Lancashire
Holdings Limited

2022-23 Report

ClimateWise Report

Joining *ClimateWise*

Louise Wells
Group Chief Risk Officer
August 2023

Lancashire Holdings Limited was pleased to join ClimateWise in May 2022.

We welcome the opportunity to be part of the industry's focus on driving action on climate change risk and look forward to coordinating with firms across the sector as we all rise to the shared challenges we face.

The insurance sector plays a crucial role in empowering people in the face of uncertain loss events. Our risk management solutions give confidence that the potential effects on businesses and communities are mitigated.

The underwriting of complex risks, particularly those within the property catastrophe class, is based on a clear and pragmatic understanding of potential perils, their nature and mitigation factors. This includes measuring and assessing potential loss exposures due to climate factors and setting clear preferences and tolerances for events such as hurricanes and other weather occurrences. It is this expertise that the industry can bring to the ongoing debate regarding climate change. In addition, we believe that the insurance sector is essential in assisting clients with their role in the global carbon transition.

Alongside this submission to ClimateWise, we also support the aims of the Task Force on Climate-related Financial Disclosures (TCFD) and further information is available in our 2022 Annual Report and Accounts.

We look forward to ClimateWise's assessment of our submission and to playing a role in the critical work of the organisation.

* The ClimateWise Principles are fully aligned with the TCFD framework.

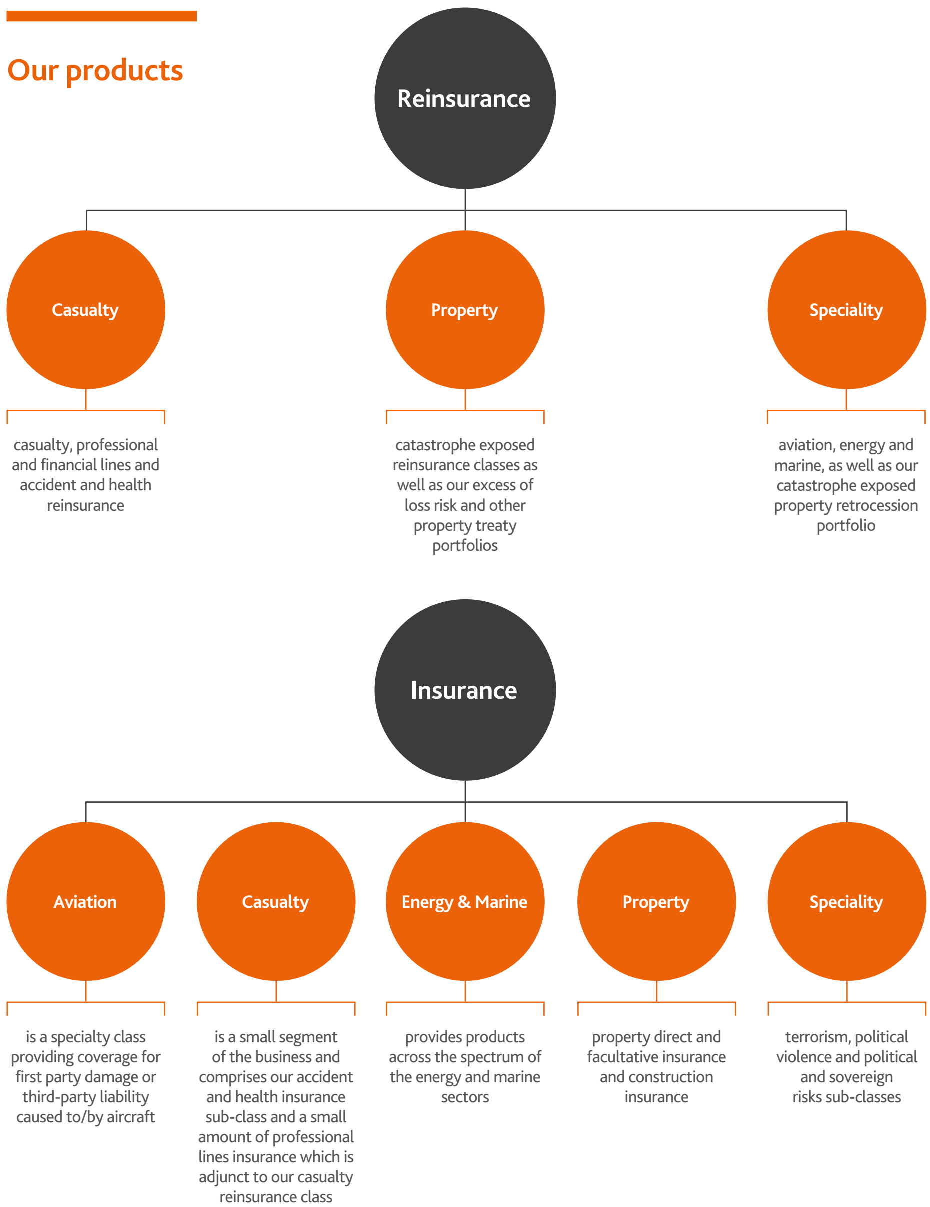
Contents

Executive *Summary*

Lancashire Holdings Limited ("LHL" or the "Company") is the group holding company for the Lancashire Group (the "Group" or "Lancashire"), a provider of global specialty insurance and reinsurance products operating in Bermuda, London and Australia across three established platforms: Lancashire Insurance Companies; Lancashire Syndicates; and Lancashire Capital Management.

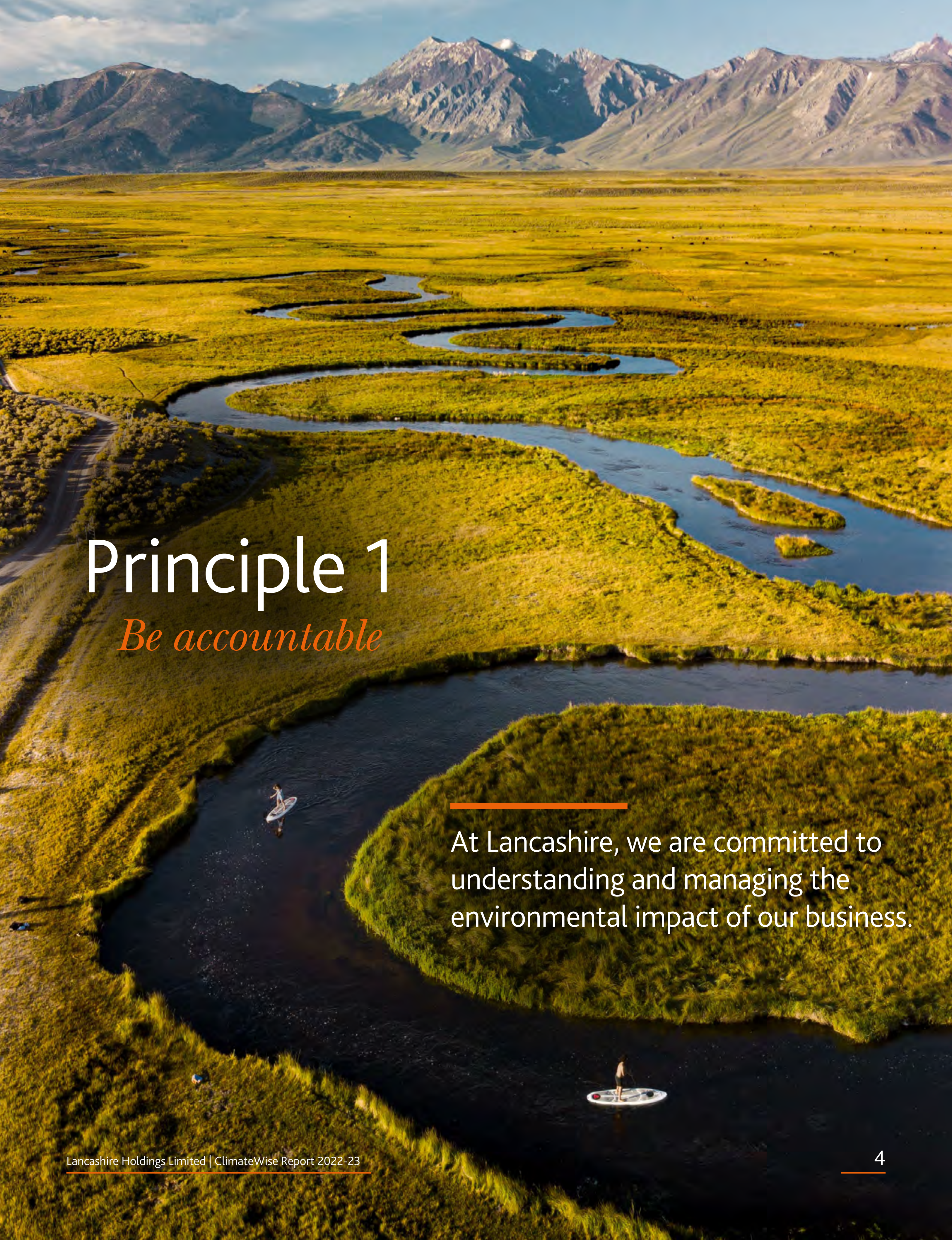
The Group operates from its headquarters in Bermuda; through its subsidiary companies based in Bermuda and the United Kingdom (UK) and through its two Lloyd's syndicates in the UK, and a Lloyd's service company in Australia.

Our products



ClimateWise Membership

This is Lancashire's second year as a member of ClimateWise. We continue to make progress against the ClimateWise Principles and align our sustainability strategy within the context of the United Nations Principles for Sustainable Insurance and with the TCFD recommendations.



Principle 1

Be accountable

At Lancashire, we are committed to understanding and managing the environmental impact of our business.

Principle 1

Be accountable

1.1 Ensure that the organisation's Board is working to incorporate the ClimateWise Principles into business strategy and has oversight of climate risks and opportunities.

Governance

The Company's Board has ultimate responsibility and oversight for the Group's environment, social and governance (ESG) strategy, climate-related risks and opportunities and related sustainability targets that have a material impact on the Company or the Group. The Board oversees the Group's Enterprise Risk Management (ERM) activities and receives regular updates on material ESG risks while ensuring appropriate governance, systems and oversights are in place.

The Group's Board-level Nomination, Corporate Governance and Sustainability Committee oversees the articulation of the Group's ESG strategy and the implementation of ESG initiatives by the management and the business and reports to the full Board. Aspects of ESG strategy are reviewed and monitored by other Board Committees.

Nomination, Corporate Governance and Sustainability Committee

Figure 1.1

Peter Clarke
Non-Executive Chair

Michael Dawson
Non-Executive Director

Sally Williams
Non-Executive Director

Irene McDermott Brown
Non-Executive Director

The Board is supported by its Committees within their respective core mandates, with each committee meeting four times a year.

1. The Nomination, Corporate Governance and Sustainability Committee receives direct reports from the management team and monitors issues of sustainability, including developments in climate change risk management and reporting; from this, the committee makes recommendations to the Board regarding the ESG responsibilities of the Company.
2. The Underwriting and Underwriting Risk Committee receives direct reports from the management team and is responsible for monitoring the impacts of climate change and transition risk, as well as the broader ESG risks, and articulating appropriate appetites and tolerances for the Group.
3. The Audit Committee principally through its work in reviewing the Group's Annual report provides oversight of the disclosures on the evolution of the Group's ESG strategy, the account of the Group's carbon footprint measurement and offsetting, and the Group's TCFD report.
4. The Investment Committee receives direct reports from the management team and provides oversight of investment risks, including sustainability risks, by monitoring the climate change risk sensitivity, the ESG profile and the carbon intensity profile of the Group's investment portfolio as the external market for measurement of such items continues to develop.
5. The Remuneration Committee evaluates the Group's remuneration packages, including the Group's remuneration structure, ensuring they are in line with the Group's business and ESG strategy.

The diagram below illustrates the responsibilities and reporting lines to the Group Board, including the Board sub-committee, the Group Executive management committee and the executive ESG Committee and the overall governance structure as it pertains to ESG.

Annual Strategic Plan

The Board considers annually, and on a rolling basis, a strategic plan for the business, which the Company progressively implements. The strategic plan approved by the Board at its Q2 meeting in July 2022 was a longer-term strategic plan towards 2030. At its meeting on 2 November 2022, the Board also approved a Lancashire Group ESG Strategic Statement and Group ESG Framework as well as a management proposal for a more detailed three-year business forecast covering 2023 to 2025, which (as in 2022 and prior years) will be revised and reviewed by the Board at each of its quarterly meetings throughout 2023. An updated 2023 business plan, taking account of the year-end developments and 1 January renewals, was presented to the Board and approved at the Q4 2022 meeting in February 2023.

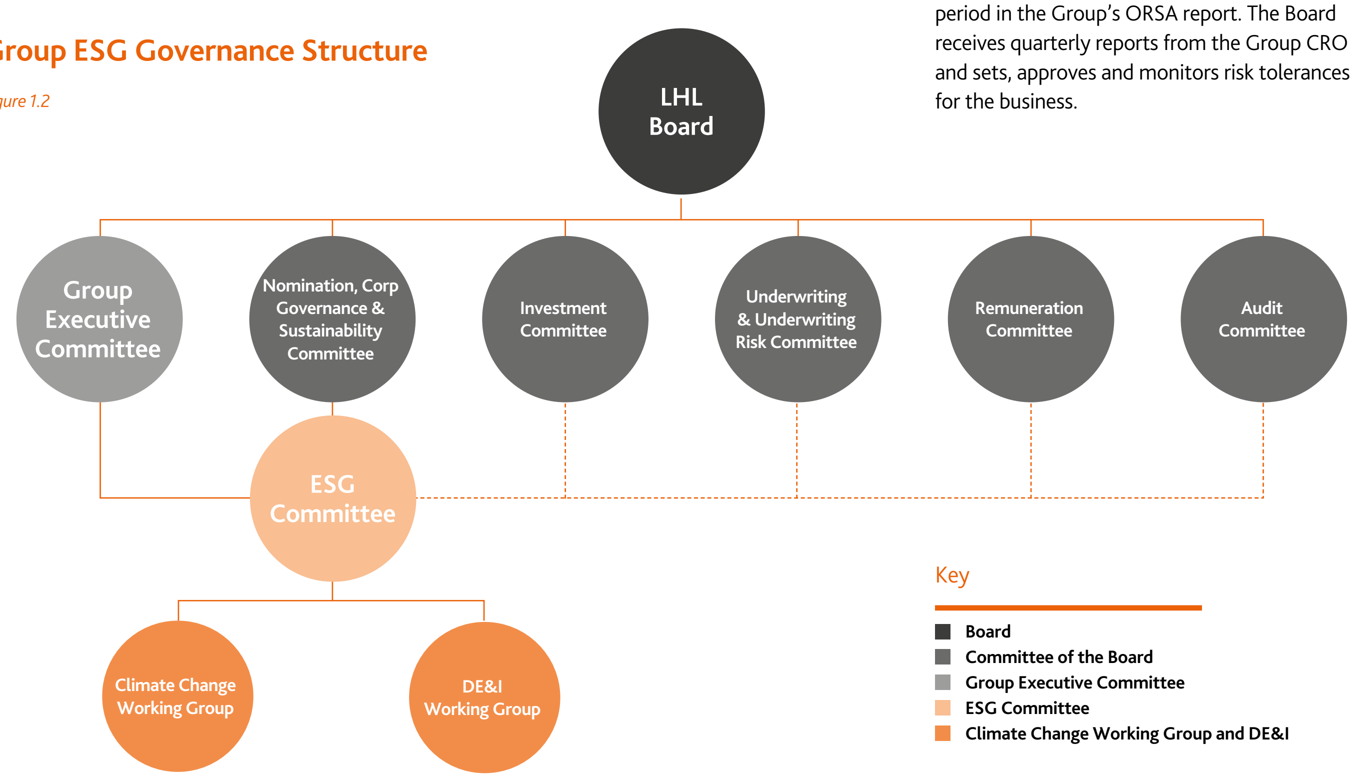
Complying with ESG-related requirements and further developing the Group's ESG principles to ensure that the Group operates responsibly as a business is a key strategic objective.

Adapting to The Market

The three-year business plan period aligns with the predominantly short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA report. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business.

Group ESG Governance Structure

Figure 1.2



Board Risk Assessment

In 2022, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment, the business plan was stressed for a number of severe but plausible scenarios, including climate change and the impact on capital evaluated.

UK Government's Net Zero Commitment

In 2021, the Group committed to meet the UK Government's Net Zero Strategy by 2050 by setting greenhouse gas (GHG) reduction targets. The Group continues with its Board approved offset program, and the Board monitors these targets to ensure they are aligned with the overall strategy and business operational requirements.

Own Risk and Solvency Assessment

The Board receives a quarterly Own Risk and Solvency Assessment (ORSA) update report from the Group Chief Risk Officer (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.

Board Level Engagement

In 2022 & 2023, the Board's ESG and climate change oversight included:

- Review and approval of the Group's annual
  - ESG framework;
  - ESG strategy;
  - Risk appetite statements, including the tolerances for elemental probable maximum loss (PML)s and non-elemental realistic disaster scenarios (RDS)s;
  - ORSA report; and
  - ESG insurance underwriting guidelines;
- Review of the quarterly ORSA reporting, which contains information on all risk categories highlighting material risk considerations, including climate-related risk where appropriate; and
- Review of the output from stress tests performed as part of the annual business planning exercise and the annual ORSA reporting process, including climate-related scenarios.

Board-Approved Risk Tolerances

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. In addition, the Group Chief Underwriting Officer (CUO) and Group CRO regularly review current and emerging (re)insurance risks.

Risk Return Committee

We track a range of natural and manufactured scenarios across the group, which are monitored monthly by our Risk Return Committee (RRC). These include climate-related "elemental" scenarios, where loss frequency and severity could be impacted by changes in the climate, such as wildfires, floods, convective storms, hurricanes and typhoons. From these, we generate PML estimates to describe the potential loss impact across our group portfolio at various return periods. We have recently enhanced our modelling capabilities in the areas of inland flood and wildfire as key climate-impacted perils. The RRC is charged with the ongoing review of these scenarios' suitability to ensure they remain fit for purpose.

View of Risk Committee

The View of Risk Committee is responsible for ensuring that a consistent, approved, view of risk is applied across the Group for modelled perils. This includes the selection and validation of models and loadings by peril. All significant vendor model developments are reviewed and validated with specific reference to Lancashire's portfolio.

Group's Investment Portfolio

The Investment Committee oversees the management and performance of the Group's investment portfolio, including investment risk parameters, which include specific Board-approved climate-related investment guidelines applied across the Group's fixed maturity portfolio. In addition, the Investment Committee monitors performance against a Climate value-at-risk (VaR) risk appetite statement as part of the regular quarterly reporting process. This includes an agreed preference for the financial impact of the Climate VaR which is a model aligned to the Paris Accord 1.5°C goal on the Group's actual fixed maturity portfolio, covered by Morgan Stanley Capital International (MSCI), to have a less detrimental impact than the MSCI benchmark model. The Committee also considers investment portfolio performance using an MSCI carbon sensitivity tool to look at carbon intensity and transition risk scores against the MSCI benchmark, as well as an MSCI ESG profile tool, which provides us with an MSCI ESG score for our fixed income securities, which is subdivided into scores for Environment, Sustainability and Governance. Again, these scores are compared to the MSCI benchmark.

Climate Change into Business Planning Using ORSA

The ORSA process is based on quarterly and annual reporting and is closely aligned with the business planning process. ORSA reporting is another safeguard that informs the risk and capital implications and the potential impact on the organisation's solvency, where the internal model informs the business planning process. Every quarter, the ORSA risk report provides status updates presented by the CRO to the Lancashire Holding Limited (LHL) Board. Risk exposures are compared to risk tolerances, material breaches are presented, mitigation strategies are recommended, and material emerging risks are discussed in the context of the business plan. The Underwriting and Underwriting Risk Committee also reviews the elemental and non-elemental risk exposures versus the Board approved risk tolerances.

UK Governance

The Prudential Regulation Authority (PRA) Supervisory Statement (SS3/19) requires that the Board embed and understand climate-related financial risks and have oversight for the Group's PRA regulated entities. The Board is accountable for setting a climate-related financial risk appetite and obtaining assurance, which is managed through the ORSA updates. This is to ensure that the climate-related risks are effectively managed and controlled.

The Financial Conduct Authority in the UK has the Senior Managers and Certification Regime (SMCR), which is designed to ensure that financial services firms adhere to a high level of governance. The Group has appointed Senior Manager Function responsibility for managing financial risks from climate change to the Group CRO for LUK and to the Syndicates' CRO for LSL. Ultimately the Group CRO is responsible for identifying and managing the financial related risks to climate change that are reported to the Board.

The Company also monitors compliance with applicable corporate governance requirements under Bermuda law and regulations. The Company is subject to group supervision by the Bermuda Monetary Authority (BMA), which also regulates Lancashire Insurance Company Limited (LICL), the Group's Bermuda-incorporated (re) insurance entity. The Group's UK insurance entities are regulated by the PRA and the Financial Conduct Authority, and Lloyd's in the case of LSL and Syndicates 2010 and 3010.

Remuneration Policy

The Group's Remuneration Policy is designed to motivate Executive Directors to further the Group's interests and to optimise long-term shareholder value creation within appropriate risk parameters. The design of the remuneration awards supports the Group's business strategy, ESG strategy, risk profile, objectives, risk management practices and long-term interests of stakeholders. This Policy further underscores sustainably operating the business by not encouraging inappropriate risk-taking. The Policy seeks to appropriately motivate Executive Directors to deliver a long-term, sustainable performance that benefits all stakeholders.

1.2 Describe management's (below board-level responsibility) role in assessing and managing climate-related issues.

Top-Down Approach

The Group Chief Executive Officer (CEO) is accountable for the development and execution of the Group strategy, including managing climate-related risks and opportunities. The Group CUO is ultimately responsible for the re/insurance business underwritten by the Group, assisted by the Group Heads of Reinsurance and Insurance, subsidiary CUOs and syndicate Active Underwriters.

Climate-Related Considerations as Part of Underwriting Process

Climate-related risks and opportunities as they relate to the business written are assessed as part of the underwriting process. Each underwriter has an underwriting authority in which climate-related insurance underwriting guidelines have been embedded. Management information is used to monitor the business written against these guidelines.

Communication from C-Suite to Management

The Group CRO is the Senior Management Function (SMF) holder responsible for the overall management of the risk management framework. The function of this framework is to facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board, to ensure these risks are given due consideration and embedded in decision-making. In addition, the insurance and reinsurance Chief Underwriting Officers are fully involved in the process, and the new business committee also evaluates climate-related risks/opportunities.

The CRO reports to the Executive Committee, being senior management level representatives, on any material issues that may arise. The CRO maintains a threats and opportunities register, which is reviewed quarterly, and covers all aspects of risk, including climate risk.

Management Level ESG Committee

The ESG Committee, established by management in 2021, oversees, coordinates, and internally manages the delivery of the Group's ESG strategy. The ESG Committee focuses on the actual and potential impacts of climate-related risks and opportunities across the business and the identification and recommended reporting (both financial and otherwise) of ESG issues as they relate to the Company and its subsidiaries.

It is a management committee with representation from our underwriting, investments, finance, risk, investor relations, human resources, and legal and compliance teams. This Committee is supported by the Climate Change Working Group (CCWG) and the Diversity, Equity and Inclusion Working Group (DEIWG), with the CRO the common link between the ESG Committee, CCWG, and the Group Executive.

The ESG Committee meets once a month, and more frequently if required, with a formalised agenda tracking and noting how ESG factors are evolving internally and externally as well as opportunities to raise and discuss any other business.

Business Relevance of ESG Issues

Figure 1.3

ESG Committee Governance Structure

The ESG Committee reports to the Board on a quarterly basis, as well as regular reporting to the Group Executive Committee, and is supported by both the Climate Change and DEIWG . 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 and quarterly reporting from the ESG Committee Chair.

Diversity, Equity & Inclusion Working Group

The DEIWG is a staff-led forum that challenges and influences the Group's approach to DEI, particularly regarding our hiring, promotion, and retention processes. In addition, the DEIWG receives management information to monitor progress against the Group's DEI objectives. Effective problem-solving through diversity of thought requires engaging people from all backgrounds; this is pivotal for innovative business solutions and policies for complex issues such as climate change.

Climate Change Working Group

This working group comprises mixed staff members from different levels of work experience and seniority and from various departments. In 2022 and 2023, the CCWG focused on developing the stress and scenario testing process. A group of individuals with specific expertise have been convened and will be working with an external modeller to run various scenarios and test the validity of the results.

Underwriting Management

In our underwriting operations, we manage risk effectively through some of the following practices:

- Sharing knowledge and guidance on the insurance underwriting guidelines that were developed to better reflect transition risk in 2021 and are now a part of each underwriter's individual authority to which they must adhere and is a part of their annual performance appraisal process;
- Supplementing our internal expertise with external vendor models;
- Adhering to the tolerances and preferences in place to actively manage risk exposures, including exposures associated with loss events which may be influenced by climate change trends; and
- Monitoring our PMLs at the management RRC, with a quarterly update provided to the Board.

In addition, the daily Underwriting Marketing Conference Call (UMCC) is a forum when risks are discussed, challenged and approved by the relevant entity as appropriate. This increasingly includes senior managements' consideration and challenge of climate change impacts in relation to the individual risks.

Transition and Climate-Related Litigation Risks

Information and trends on litigation risks are supplemented by examining legal cases in the public domain and understanding the potential ramifications for the Group based on our existing portfolio. The risk to the asset side of our balance sheet from exposure to climate change is mitigated through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio.

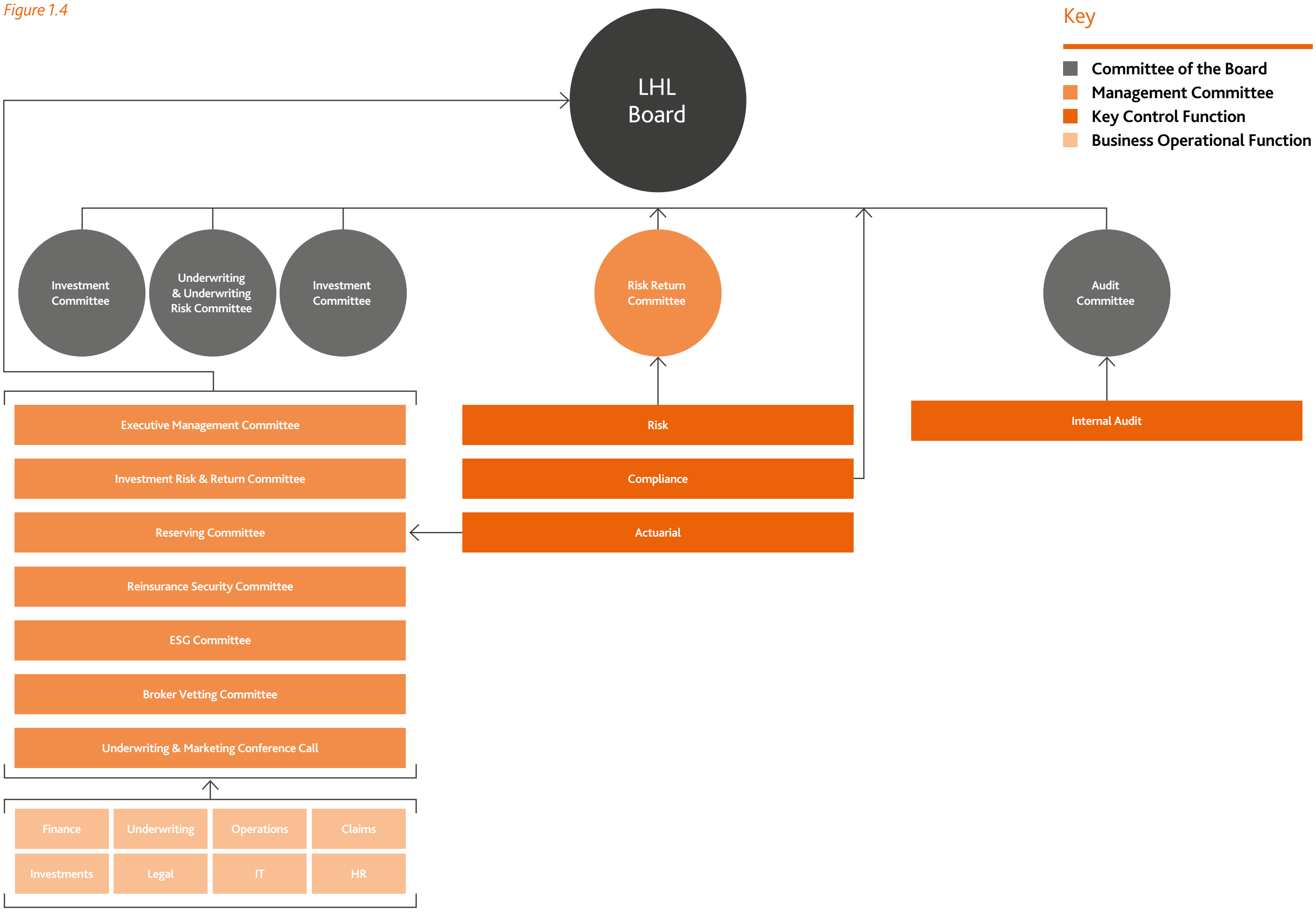
Investment Managers

The Company operates a predominantly outsourced investment management model, with a small group of specialised investment managers. The Company's investment managers operate according to our investment guidelines.

Management and the Investment Committee are working with our external portfolio managers to monitor the carbon and ESG profile of the Group's investment portfolio. In 2023, the Group has been exploring the potential to invest in ESG-themed funds which invest with an ESG focus.

Three Lines of Defence – Governance Framework

Figure 1.4



1st Line of Defence

Risk owners within each business function are responsible for managing their risks and controls daily. Consists of everyone at all levels in the organisation; all have responsibility for risk management at an operational level.

Physical, transition and climate-related litigation risks fall under the responsibility of all managers as they relate to their area of expertise. The management team collaborates regularly in the same way it does in respect of all risks to which the business is, or is potentially, exposed.

2nd Line of Defence

Provides independent oversight, assesses the challenges and advises on risks objectively to the first line of defence. Includes the Group's risk team, compliance team and actuarial team, reporting to the Group Risk Return Committee.

3rd Line of Defence

The Internal Audit team provides independent assurance to the Audit Committee, by assessing the effectiveness of our risk management processes and that risk controls are being managed in line with approved policies, appetite, frameworks and processes, and helps verify that the internal control system is effective. The Head of Internal Audit reports to the Board Audit Committee on internal control framework issues. Two specific ESG audits have been performed (Q3 2021 and Q3 2022), with the results of both shared and discussed with the Board.

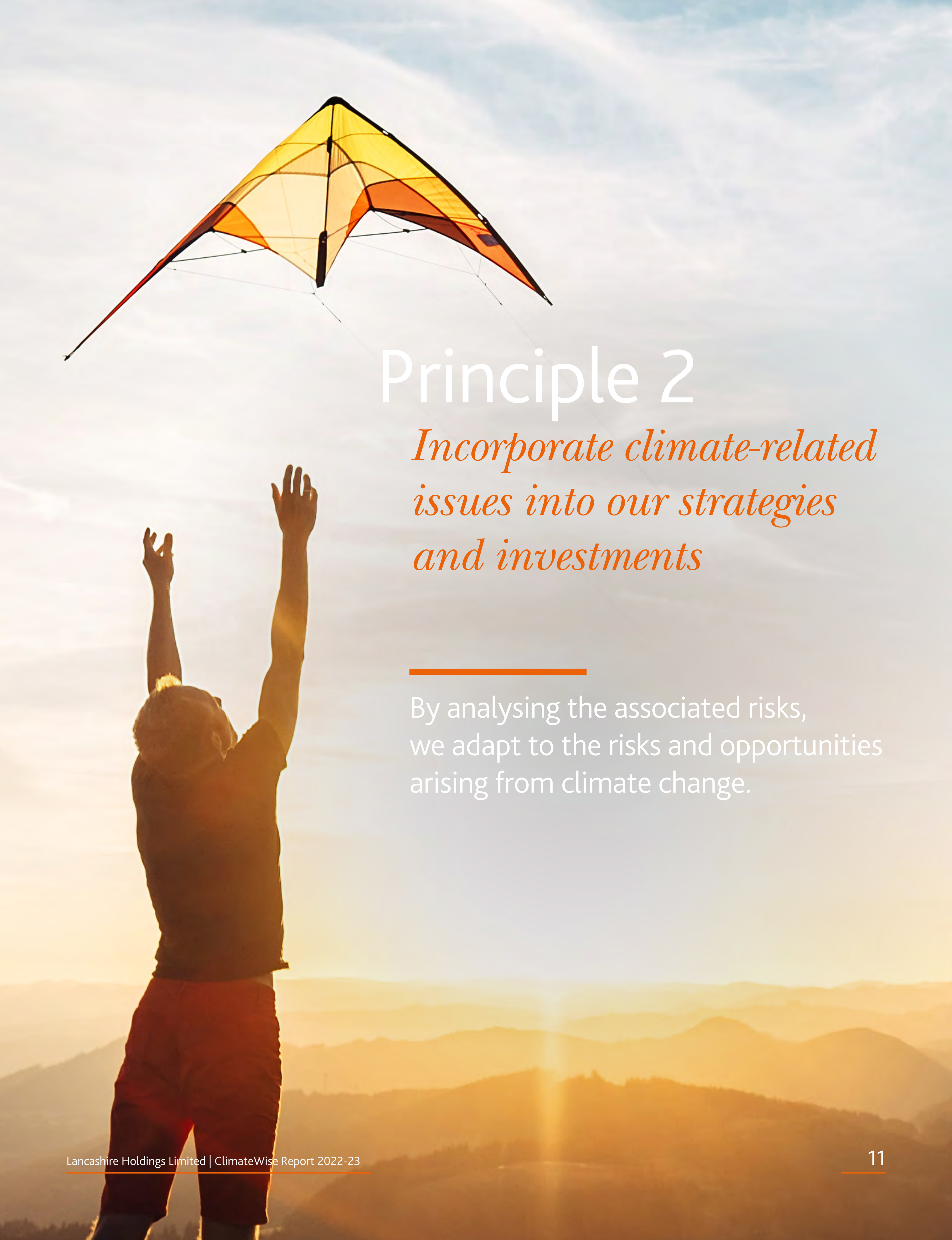
External Scores and Indices to Track Progress

To monitor our progress and improve our sustainability performance, we use stakeholder feedback, as well as progress measured with ESG rating agencies; MSCI, Sustainalytics, ISS Corporate Services, the CDP, to which we disclose our GHG usage data annually, and ClimateWise. As part of our commitment to sustainability, Lancashire is a signatory of the UNEP FI Principles for Sustainable Insurance.

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- In 2022, the *ESG strategy and framework were updated* to include reporting ESG issues and all five of the Board Committees' terms of reference have been updated.
- *Expanded reporting of ESG matters* to the Company's Board and its Nomination, Corporate Governance and Sustainability Committee.
- *Further developed ESG reporting to the Nomination, Corporate Governance and Sustainability Committee*, which continues to monitor development areas of the Group's ESG responsibilities, including the impact of climate change, throughout its work in 2022 & 2023.
- The Nomination, Corporate Governance and Sustainability Committee *reviews the developments in environmental sustainability and climate change, and the management of related risks and opportunities.* The Committee reviewed and ratified the Group's 2022 CDP response.
- *Continue to engage with external rating agencies to leverage the frameworks* and improve our sustainability performance.
- *Board-level training on ESG and climate-related topics.*
- *Develop ESG measurement* to track known performance indicators (KPI) risks and opportunities, including climate-related issues.
- *Produce a public-facing ESG scorecard* to demonstrate progress against goals and ESG improvements.
- *Assess which United Nations program best fits to increase our signatory commitment* to sustainable programs and the sustainable development goals.



Principle 2

Incorporate climate-related issues into our strategies and investments

By analysing the associated risks, we adapt to the risks and opportunities arising from climate change.

Principle 2

Incorporate climate-related issues into our strategies and investments

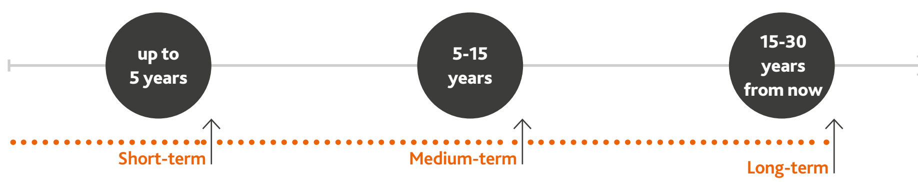
2.1 Evaluate the implications of climate change for business performance (including investments) and key stakeholders.

As a (re)insurer, it is imperative that we continually evolve our risk solution products and operational resiliency to boost our capabilities to be more sustainable and support our stakeholders.

Climate Change Impact

We consider the actual and potential impacts of climate-related risks and opportunities on Lancashire's strategy and financial planning across the following timeframes:

Figure 2.1



Our company 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. Support our people and work with our stakeholders, fostering a positive, sustainable and open business culture to the benefit of society.

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 annually and therefore re-price physical risks and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events.

Engagement on Climate Data

In 2022 and 2023, we have engaged more actively with our clients and have seen an increase in the level of climate-related information provided as part of the underwriting process as a result. We recognise that climate change also impacts the longer-term strategy in terms of emerging risk. Accordingly, management works with some of the leading external catastrophe model providers to understand the science that underlies and informs developments within 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.

Board Discussions on Climate Risk

The Board regularly discusses cycles and trends within the insurance sector and 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 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 five to 30 years).

Identifying the Impacts of Climate-Related Risks

Since 2021, significant work has been undertaken to identify and articulate the financial impacts of climate-related risks, including: physical; transitional; regulatory (current and emerging); technological; legal; market, and reputational risks. As an example, for each physical risk that has been identified, the loss amplification factors, time frame and magnitude were considered in tandem, as were the metrics by which these risks could be monitored and reported.

Examples of short- to medium-term risks identified include:

- 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.
- Increased risk of wildfire due to warming temperatures combined with shifting precipitation patterns.

An example of a longer-term risk being considered is the emergence of new natural catastrophe zones due to shifting weather patterns. The potential financial impact from these risks is included within the metrics and targets and is further described in Principle 2.2.

Transitional Risks

Transitional risks the Group may face include the probability of a declining premium environment in the traditional oil and gas sector, transportation classes over time, or the risk of exposure to climate change-related litigation. As the economy transitions from a carbon-based one towards a net-zero future, we have considered the impact of new technology and how it will influence renewable energy risks, which we underwrite. We can mitigate financial losses and address new forms of volatility through in-house and external engineering expertise by unlocking potential solutions for further growth and a better approach to underwriting these new types of risk.

The potential impact in terms of premium is thought to range from low to medium for the relevant subsidiary writing the business; however, the financial impact to the Group of these risks varies from very low to low at this time due to the inherent responsiveness in the Group's nimble and adaptive underwriting strategy. The impact would expect to be felt in both segments of the business, i.e., insurance and reinsurance.

New Products to Mitigate Risk

As a (re)insurer, the Group is in the business of accepting and mitigating risk; for every risk identified, there is the potential for an opportunity. The re/insurance products which the Group has underwritten since its inception help our clients to mitigate the impacts of catastrophic losses upon our clients' property and businesses, including catastrophic weather loss events associated with climate change factors. Opportunities come in the form of new products and services, as we work closely with existing clients to provide the insurance they need as they transition, and access new markets in the form of new assets and locations requiring insurance coverage.

The Group accepts risks for periods primarily on a 12-month basis; this allows us to mitigate the systemic impact of climate change and monitor the book of business. In addition, the Group can re-evaluate the portfolio annually, re-price physical risk and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events on any new and existing lines of business.

Strategic Asset Allocation for Investments

The Investment Committee performs a strategic asset allocation study on a bi-annual basis, which assesses the Group's overall strategy and determines alternative asset allocations to achieve the best risk-adjusted return within our risk tolerances.

The Investment Committee meets quarterly to monitor the management of the investments of the Group against the asset allocations, risk tolerance and risk preference levels, and the approved investment guidelines. The Investment Committee receives information on ESG and carbon intensity scores for the fixed income portfolio and the Climate VaR versus the MSCI benchmark at the 1.5°C, 2°C and 3°C Paris Accord pre-industrial levels. The Investment Risk and Return Committee (IRRC) meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC helps develop and incorporate risk tolerances into the ERM framework.

Climate Risk Governance

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 using stochastic models from third-party vendors which are loaded for climate risk. In addition, we load these models based on our views of climate risk and use 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 several 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 and capital utilisation by class of business, are also key considerations in the financial planning process. The business mix is also reviewed, with new products and lines considered where rates prove attractive and accretive.

Risk Solutions Provided

Lancashire has been a risk partner of businesses operating in the aviation, energy and marine sectors worldwide for many years. The risk solutions 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 necessary to meet global energy demand and to reduce carbon emissions. We remain committed to supporting our clients across the energy sector as they navigate this transition.

Natural catastrophe risk business, particularly property catastrophe risks, is an important part of Lancashire's product offering to its clients, offering confidence to vulnerable communities that they can return to normal post a loss event.

Climate-Related Opportunities

The opportunities arising from climate change require investment in infrastructure for the world's transition to a lower-carbon economy, and such infrastructure will require insurance that lies within the Group's existing classes of business and appetite. The demand for environmental insurance products is also expected to increase. A summary of the opportunities, their likelihood, timeframe and magnitude of impact on comprehensive income is included in the table below.

Risk Description and Market Opportunity

Figure 2.2

Risk Description	Market Opportunity	Time-frame	Likelihood	Magnitude
Political Risk insurance	There is currently a strong uptick in ESG related funding from our existing client base and this trend is expected to continue.	S – M	High	Low
Natural Catastrophe (re)insurance	Additional limit purchased by insureds and reinsurers at improved pricing levels as catastrophe risk increases; both earnings protection and capital protection being sought to significantly increase demand.	M	High	High
Renewables	The share of renewables in global electricity generation jumped to an all time high of 29% in 2020 and this trend is fully expected to continue. As our clients transition from fossil fuels to renewable energy there will be sizeable opportunities in the market to grow this part of our portfolio.	M	High	Medium
Carbon Capture: injection of CO_2 into depleted gas fields	We believe that offshore carbon capture and storage (CCS) may play a major role in global efforts to reduce emissions.	M – L	Medium	Medium
Decommissioning Insurance: Oil & Gas assets	The pace of the energy transition will accelerate the decommissioning of a large number of offshore platforms and complexes. As these assets reach the end of their commercial life there will be increased pressure to ensure that their decommissioning is done in an environmentally friendly way with appropriate risk management solutions.	M	Medium	Low
Environmental Insurance Products	Environmental insurance provides coverage for loss or damages resulting from unexpected releases of pollutants typically excluded in general property and liability policies.	M – L	Low	Low
Parametric (weather) Insurance Products for food & agriculture industry	Industries will look at new ways of managing weather risk where parametric triggers are more likely to offer a form of indemnity.	L	Low / Medium	Low

Key

Time frame

- **Short-term** up to 5 years (S)
- **Medium-term** 5-15 years (M)
- **Long-term** 15-30 years from now (L)
- **Short to medium-term** (S – M)
- **Medium to long-term** (M – L)

Likelihood

- High
- Medium
- Low

Magnitude

- High
- Medium
- Low

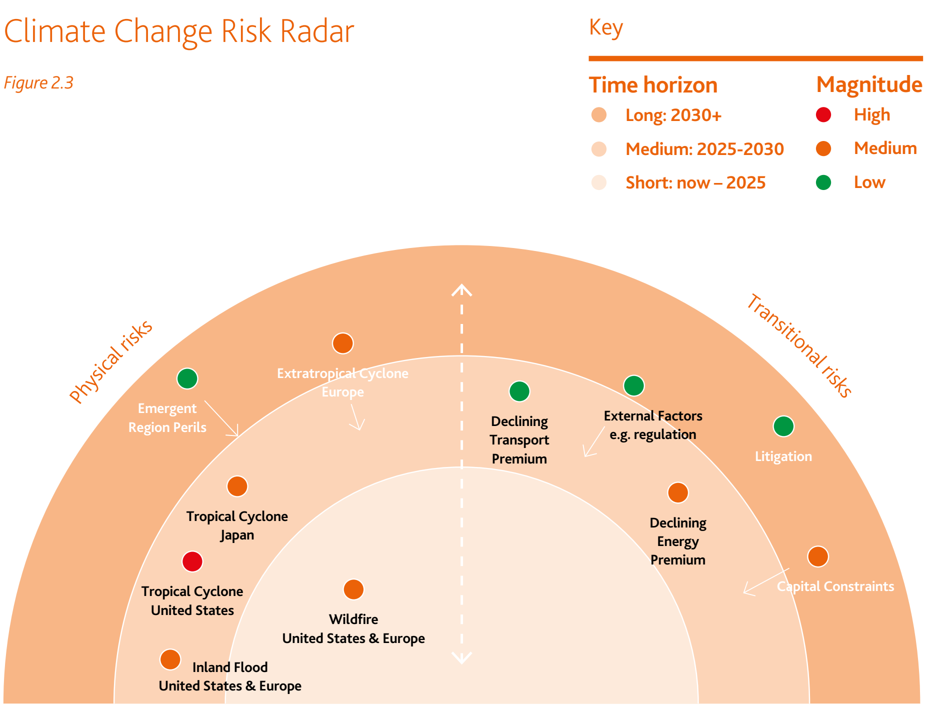
2.2 Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders.

Internal View of Risk

In 2021 a 'Climate Risk Radar' was developed which illustrates Lancashire's current internal view of the physical and transition risks the Group may face from climate change include the potential time horizon over which they may be faced; potential magnitude of financial impact, and the geographical region (for physical risks). This tool allows us to map the climate dependencies to understand where the disruption might occur and have an impact on our business either from a physical risk or transition risk. It is a quick visual that can contextualise climate risks while plotting them on a magnitude and time horizon scale.

Climate Change Risk Radar

Figure 2.3



Impact of Climate-Related Risk

Our underwriting strategy is based on several 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.

The table below shows the impact based on our current portfolio; if exposure or experience was to change materially, the financial impact could be more significant. However, the longer-term impact to the Group should be taken within the context of our ability to reprice contracts if needed and develop new products.

Magnitude of Impact

Figure 2.4

As at 30 June 2023

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	\$300.4 million / 17.3%	• Positive feedback loop in pricing models that reflect heightened risks from climate change
U.S. Windstorm – Non-Gulf of Mexico	Medium	High	\$241.9 million / 13.9%	• Lancashire adjusts gross risk appetite wherever the risk is viewed as inappropriately priced for the exposure
Japan Windstorm	Medium	Medium	\$143.3 million / 8.2%	• Outwards reinsurance is adapted to reflect the changing exposures
Extratropical Cyclone				
European Windstorm	Medium – Long	Medium	\$166.5 million / 9.6%	• Robust internal controls ensuring PMLs are monitored monthly by the RRC • Additional secondary perils now modelled • We continue to develop views on other perils

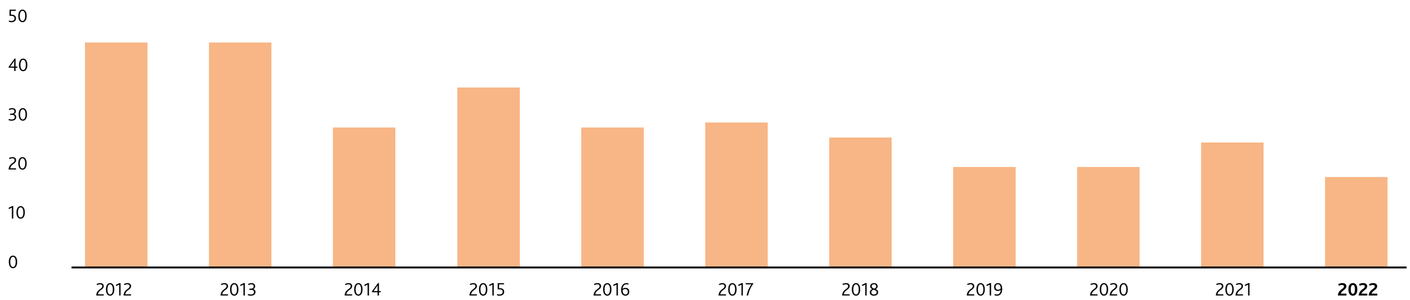
Climate Modelling

Our PMLs are derived using stochastic models licensed from third-party vendors. The View of Risk Committee 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 View of Risk Committee and 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.

We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs.

PML as a % of GWP, as at 31 December 2022

Figure 2.5



Climate Impact

Climate change may expose the Group to the risk of heightened severity and frequency of weather-related losses. Climate-related risks are identified and assessed as part of the usual risk identification and management process which includes but is not limited to discussion with the following groups:

- Risk owners and with subject matter experts across the Group;
- Emerging Risk Forum;
- CCWG, and
- ESG 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. These reviews include: the physical location of assets insured, weather related perils that have impacted the location and their historical frequency and severity, as well as expected short and long-term changes.

Catastrophe Management

The Group actively monitors risk levels and manages catastrophe risk accumulations using reinsurance and PML based risk tolerances, which are monitored as part of our climate-related risks. The Group's exposures to certain peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis. The exposure to catastrophe losses that would result in an impairment to the investment in associate is included in the figures below.

Figure 2.6

		100 year return period[2] estimated net loss		250 year return period[2] estimated net loss	
As at 30 June 2023		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**300.4**	**17.3**	**364.8**	**21.0**
California	Earthquake	**260.5**	**15.0**	**310.2**	**17.9**
Non-Gulf of Mexico – U.S.	Hurricane	**241.9**	**13.9**	**462.8**	**26.6**
Pan-European	Windstorm	**166.5**	**9.6**	**201.4**	**11.6**
Japan	Typhoon	**143.3**	**8.2**	**197.6**	**11.4**
Japan	Earthquake	**141.4**	**8.1**	**251.6**	**14.5**
Pacific North West	Earthquake	**32.0**	**1.8**	**121.4**	**7.0**

1. Landing hurricane from Florida to Texas.
2. Estimated net loss balances presented in the table are unaudited.

Figure 2.7

As at 31 December 2022		100 year return period[2] estimated net loss		250 year return period[2] estimated net loss	
		$m	% of tangible capital (restated)	$m	% of tangible capital (restated)
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	301.2	18.8	348.0	21.8
California	Earthquake	248.0	15.5	291.9	18.2
Non-Gulf of Mexico – U.S.	Hurricane	217.2	13.6	362.5	22.7
Pan-European	Windstorm	181.2	11.3	218.4	13.6
Japan	Typhoon	144.5	9.0	180.3	11.3
Japan	Earthquake	121.6	7.6	172.1	10.8
Pacific North West	Earthquake	29.5	1.8	137.5	8.6

1. Landing hurricane from Florida to Texas.
2. Estimated net loss balances presented in the table are unaudited.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, the models contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Details of annual gross premiums written by geographic area of risks insured are provided below:

Figure 2.8

	30 June 2023		Restated 30 June 2022	
	$m	%	$m	%
U.S. and Canada	**278.3**	**38.6**	217.0	37.5
Worldwide – multi territory	**263.2**	**36.5**	206.0	35.5
Europe	**66.7**	**9.3**	58.2	10.0
Rest of world	**112.7**	**15.6**	98.6	17.0
Total gross premiums written	**720.9**	**100.0**	579.8	100.0

Details of annual gross premiums written by business segment are provided below:

Figure 2.9

	30 June 2023		Restated 30 June 2022	
	$m	%	$m	%
Reinsurance	**336.6**	**46.7**	261.4	45.1
Insurance	**384.3**	**53.3**	318.4	54.9
Total gross premiums written	**720.9**	**100.0**	579.8	100.0

Approach to Investments

Similarly, with respect to our investments, we continue to monitor steps taken 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 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.

Investment Portfolio

Figure 2.10

Our portfolio at 30 June 2023 consisted of the following:	
Fixed maturity securities	90.9%
Private investment funds	4.7%
Hedge funds	4.4%
Total	**100.0%**

As shown in the table above, we have 90.9% allocated to 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 36.7% 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).

2.3 Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making.

Risk Identification and Management Discussions

Climate-related risks are identified and assessed as part of the usual risk identification and management process, including discussions with risk owners and subject matter experts across the Group and discussions at the Emerging Risk Forum, the CCWG, and the ESG Committee.

Individual underwriters identify and assess climate-related risks specific to the (re)insurance portfolios as part of the day-to-day underwriting process 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. These reviews include the physical location of assets insured, weather-related perils that have impacted the location and their historical frequency and severity and expected short- and long-term changes.

Underwriting Guidelines

For 2022, we developed insurance underwriting guidelines embedded within our Underwriting Authority framework to effectively monitor and guide underwriting in the more carbon-intensive industries. We continue to develop this further and enhance how we track premiums and policies according to their climate profile. In addition, over the past 12 months, we have started actively engaging with major clients in the more carbon-intensive industries to understand their progress on their Net Zero commitments.

Annual Strategy Sessions

The annual individual entity underwriting strategy days and the annual Group catastrophe underwriting strategy day assess climate-related risks of both current and anticipated future risks, which include but are not limited to transition risk arising from a decline in the 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 with respect to both magnitude and timescale.

Stress and Scenario Testing

Stress and scenario tests and reverse stress tests are performed as part of the business planning process and the annual ORSA reporting process. 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. In 2022 & 2023, stress testing has been performed on the Group's business plans to understand the impact should the recent high catastrophe event experience be more indicative of the average experience than that currently predicted by the third-party catastrophe models.

In addition, we have performed a 'lessons-learned' process for certain large natural catastrophe events to analyse the actual impact on the business compared to the expected impact of such an event. By doing this we further our understanding of the climate-related risks to which our business is exposed and can feed this back into our underwriting, modelling, business planning and strategic processes.

Regulator Stress and Scenario Testing

The Group performs scenario testing as part of its annual business planning process, including climate-related scenarios, and participated in the BMA's Climate Change Exposure Assessment, which included multiple scenarios covering the asset and liability sides of our balance sheet. Annually we test against the prescribed underwriting loss event scenarios as outlined in the Bermuda Solvency Capital Requirements (BSCR).

New Catastrophe Model and Climate Scenario Modelling Tool

During 2022, the Group decided to change the principal third party catastrophe model vendor. This enabled Lancashire to increase the range of secondary perils we are able to model. As part of this transition we have explicitly considered the impact of climate change to ensure hazard selections within the model are appropriate for our understanding of the current environment. All material new models and model changes go through a validation process via the View of Risk Committee. In addition, our exposure management, actuarial, and risk management team members are working together to implement an additional, independent, climate scenario modelling tool.

Quarterly Historic Modelling

Every quarter we model historic climate-related loss events for our current portfolio to understand the current day impact of their re-occurrence. Such events include the Katrina, Rita and Wilma hurricanes of 2005, the Florida hurricanes of 2004 (Charley, Frances, Ivan and Jean), and hurricanes Harvey, Maria and Irma of 2017.

Investment Portfolio

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.

Since 2021 we have been working in collaboration with our external portfolio managers to monitor the carbon intensity and ESG profile of the Group's investment portfolio. The Group's investment guidelines restrict investments in companies which rely on thermal coal for power generation or derive revenues from oil sands or Arctic oil/gas, as well as investments in fixed maturity securities with high carbon intensity ratings. A Climate VaR is monitored versus the MSCI benchmark quarterly through analysis of the underlying securities as measured by MSCI for the Group's Level (i) and Level (ii) securities. 93.9% of the Group's externally managed portfolio are managed by signatories of the UNPRI.

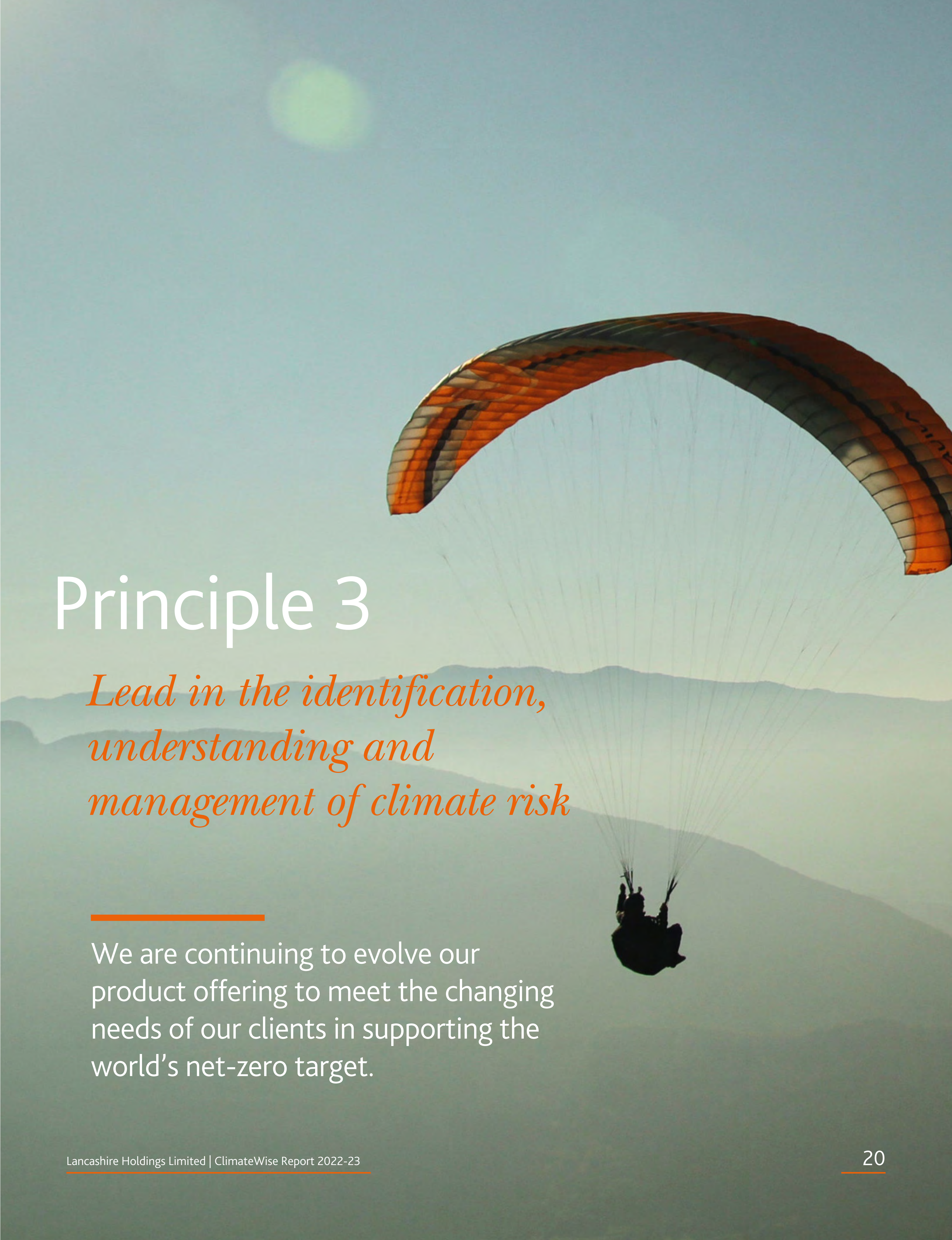
New Roles

In the past year, we created two specific roles within our organisation in response to managing climate risk – Head of Engineering and Group Sustainability Manager. Our Head of Engineering has extensive experience in the oil and gas industry. With his expertise, he has been able to disseminate complex engineering content, including in relation to newer, renewable energy assets, and deliver presentations to our staff on various ESG-related topics. The Group Sustainability Manager has a background in ESG and insurance reporting. She has collaborated with sustainability professionals in the Bermuda and London markets on climate trends and has been successful in implementing new strategies and developing frameworks.

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- *Continue our work with our new climate scenario modelling tool to further develop our stress and scenario testing processes for climate-related scenarios.*
- *Build on our work on calculating the carbon intensity of our underwriting portfolio,* performed in 2022 and 2023 to continue to more actively engage with our more carbon-intensive clients.
- In 2022 we started to work with *strategic investment partners to determine if there are more holistic ways of incorporating ESG into our investment portfolios* versus the targets and limits currently in place, we are investigating a new fund that is built on a circular economy and nature-based concepts.
- *Implement a working group of sustainability insurance professionals* within the London and Bermuda market to discuss best practices around strategies and mandatory requirements.



Principle 3

Lead in the identification, understanding and management of climate risk

We are continuing to evolve our product offering to meet the changing needs of our clients in supporting the world's net-zero target.

Principle 3

Lead in the identification, understanding and management of climate risk

3.1 Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments).

Enterprise Risk Management Framework

At Lancashire, our corporate infrastructure has been developed to manage risk and support disciplined, sustainable growth. Our ERM framework sits at the heart of this, underpinned by a strong risk culture and governance framework. As the Group continues its strong forward momentum and maximises the opportunities available, the risk function is focused on providing second line oversight and challenge to mitigate the risks involved; see governance framework in Principle 1, Figure 1.4.

We perform quarterly risk and control affirmation processes whereby the operation of all key controls are affirmed by the relevant control operators and then reviewed and approved by the respective risk owners. In addition, the risk owners are regularly required to confirm that their risks remain appropriately documented and scored.

The risks are scored on a gross basis (i.e., inherent risk pre-controls) and a net basis (i.e., residual risk post the application of controls). The output from this process is reported to the RRC and the Group and operating subsidiary audit and risk committees or boards of directors as appropriate.

Own Risk and Solvency Assessment

The Group CRO prepares the quarterly and annual ORSA reports. Both reports provide a timely analysis of current and potential or emerging risks, compared against risk tolerances, and their associated capital requirements.

The 2023 annual ORSA report was presented to the Board for review and challenge and was approved at the Q1 2023 LHL Board meeting. The equivalent reports for the Group's operating subsidiaries were presented to each board for review, challenge and approval during Q1 2023. As a Lloyd's managing agent, LSL falls within the Society of Lloyd's for Solvency II reporting, preparing ORSA reports for each syndicate. LSL also has its own ERM framework to ensure adherence to Lloyd's minimum standards.

The diagram overleaf illustrates how we balance our ERM and ORSA activities, underpinned by our risk culture and governance. Our collaborative risk culture is driven from a 'top down' approach from the LHL Board and executive management to the business, with the RRC central to these processes. Risk culture is also driven from the 'bottom up' through the risk and control affirmation process. The Group CRO facilitates the effective operation of ERM and the ORSA processes throughout the Group at all levels.

ERM & ORSA

Key activities

Strategy review & challenge
- Review of business strategy with challenge from the Board
- Annual approval of a business strategy paper by the Board
- Development of ESG strategy and framework

Risk identification & assessment
- Quarterly risk and control affirmations
- Quarterly emerging risk forum
- Quarterly internal audit reports to the Audit Committee providing an update on work performed and analysis of root causes of audit findings
- External audit reports to the Audit Committee
- Audit Committee annual review of the effectiveness of financial controls
- Monthly CCWG
- Monthly ESG Committee

Figure 3.1

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

Risk & business management
- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment
- ESG framework and strategy
- Review and approval of business plan by the Board

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

Business planning
- Stress and scenario testing (business plan)
- Assessment of management actions
- Group CRO review of business plan
- Board business performance review
- Board consideration of stakeholder engagement

Risk solvency & assessment
- Group CRO reports to Board and Group Executive Committee
- Production of quarterly ORSA report for review and approval by the Board

Key elements of ORSA

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

Identifying and Assessing Climate-Related Risks

Climate-related risks are identified and assessed as part of the usual risk identification and management processes within the Group which include but are not limited to: discussions with risk owners and with subject matter experts across the Group, as well as discussions at the Group's Emerging Risk Forum, CCWG, and ESG 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 Underwriting Marketing Conference Call (UMCC) and the fortnightly RRC meetings.

An analysis of 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 is performed. The individual entity annual underwriting strategy days and the Group annual catastrophe underwriting strategy day also provide a practical basis for discussing the climate-related risks of current and anticipated future risks.

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 are considered with respect to magnitude and timescale.

Capital Models

Within the capital models, insurance risk accounts for most of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place many controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested.

Business Planning and Climate Risk Impact

We continue to believe in the market cycle and the economic dynamics of supply and demand and therefore spend time looking at the implications of new capital entering the market and the evolution of the market cycle. In addition, the Group continues to consider and adapt to the risks and opportunities arising from climate change by analysing the associated physical, transitional and liability risks. As part of our overall risk mitigation strategy, we perform detailed stress and scenario testing to stress the financial stability of the Group. This process is aligned with our business planning, ORSA processes and strategic and business plan time horizons. The selected tests are aligned to our key risk areas of capital (rating agency and regulatory), underwriting and investment-related stress tests, at a minimum.

Climate Change Scenarios for Capital

From a capital perspective, we show the losses we could absorb and still meet our rating agency and regulatory capital requirements. Our climate change scenario incorporates underwriting and investment risks as we consider transition and physical risks. For this scenario, we stress our premium income, our catastrophe loss ratios to reflect the assumed increased frequency and severity and inflationary impact on associated claims, our litigation costs, and our investment return. We also run various other tests based on discussions with the RRC and the Group Executive Committee that identify pertinent potential stresses and scenarios given market or social conditions prevailing at the time. In addition, we design our annual underwriting portfolios to specific risk tolerances (as approved by the Board), which currently requires any one of our principal PMLs to not exceed 25% of our tangible capital.

Risk Universe

Figure 3.2

We continue to classify risks in three broad classes:

Intrinsic Risk

Risks that stem from the inherent randomness and uncertainty that exists in the universe in which we operate and that is therefore fundamental to how we manage our business.

Intrinsic (core)

Underwriting, Investments

Core – Risks representing the potential to generate a return as well as a loss.

In these areas, the Group promotes informed risk taking that considers the risk and return equation in all major decisions, with the intention of maximising risk-adjusted returns.

We recognise that by insuring fortuitous events, we can suffer losses and that within our investment portfolio, we can see the value of investments fall. In light of our strategy and business model, we cannot avoid these risks, so we focus on the correlated operational risks and seek to mitigate them.

For example, we know that by insuring the risk of natural perils, we are exposed to the risk that losses exceed our plan. We model our portfolio using stochastic modelling to review actual and planned exposures to ensure they remain within tolerances. The correlated risks are that we might fail to design or maintain effective tolerances and limits, and fail to maintain exposures within such limits; or that we fail to keep accurate and timely records of our exposures. We then devise systems and processes to mitigate these risks, such as PML reconciliations and RDS sign-offs, with review by the RRC and regular ORSA reports to the Board, which also considers and approves formal risk tolerances.

Processes to mitigate the risks

- PML reconciliations
- RDS sign offs
- Review by the RRC
- ORSA reports to the Board

Intrinsic (Non-core)

Reserving, (Re)insurance Counterparty, Liquidity

Non-core – Risks to which we are inevitably exposed as a result of conducting our day-to-day business operations yet offer no direct potential for return.

They are quantified insofar as practicable for the purposes of capital and risk management and avoided or minimised insofar as is economically justifiable.

Operational Risk

These risks arise from inadequate or failed internal processes, personnel, systems, or (non-insurance) external events.

They have the potential either to magnify the adverse impacts of intrinsic risks, for example, increased reinsurer default losses arising through the use of non-approved counterparties; or to crystallise separately in their own right, for example, losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.

Other Risk

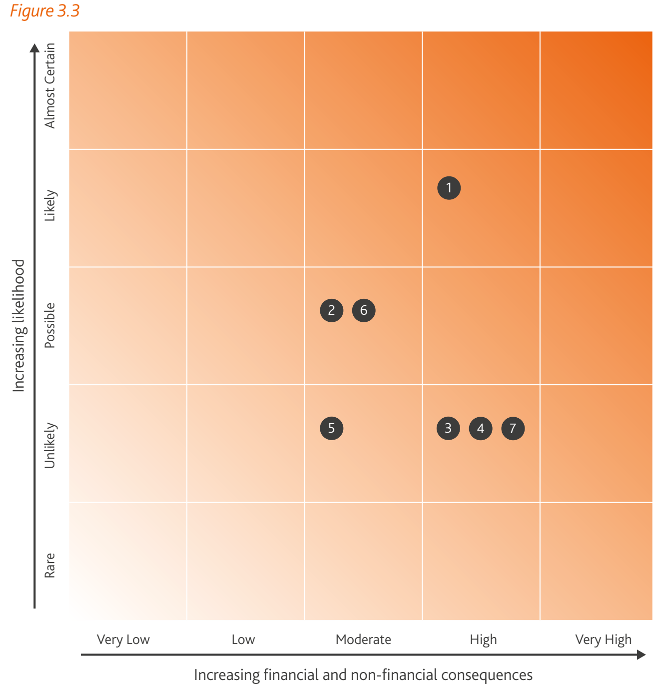
Strategic, Group, Emerging, Climate

These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

Given the broad reach of climate change and the risks associated with it, we concluded these risks are most appropriately managed by including their impact through existing principal risks, rather than a separate climate change principal risk.

Current assessment of principal risks

Figure 3.3



Key

Principal risk

1. Underwriting
2. Investment
3. Reserving
4. (Re)insurance counterparty
5. Liquidity
6. Operational
7. Strategic

Intrinsic risk: Core – **1. Underwriting**

Losses in our classes are hard to predict, particularly the specifics of timing and quantum of catastrophe loss events. Additionally, we underwrite lines of business that are subject to accumulations, including accumulations of individual risk losses arising from a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and Aviation AV52 portfolios.

Losses can also exceed expectations in terms of both frequency and severity. We recognize that through climate change trends, and other influencing factors, weather-related incidences or other actual catastrophe loss events may increase losses in frequency, severity and clustering, so, although we model losses, using third-party stochastic models, we know that these projections can and will be different from the Group's actual losses in many instances.

Opportunities

Opportunities develop in line with changes in market dynamics. The Group remains creative and responsive in providing tailored insurance and reinsurance products and solutions to our core clients across the different platforms of our business. The management team regularly considers new business opportunities and provides updates on these to the Board. We continue to focus on the opportunities to support our clients as they transition from the current carbon-intense environment to a lower-carbon one.

Mitigation

We apply loads to and stress test stochastic models and develop alternative views of losses using exposure damage ratios. We review our assumptions periodically to ensure they remain appropriate. We also back-test our portfolio against historical events to assess potential losses. PMLs for natural catastrophe perils are updated monthly, and RDSs for non-elemental perils are updated quarterly. Both are provided to the RRC for review.

The RRC considers accumulations, clashes and parameterisation of losses and models.

Setting our internal capital requirements at a level that allows for buffers above accumulations of extreme events and, further to recommendations, the Board approves risk tolerances at least annually. It considers capital requirements on at least a quarterly basis.

Underwriting risk appetite is incorporated into underwriters' individual underwriting authorities; compliance with these authority levels is part of the daily underwriting procedures. Climate-related insurance underwriting guidelines have been introduced to guide underwriters during this period of transition in energy markets.

We buy reinsurance to manage our exposure and protect our balance sheet. The structure of our programme is reviewed each year to ensure it remains aligned with our strategy and risk profile.

How The Board Reviews This Risk

The Board views underwriting as the Group's key risk. As such, the Board continues to focus on underwriting expertise and discipline to effectively balance the equation of risk and return through the cycle. The Board is actively engaged in the development and implementation of the Group's underwriting strategy, including consideration of potential risks to the strategy such as climate-related physical, transition and litigation risks.

The Board is also involved in the articulation of, and adherence to, formal underwriting risk tolerances. Quarterly risk data on this, including all movements in the Group's principal modelled PMLs and RDSs, is both received and reviewed by the Board's Underwriting and Underwriting Risk Committee (UURC) to ensure that good risk selection and disciplined underwriting remain at the core of the Group's underwriting strategy. The Board customarily reviews the capital requirements and adequacy of the business within the context of underwriting risk exposures on a quarterly basis. The Underwriting and Underwriting Risk Committee (UURC) and Board also review and approve the Group's outwards reinsurance programme structure.

Key

Strategy	Risk trend	Impact trend	Appetite trend
1 Underwriting comes first	Increased	High	Acceptable
2 Effectively balance risk and return	Stable	Moderate	Reassess
3 Insurance market employer of choice	Decreased	Low	Unacceptable

Intrinsic risk: Core – **2. Investment**

2

We model our investment portfolios and use various stress scenarios to manage the extent and source of losses we could expect under a range of outcomes associated with credit, interest rate and liquidity risks. The Investment Committee adopts a strategy to have low exposure to the effects of climate change transitional risk over the various asset classes.

Opportunities

The primary objectives for our investment portfolio remain capital preservation and liquidity. Our conservative approach limits our downside risk but means we are unlikely to equal the returns of peers taking on more investment risk.

Mitigation

Our strategy is that investment income is not expected to be the principal driver of our returns. However, we do seek out non-correlated investment opportunities to add yield where appropriate. As we build our casualty portfolio, we will look to match casualty reserves with longer duration assets. Our primary focus remains on underwriting as the engine of profits. Investment strategy, including investment risk tolerances, is approved annually and monitored quarterly by the LHL Investment Committee and Board. Our biannual strategic asset allocation study was performed in 2022, the recommendations from which were approved by the Board at the request of the Investment Committee in Q3 and were implemented in 2023.

The IRRC forms an integral part of our risk management framework, meeting at least quarterly and reporting to the RRC and the Investment Committee via the CRO.

Lancashire's Board and management recognise that the Group's principal expertise lies in underwriting, so we use the services of internationally recognised external investment managers who are experts in their fields. The Group's principal investment managers are signatories to the UN Principles for Responsible Investment.

How The Board Reviews This Risk

The Investment Committee receives and reviews investment strategies, guidelines and policies, risk appetite and associated risk tolerances and makes recommendations to the Board. The Committee also monitors the performance of the investment strategies within the risk framework and compliance with investment operating guidelines, as well as performance against the climate-related metrics that have been implemented, including carbon intensity scores and a climate value at risk measure. In addition, the quarterly ORSA report from the Group CRO includes statements regarding performance against investment risk tolerances.

As noted within the mitigation section, the Board approved the recommendations arising from the biannual strategic asset allocation study, which was performed during the year and was implemented in 2023.

Intrinsic risk: Non-core – **3. Reserving**

2

Lancashire has a consistent reserving methodology; however, there is a risk that the reserves established based on our estimates are insufficient. If these reserves are inadequate and claims exceed them, this may impact earnings or capital. Independent reserve reviews by external actuaries evaluate the overall levels of expected losses, including individual large events and benchmarking analyses, to provide assurance over the level of reserves booked.

Recently, there have been several loss events that, due to their ongoing nature and impact across multiple product lines, are exceptionally difficult to reserve for with inherently uncertain ultimate losses. With inflation across the U.S. and Europe reaching its highest level for many years, we have performed a detailed analysis of inflation rates' impact on ultimate losses and reserve levels. However, there remains considerable uncertainty, and we have again shown the risk trending upwards.

Whilst our longer tail lines, such as casualty, remain a small proportion of the overall book, these lines, due to their very nature, are more difficult to reserve for and will, over time, increase the inherent risk within this principal risk.

Opportunities

Whilst our focus is predominantly on short-tail lines of business, uncertainty still exists on the eventual ultimate losses as loss information can take some time to obtain. As additional information emerges, the Group's actual ultimate loss may vary, perhaps materially, from those initially reported. This may result in reserve releases or a required strengthening of reserves.

Mitigation

When entering any new line of business, Lancashire adopts a conservative reserving approach as it becomes established.

We have access to significant amounts of data, both internal and from the industry as a whole, relating to losses and loss trends. Actuarial and statistical data are used to estimate future losses, and underwriters, claims staff and actuaries review these to ensure that they reflect the business experience.

Reserves are reviewed and approved by the Reserve Committee whose members include representation from finance, actuarial and claims; there are additional attendees from finance, actuarial, underwriting, legal and risk. A reserving update is presented to and reviewed by the Audit Committee on a quarterly basis.

Insurers typically facilitate an independent review by external actuaries of their loss reserves. Lancashire retains the services of one of the leading industry experts. Our appetite is defined to set reserves within a range of reasonable estimates based on internal and external review. The Audit Committee receives and considers reports on reserve adequacy from the external actuary on a six-monthly basis.

How The Board Reviews This Risk

The Board reviews this risk in detail on a quarterly basis through the Audit Committee, which focuses on the appropriateness of the overall reserve levels, informed by management's quarterly update, the external actuary's independent review of reserve adequacy performed at half-year and year-end and the work performed by the external auditor; and through the UURC, which receives quarterly updates from management on individual large losses. The review includes detailed analysis on major losses including climate-related and other natural catastrophe losses and pandemic losses.

Intrinsic risk: Non-core – **4. (Re)Insurance and intermediary counterparty**

2

Almost all the insurance policies we underwrite are brought to us by brokers, who act as intermediaries between us and our clients and handle the transaction of payments of claims and premiums on our behalf. This exposes us to the risk of mishandling by, or failure of, the broker concerned.

To make our portfolio as efficient as possible, we buy reinsurance to protect against the severity, frequency and accumulation of losses. Again, this exposes us to the risk that our counterparties may have the inability or unwillingness to pay us in the event of a loss.

Opportunities

While rates were suppressed, the quantum of reinsurance coverage purchased increased and so did counterparty exposure. This is mitigated through established governance processes to manage the aggregate exposure and credit control processes to help ensure monies due are received. As always, it is a case of balancing the risk we are taking with the expected return; reinsurance purchasing is one way of balancing this. As market conditions change, we may choose to retain more risk or be unable to purchase the same level of reinsurance as in previous years, reducing counterparty exposure.

Mitigation

To counterparty credit limits, the Broker Vetting Committee is responsible for the broker vetting approval process and monitoring credit risk with brokers. In addition, the Group conducts broker business using non-risk transfer terms of business agreements. This mitigates the risk due to non-payment by brokers and intermediaries, as monies are held in separate client money accounts.

We use counterparty credit limits, seek to deal with reputable reinsurers that meet our minimum rating standards and use collateral agreements where appropriate. The operating entities of the Group that contract for reinsurance separately maintain and report their counterparty credit limits at the entity level. The reinsurance security committee approves counterparties and monitors first loss and aggregate limits.

How The Board Reviews This Risk

The quarterly ORSA report to the Board includes the top five reinsurance counterparty exposures versus the Board-agreed tolerances. These tolerances are reviewed and approved annually by the Board and considered part of the annual strategy review. Amounts owed to intermediary counterparties are included in the quarterly underwriting information provided to the UURC.

Intrinsic risk: Non-core – **5. Liquidity**

2

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

Opportunities

We must balance the need for liquidity and be able to pay our clients' claims on a timely basis with the opportunity for return on our investments. We do this through different investment portfolio categories.

Mitigation

The Group maintains liquidity by managing the portfolio within the Board-agreed tolerances. This is achieved by maintaining a highly liquid portfolio with short duration and high creditworthiness. We monitor this through stress tests and mitigate risks through the quality of the investments themselves.

How The Board Reviews This Risk

Liquidity risk is reviewed by the Investment Committee, which regularly receives, and reviews reports detailing asset allocation and compliance with pre-defined guidelines and tolerances.

6. Operational

2 3

These risks arise from inadequate or failed internal processes, personnel, systems or (non-insurance) external events. The Group is also subject to regulatory supervision, oversight, legislation, and tax requirements across several jurisdictions. Operational risks have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. Climate change drives operational risks through behavioural changes, economic shocks and physical impacts. While these three factors interact, economic shock may be the most financially significant.

Opportunities

A risk-based approach is followed to determine which areas require strongly controlled processes and procedures (i.e. the key risk areas) and where a more proportionate approach is appropriate (those areas assessed as low risk).

Mitigation

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

How The Board Reviews This Risk

The Audit Committee receives quarterly reports from the Group CRO summarising the results from the quarterly risk and control affirmation process, detailed control testing, and the Group CRO's opinion on the overall control environment. The Audit Committee reviews this alongside the quarterly updates from the internal audit team regarding their programme of work and opinion on the effectiveness of controls.

In addition, the quarterly ORSA report from the Group CRO to the Board includes details of a suite of KRIs, any risk events and near misses, changes to the risk register, and the drivers for such changes. The Board reviews the culture aspect of operational risk through the Audit Committee, which receives an update in each internal audit report and through the internal audit's analysis of the root causes of the audit findings. The Board is provided with regular updates on the change management portfolio.

7. Other

These are risks for which quantitative assessment is difficult, but a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as practicable. They include categories such as strategic, group, regulatory, emerging and climate change risks. Whilst we view climate change as a factor relevant principally to our underwriting and investment risks, the Board and business continue to monitor the effects of climate change risk and its perception as a driver of global economic, political, legal and regulatory change.

Opportunities

Having a clear vision, and a strategy that is well communicated internally allows the whole Group to understand their role and contribution to the whole.

Mitigation

Review and challenge: The risk of inappropriate strategic objectives and not adapting the strategy / business plan for the market conditions are mitigated by the governance over the Group's strategic planning process and the annual review and challenge by the Group Executive and Board of the strategy document.

Communication: Following the Board's approval of the strategy, events were held in London and Bermuda to communicate the strategy to the wider management team, who then communicated it to their teams prior to town hall events, where there was the opportunity to ask questions of executive management.

Performance and appraisal process: There is the risk that poor performance by senior management has a detrimental impact on the Group's performance. This is mitigated by the performance and appraisal process run by the HR department, and the monitoring of senior management's performance by the CEO, overseen by the Remuneration Committee of the Board.

Succession planning: Being aware of the strength in depth, or lack of, and documenting within a succession plan that is regularly reviewed, mitigates the risk of both inappropriate and insufficient personnel.

How The Board Reviews This Risk

An annual strategy planning day is held with the Board and members of the Group Executive, following which management prepares the strategy for review, challenge, discussion and agreement by the Group Executive and the Board. The Board then receives quarterly updates on the Group's performance against the plan in its execution of the strategy.

Integration and Communication

Having a clear vision and a strategy that is well communicated internally allows the whole Group to understand their role and contribution to assessing and managing climate risks in the overall risk management framework. The Group subscribes to a 'three lines of defence' model for identifying, owning, monitoring and mitigating risk, as described in Principle 1.2, Figure 1.4. Climate-related risk management falls within this framework, which is fully embedded throughout the Group and includes fora with climate change at the heart of their agenda, such as the CCWG and the ESG Committee.

The ESG Committee reports to the Group Executive Committee via the CRO and the Nomination, Corporate Governance and Sustainability Committee through the Chair of the ESG Committee. The CRO also provides an ESG update to the LHL Board in her Quarterly ORSA report, as depicted in Principle 1.1, Figure 1.2.

Risk Appetite and Tolerances

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. As further described in Principle 2.3, Stress and Scenarios Testing.

3.2 Support and undertake research and development to inform current business strategies (including investments) on adapting to and mitigating climate-related issues.

Sustainable Underwriting

Sustainable underwriting is one of the pillars of our Group ESG strategy. In a complex world, there are many challenges and we understand that there are not always easy solutions. The risk solutions that we provide help protect people, companies and economies from uncertainty and give them confidence and stability. Our property (re)insurance products insure clients against the risk of major weather and other catastrophic events and we have long-standing expertise in this area. In our energy portfolio, we support our clients' transition to renewable energy and insure several projects, from wind and solar farms to biomass facilities and others.

Our product offering will continue to evolve to meet the changing needs of our clients in supporting the world's net-zero target. Within our political risk team, we also insure infrastructure projects, including those designed to improve access to clean water for communities in the developing world. We are committed to playing our part in making the world more sustainable openly and honestly. To that end, we have already implemented internal insurance underwriting guidelines focused on considering climate change and other ESG factors in decision-making in line with our values.

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- *With a dedicated full-time Group Sustainability Manager, new risk metrics will be in place to monitor the ESG program*, including how we manage long-term climate risks.
- *Work to further embed climate risks into the business planning process and introduce an annual strategic planning session on the ESG program.* The objective is that this will feed into overarching business plans that will be presented to the Executive Committee and Board for approval.
- *Utilise the new climate scenario modelling tool* to further enhance our understanding of the impact of future scenarios on our portfolio.
- *Feedback on the insight gained from the scenario testing performed in 2022-2023* to risk appetite and strengthen the feedback loop to communicate to the entire group progress and changes made to lines of business.

Principle 4

Reduce the environmental impact of our business

We continuously look at our supply chain and carbon footprint, so that we can continue to reduce our business's impact on the environment.

Principle 4

Reduce the environmental impact of our business

4.1 Encourage our suppliers to improve the environmental sustainability of their products and services, and understand the implications these have on our business.

4.2 Disclose our Scope 1, Scope 2 GHG emissions and Scope 3 GHG emissions using a globally recognised standard.

Engaging With Our Suppliers

We understand that our supply chain is a key component to our ESG performance and are committed to expanding on this priority over the next 12 months.

In 2022 we hired a new Head of Vendor Management, who has been organising the cost controls and mitigating the risks of our program since their appointment. Over the next year, with anticipated additional procurement staff and with the new Group Sustainability Manager, there will be more opportunities to embed ESG into our procurement processes. This will allow us to focus on the criteria around the goods and services that we purchase throughout our entire organisation.

GHG Reporting Period

Previously, Lancashire calculated its emissions from 1 January until 31 December for each calendar year. To improve the efficacy of the data collection process, reduce our reliance on data estimations, and increase our use of primary data, we changed the reporting period for our corporate carbon footprint (CCF) to an annual period measured from 1 July to 30 June. Due to the timing of this submission and the overlap of collecting and completing the carbon calculations, we are using the calculated data from our last published reporting period.

Appointment of ClimatePartner

As a result of a change to our methodology in line with our work with ClimatePartner, emissions data was calculated using the company's consumption data and emission factors researched by ClimatePartner. Wherever possible, primary data was used. If primary data was unavailable, secondary data from highly credible sources was used. Emission factors were taken from scientifically recognized databases such as 'Ecoinvent' and DEFRA.

GHG Inventory Boundaries

Lancashire used an operational control approach to assess its boundaries and identify all the activities and facilities for which it is responsible. Subsequently, we have reported 100% of our Scope 1 and 2 CCF, along with areas of our Scope 3 CCF with high levels of operational control, as detailed below.

Calculations follow the ISO 14064-1:2018 standard, giving absolute and intensity factors for the Group's emissions. Where data was unavailable for the 2022 reporting year, values have been either extrapolated by using available data or calculated using industry benchmarks.

Employee Commuting

In 2022, for the first time, the Group has reported emissions associated with its employees' commuting and home working within its Scope 3 emissions. We will expand upon and rerun this survey later in the year to better understand our staff's commuting habits and account for the associated emissions accordingly. With improved data, Lancashire will be in a position to consider what initiatives we may be able to put in place to reduce the travel footprint of our employees.

Corporate Travel

The Group typically incurs the bulk of its carbon footprint within Scope 3 as a result of business travel. Historically, these emissions were calculated based upon all of the flights booked within the reporting period. We changed the methodology to include flights that were taken within the booking period.

100% Renewable Electricity in London Office

We have procured 100% renewable electricity for our London operations on a tariff which is backed up by associated Renewable Energy Guarantees of Origin (REGOs), with an appropriate residual grid factor applied for our operations in Bermuda and Australia.

Full-Time Employee Intensity Measure

Lancashire uses tonnes of CO_2e per full-time employee (FTEs) as its intensity metric in its CCF. FTEs have increased year-on-year. The increase in total emissions following the pandemic from 2021 to 2022, has proportionately increased emissions per FTE. The table overleaf sets out the Group's CCF for the two previous years, noting the reporting period change and the emissions broken down by source.

Figure 4.1

Types of emissions	Activity	1 July 2021 – 30 June 2022 tCO_2e	1 January 2021 – 31 December 2021 tCO_2e
Scope 1	Heat (self-generated)	**135.6**	106.7
Direct emissions from company facilities	Refrigerant leakage	**18.5**	–
Scope 2			
Purchased electricity for own use	Electricity (stationary)	**265.1**	259.7
Scope 3	Business Travel (flights, hotel nights, vehicles, and rail)	**1,348.0**	291.2
	Employee commuting and home office	**515.8**	–
	Fuel- and energy-related activities (upstream emissions for electricity and heat)	**116.0**	153.5
	Purchased good and services (office paper and water)	**7.0**	9.7
	Waste generated in operations	**1.7**	1.3
Gross emissions (tCO_2e) (market-based)		**2,407.7**	822.1
Gross emissions per FTE (tCO_2e/FTE)		**7.8**	2.8
Carbon credits		**2,648.5**	823.0
Total net emissions after offset (tCO_2e)		**–**	–

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

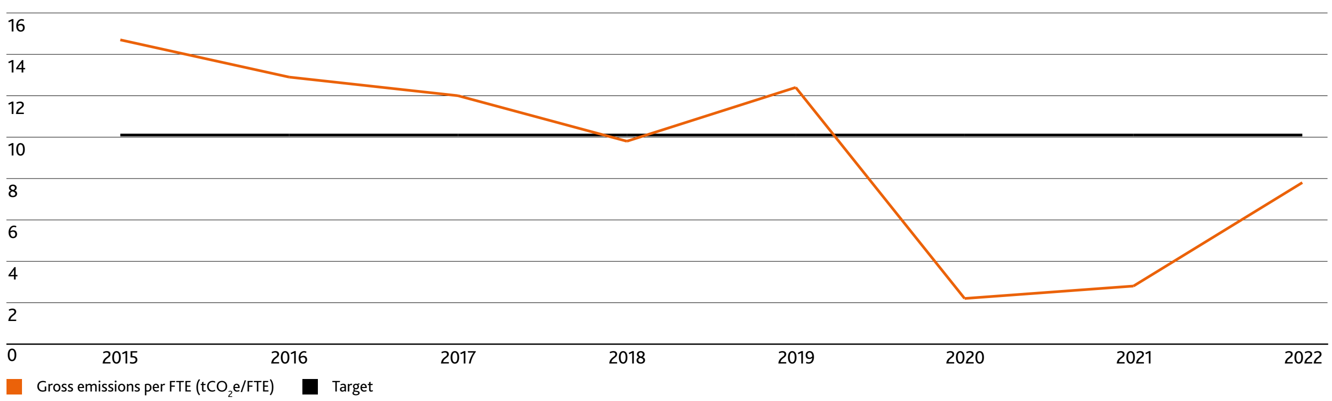
Upstream fuel- and energy-related activities include Well-to-Tank and Transmission & Distribution emissions. These are emissions associated with the upstream processes of extracting, refining and transporting raw fuel and the emissions associated with the electrical energy lost during transmission to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

The diagram below shows the Group's emissions reduction from its baseline year (2015). It demonstrates the reduction over time to 2020 (when international travel was reduced during the pandemic) and the progress against Lancashire's target to reduce emissions by a further 15% by 2030. As our headcount grows, we are trending in the right direction with our target commitment. Moving forward, we would like to reduce our overall emissions further and increase the proportion of emissions that are removed from the atmosphere rather than simply offset, thereby moving from carbon neutrality, our current position, to carbon net-zero by 2050.

Progress Against our Targets

The following diagram shows the change in the Group's emissions per FTE from the baseline year of 2015 against our current target of a further reduction in emissions per FTE of 15% by 2030.

Figure 4.2



Reporting Period Fully Offset

The Group has fully offset its calculated GHG market-based emissions for 1 July 2021 to 30 June 2022 with ClimatePartner, by purchasing verified credits in both carbon avoidance and carbon sequestration programmes. To ensure that all emissions generated from our operations are offset within the system boundaries, a safety margin of 10% was applied to the total carbon footprint incurred. This margin compensates for uncertainties in the underlying data that naturally arise from using database values, assumptions, or estimates.

We have purchased 2,648.49 carbon credits, to support our continued carbon neutral status. 85% of the Group's carbon credits have been purchased in a Solar Energy Project in Alt Ougrour, Morocco, a VCS carbon avoidance project. The remaining 15% of the Group's 2022 carbon credits have been purchased in an afforestation project in Dingxi, China, which is categorised as a VCS and CCBS approved carbon sequestration programme.

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

4.3 Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control.

UK Net-Zero

In 2021, the Group articulated its intention to meet the UK Government's net-zero target by 2050, with 2015 selected as our baseline year because it was the first full year in our London, BREEAM 'Excellent' rated, office. The diagram below shows our projected path to carbon net-zero in 2050, illustrating the intended downward trajectory of our emissions per FTE and the intended increase in offsetting projects which remove carbon from the atmosphere.

Business Travel

We have travel policies in place to reduce our impact on the environment whilst ensuring we retain good relationships with our clients, trading partners and other stakeholders. All business travel requires a relevant and reasonable business case, with line manager and/or head of department approval sought.

We use a number of technologies to reduce inter-office travel, including full video and telephone conferencing facilities.

Offset Scope 1 and 2

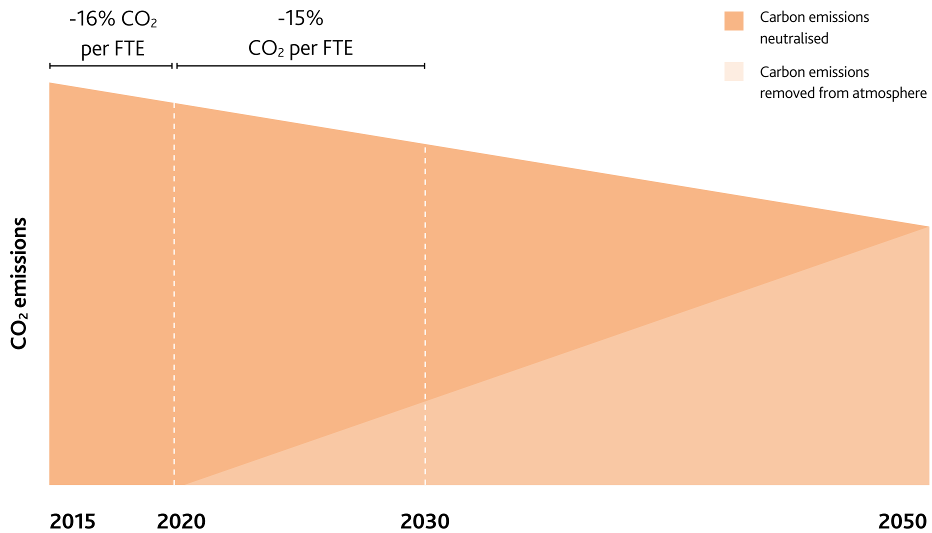
The Group also commits to continue to offset 100% of Scope 1 and 2 emissions and 100% of the Scope 3 emissions of our operations that we are able to accurately calculate and exercise sufficient control over at this time. These include business travel, waste generated in operations, our employees' commuting, and fuel and energy-related activities not included within Scope 1 or Scope 2.

London Office

The Group will continue to source and utilise 100% renewable electrical energy for our London office. 20 Fenchurch Street is a BREEAM 'excellent' building and representatives from the company engage with the building management's "Green Building" meetings and the property's energy-saving initiatives.

Lancashire's path to carbon net-zero in 2050

Figure 4.3



CDP

The Group has reported against the CDP for several years. The CDP framework is another tool to manage the risks and identify opportunities for improvements to strengthen our environmental actions.

Small Changes All Add Up

To continue reducing our business's impact on the environment, we continuously look at our supply chain and carbon footprint. We consider the smaller items in our daily business because they impact the aggregate effect.

For example:

- Wherever possible, we operate in a paperless environment. This includes using a 'virtual board room' for Board papers, and 'FollowMe printing' which reduces accidental printing and duplicates, and unnecessary colour printing.
- We have installed motion-activated drinking water taps throughout our London office, alongside a supply of glasses, to reduce the consumption of bottled water on the premises.
- Recycling is actively encouraged, and bins are available to collect recyclable materials. In London, bins at individual desks have been removed to reduce the use of plastic liners and to encourage staff to use our central recycling points.
- We encourage the use of public transport by UK employees traveling to work to reduce 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 and Sydney offices.
- Every month in the Bermuda office, we auction off the underground moped bike parking and one car spot. The funds collected are donated to a different charity every month, some of which are environmentally focused.
- Cutlery and crockery are provided in our London and Bermuda offices to eliminate the need for employees to use single-use items.
- In Bermuda, shredded paper is kept in the circular loop and donated to be repurposed for animal bedding.

4.4 Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

Hybrid Working in London

Our London office has adopted a formal hybrid work environment to allow employees to work remotely. We have implemented various tools and technologies to accommodate this, such as hot-desking and laptops. We continue to invest in cloud computing and energy-efficient ways to support staff that work remotely.

Engaging Employees From The Top Down

Employee engagement in our commitment to climate change is driven through the quarterly town hall meetings led and encouraged by our CEO. Further updates are also distributed to employees across the Group including information on our charitable contributions and other initiatives.

Lancashire Foundation

Since 2007, the Lancashire Foundation has always sought to support charities that positively impact the communities we live and work in. The Foundation receives 0.75% of Group profits with a minimum threshold of $250,000 to a maximum of $750,000. 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. Employees raising funds for charitable organisations can also request matching funds from the Foundation.

In 2023, the Foundation's focus has been on environmental causes. For example, the Lancashire Foundation worked with Waterstart, a Bermuda-registered charity for environmental awareness and personal growth for young people as they learn about the natural environment in Bermuda.

We will also be reintroducing our overseas volunteering initiative 'Project Transform.' This was paused due to the Covid-19 pandemic. Twelve employees will travel to Tanzania and work with local people on projects with social and environmental benefits.

Charitable Giving

Our employees generously give their time and money to various causes, including climate-related issues. Over $149,000 has been donated to charitable organisations nominated by employees in 2022. As of Q2 2023, matching contributions and the Foundation giving totaled more than $340,000.

Employee Volunteer Days

All employees have the opportunity to attend at least one paid Charity Day per year. We 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.

Additionally, staff 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.

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- *Select a Green Champion employee* from London and Bermuda to monitor and develop Key Performance Indicators (KPI) to track and monitor progress and encourage staff participation in new initiatives, both in the office and at home.
- *Measure waste, work with building managers to get data* to create a baseline on waste, and gain insight into what reduction targets with new initiatives would work for the different offices.
- *Develop a materiality assessment to understand what matters to our stakeholders* so that we can translate it into objectives and priorities to be developed.
- *Establish an ESG Dashboard to track metrics and implement activities* to address gaps and report to the Executive Committee on measurements and progress.
- *Create greater employee engagement by implementing ESG days* every quarter, and create activities to create awareness and generate initiatives that can be embedded into work practices or daily activities.
- *Develop the maturity of our Vendor Management program* with an additional team member expected to be added in late 2023; it will allow for new developments in 2024, such as a vendor management policy with embedded sustainable practices.
- *Develop a Sustainable Building Program* where we record an inventory of what is taking place in our global real estate that tracks and then implements where appropriate modifications.

Principle 5

Inform public policy making

We believe we can make a difference and have more influence through a collaborative approach, working with others.

Principle 5

Inform public policy making

5.1 Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers locally, regionally, nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.

Engagement

Lancashire works with various policymakers, governments, regulators and industry leaders to stay informed about policy trends and issues. As a global insurer, our internal subject matter experts contribute to policy solutions that benefit our business and communities. Lancashire staff are encouraged to join trade associations to increase engagement and awareness of climate policy developments.

Our approach to public debate and discussion is centred around:

1. Industry Associations
2. Peer Group Influence and Networking
3. Building Internal Capabilities and Interest

Industry Associations

Association of Bermuda Insurers and Reinsurers

Lancashire is engaged in a wide range of climate-related activities and participating in various committees and working groups within the industry. We can make a difference and have more influence through a collaborative approach, working with others. The CRO and Group Sustainability Manager are members of the Sustainability and Climate Committee with the Association of Bermuda Insurers and Reinsurers (ABIR).

In addition, we strive for open and honest reporting against climate change and demonstrate this through our reporting against the UNEP FI Principles for Sustainable Insurance, TCFD and the PRA's Supervisory Statement 3/19. Information on our reporting against the UNEP FI can be found on our website. Our TCFD report is included on our website and in our Annual Reports and Accounts (ARA).

Lloyd's Market Association & International Underwriting Association

Lancashire is a member of several Lloyd's Market Association (LMA) and International Underwriting Association (IUA) committees including:

- LMA Sustainability Working Group
- LMA Climate Change Committee
- LMA ESG Group
- IUA Climate Risk Committee
- IUA Climate CFRF Scenarios
- IUA Climate Dashboards
- IUA Climate CFRF Risk Management
- IUA ESG Committee
- IUA Compliance Committee (Chair)

These committees, together with other sector-specific groups attended by our underwriters, allow staff to gain knowledge and broaden skills amongst industry experts by discussing different points of view, all with the benefit of advancing the discussion around climate and how it can benefit the industry.

Principles for Sustainable Insurance

The Principles for Sustainable Insurance (PSI) is a United Nations framework that is part of their Environment Programme Finance Initiative. As we continue to disclose against this voluntary model, it pushes us to look at ways to improve our practices and align our disclosure.

Peer Group Influence and Networking

Risk Officer Sustainability Forum

Our CRO was a Risk Officer Sustainability Forum (ROSF) member. The ROSF was geared toward clarifying a CRO's role in sustainability. The forum enabled discussions with other financial service risk executives on successfully building and leading a sustainability program within their companies. In 2023, the ROSF chairs re-examined the structure and scope of the forum and decided to annul any future meetings. However, a newly created Risk Coalition CRO Forum has been established in its place. In due course, when the group convenes, our Group CRO will participate in discussions. The intent is to allow CROs and senior risk professionals time away from regular duties to share ideas and best practices on risk and sustainability.

Building Internal Capabilities and Interest

London Facilities Occupier Committee

A newly created Occupier Committee has been formed for our London facilities. It is a committee for all tenants in the Fenchurch Street Building. It is an opportunity to influence our needs as a tenant around environmental developments and improvements and better understand and coordinate ecological efforts across all levels.

5.2 Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest.

ClimateWise Collaboration

We actively participate in the ClimateWise ideas exchange meetings. We value our membership with ClimateWise as it allows engagement with industry peers and participation in research discussions from a curated list of speakers.

Internal Insights

Our new Head of Engineering conducts his research using external sources to develop specific content and deliver presentations to our staff. Our Head of Engineering draws upon his experience when he previously worked in the oil and gas industry. His expertise allows him to expand on this topic and deliver the information from an underwriting point of view and the impact it might have on our business.

In addition to this, our underwriters continue to liaise with our clients to comprehend the journey they face and to inform and evolve our strategy. We will continue to develop our understanding and look for opportunities to share our knowledge and research findings to assist our clients.

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- *Corporate sponsorship of the 2023 Bermuda Underwater Exploration Institute Youth Climate Summit* in November, an educational event for young people on the topic of climate and the issues arising today and in the future.
- In 2023 and 2024, *we seek a partnership with a third party*, whether it be from academia or with a specialty industry, to expand research and development opportunities that will allow us to broaden our business capabilities.

Principle 6

Support climate awareness amongst our customers/clients

We participate in conferences; information sharing sessions, and build relationships with climate experts to further our knowledge on the evolution of this complex issue.

Principle 6

Support climate awareness amongst our customers / clients

6.1 Communicate our beliefs and strategy on climate-related issues to our customers and/or clients.

Climate Adaptation Engagement

In the transition to a low-carbon economy, material climate-related disclosures are an important tool for stakeholders to understand the maturity of an organisation's climate awareness and the degree to which ESG factors are embedded throughout its operations. Expectations (both market-specific and those more widely held) around climate disclosures increase year-on-year. The Group continues to evolve and maintain its disclosures, where appropriate, in line with these developments.

Our 2022 ARA details our climate risk management strategy with stakeholders. Our website provides content on our governance framework and business strategy. We have also, for several years, disclosed our GHG data. We have recently published details of the Group's metrics and targets with respect to emissions, in line with the recommendations of the TCFD. We actively engage with our existing and prospective investors on ESG matters.

This will be our first year publishing our ClimateWise report. Over the next 12 months, we will build out a broader communication strategy to provide more content on our climate-related developments.

Market Conversations

To stay current on the trends and developments within the industry, we participate in conferences; information sharing sessions, and build relationships with climate experts to further our knowledge on the evolution of this complex issue. We are conscious that we are up against a defined timeline and exist in the confines of finite resources. We are thoughtful in our approach and genuinely want to turn talk into action.

Our underwriters continue to engage with both clients and brokers to understand the ongoing development of the market; we also have a New Business Committee where untried ideas and concepts are discussed, including how insurance coverage can be better tailored to meet gaps that exist in the market.

6.2 Inform our customers and/or clients of climate-related risks and provide support and tools so that they can assess their own levels of risk.

Public Disclosure and Scores

As a listed entity, the Group is approached by a wide variety of ESG rating organisations and agencies. These various rating agencies have a mix of frameworks and criteria to score organisations according to their methodologies. We have focused on understanding the workings of and improving our performance with a select few. Centering our attention allows us to examine what is required and develop policies and practices to improve our business as appropriate and, as an upshot, to improve our scores.

Our external ESG ratings and reports can be found with:

- ClimateWise
- MSCI
- ISS Corporate Solutions
- Sustainalytics
- UN Principles for Sustainable Insurance
- CDP

Demonstrating *Planned Activities*

Achieved and Ambitions for 2023 – 2024

- Over the last year, we have *expanded our climate disclosures in our Annual Report and Accounts, and with our new partnership with ClimatePartner we are understanding how to develop a broader net zero strategy plan that fits with our business.*
  As we build this out, we will make disclosures on our progress on both our website and within our public reports.
- Our objective for the next year is to *boost the content we have on our website* to share our achievements and developments.
- *Will explore partnerships with external partners that are committed* to research and development in climate awareness and science.

Principle 7

Enhance reporting

Lancashire is proud to be a ClimateWise member, and has prepared this second report against the ClimateWise Principles.

Principle 7

Enhance reporting

7.1 Submission against the ClimateWise Principles.

Lancashire has prepared this second report against the ClimateWise Principles for an independent review of our performance against them. The research and guidance provided to the insurance industry by ClimateWise is valuable, especially with respect to the ability of members to monitor and measure their performance over time.

Lancashire has submitted against all the ClimateWise Principles, by the required deadline and in full.

7.2 Public disclosure of the ClimateWise Principles as part of our annual reporting.

ClimateWise Report Publicly Available

Lancashire is proud to be a ClimateWise member. This is our second year disclosing against the ClimateWise Principles, which have been made publicly available on our website as part of our commitment to transparency in this process.

Our climate risk-related disclosures are aligned with the guidance provided by TCFD and have been embedded into our ARA, which is available on our website.

ARA
Annual Reports and Accounts

ABIR
Association of Bermuda Insurers and Reinsurers

BMA
Bermuda Monetary Authority

BSCR
Bermuda Solvency Capital Requirements

CEO
Chief Executive Officer

CRO
Chief Risk Officer

CUO
Chief Underwriting Officer

CCWG
Climate Change Working Group

CCF
Corporate Carbon Footprint

DEI
Diversity, Equity, and Inclusion

DEIWG
Diversity, Equity and Inclusion Working Group

ERM
Enterprise Risk Management

ESG
Environment, Social, and Governance

FTE
Full-time Employee

GHG
Greenhouse Gas

IUA
International Underwriting Association

IRRC
Investment Risk and Return Committee

KPIs
Key Performance Indicators

LHL
Lancashire Holdings Limited

LICL
Lancashire Insurance Company Limited

LUK
Lancashire Insurance Company (UK) Limited

LSL
Lancashire Syndicates Limited (managing agent of the syndicates)

LMA
Lloyd's Market Association

MSCI
Morgan Stanley Capital International

ORSA
Own Risk and Solvency Assessment

PSI
Principles for Sustainable Insurance

PML
Probable Maximum Loss

PRA
Prudential Regulation Authority

RDS
Realistic Disaster Scenario

RRC
Risk and Return Committee

ROSF
Risk Officer Sustainability Forum

SMCR
Senior Managers and Certification Regime

SMF
Senior Management Function

TCFD
Task Force on Climate-Related Financial Disclosures

UURC
Underwriting and Underwriting Risk Committee

UMCC
Underwriting Marketing Conference Call

UK
United Kingdom

VaR
Value-at-Risk

Lancashire
Holdings Limited

Registered and Head office

Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

Bermuda office

Lancashire Insurance
Company Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

UK office

Lancashire Insurance
Company (UK) Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

Lancashire Underwriting Australia Pty Ltd

Registered Office – Level 20
56 Pitt Street, Sydney
NSW 2000, Australia
Trading Address – Suite 5.03
Level 5, 56 Pitt Street, Sydney
NSW 2000
Australia

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. Further information about the Group is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

www.lancashiregroup.com

uk.linkedin.com/company/lancashire-insurance