considered those duties set out in Section 172.

How has the Board engaged with employees during 2021?

The Board primarily engages with employees through the Executive Directors, and Non-Executive Directors also welcome opportunities, both formal and informal, to meet and interact with employees.

These opportunities for workforce engagement during 2021 included the Town Hall events, hosted quarterly by Alex Maloney, where the Board has designated a Non-Executive Director to contribute to discussions on performance and strategy and outline the work of the Board. Importantly, employees are encouraged to ask questions and engage with the management team and Board.

A quarterly Group CEO update is presented to the Board covering, amongst other things, key employee matters across the Group, and the Board also receives quarterly updates on the Company's business transformation projects. Through committee memberships, members of the Board engage with employees focused on individual operational areas, including the UURC, where class-specific presentations are given by relevant underwriters. The Board also received feedback from a staff engagement survey conducted during the course of 2021 (see page 45 for more details).

In their capacity as Non-Executive Directors of LUK and LSL, Samantha Hoe-Richardson and Simon Fraser, respectively, also have the opportunity to meet and engage with a range of staff members within those businesses and to report any matters back to the main Board.

Due to the ongoing pandemic, some planned workforce engagement activities for 2021 have been hindered and use has been made of virtual interaction during the year. It is planned to continue with Non-Executive Director attendance at the Town Hall meetings during 2022.

The whole Board enormously values all opportunities to engage and interact with employees and I would like to thank our Directors, management team and all our employees for their hard work and commitment during the year.

What developments have there been in the areas of Board membership and succession planning?

During 2021, the Board has considered succession planning and membership and we were delighted to welcome Irene McDermott Brown as a Non-Executive Director with effect from 28 April 2021. Irene brings a further diverse skillset to the Board and her extensive corporate background, in particular her experience of HR and remuneration, will be of great value.

The Committee also reviewed the composition of the Board at its November 2021 meeting and it considered 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 regularly discusses in its meetings questions of independence, diversity and longevity of service and whether any additional skills, perspectives and experience are needed to complement those already on the Board. In order to address future succession requirements, including our ambition to meet the Parker Review target for minority ethnic representation, I am currently leading a search to identify future Non-Executive Director candidates and I expect the Board to be able to report developments in this area during the coming year.

Samantha Hoe-Richardson will complete nine years of service in early 2022 and accordingly will not stand for re-election at our AGM. On behalf of the Board, I would like to thank Sam for her valuable contribution to our business over many years.

Peter Clarke
Non-Executive Chairman of the Board

Lancashire Foundation

At the heart of our responsible business ethos is the Lancashire Foundation.

While corporate responsibility and ‘doing well by doing good’ are more recent areas of focus for many businesses, we are proud that 2021 marked Lancashire’s 15th year of donations to good causes through the Foundation.

Since the first donation in 2007, the Foundation has given more than $21.8 million to charitable organisations across an ever-increasing range of causes. During 2021 alone, around $700,000 was distributed to charities. This included donations to individual charitable groups nominated by more than 40 employees. The Lancashire Foundation has been a UK-registered charity since September 2012.

The annual donation made to the Foundation to fund its assistance pool is aligned to the financial performance of the business. The Foundation receives 0.75% of Group profits with a minimum threshold of $250,000 to a maximum of $750,000. This alignment creates a sense of ‘ownership’ among our employees who are aware that the financial success of the Group has an impact on the wider community.

This advocacy is further strengthened by an emphasis on supporting charitable causes – which meet the Foundation’s criteria – where there is a personal or community connection among employees.

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 Foundation. We believe that the success of the Foundation in making a real difference to the lives of those less fortunate is due to the enthusiasm of our people. Whether actively getting involved in helping others through volunteering or requesting funding for causes close to them, their support is invaluable. Requests for assistance from the Foundation are coordinated and assessed by the Lancashire Foundation Donations Committee, which consists of employees from across the Group. This committee meets on a quarterly basis and encourages members to advocate on behalf of charities and make recommendations to the trustees for donations. The trustees have the ultimate responsibility for directing the affairs of the Foundation and ensuring strong governance in delivering the charitable outcomes for which it was instigated in 2006.

The first donations were made in 2007 with an initial emphasis on supporting communities in Bermuda. It now has strong focus on providing support for solutions for dealing with social exclusion and issues that affect children and young people.

Organisations receiving more than $1 million in total since 2007 from the Foundation include:

- Tomorrow’s Voices
- The Family Centre in Bermuda
- ICM
- St Giles Trust
- MSF

As a long-term business, Lancashire has been committed to building lasting relationships with a number of charities. Among the first donations in 2007 was assistance for The Family Centre in Bermuda which the Foundation has continued to support in 2021 with a $83,700 donation.

Since 1996, The Family Centre in Bermuda has provided support to children suffering from emotional, social, behavioural and trauma-based challenges. Its services are available to any Bermuda resident that meets the criteria and has the need.

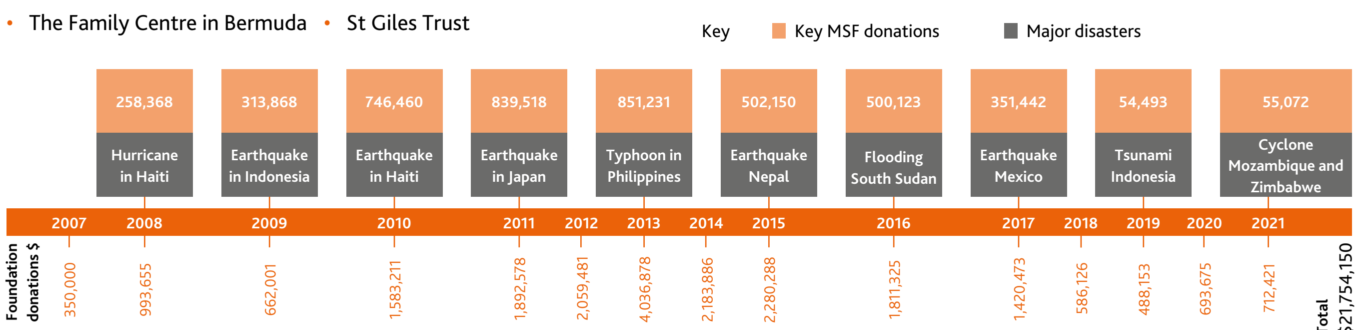
In 2008, in recognition of the fact that a significant element of Lancashire’s business is connected to insuring against natural catastrophes, the decision was taken to support MSF, beginning a long-standing relationship that also continues to this day. Donations to MSF total $5.6 million in the past 15 years. The Group donated a total of $55,000 to MSF in 2021 to support the organisation’s work responding to emergencies including tsunamis, earthquakes and hurricanes in often complex settings.

Another long-standing partner is ICM and its work with the ultra-poor in the Philippines where more than 100 million people live below the national poverty line. The Foundation donated $55,000 in 2021 towards its work. In previous years, employees have had the opportunity to travel to the Philippines to see the work of the charity themselves.

International non-profit social loans organisation Kiva also received $27,500 in 2021 to support its mission to expand access to financial loans to underserved communities.

In the UK, the SGT supports male and female offenders and their families. The aim is to help them realise their true potential and avoid re-offending, contributing to a safer and more productive society. SGT, which received $55,000 from the Foundation in 2021, works with some of the most marginalised people in society struggling with issues such as homelessness, unemployment, addiction and discrimination.

We also recognise that, while financial support for communities is vital, the skills and expertise of our employees is also a powerful tool and staff are actively encouraged to participate in charitable work. All employees have the opportunity to attend at least one paid Charity Day per year. Additionally, people can apply for five days paid Charity Leave after a minimum of three years of permanent employment, and a further five days after six successive years of employment. Charity Leave is given in support of, or to work with, a charity supported by the Lancashire Foundation at the time of the application. Employees raising funds for charitable organisations can also request matching funds from the Foundation. Due to the COVID-19 pandemic it has not been possible for employees to support charities in this way but we anticipate these activities resuming during 2022.



Emma Ranger

Bermuda underwriting team: Supporting the BIG Foundation

During 2021, the Lancashire Foundation was pleased to support Emma Ranger in her efforts to examine the impact of climate change on the North Pole and Arctic Ocean.

In April 2022, Emma will be among an all-female group skiing to the world's most northerly point on a wide-ranging expedition to investigate and analyse the state of its sea ice.

The Before It's Gone (B.I.G.) North Pole 2022 expedition is being led by renowned polar explorer Felicity Aston MBE.

Emma received a $8,200 donation for the B.I.G. Foundation, a new charity aiming to encourage future explorers to ensure a lasting legacy from the expedition.

During the North Pole trip, Emma and the group will collect valuable scientific data about Arctic Ocean sea ice as well as other information about one of the most inaccessible parts of the world.

Scientists at a number of leading research centres will use the findings to aid their understanding, including data on:

- The effects of black carbon, which primarily comes from the incomplete combustion of fossil fuels and biomass, on the region;
- The scale of microplastics and heavy metals in the ocean through taking and analysing snow, ice and water samples; and
- Behaviour, performance and health in extreme environments through testing a beta version of a new digital support system.

Emma said: **"The North Pole will genuinely not be possible to reach across the sea ice in just a few years. I am very grateful to the Lancashire Foundation for their support for the B.I.G Foundation and what it aims to achieve in increasing awareness of the importance of collecting vital information and data on how the world is changing. Lancashire as an employer has also been very supportive of my role as part of the expedition. While it's going to be tough, the skills and experience I'll get from the trip will undoubtedly be transferrable to my role. More broadly I believe the insurance sector has a big role to play in supporting and partnering with industries as they move forward and transition away from activities which can contribute to climate change."**

You can find out more about the expedition at www.bignorthpole.com.

Silvia Kolu

Modelling Manager, London: Supporting Comunità Cenacolo

"One year ago, I lost my brother Nicola in a car crash. It has been a sudden death, tragic and very difficult to accept. We had a very solid and deep relationship, unfortunately not all for good reasons. My brother struggled with life and as a family we felt extremely lonely, we did not know how to help him and we did not know who could help us dealing with his issues, until we found Cenacolo, a place for hope for those dissatisfied by life. There are no psychiatrists or social workers, it is a 'peer-led' community where men and women live together, respecting each other, themselves, and the firm rules of the community. Nicola spent three years of his adult life in Cenacolo, he was the one who was helped for the first six months and the one who helped others for the rest of his time there. When he came out, he really was a new person with a lot of will to live, many desires in his heart and a new hope for his future.

"I cannot thank Cenacolo enough for what they have done for my brother and of course The Lancashire Foundation for accepting my request to support this charity. I am sure Nicola feels the same – Lancashire funds reached Cenacolo on the 11th of October – precisely on the day that marked the first anniversary of his death."

Adam Beardon

Chief Risk Officer, Lancashire Syndicates, London: Supporting Isabel Hospice

"Isabel Hospice is a charity that supports patients and their families who are living with life-limiting illnesses and conditions, including cancer, heart failure or respiratory illness, and neurological conditions such as motor neurone disease. The charity's vision is of a world where communities talk openly about death and dying, everyone lives life to the full and dies with dignity in the place of their choice knowing their loved ones are supported.

I had first-hand experience of the extraordinary support that Isabel Hospice provides when we managed to move my terminally ill mother from a hospital, where she was stuck on a male cancer ward, to the hospice. I will never forget the amazing support and dignity that was provided to my mother. There were no visiting restrictions.

Isabel Hospice has expanded its service to support more people with a non-cancer diagnosis, now approximately 40% of its patients. Its 'Living Well' programme has also allowed it to reach people much earlier in their diagnosis, supporting them to manage the challenges of living with serious illness and long-term conditions through a range of interventions and holistic therapies. Demand for the charity's compassionate care has never been higher, with all of its palliative care and support for patients, and their families, free of charge to those who need them. I approached the Lancashire Foundation with a grant application as not only was I aware of the astonishing support and dignity the charity offers, but also that it had seen a loss in its income of approximately £1.9 million during the 18-month period to July 2021."

An ongoing commitment to evolve

It is the role of the Board to challenge the business on matters of sustainability and governance and to work collaboratively with the management team.

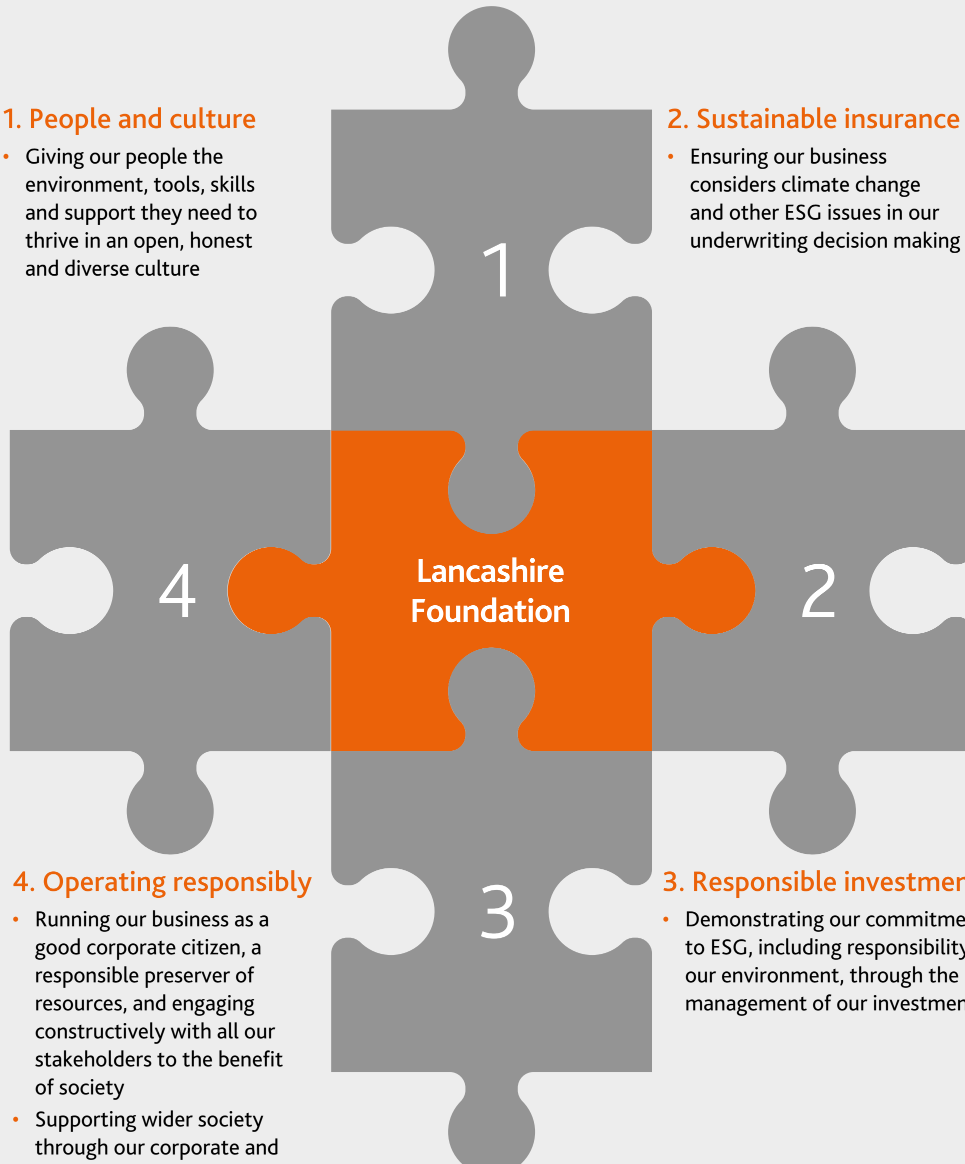
During 2021, the Board approved a Group ESG strategy to assist in concentrating our activities thematically in four areas, which form the structure for this sustainability report.

1. People and culture

- Giving our people the environment, tools, skills and support they need to thrive in an open, honest and diverse culture

2. Sustainable insurance

- Ensuring our business considers climate change and other ESG issues in our underwriting decision making



4. Operating responsibly

- Running our business as a good corporate citizen, a responsible preserver of resources, and engaging constructively with all our stakeholders to the benefit of society
- Supporting wider society through our corporate and charitable activities including the Lancashire Foundation

3. Responsible investment

- Demonstrating our commitment to ESG, including responsibility for our environment, through the management of our investments

A positive environment

The Lancashire values underpin all the Group's activities and shape the way we operate not just on what we do but, importantly, how we do it.

Lancashire's culture fosters an environment that looks to give significant focus on developing, retaining and enhancing a positive working environment, ensuring that all our people are treated with respect and given the opportunity to thrive in a stimulating and rewarding environment.

Engaging with our people

In 2021, Lancashire continued to grow and welcomed many new colleagues across all areas of the business, ensuring we can sustain our ability to provide service excellence to our clients.

We saw our headcount increase from 255 at the end of 2020 to 306 at the end of 2021.

Lancashire benefits from an 'open door' philosophy where employees are actively encouraged to interact with senior executives. In addition, a more formalised communications calendar includes quarterly all staff 'Town Hall' events, led by Group Chief Executive Officer Alex Maloney. These events include attendance by a Non-Executive Director who outlines their experience of the work of the Board. Alex Maloney and the attending Non-Executive Director also invite questions from staff either submitted in advance or during the discussion. Due to the COVID-19 pandemic, a number of these events were held virtually in 2021.

Alex Maloney also ensures that employees are kept up to date on any significant corporate announcements and staff engagement channels are kept under review to ensure they remain appropriate and effective.

As a responsible employer, we are committed to listening to, and acting on, feedback from our people.

During 2021, the introduction of new agile working practices was a direct result of feedback from employees. In addition, flexible start times, to better support the work / life balance, were also introduced following requests from staff.

2021 employee survey

A full survey of employees was carried out in 2021, offering people the opportunity to give their feedback and comments across a broad range of areas. This important mechanism gives the Board and senior management a thorough and deep understanding of how employees consider Lancashire as an employer.

We were pleased that the number of employees participating remained at the high level of 75% recorded for the most recent previous survey in 2019.

The 2021 survey also saw the overall engagement score increasing by 3% to 88% from 2019.

The strongest scores were recorded in the categories:

- 'Company Alignment'
- 'Teamwork'
- 'Manager'
- 'Empowerment'

We believe that the enthusiasm of employees for their individual roles to contribute to the wider success of the Group sets us apart from our competitors.

To support this view, when employees were asked to state which words they consider describe Lancashire's culture, the most cited included:

- Collaborative
- Inclusive
- Hardworking
- Progressive
- Ambitious
- Innovative

To guarantee the anonymity and confidentiality of responses, the survey was coordinated by an independent company.

A summary of the results was presented to the LHL Board, the Group's subsidiary boards and Group Executive Committee team to assist in identifying areas of positive engagement and those which can be further strengthened.

In October 2021, Lancashire Insurance Company Limited was named a 'Top 10 Employer' in Bermuda in the annual awards run by the Royal Gazette newspaper. The awards process included consideration of a survey completed by employees.

In the award citation Lancashire was praised for 'taking good care of its employees and instilling a caring culture'.

Developing our people

Lancashire's reputation as an excellent employer means that we attract and retain talented people who share our values. Group employee turnover in 2021 was 15.3%.

One of Lancashire's strengths has been its programme of developing internal talent and offering employees, with the appropriate skills, the opportunity to be promoted to more senior roles.

We consider this to be a differentiator relative to our competitors which allows us to benefit from the commitment of people who have invested meaningful periods of their careers in Lancashire and who demonstrably share our values. A significant number of current senior executives have held previous roles with the Group meaning we continue to harness their experience and expertise.

Total years of service with the Company		Selection of roles held in the organisation
Alex Maloney*	16yrs	CUO LUK Group CUO Group CUO and LUK CEO Group CEO
Hayley Johnston*	15yrs	Claims and Reinsurance Assistant Specialty Lines and Re-insurance Coordinator Assistant Underwriter & Reinsurance Coordinator Deputy Chief Underwriting Officer & Reinsurance Coordinator LUK CUO and Reinsurance Manager – LUK LICL CEO & Reinsurance Manager
Denise O'Donoghue	14yrs	Corporate Finance Officer Group Head of Investments and Treasury Group Chief Investment Officer
Paul Gregory*	14yrs	Deputy Energy Underwriter/Marketer LUK CUO Group CUO Group CUO & LUK CEO Group CUO (stepped down as LUK CEO in 2019)
Natalie Kershaw*	12yrs	Group Financial Controller Group Financial Controller & LICL CFO Group Chief Accounting Officer Group CFO
Ben Readdy	11yrs	Actuary Head of Capital Modelling Deputy Chief Actuary Group Chief Actuary
Louise Wells*	10yrs	Group Head of Internal Audit CRO Group CRO & LICL COO
John Cadman*	8yrs	Group General Counsel Group General Counsel and LUK CEO
Emma Woolley*	5yrs	LSL Compliance Director LSL CEO

* Member of Group Executive Committee

We value the diversity of our workforce and understand that people who share our ideals come from all walks of life and backgrounds. The Lancashire Foundation has supported a number of organisations whose aim is to reduce social exclusion in wider society and we strive to keep that spirit within our own operations.

Lancashire continuously encourages all employees to develop their skills and experience and offers various in-house and external training programmes, financial support for continuing professional development and reimbursement for all professional body memberships. Due to the COVID-19 pandemic, the majority of training during 2021 was carried out virtually.

Training needs and requirements for employees are reviewed at least annually in partnership with the employee and their manager as a part of the performance review process whilst also encouraging people to proactively request training and to ensure they embrace any opportunities available to them through the year.

One of the longer-term consequences of the pandemic has been a wider shift to more online training for employees. During 2021, Lancashire began preparations for a new digital training platform which will utilise a wide range of resources and become the central hub for personal development. Employees will be able to record and track their progress, ensuring they receive the maximum benefit from the time they spend. An integrated authoring tool will also allow the business to create specific functional and entity-wide training in areas including Regulation, Compliance and HR.

Nurturing and developing our positive culture offers our people the opportunity to be their best and excel in their roles. Aligned to this high performance are our competitive compensation and reward structures which incentivise people to contribute fully to the success and growth of the business.

All permanent employees have an enhanced invested interest in the success of the Company through our RSS to ultimately become a shareholder in Lancashire Holdings Limited.

We are also an accredited living wage employer, for our business and our supply chain.

Regulatory and other training

In order to uphold our high standards, the Group has a comprehensive training programme for employees to ensure understanding of their responsibilities aligned to a clear set of policies and procedures.

Compulsory training is delivered to all new permanent staff, including employees working part time, and those on fixed-term contracts.

Topic covered include 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.

New employees are expected to complete this training during the first three months of employment.

Due to the COVID-19 pandemic this training has been delivered virtually to ensure continuity in the programme and that awareness levels remain high.

Quarterly updates regarding attendance at these compulsory training sessions are provided to the Board for information purposes.

Valuing diversity

We value the diversity of our workforce and understand that people who share our ideals come from all walks of life and backgrounds.

The Lancashire Foundation has supported a number of organisations whose aim is to reduce social exclusion in wider society and we strive to keep that spirit within our own operations.

The Lancashire Diversity and Inclusion Group is chaired by Hayley Johnston, CEO of LICL and Reinsurance Manager, and its members are volunteers drawn from across the Group.

It provides a valuable platform to propose and discuss ideas to progress our diversity and inclusion activities. Initiatives are formally approved for implementation by the Group Executive Committee, ensuring full support from senior management.

As a responsible business we have a number of robust policies in place to ensure that people are not discriminated against either during the recruitment process or during their time with us. We operate a zero-tolerance approach to bullying and harassment.

The gender split of our employees is 63% male to 37% female.

The Group had for a number of years supported the work of the Hampton-Alexander and Davies Reviews on gender diversity. The FTSE Women Leaders Review, an independent, business-led framework supported by the Government, which sets recommendations to improve the representation of women on boards and in leadership positions, builds on these initiatives. The Group submits data annually to the review.

To ensure employees are aware of their responsibilities and the importance the Group places on fairness and inclusion, training sessions on diversity matters are included as part of the new employee induction programme. Training was also undertaken by all employees in Bermuda on Unconscious Bias during 2020 and is being rolled out further across the Group.

The Chairman's statement on our diversity policy, the representation of women on the Board and within executive and senior management, and in relation to ethnic diversity, is available on our website.

The Group carried out a full diversity and inclusion survey during 2020 to better understand employees' view in this important area. A further survey is planned for 2022 and participation from across the Group will again be actively encouraged.

Supporting our people

We strive to give our employees support across a range of areas focused on their health and wider wellbeing, and on ensuring we have policies and procedures in place to ensure they are not inhibited in reaching their full potential.

A Group Staff Handbook, distributed to employees on joining and available on our internal intranet, is supported by individual supplements relevant to our UK and Bermuda operations.

Keeping people safe and healthy

The health and safety of employees while on Company premises is of paramount importance.

With the reopening of the London office in September 2021 following closure due to the COVID-19 pandemic, new guidelines to ensure the health and wellbeing of staff were communicated and made available on the intranet. In addition, a full COVID-19 Risk Assessment was also made available.

As an office based business, we are less exposed to major incidents. However, the Company consults with and updates staff regularly on all health and safety issues and provides and maintains risk assessments for tasks carried out by employees where potential danger has been identified. Our full Health and Safety Policy is communicated to employees on joining and is available on the intranet. During 2021, we worked closely with our health and wellbeing providers to offer advice and support services to employees. These initiatives included information for parents home-schooling children during the COVID-19 pandemic, online gym classes, and sessions focused on mental wellbeing.

Additionally, in our London office, we provided a number of seminars and workshops which focused on financial resilience and planning.

The Company runs an ‘open door’ policy where employees are encouraged to engage with their manager or HR department concerning any matters of concern during their career at Lancashire.

This is supported by a Dispute Resolution Policy in instances where issues cannot be initially resolved. Employees are encouraged to use this mechanism without fear that they will be penalised in any way.

Employees are also invited to offer constructive ideas on how we can improve our operations, increase efficiency, eliminate waste, and improve working conditions.

As a responsible employer, our people have the reassurance that we comply with all relevant requirements with respect to human rights; rights of freedom of association; collective bargaining; and working time regulations.

We believe every employee, and prospective employee, should be treated with dignity, respect and fairness. As an equal opportunity employer, we do not discriminate, or tolerate discrimination, on grounds of race, age, sex, sexual orientation, marital or civil partnership status, gender reassignment, pregnancy or maternity, disability, religion and/or beliefs.

All employees have a duty to treat colleagues, visitors, clients, customers, suppliers and former staff members with dignity at all times.

Employees who believe they may have been discriminated against are encouraged to raise the matter through our Grievance Procedure.

Gender diversity

- Male: 5 (56%)
- Female: 4 (44%)

- Male: 193 (63%)
- Female: 113 (37%)

- Male: 8 (50%)
- Female: 8 (50%)

- Male: 41 (56%)
- Female: 32 (44%)

All gender composition data is shown as at 31 December 2021.

Read more about composition, diversity and succession planning in our Nomination Corporate Governance and Sustainability Committee report on pages 81 to 83 AR.

Likewise, any employee who believes they may have been subject to harassment are encouraged to raise the matter through our Anti-Harassment and Bullying Policy.

Details of all internal policies are available to employees on our intranet site.

Protection and reassurance

Our internal policies and procedures cover a range of topics designed to protect the business and to offer reassurance to employees that they have the information they need to be able to act responsibly.

All businesses carry the risk of unknowingly harbouring malpractice but we believe our culture of openness and accountability is a key weapon in preventing such issues occurring.

Whistleblowing

Employees are encouraged to raise any concerns regarding malpractice with the Group General Counsel or HR department in line with our Whistleblowing Policy for which the Audit Committee of the Board has overall responsibility.

The aim of this policy is to ensure that staff are confident that they can raise any matters of genuine concern without fear of an improper investigation, reprisal, not being taken seriously or breach of confidentiality.

Each Group entity has a designated whistleblowing champion, a Non-Executive Director, who can be contacted if employees would prefer to raise concerns with them.

The UK Employment Rights Act 1996 as amended by the Public Interest Disclosure Act 1998, and the Bermuda Employment Act 2000, govern the making of disclosures concerning workplace activities and are intended to protect employees who report malpractice from any detriment or unfair dismissal.

Data protection and privacy

In order to operate efficiently, the Group must collect and use information about its staff and data protection policies are in place to ensure that information, however it is collected, recorded and used, is handled and dealt with correctly.

To this end the Group fully endorses and adheres to the principles of data protection as set out in the relevant UK data protection legislation.

All employees are expected to familiarise themselves and comply with the regulations, which are available on the Group intranet.

	2021	2020	2019
Number of employees (UK, Bermuda and Australia)	**306**	255	218
Percentage of female employees	**37.0%**	38.8%	38.5%
Percentage of women on the LHL Board	**44.4%**	37.5%	37.5%
Percentage of women on the Group Executive Committee	**50.0%**	50.0%	50.0%
Percentage of women in senior management positions	**50.0%**	50.0%	38.1%
Percentage of the workforce composed of third-party contractors	**7.1%**	6.9%	8.0%
Group employee turnover (annual)	**15.3%**	6.8%	13.8%
Percentage of permanent employees eligible for RSS awards	**100%**	100%	100%
Accredited London Living Wage employer	**Yes**	Yes	Yes

Honesty and accountability

Lancashire's primary business purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events.

By its nature, this long-held objective has, for many years, deeply embedded core elements of environmental, social and governance matters into our insurance operations.

We believe the insurance sector plays a crucial role in empowering people to be able to take decisions with confidence knowing that if the unexpected happens their insurance partners will mitigate the effects on their business and community.

Aligned to our Company values, we strive at all times to conduct our business in an accountable, open, honest and sustainable way.

We are committed to implementing and reporting against the UNEP FI Principles for Sustainable Insurance, a global framework for the insurance industry to address ESG risks and opportunities. The UN Principles aim to achieve a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for sustainable and effective risk protection and reporting.

Further information on Lancashire's reporting against the UNEP FI for 2021 can be found on our website.

During 2021, Lancashire has developed and implemented a number of internal underwriting guidelines focused on assisting with wider global efforts to tackle issues of climate change and other environmental, social and governance factors. These have been articulated by reference to the Lloyd's market and are being rolled out across all underwriting platforms. These guidelines are also linked to the Group's formal risk appetite statements. See the Underwriting Committee report pages 86 and 87 AR.

These guidelines are in addition to Lancashire's long-standing underwriting processes and controls. Where possible, underwriting decisions are subject to peer review and other mechanisms to ensure any risks written outside predetermined criteria are identified and highlighted on a timely basis. The majority of our underwriters participate in our daily UMCC where the vast majority of potential business is discussed in an open forum, which includes senior management. When appropriate, these discussions include acknowledgement of sustainability factors.

We understand that there are no simple solutions to the challenges of today's complex world. We value our open and honest relationships as we continue our journey in this area and we are committed to working in partnership, across the sector, with a range of stakeholders.

Due to the specialist knowledge and expertise within Lancashire's underwriting teams, we have, for many years, been a valued risk partner for businesses in the energy sector and the solutions we provide to these clients assist in delivering safer operations and resilience.

Many of these clients are already transitioning away from carbon-based forms of energy and we fully support these efforts, while recognising that wholesale change of this nature may take some years.

Since Lancashire's formation in 2005, we have controlled and monitored exposures to a range of natural catastrophe and weather-related risks.

The management of climate change risk in this way is essential to the longer-term sustainability of our business. PML exposures to perils (including climate-related catastrophes) data is a significant tool for tracking the real-time potential impacts of climate risks and all other risks.

Lancashire's Board also determines on at least a quarterly basis the capital requirements of our business to meet all regulatory and rating agency requirements to place the Group in a strong capital position to service the needs of our clients and to meet the return expectations of our investors.

Further information on scenario analysis is outlined in the ERM and TCFD sections on page 27 AR and pages 56 to 63.

More broadly, Lancashire is also committed to supporting all our clients as the global economy adapts to a net-zero world.

Our shareholders

We value open and transparent communication with our shareholders 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.

Our programme of meetings, presentations and periodic consultation initiatives (with both shareholders and industry analysts) includes discussion of the Group's financial performance and business strategy; capital initiatives; ESG matters; and the executive Remuneration Policy, among other matters.

We also seek feedback from the Group's corporate brokers on investor priorities, Lancashire's performance, and perception amongst investors. The Board meets our corporate brokers regularly as part of these discussions.

Service excellence for policyholders

Lancashire aspires to deliver a superior service to our policyholders at all times. In particular, our experienced teams of claims specialists, whether operating for our Company or collateralised carriers or Lloyd's Syndicates, have expert knowledge of our diverse product lines. We manage and investigate any loss our clients may sustain to achieve a timely, straightforward and fair resolution.

Our proactive, efficient, transparent and flexible approach is designed to enable our clients to effectively mitigate the impact of loss events as soon as practicable. We have many long-standing relationships with policyholders and engage with them, and with new prospective clients, regularly.

Brokers

The Group's engagement with brokers distributing its products is important and we maintain strong working relationships with both large international firms and smaller independent intermediaries.

We work hard to ensure that we continue to be viewed as a trusted partner and provider of solutions for clients' (re)insurance needs. We value traditional face-to-face contact with brokers while positively embracing virtual engagement during the COVID-19 pandemic.

Measurement and monitoring

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.

Our investment guidelines, established by the Investment Committee of the Board, set the boundaries within which the Group's external investment managers must operate.

Compliance with the guidelines is monitored on a monthly basis and any adjustments are approved by the Investment Committee and the Board.

In addition, we measure and monitor our climate change transitional risk, with sensitivity to, and promotion of, responsible investment.

Our principal investment managers are signatories to the UN-supported 'Principles for Responsible Investment' and we encourage all of the Group's asset managers to consider signatory status.

These principles include a commitment to incorporate the governing six principles into the investment analysis and decision-making processes for the Group's portfolio.

During 2021, we also began reducing certain carbon intensive forms of investment for the Group's fixed maturity investments and we articulated and adopted a Climate Change at Risk metric aligned with the Paris Accord 1.5°C scenario (see Investment Committee report on pages 84 and 85 AR).

We will continue to monitor our investments with a focus on sustainability as relevant analytics develop and evolve in the markets.

Responsibility and leadership

The Lancashire Way guides all our activities with an emphasis on ensuring that we show leadership and act in a straightforward way for the benefit and understanding of all stakeholders.

The Group operates in line with all relevant regulatory and legal requirements, giving particular regard to the environmental, social and governance regulations of the BMA; TCFD; PRA; FRC; FCA; Lloyd's; UNEP-FI; Mandatory Greenhouse Gas Emissions reporting / Streamlined Energy & Carbon Reporting (SECR); and Home Office (Modern Slavery Statement Registry).

We aim to run our business responsibly, as a good corporate citizen, a responsible preserver of resources, and holding our supply chain to the high standards we apply to ourselves.

Relations with regulators, rating agencies and lenders

We maintain constructive relationships with the relevant regulatory bodies who provide the Group with supervision and oversight.

Our programme of active engagement includes meetings, reporting or routine regulatory reviews and the Board and management monitors changes in regulatory and supervisory requirements closely.

Lancashire is subject to financial strength assessments by three major rating agencies: A.M. Best, S&P and Moody's. These assessments include creditworthiness and claims-paying ability of the Group's insurance subsidiaries, LICL and LUK. The Group's syndicates benefit from Lloyd's current ratings. In addition, all Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund.

We engage with each of our rating agencies annually as part of our rating review, quarterly to discuss current financial performance, and additionally when significant events occur such as loss events. Our strong 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.

Our strong relationships with lenders allow the Group the flexibility to respond to changing business and economic conditions and to raise capital, when required, to execute our strategy. 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. We routinely publish financial information for the benefit of all our capital providers, including our lenders.

Tax authorities

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.

Collaboration with third parties

To ensure our operations are as efficient as possible, the Group employs a number of third-party suppliers and service providers to assist in the effective running of the business.

We value these partnerships and approach them in a collaborative manner to further develop good relations.

We seek to receive assurance that employers within the ancillary services and limited supply chains used by the Group pay a living wage.

Payments to service providers are made 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.

Lancashire has its own responsibilities to those within its limited supply chain. Any concerns arising over the ethical practices and human rights records of insureds and potential clients would be considered as part of the underwriting process.

Anti-slavery and human trafficking

We are proud of the conditions of employment for all our employees throughout the Lancashire Group. We also consider that there is minimal risk that, either within the Lancashire Group or the very limited supply chains which support our business activities, the Lancashire Group is involved in, supportive of, or complicit in slavery and human trafficking.

Our full Anti-Slavery and Human Trafficking Statement is available on our website.

Environmental impact and offsetting

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint annually with a view to minimising its negative impact through both mitigation strategies and by offsetting 100% of our calculated GHG emissions, in order to remain carbon neutral. In previous years, Lancashire has achieved its carbon neutral status through purchasing carbon credits, solely in carbon avoidance programmes, which assist in the creation and/or maintenance of systems and technologies which replace the use of carbon intensive processes. In 2021, for the first time, the Group offset 15% of its emissions via a carbon sequestration project, which aims to actively remove carbon from the atmosphere. The remaining 85% of the Group's 2021 offsetting has been procured via carbon avoidance projects. We have reported the 2021 emissions data for the Group in the table on page 54.

The Group 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 Chairman's statement on pages 6 and 7 AR and the section on principal risks from pages 31 to 37 AR for further details). The Group CRO and the Board oversee the Company's annual submission to the CDP. The information which is requested as part of the reporting process is aligned with the recommendations of the TCFD. The business, led by the Group CRO, has further developed its understanding and reporting in line with the requirements of the TCFD. Please see pages 56 to 63 for more information on our TCFD journey.

Emissions are collated from 1 January 2021 to 31 December 2021 and are calculated by converting consumption data into tonnes of carbon equivalent (tCO_2e) using the UK's Department for Business, Energy and Industrial Strategy (BEIS) 2019 factors. For the second year, Lancashire has also calculated its Scope 2 market-based emissions, which we disclose adjacent to our previous location-based figure, in line with the Greenhouse Gas Protocol's guidance on dual reporting[1].

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has typically incurred the bulk of its carbon footprint as a result of airline travel. Despite the impact of the COVID-19 pandemic, there has been more opportunity for employees to travel between our offices, and to meet clients and brokers during 2021. This has resulted in an increase in our business travel emissions from the 2020 level of 118.2 tCO_2e to 284.6 tCO_2e in 2021. However the number of flights taken is below the level of 2019 and prior pre-pandemic years.

We have procured 100% renewable electricity for our London operations and have applied an appropriate residual grid factor for our operations in Bermuda. Lancashire did not implement any energy efficiency measures in the business during 2021 due to limited control of its sites. However, our London office is already well optimised with 20 Fenchurch Street achieving a BREEAM 'excellent' environment performance rating.

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 FTEs as its intensity metric. Where data was not available for 2021, values have been extrapolated by using available data or calculated using industry benchmarks. Lancashire does not own company vehicles; thus business travel emissions fall entirely in Scope 3 and vehicle energy is not included in numbers below.

Total location based emissions for 2021 have increased by 50.4% compared to 2020. As FTEs have increased year-on-year, with a period of significant recruitment during 2021, emissions per FTE have increased by 27.3%. The table on page 54 sets out the Group's carbon footprint for the current and prior reporting period, broken down by emission source.

Results show that location-based GHG emissions in the year were 842.1 tCO_2e, comprised of direct emissions (Scope 1) amounting to 106.7 tCO_2e, and indirect location-based emissions (Scope 2) amounting to 279.7 tCO_2e. The source of other indirect emissions (Scope 3) comprised 455.6 tCO_2e. Scope 1 emissions have increased by 59.3% mostly due to our London site reopening after the UK COVID-19 lockdowns. Scope 2 emissions have increased by 13.5% compared with 2020, due to the reopening of our Fenchurch Street office after the COVID-19 lockdowns, as well as the opening of our meeting space in Fountain House for part of the year. Scope 3 emissions have also increased by 91.4% compared with 2020 due primarily to the lifting of some travel restrictions in 2021 resulting in an increase in business travel and hotel stays, albeit not to pre-pandemic levels.

Streamlined Energy & Carbon Reporting disclosure – January 2021 to December 2021

	Current reporting year		Previous reporting year	
	(UK & offshore)	**UK Only**	(UK & offshore)	UK Only
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use / tCO_2e	**106.7**	**106.7**	67.0	67.0
Emissions resulting from the purchase of electricity, heat, steam or cooling by the company for its own use (location based) / tCO_2e	**279.9**	**138.8**	253.5	113.4
Gross Emissions (Scope 1, 2)	**386.4**	**245.0**	320.5	180.4
Energy consumption used to calculate above emissions /kWh	**1,899,648.9**	**1,233,727.6**	1,450,033.6	849,398.9
Total gross emissions (Scope 1, 2, 3)/ tCO_2e	**842.1**		558.6	
tCO_2e per FTE	**2.8**		2.2	

1 https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2021

Under the market-based methodology, the Group's Scope 2 emissions are 259.7 tCO_2e. This results in total market-based emissions of 822.1 tCO_2e. Our market-based emissions are lower than our location-based as the Group sources electricity for its Fenchurch Street offices via a renewable tariff, backed up by associated Renewable Energy Guarantees of Origin (REGOs).

The Group has fully offset its calculated 2021 GHG market-based emissions through EcoAct by purchasing verified credits in both carbon avoidance and carbon sequestration programmes. 85% of the Group's 2021 carbon credits have been purchased in the Gandhi India Wind Project and the Gaolin Wind Project, both of which generate renewable electricity in various states across India and China that have traditionally been reliant on fossil fuel generated energy. As a result these are described as carbon avoidance projects. The remaining 15% of the Group's 2021 carbon credits have been purchased in the Cherokee Forest project in the USA. This Improved Forest Management Project protects 8,485.58 acres of mixed hardwoods, oak hickory, cove forest, and oak-pine in northeast Tennessee. The park's management plan and governance are designed to preserve the mountain's forest habitat while also stimulating recreation-based tourism in an economically at-risk region. As a result this is a carbon sequestration project. These offsetting proposals were discussed and agreed with the Group CEO.

The Board will continue to monitor and offset the Group's emissions, mindful of the Group's strategic and business operational requirements.

In addition, we encourage the use of public transport by UK employees travelling to work to assist in reducing the number of car journeys. Incentives include a season ticket loan scheme and assistance in purchasing bicycles. We have designated storage for employees' bicycles at our London office.

Types of emissions	Activity	**2021 tCO_2e**	2020 tCO_2e
Direct (Scope 1)	Gas (measured in kWh)	**106.7**	67.0
	Refrigerant (measured in kg)	**0.0**	0.0
Indirect Energy (Scope 2) (location-based)	Electricity (measured in kWh)	**279.7**	253.5
Indirect Energy (Scope 2) (market-based)	Electricity (measured in kWh)	**259.7**	228.8
Indirect Other (Scope 3)	Business Travel (measured in miles and spend)	**284.6**	118.2
	Additional Upstream Activities (measured in kWh, litres, miles and spend)	**153.5**	87.4
	Water (measured in m3)	**6.9**	19.4
	Waste (measured in kg)	**1.3**	4.6
	Paper (measured in reams)	**2.8**	2.4
	Hotels (measured in hotel nights)	**6.6**	6.1
Gross emissions (tCO_2e) (location-based)		**842.1**	558.6
Gross emissions per FTE (tCO_2e/FTE)		**2.8**	2.2
Gross emissions (tCO_2e) (market-based)		**822.1**	533.9
Carbon credits		**823.0**	534.0
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.

IT security

Keeping our information safe and protecting ourselves from online threats are crucial in today's inter-connected world.

Cyber criminals are becoming increasingly ambitious in their attempts to steal data and infiltrate IT systems. Our stakeholders are also taking this activity seriously and look to us to make sure our people have the support they need.

During 2021, we introduced a new mandatory online IT security training course which replaced previous in-person sessions, covering a range of topics to reinforce the importance of protecting our data. Training for all employees, including those on fixed-term contracts, will continue during 2022. Exercises to test employees' abilities to detect potentially harmful emails are also carried out.

A series of Annual Cyber Incident Response Plan (CIRP) Tabletop Exercises were also held, attended by relevant functional representatives, focused on increasing awareness of current cyber threats to the Group, validating the Group's capacity to respond effectively to potential cyber-attacks, and stress-testing our Cyber Incident Response Procedures.

The Board also received a report on the Group's Information Security protocols, testing and mitigation initiatives.

Anti-money laundering, bribery and financial crime

The Group seeks at all times to ensure that it operates effective and appropriate procedures to prevent and/or report incidents of money laundering, bribery and other forms of financial crime.

The Group has developed an Anti-Money Laundering, Bribery and Financial Crime Policy and Procedure with practical measures for the identification and control of any suspicious, dishonest or illegal transactions.

All Group employees are required to report to their local Money Laundering Reporting Officer any potentially suspicious transactions 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 illegality.

Conflicts of interest and share dealing

Due to the nature of insurance markets, business relationships are often strengthened through hospitality or other forms of engagement.

The Group's Conflicts of Interest Policy, for giving and accepting gifts and entertainment, sets out guidelines to ensure that gifts and entertainment are consistent with acceptable business practice.

The Group's Share Dealing Code places relevant restrictions on the trading of LHL's securities by employees and the Group's Disclosure Policy restricts and regulates the disclosure or discussion of confidential information.

A full suite of internal policies and procedures is available on the staff intranet and detailed in the employee handbook.

TCFD Report – Our journey

Lancashire supports the aims of the TCFD, and we have detailed below our progress against both the four pillars and the 11 recommendations.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Describe the Board's oversight of climate-related risks and opportunities.

The LHL Board retains ultimate responsibility for climate-related risks and opportunities. It oversees the Group's ERM activities and receives regular updates on material risks including ESG-related risks and opportunities. This is done through the Nomination, Corporate Governance and Sustainability Committee, the Underwriting and Underwriting Risk Committee, as well as the Investment Committee.

The Nomination, Corporate Governance and Sustainability Committee monitors issues of sustainability, including developments in climate change risk management and reporting.

The Board's Underwriting and Underwriting Risk Committee and the Investment Committee each have responsibility for monitoring the impacts of climate change, transition risk, as well as the broader ESG risks and to articulate appropriate appetites and tolerances for the Group.

Overall responsibility for the ESG programme sits with the Group CEO. The Board as a whole, reviews and approves the Group's risk framework and appetites which are ordinarily addressed within the quarterly ORSA report.

The Board receives a quarterly ORSA report from the Group CRO. This covers the full range of risks and controls identified through the Group's risk register and operated by the Group, including climate change and ESG risks and controls. Facilitated by the Group CRO, the Board discusses, agrees and monitors, performance against a range of risk appetites. The Board discussions also cover consideration of emerging risks.

Examples of Board ESG and climate change oversight in 2021 include:

- The Board's oversight of the implementation of the ESG Co-ordination Committee and associated working groups, the Climate Change Working Group and the Diversity & Inclusion Working Group
- Its review and approval of the Group's ESG framework
- Approval of the Group's ESG strategy
- Annual review and approval of the Group's risk appetite statements, including the tolerances for elemental PMLs and non-elemental RDSs. More information on this can be found on page 138 AR. The risk appetite statements were enhanced during the year to include climate-related statements for both the asset and liability side of our business
- Oversight of the process undertaken, and scenario testing performed, for the BMA's Climate Change Exposure Assessment
- Review and approval of the annual ORSA report.
- Review of the quarterly ORSA reporting which contains information on all risk categories highlighting material risk considerations including climate-related risk where appropriate.
- Review of the output from stress tests performed as part of both the annual business planning exercise and the annual ORSA reporting process, including climate-related scenarios.

The actual business underwritten within the Group is monitored against both the strategic plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events) and is reported to the Board quarterly within the Group CRO's quarterly ORSA report. Please see page 28 AR for more information. In addition, the Group CUO and Group CRO regularly review current and emerging (re)insurance risks.

The Investment Committee oversees the management and performance of the Group's investment portfolio including investment risk parameters. During 2021, management developed some climate-related investment guidelines to be applied across the Group's fixed maturity portfolio. The Investment Committee and Board reviewed and approved the proposal to implement these guidelines. In addition, the Investment Committee and Board reviewed and approved a proposal to introduce a Climate VaR risk appetite statement to be monitored as part of the regular quarterly reporting process. This included an agreed preference for the financial impact of the Climate VaR on the Group's actual fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model and carbon sensitivity tool. Please see the Investment Committee report on pages 84 and 85 AR for more information.

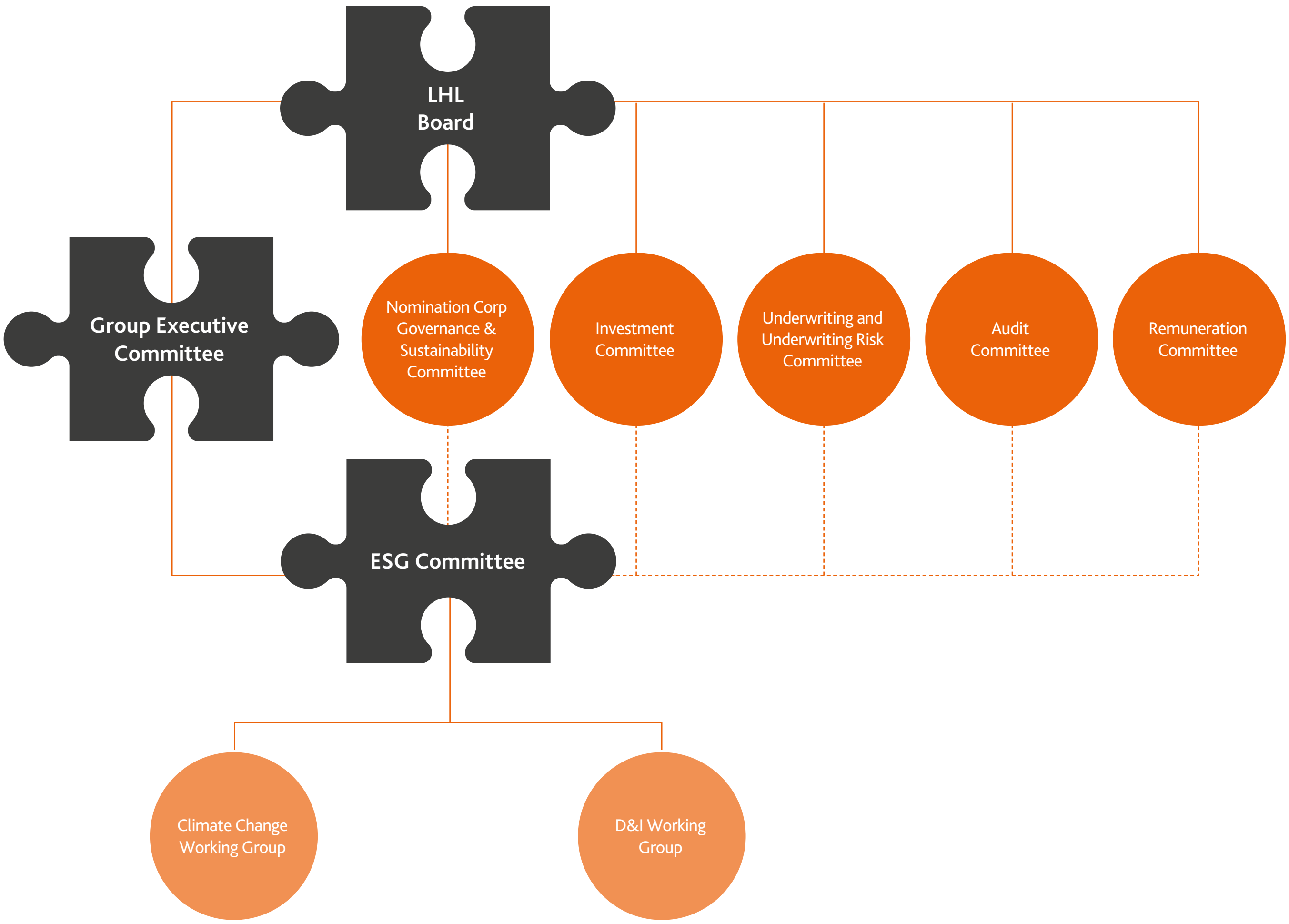
Describe management's role in assessing and managing climate-related risks and opportunities.

The Group CEO is accountable for the development and execution of the Group strategy, including the management of climate-related risks and opportunities.

The Group CRO is responsible for the overall management of the risk management framework, which includes facilitating the identification, assessment, evaluation and management of existing and emerging risks by management and the Board; ensuring these risks are given due consideration and are embedded within management's and the Board's oversight and decision-making process.

The ESG Committee, established by management in H1 2021, is tasked with the oversight, co-ordination and internal management of the Group's ESG strategy. The ESG Committee reports to the Group Executive Committee and is supported by both the Climate Change and Diversity & Inclusion Working Groups. Key developments are reported to the Nomination, Corporate Governance and Sustainability Committee as well as the Investment and the Underwriting and Underwriting Risk, Audit and Remuneration Committees as appropriate, and ultimately to the Board via the Group CRO's quarterly reporting.

Group ESG governance structure



The RRC evaluates and monitors the Group's modelled underwriting PML and RDS risk exposures against the Group's tolerance levels on a monthly basis. Lancashire underwrites predominantly short-tail business, with loss exposures usually crystallising within a policy period of 12 months. As a result, with PML levels updated monthly and shared internally, we ensure we closely track both market pricing and coverage conditions and the Group's modelled climate-related loss exposures. Please see page 138 AR for more information.

The IRRC is increasingly alive to the potential impacts of climate change-related transitional risk on assets within the Group's investment portfolio. The Group CRO has convened a Climate Change Working Group, which focuses on areas for enhancement in the assessment and management of climate change risk and related opportunity over the coming year to inform the work of the IRRC, the Investment Committee, the Underwriting and Underwriting Risk Committee, and the Nomination, Corporate Governance and Sustainability Committee.

The above diagram illustrates the Group Board, Board sub-committee and management committee governance structure as it pertains to ESG. The role and responsibilities of each of the Board's sub-Committees is explained within the Governance section starting on page 72 AR and in each Committee's Terms of Reference which can be found on the Group's website. The Group CRO is a member or attendee of all the fora shown above and provides a link between each individual forum and the management RRC and Group Executive Committee.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

We consider the actual and potential impacts of climate-related risks and opportunities on Lancashire's strategy and financial planning across the following timeframes: short term being up to five years, medium term being five to 15 years and long term being 15 to 30 years from now. Lancashire underwrites predominantly short-tail business, and so the principal impact of climate-related risks and opportunities is on short-term strategy. Such impact is mitigated by our ability to re-evaluate the portfolio on an annual basis and therefore re-price physical risks and reset exposure levels to take into account new data regarding the frequency and severity of elemental catastrophe events. We recognise that climate change does also impact the longer-term strategy in terms of emerging risk and accordingly management works with some of the leading external catastrophe model providers to understand the science which underlies and informs developments in the short and long-term climate-related assumptions in their stochastic models. These developments are included in the Group's management and Board- approved annual five-year business strategy and the three-year forward-looking business plan. More information can be found in the going concern and viability statement on page 114 AR of this report.

The Board also regularly discusses cycles and trends within the insurance sector as well as within the natural, commercial and political environment to which the Group's business is subject. We also recognise the potential impacts of transitional climate change risk on the Group's underwriting and investment portfolios and associated strategies. Whilst detailed strategic planning is based on short-term horizons (over a period of three to five years) the Board's strategic discussions are informed by consideration of potential future trends in the medium to longer term such as the make-up of global energy demand (which may be influenced by climate-related factors), the impact on travel and transportation (aviation, shipping, cruise ships) or the potential for political instability (for example over a period of five to 30 years).

During 2021 significant work was undertaken to identify and articulate the financial impacts of climate-related risks, both physical and transitional risks. For each risk identified, the loss amplification factors, time-frame and magnitude were considered, as were metrics by which these risks could be monitored and reported upon. Examples of short to medium-term risks identified included increased severity of tropical cyclones and heightened storm surge resulting from the enhanced strength and duration of storms combined with sea level rise; increased intensity of extratropical cyclones; increased intense rainfall due to the warming atmosphere thus increased risk of flooding; and increased risk of wildfire due to warming temperatures combined with shifting precipitation patterns. A longer-term risk being considered is the emergence of new natural catastrophe zones due to the shifting weather patterns. The potential financial impact from these risks is included within the metrics and targets section on page 61.

The physical risk to our own operations is less material. As a group operating out of two physical locations (Bermuda and London) we don't have significant physical assets to be impacted by physical risk; the main impact of physical risk arises from our underwriting portfolio in the form of losses arising from elemental catastrophic events. We do however have robust BCP processes in place.

Examples of transitional risks that may be faced by the Group include the probability of a declining premium environment in the traditional oil and gas sector or transportation classes over time, or the risk of exposure to climate change-related litigation. The potential impact in terms of premium is thought to range from low to medium for the relevant subsidiary, however the financial impact to the Group of these risks ranges from very low to low at this time due to the inherent responsiveness in the Group's nimble underwriting strategy. Our work in this area will be further developed and enhanced during 2022.

Risk radar

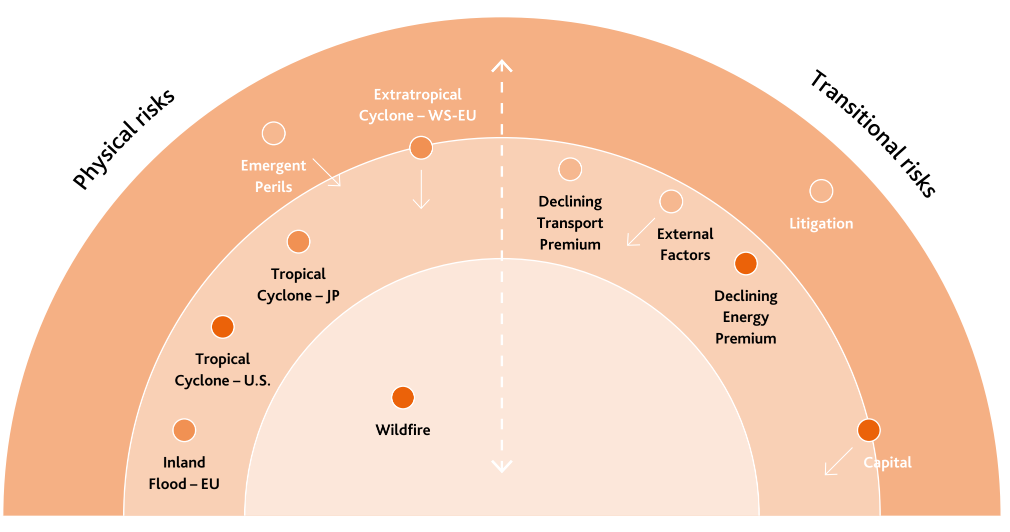
Lancashire's current internal view of the risks the Group may face from climate change, the potential time horizon over which they may be faced and potential magnitude of impact. The radar is updated on a periodic basis following each internal risk assessment.

Time horizon

- Long: 2030+
- Medium: 2025-2030
- Short: now – 2025

Magnitude

- High
- Medium
- Low



Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Lancashire is exposed to the risk of heightened severity and frequency of weather-related losses which may be influenced by climate change. We manage this risk by using the stochastic models from third-party vendors which have a long history of quality data governance. In addition, we adapt these models based upon our views of climate risk, as well as our clients' exposure data, to create aggregate loss scenarios. Further, individual risks that are likely to materially utilise the Group's capital are reviewed at the daily UMCC prior to binding. The modelling data and the capital deployment are closely monitored by executive management. Likewise, the Board monitors this on a quarterly basis as part of strategic risk and capital management, with the testing of the models leading to changes in risk levels, reinsurance purchasing and structuring strategy as required. As part of the financial planning process, the assumptions within the underwriting portfolio are reviewed including the expected rate adequacy and losses for each class of business. Our assumptions are driven by a number of factors, which include climate change-related factors such as frequency and severity of elemental events and the potential for associated claims inflation. The level and availability of capital, as well as capital utilisation by class of business, are also key considerations in the financial planning process. The business mix is also reviewed and new products and lines are considered where rates prove attractive and accretive.

Lancashire's exposure to physical risk in our own operations is modest. As a business with an office in Bermuda we recognise that this is an area of the world that is vulnerable to catastrophic windstorm events and may be affected by any future climate change trends. Both Lancashire offices have disaster recovery and BCP in place. Specifically, the Bermuda management team and Board consider hurricane and tsunami risk within the Bermuda office's BCP. Please see page 36 AR for more information.

Outside of physical risk, Lancashire has been a risk partner of businesses operating in the aviation, marine and energy sectors across the world for many years. The risk solutions which we provide help deliver the wider social benefits of safer operations in a properly regulated environment with access to capital resources to quickly repair and remediate damage in the event of accidents or catastrophic failure. We will continue to support our clients in the journey required to transition away from carbon-based forms of energy to a net zero state. Substantial investments will be required to meet both global energy demand and reduce carbon emissions and we remain committed to supporting our clients across the energy sector as they navigate this transition.

We also recognise the potential impacts of climate-related risks and opportunities upon the Group's investment portfolio, in particular the potential impacts of the transition away from a carbon intensive economy. During 2021, we developed the tools used for the identification, measurement and management of these risks and opportunities through the work of the CCWG, the RRC and the Investment Committee; and we have enhanced the management information provided to each of these.

With respect to opportunities arising from climate change, immense investment in infrastructure will be required as the world transitions to a lower-carbon economy, such infrastructure will require insurance which lies within the Group's existing classes of business and appetite. The demand for environmental insurance products is also expected to increase.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Stress and scenario tests and reverse stress tests are performed as part of the business planning process and the annual ORSA reporting process. More information on these processes can be found on pages 27 to 29 AR of this report. The capital impacts from a range of scenarios, including climate-related risks and opportunities, are presented to the RRC and Board for review and discussion.

During 2021, the Group participated in the BMA's climate change exposure assessment exercise which covered both the asset and liability sides of our balance sheet. The liability side analysis requested by the BMA included the impact on the insurance portfolio of physical risk under three different scenarios: short, medium and long term (looking out five, ten and 25 years). The stress test undertaken featured two major elements for each of the three time horizons: i) climate change risk scenarios for selected major perils corresponding to the 2.5° scenario linked to RCP 4.5[1]; and ii) Company-specific inflation expectations. The BMA requested the work be performed on the portfolio in-force as at 31 December 2020. The results of these stress tests were presented to, and discussed at, the RRC before being submitted to the BMA. As expected, the impact from these climate events increased as the time horizon lengthened. We plan to develop our work in this area during 2022.

One of Lancashire's key operating principles, which supports the Group's strategy to produce an attractive risk-adjusted total return to shareholders over the long term, is to 'operate nimbly through the cycle'. Climate change may influence the severity and frequency of losses that impact our policyholders and Lancashire's quick response to such post-loss situations can therefore be seen as a competitive advantage. A similarly 'nimble' approach to the management of climate change transition risk helps inform asset allocation and investment portfolio management. As of 31 December 2021, 93.8% of our externally managed investment portfolio, excluding internally managed cash, is managed by signatories to the United Nation's Principles for Responsible Investment. Analysis of our investment portfolio, specifically the fixed maturity portfolio, has shown it is more resilient to the impacts of climate change than the relevant benchmark which we have linked to a 1.5C future pathway scenario. During 2021 we have developed our ESG and carbon intensity analytics in relation to the investment portfolio, and we plan to further enhance this work and add to the stress and scenario tests run during 2022 as part of our biennial strategic asset allocation study.

1 A set of parameter input assumptions used in climate science to project emissions of greenhouse gases over time to assess the sensitivity of the climate response. RCP 4.5 is a specific "middle range scenario", featuring slowly declining emissions from around 2050, with a likely 2.5C increase in global mean temperatures, above that of the Paris agreement target.

The CCWG has been a useful forum to progress our work in this area and the Group expects to report in more detail on likely scenario impacts in future years. Nonetheless, given the Group's predominately short-tail nature of, and the ability to model the geographical and economic impacts of climate risk on, the insurance products it sells and to price insurance premiums on the basis of a flexible and dynamic risk analysis, the Board and management consider that there is some resilience in both the Group's underwriting and investment strategy and its business model to the challenges of increased frequency and severity of physical damage and the effects of transition risk, as a result of climate change risk.

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are identified and assessed as part of the usual risk identification and management process which includes but is not limited to: discussions with risk owners and with subject matter experts across the Group, discussions at the Group's Emerging Risk Working Group, CCWG, and ESG Co-ordination Committee. Climate-related risks specific to the (re)insurance portfolios are identified and assessed as part of the day-to-day underwriting process by individual underwriters in their analysis of specific risk information, and more broadly in the context of the wider portfolio during the daily UMCC and the fortnightly RRC meetings. This includes, for example, the assets to be insured; their physical location; weather-related perils that have impacted that location; historical frequency and severity; as well as expected short and long-term changes. The individual entity annual underwriting strategy days and the Group annual catastrophe underwriting strategy day also provide a good basis for discussion of the climate-related risks of both current and anticipated future risks. Examples of such risks include transition risks arising from a decline in value of assets to be insured, changing energy costs and liability risks that could arise from climate-related litigation. Physical, transition and liability risks are considered by business segment and geographical location, and the expected impact from the risks identified is considered both with respect to magnitude and timescale.

Describe the organisation's processes for managing climate-related risks.

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.

Nonetheless, climate-related risks (and opportunities) are a constituent part of the Group's underwriting and investment risks. As we have detailed in this TCFD report, such risks are managed in the same way as other risks: they are identified, monitored, mitigated and reported upon against tolerance as appropriate. Opportunities are monitored and taken advantage of where it makes sense to do so. More information can be found on pages 26 and 27 AR of this report.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

As noted in the ERM section, the Group subscribes to a 'three lines of defence' model with respect to the identification, ownership, monitoring and mitigation of risk. The management of climate-related risk falls within this same framework, which is fully embedded throughout the Group. Our ERM framework has been enhanced during 2021 with the formation of a CCWG which reports into the newly established ESG Committee. The ESG Committee reports through to the Group Executive Committee as well as providing updates on its work via the Group CRO to both the Nomination, Corporate Governance and Sustainability Committee and the LHL Board. The RRC considers all aspects of risk for the Group at a management level and reports through the Group CRO to the Board. 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 considers the capital requirements of the business on at least a quarterly basis. The Group's exposures to natural catastrophe risks are one of the key drivers of the capital held by the Group to support its underwriting activities.

The IRRC is alive to the potential impacts of climate change-related transitional risk on the Group's assets within the Group's investment portfolio and its work is reported to the Board-level Investment Committee. During 2021, we built on our early climate sensitivity analysis work to further develop tools for the understanding of the impacts of climate change and transition risk on the investment portfolio as well as potential opportunities. This work has been embedded within both our processes and the day to day management of the investments by our investment managers and updates, including the exposure of the investment portfolio to climate-related risk, are provided to the Investment Committee on a quarterly basis.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Our underwriting strategy is based on a number of factors, including but not limited to: market conditions and opportunities, pricing adequacy and available capital. We define our risk appetite for underwriting risks as a percentage of capital we are willing to lose in a specific event, and we set a capital loss tolerance for and track the Company's modelled PMLs to weather-related hurricane perils.

On pages 58 and 59 we described the work undertaken in 2021 to identify and articulate the financial impacts of climate-related risks. The table below sets out the financial impact of physical risk.

Impact of climate-related risk

Physical: acute and chronic	Timeframe	Magnitude of impact	Potential financial impact Group net PML/ % of capital	Mitigation
Tropical Cyclone				
U.S. Windstorm – Gulf of Mexico	Medium	High	\$309.0 million / 18.2%	• Positive feedback loop in pricing models that reflect heightened risks from climate change • Lancashire adjusts gross risk appetite wherever the risk is viewed as inappropriately priced for the exposure • Outwards reinsurance is adapted to reflect the changing exposures • Robust internal controls ensuring PMLs are monitored monthly by the RCC • We continue to develop views on other perils.
U.S. Windstorm – Non-Gulf of Mexico	Medium	High	\$206.8 million / 12.2%	
Japan Windstorm	Medium	Medium	\$118.3 million / 7.0%	
Extratropical Cyclone				
European Windstorm	Medium – Long	Medium	\$154.1 million / 9.1%	

Our PMLs are derived using stochastic models licensed from third-party vendors. Our actuarial team assesses the assumptions within the licensed model and, where appropriate, applies loadings to it. Model outputs are regularly challenged at both the macro and specific account level. Our PMLs, and the actual in-force exposure versus tolerance are reviewed by the RRC on a monthly basis. The loadings applied to the model are reviewed by the RRC periodically to assess their ongoing appropriateness. Additionally, risk learning is performed following a large catastrophe event to compare the actual loss versus the modelled loss to further assess the appropriateness of the assumptions and loadings within the model and establish whether further adjustments are required.

Similarly, with respect to our investments, we have taken steps in 2021 to advance the previous approach for assessing our portfolio's exposure to climate-related risks looking at the carbon intensity and transition risk within our fixed maturity portfolio. The Climate Value at Risk (VaR) of our fixed maturity portfolio (as covered by MSCI) at the 1.5°C global warming goal is monitored and reported to the Board and Investment Committee on a quarterly basis. Management's target preference is for the impact of climate change to be less detrimental on our portfolio than the relevant benchmark at the same level.

Our portfolio at 31 December 2021 consisted of the following:

Fixed maturity securities	**78.4%**
Managed cash	**11.2%**
Private investment funds	**4.6%**
Hedge funds	**4.5%**
Index linked securities	**1.3%**
Total	**100.0%**

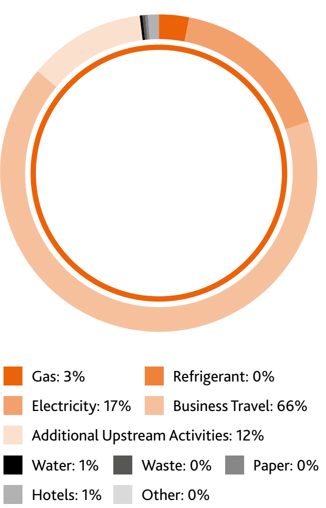
As shown in the table above, we have 89.6% allocated to managed cash and fixed maturities. The majority of the fixed maturities consist of government-related securities: U.S. government treasuries, non-U.S. government sovereign debt, U.S. agency debt and U.S. agency mortgage-backed securities. In addition, we have 28.7% allocated to corporate bonds, of which we have a small amount of exposure to climate-related risks. The Group itself does not hold any equities (although we have exposure to a small number of equities in the hedge fund portfolio).

Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The Group is committed to managing the environmental impact of its business. We measure our carbon footprint to minimise its negative impact through mitigation strategies and by offsetting 100% of our greenhouse gas (GHG) emissions, in order to remain carbon neutral. Please see page 54 of this Annual Report and Accounts where we report our Scope 1, 2 and 3 GHG emissions. The Group also recognises the challenges posed by climate change and considers its impact as part of the risk management and strategic planning processes, as discussed above. The Group CRO and the Board oversee the Company's annual submission to the CDP and note that the information which is requested as part of that reporting process is aligned with the recommendations of the TCFD.

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group has (prior to the COVID-19 pandemic) incurred the bulk of its carbon footprint as a result of airline travel. We utilise a number of technologies to reduce inter-office travel, including full video and telephone conferencing facilities in all of our offices and our meeting rooms and boardrooms. The use of such technological solutions has remained high in 2021 as a result of the ongoing pandemic and continuing limited travel. However, we acknowledge the benefits of physical meetings and will expect to return to a more normal pattern of travel when possible during 2022, should it be safe for our employees to do so.

Average emissions by category 2015-2019



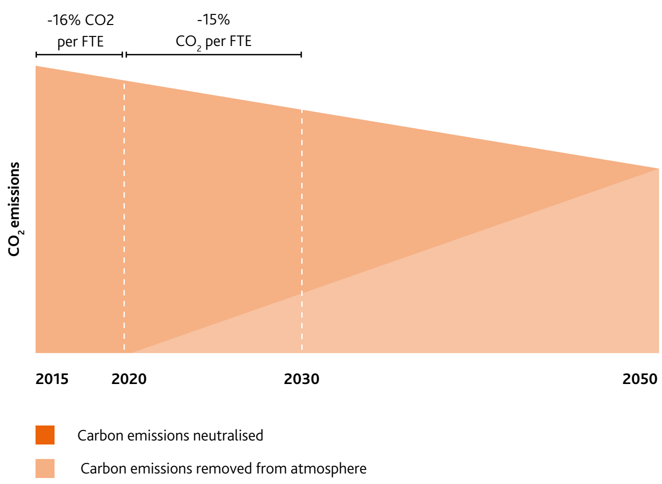
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

During 2021 the Group undertook to articulate its path to meeting the UK Government's net-zero target by 2050. As part of this work a review of our own emissions was performed and 2015 selected as our baseline year. 2015 was selected on the basis it was our first full year in our London office at 20 Fenchurch Street, an energy efficient building which achieved a BREEAM Excellent rating.

In the five years from 2015 up until the pandemic hit early in 2020 the Group's emissions reduced by 16% per FTE; whilst 2020 and 2021 have shown a significant decrease from the preceding years it is acknowledged this is due to the pandemic and reduction in business travel. As can be seen from the pie chart, business travel over that five-year period has averaged 66% of our total emissions.

Moving forward we would like to reduce our overall emissions further and increase the proportion of emissions which are removed from the atmosphere rather than simply offset, thereby moving from carbon neutrality, our current position, to carbon net-zero by 2050. This is illustrated by the following diagram which shows our initial target of a further reduction in emissions per FTE of 15% by 2030.

Lancashire's path to carbon net-zero in 2050



In terms of the Group's own emissions targets, we have a travel policy to reduce our impact on the environment whilst balancing the needs of our staff and Directors. Our policy is to not ordinarily book a business class airline ticket, if the duration of the flight is less than five hours long.

The Group also commits to continue to offset 100% of Scope 1 and 2 emissions and 100% of the Scope 3 emissions which we are able to accurately calculate at this time. These include business travel, waste generated in operations, and fuel and energy related activities not included in Scope 1 or Scope 2. As a small financial services company a number of the emissions categories are either not applicable to our operations, or we have minimal operational control over them. We are working alongside others in the industry to understand how to accurately calculate and track emissions within the unreported categories where applicable.

The Group will continue to source and utilise 100% renewable electrical energy for its 20 Fenchurch Street London offices. Other targets for the Group's own emissions remain under discussion but areas under consideration (outside of those related to business travel) include further reducing paper usage, improving the level of recycling, and eliminating the use of single-use plastics. Please see pages 53 and 54 for more information.

In relation to the Group's investments, we have a target of managing the impacts of our fixed maturity portfolio by reference to a Climate VaR appetite statement. It is our objective that the assets held (that are covered by MSCI) should have a less detrimental climate impact than a benchmark portfolio linked to a 1.5°C future climate scenario.

For the Group's underwriting exposure, Lancashire limits its tangible capital at risk by reference to a series of PML loss exposure scenarios (which include climate-related loss scenarios). PMLs are regularly monitored and reported to the Board on a quarterly basis and reflect real time changes in the Group's underwriting portfolio. The Group's stated tolerance is to expose not more than 25% of its tangible capital by reference to any one of its principal PMLs. For the reported outcomes of this process see page 138 AR which shows details of the Group's principal PMLs including those related to catastrophic weather loss events linked to climate change risk.

Strong relations

The very foundations to our strategy and success as a business are the solid pillars of engagement that we have built with our people, our stakeholders and society, and the creation of a healthy and sustainable corporate culture.

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

Our universe of stakeholders

Our people

We believe the talents of our people and our distinctive culture continue to set us apart from our competitors.

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 pages 45 to 49 for further details.

Our policyholders

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.

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 50 for further details.

Our shareholders

Lancashire values the views of all of its shareholders and maintains open and transparent communication channels with them.

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 50 for further details.

Society and the environment

The Group is committed to measuring and offsetting carbon emissions for its own operations (see page 53) and in creating the governance structure, risk management and metrics for managing the effects of climate change on business strategy and aligning this with the global economy as it transitions to 'net zero' (see TCFD report pages 56 to 63).

Through the Lancashire Foundation, we utilise the talent and energy of our staff in helping others, positively impacting society and creating a more sustainable 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 42 and 43 for further details.

Responsible Board decision making

The 2018 UK Corporate Governance Code requires formal disclosure 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 is 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 2021 Annual Report and Accounts, we give an overview of how both the Board and the business have factored in the needs of our stakeholders in their discussions and decision making in all areas of performance review, strategy, risk and capital management. 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.

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 – page 8 AR • 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 – page 9 AR • The Board's assessment of the Group's viability and prospects as set out in the going concern and viability statement – page 114 AR
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 – pages 45 to 49
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 UURC and, during 2021, gave close consideration to business development opportunities as summarised in the Committee's report – pages 86 and 87 AR
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. 2021 saw the establishment of the ESG Committee and CCWG (see the Group CEO review on pages 10 and 11 AR). 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 CDP, the annual offsetting of our own operations' GHG emissions, and more recently the commitments to report against the UNEP FI Principles for Sustainable Insurance (see our website for details) and address the requirements of the TCFD – pages 56 to 63
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 and 41 AR, page 64, and pages 81 to 83 AR • 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 – pages 75 to 80 AR
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 relations 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 – see in this regard 'Section 172 responsibilities in focus' below, as well as pages 40 to 63 and page 93 AR • Capital management/actions and dividend policy – in particular, the Board's consideration of the balance between underwriting opportunities and the payment of dividends – pages 6 to 7, page 25 and page 112 AR

Section 172 responsibilities in focus

2021 project to restructure the Group's debt

During the first quarter of 2021 the Board discussed and agreed a management proposal for the reconfiguration of the Group's debt structure, in particular to ensure alignment with current regulatory and rating agency expectations. As a result, the Group issued $450.0 million in aggregate principal amount of 5.625% fixed-rate reset junior subordinated notes due 2041. The net proceeds from the debt issuance were used by the Group principally to redeem its existing senior and subordinated indebtedness, with the balance being used for general corporate purposes. The new debt was approved as 'Tier 2 Ancillary Capital' by the BMA and, as such, has helped further improve the Group's coverage ratio of available statutory capital and surplus over the BMA's ECR.

In reaching its decision to reformulate the Group's debt structure, the LHL Board and the executive management team had regard to a number of stakeholder factors, including: policyholder demand and requirements; the growth and underwriting opportunities expected to continue to develop from the pricing environment, which continued to improve throughout 2021; the Group's rating agency and regulatory capital headroom requirements with regard to the terms of debt within the capital structure for insurers and the need to maintain a strong capital position to allow the business to take advantage of attractive underwriting opportunities; and the return expectations of the Company's major shareholders and the objective of ensuring effective capital deployment and delivering strong risk-adjusted returns.

Overall, the LHL Board considered it to have been in the best interests of the Company, all its shareholders, as well as the wider stakeholders of the Lancashire Group, to reconfigure the Group's debt structure.

www.lancashiregroup.com
Contact: info@lancashiregroup.com