Lancashire
Holdings Limited

2024 TCFD Report

2024 TCFD report

Our TCFD report offers a snapshot of our efforts in responding to the challenges and opportunities of climate-related issues. Through our insurance underwriting guidelines and modelling capabilities, we have a pragmatic approach to underwriting potential perils and identifying mitigation factors to offset future risks. The risks of climate change on the insurance industry affect our assets and liabilities. As an insurer, that unique double exposure drives us to work with our clients to assist them with risk solutions and support the global carbon transition.

Approach to climate risk reporting

Each year, we aim to improve our reporting of climate risk and opportunities. The summary on the following pages details our disclosures, which are consistent with the TCFD's four core elements – governance, strategy, risk management, and metrics and targets – underpinned by the 11 recommendations. Lancashire supports the TCFD recommendations and recognises the value of consistent disclosures.

Assessing risks and meeting net-zero by 2050

Every year, the Board assesses the principal risks facing the Group, including those that could threaten our business model, future performance, solvency, or liquidity. This assessment stresses the business plan for several severe but plausible scenarios, including climate change, and evaluates the potential impact on capital and earnings. We continue to disclose our GHG emissions annually and use them as a pathway to understand ways to uncover new opportunities for reduction efforts, that support meeting the UK government's net-zero target by 2050.

About this report

This report on pages 46 to 57 covers the 12 months, ending on 31 December 2024, except where indicated for our GHG data reporting, and complements the disclosures made in our ClimateWise Report dated August 2024, and our signatory commitment to the UNEP FI Principles for Sustainable Insurance. Our ClimateWise Report and a copy of this report is available on our website at www.lancashiregroup.com.

Compliance summary

In compliance with the FCA listing rules, the Group has reported on climate-related financial disclosures consistent with TCFD recommendations and recommended disclosures, with the exception of the following:

Strategy 2b: Lancashire has partially complied with this requirement. Lancashire considers and provides qualitative disclosure regarding the potential impact of climate-related risks and opportunities on its businesses, with respect to risks underwritten. While the Group has made and disclosed a reduction target of 30% of emissions of tCo_2e per FTE from the 2015 baseline level by 2030, we have not yet compiled a detailed emission reduction transition plan across our whole organisation. In anticipation of transition plan reporting requirements in 2026, we are taking 2025 to clarify the requirements, apply them to the business and devise an appropriate and proportionate plan.

Strategy 2c: The Group complies with the guidance for all sectors but does not comply fully with the supplemental guidance for insurance companies. Lancashire does not disclose the critical input parameters, assumptions and considerations due to the commercial sensitivity of such information.

Risk management 3b: Lancashire is partially compliant with the supplementary requirements for insurance companies. The Group has not disclosed the specifics of the tools used to manage climate-related risks in relation to pricing due to the commercial sensitivity of such information.

Metrics and targets 4a: Lancashire partially complies with the supplemental guidance for insurance companies. The Group discloses the metrics used to monitor and manager climate-related risks in the form of our PMLs, but has not provided annual aggregated expected losses due to the commercial sensitivity of such data.

Note regarding page references:

The pages in this TCFD Report have been extracted from the Lancashire 2024 Annual Report and Accounts. References to page numbers direct the reader to the full report which is available on our website.

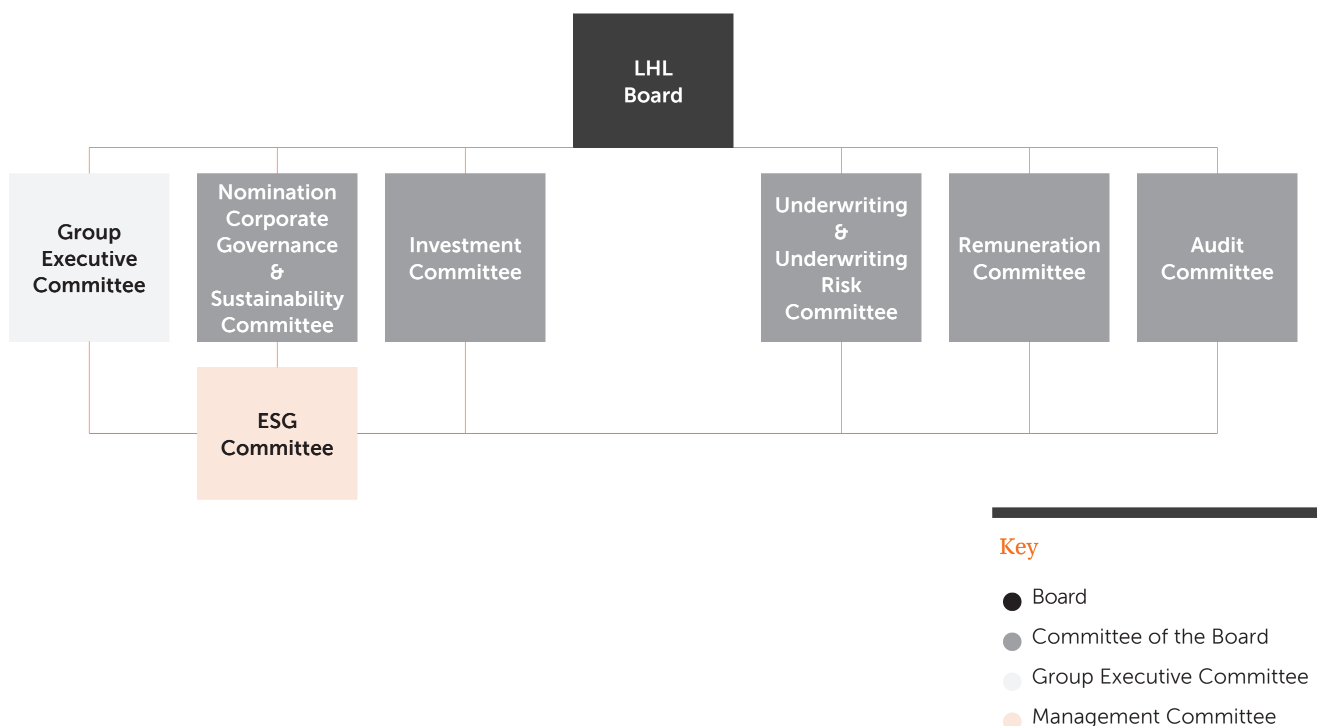
1. Governance

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

Board has ultimate responsibility and oversight

The Board has ultimate responsibility and oversight for the Group's 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 ERM activities and receives quarterly updates on material ESG risks while ensuring appropriate governance, systems and oversights are in place.

Group ESG governance structure



Key

- Board
- Committee of the Board
- Group Executive Committee
- Management Committee

The Group's Board-level Nomination Corporate Governance and Sustainability Committee oversees the articulation of the Group's ESG strategy; the implementation of ESG initiatives by management and the business; and reviews the ClimateWise Report, and ESG, carbon footprint and TCFD disclosures in the ARA; reporting to the Board on these matters.

The Board is supported by its Committees within their respective core mandates, with each Committee meeting at least on a quarterly basis.

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 requirements. The Committee's role also includes the pre-submission review of the Group's ClimateWise reporting for ratification by the Board and the year-end review of the ESG, carbon footprint and related climate disclosures in the ARA. Based on this work, the Committee makes recommendations to the Board regarding the ESG responsibilities of the Group.
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 on the underwriting portfolio, as well as the broader ESG risks, and articulating appropriate underwriting risk appetites and tolerances for the Group.
3. **The Audit Committee** principally through its work reviewing the Group's ARA, provides oversight of the disclosures on the Group's ESG strategy, carbon footprint measurement and offsetting, and the 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.
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.

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

Group CEO

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

Group CUO

The Group CUO is ultimately responsible for the (re)insurance business underwritten by the Group, assisted by the Group's CUOs for its Reinsurance and Insurance segments, subsidiary CUOs and syndicate AUWs. Climate-related risks and opportunities related to the business underwritten are assessed as part of the underwriting process. Each underwriter has an underwriting authority in which the ESG Insurance Underwriting Guidelines have been embedded. Management information is used to monitor the business written against these guidelines.

Group CRO

The Group CRO is responsible for managing the Group's risk management framework and ensuring that this also addresses ESG-related risks. The framework facilitates 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 appropriately within decision-making.

Group CIO

The Group CIO is responsible for the Group's investments, including developing and communicating the investment strategy and incorporating ESG issues into the investment processes. ESG considerations are also included in the strategic asset allocation process, which is performed every two years.

Group Executive Committee

The Group Executive Committee is responsible for managing the day-to-day business activities by developing and implementing the strategy and business plan and an appropriate governance framework to manage and mitigate identified risks, which includes those associated with climate change.

Group Underwriting Executive Committee

The Group Underwriting Executive Committee's function includes, but is not limited to, overseeing the underwriting performance of the operating entities to monitor and review underwriting activities and performance across the Group. Along with investigating market trends, emerging risks, new classes of business, and new product opportunities as they may relate to climate issues.

Underwriting management

An appropriate understanding of climate and nature-related risks and opportunities is central to the Group's underwriting strategy and management. Responsibilities cascade across the Group's underwriting team, starting with the Group strategy and underwriting business plan. This flows from the high-level strategic goals and risk appetites set by the Group, which inform the business plans and individual risk appetites agreed by each underwriting entity.

ESG Committee

For more information, please see page 41.

ESG-linked compensation

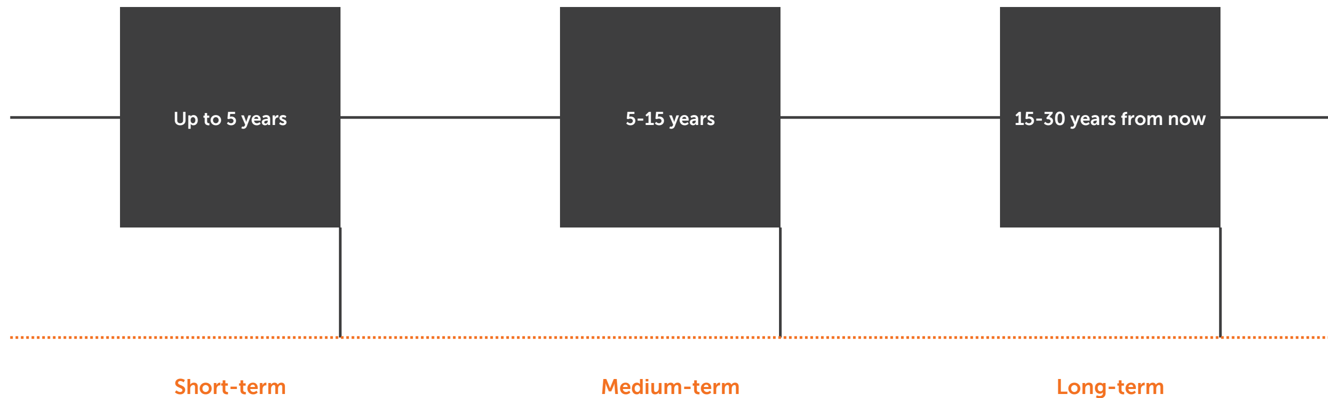
For more information, please see pages 100 and 101.

2. Strategy

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

Short, medium and long-term climate-related risks and opportunities

When evaluating the actual and potential impacts of climate-related risks and opportunities on our strategy and financial planning, we utilise the following three time frames.



Short-term

We predominantly underwrite short-tail business, so the principal impact of climate-related risks and opportunities is on short-term strategy. Potential impacts are mitigated by our ability to consider new data regarding the frequency and severity of elemental catastrophe events, re-evaluate the portfolio annually, re-price physical risks and reset exposure levels.

Medium-term

Over the last several years, we have seen increased climate-related information provided in the underwriting process. We recognise that climate change impacts the longer-term strategy regarding emerging risks. The Group's casualty risk exposures, which have a medium-term time frame, are not typically heavily influenced by catastrophic climate change-related loss events.

Long-term

Management works with some of the leading external catastrophe model providers to better capture the latest science that underlies and informs developments in the short- and long-term climate-related assumptions in their stochastic models. These developments are included in the Group's management and Board-approved business strategy with a view towards 2030, which is reviewed and updated annually.

The process by which management identify emerging risks, including those which are climate-related, is described on page 28.

As part of this process, the potential impact of these risks is assessed including magnitude, likelihood and time horizon. Risk mitigation and monitoring plans are then put in place using a risk-based approach to prioritise those considered most material and likely to impact the business.

Identifying the impacts of climate-related risks

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.

For each physical risk that has been identified, the loss amplification factors, time frame and magnitude were considered, 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, leading to increased risk of flooding; and
- 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.

Climate-related opportunities

Climate-related opportunities will arise from the investment in infrastructure required for the world's transition to a lower-carbon economy.

This infrastructure will require insurance which is already within the Group's existing classes of business and risk appetite.

The demand for new environmental insurance products and services is also expected to increase. We will work closely with existing and future clients to provide the insurance they need as they transition and access new market offerings in the form of new assets and locations requiring insurance coverage.

A summary of the opportunities, their likelihood, time frame, and magnitude of impact on the Group's profitability is included in the table on the following page.

Risk Description	Market Opportunity	Time frame	Likelihood	Magnitude
Political risk insurance	Currently, a strong uptick in ESG-related funding from our existing client base and this trend is expected to continue.	Short-term to medium-term	High	Low
Natural catastrophe (re)insurance	Additional limit purchased by insureds and reinsurers at improved pricing levels as catastrophe risk increases with both earnings protection and capital protection being sought.	Medium-term	High	High
Renewables	The trend for global renewable electricity generation 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.	Medium-term	High	Low
Decommissioning insurance: oil and gas assets	Energy transition will accelerate the decommissioning of many 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.	Medium-term	Medium	Low
Carbon capture: injection of CO_2 into depleted gas fields	Offshore carbon capture and storage may play a major role in global efforts to reduce emissions with appropriate risk management solutions.	Medium-term to long-term	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.	Medium-term to long-term	Low	Low
Parametric (weather) insurance products for food and agriculture industry	Industries will look at new ways of managing weather risk where parametric triggers are more likely to offer a form of indemnity.	Long-term	Low/ medium	Low

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

Transitional risks

Transitional risks the Group may face include the probability of a declining premium environment in the traditional oil and gas sector and 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 will continue to consider the impact of new technology and how it will influence renewable energy risks we currently underwrite and those we may underwrite. We will use our underwriting expertise to assess these new risks and underwrite them appropriately.

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. We would expect to feel the impact in both the insurance and reinsurance segments of the business.

Climate change impact on underwriting

The Group has underwritten property catastrophe-exposed policies since its inception. This is aligned with our purpose which includes delivering risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events. Rising awareness of climate- and nature-related risks has presented the Group with opportunities to deliver further on that purpose to the benefit of our clients, investors, employees and other stakeholders.

As part of our annual business planning process, various stress tests and scenarios, including those related to climate, are considered to assess the viability and resilience of the plan. A summary of these is provided to the Board at its year-end meeting each year, highlighting the potential upside and downside to the best estimate plan assumptions for the loss scenario outcomes. These stress tests include climate-related tests. At the year-end meeting in March 2025, these tests demonstrated the improved resilience of the business to withstand significant losses and produce a reasonable return.

Sustainable underwriting

The risk solutions that we provide help protect people, companies and economies from uncertainty, and give them confidence and stability in an uncertain world. 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 in addressing the challenges of the global transition to a lower carbon economy and continue to expand our knowledge and underwriting expertise to support the global carbon transition within the energy sector. As our energy clients transition to lower carbon operations, we see an increasing component of renewable energy and lower carbon generation projects within our portfolio, including wind and solar farms, nuclear, geothermal, biomass and other lower-carbon technologies.

Board-approved risk tolerances against the business plan

The actual business underwritten within the Group is monitored against the business plan and the Board-approved risk tolerances (including those linked to climate-related catastrophe loss events). Risk tolerances are reported to the Board quarterly within the Group CRO ORSA update report as part of our risk management framework. In addition, the Group CUO and Group CRO regularly review current and emerging (re)insurance risks. These Board-level conversations around risk tolerances set quantitative measures for all risk categories, including climate, in our operations. Our climate risk culture has been set at the top and, accordingly, acceptable levels of risk are communicated throughout the business, which range from risk avoidance to opportunity enablement.

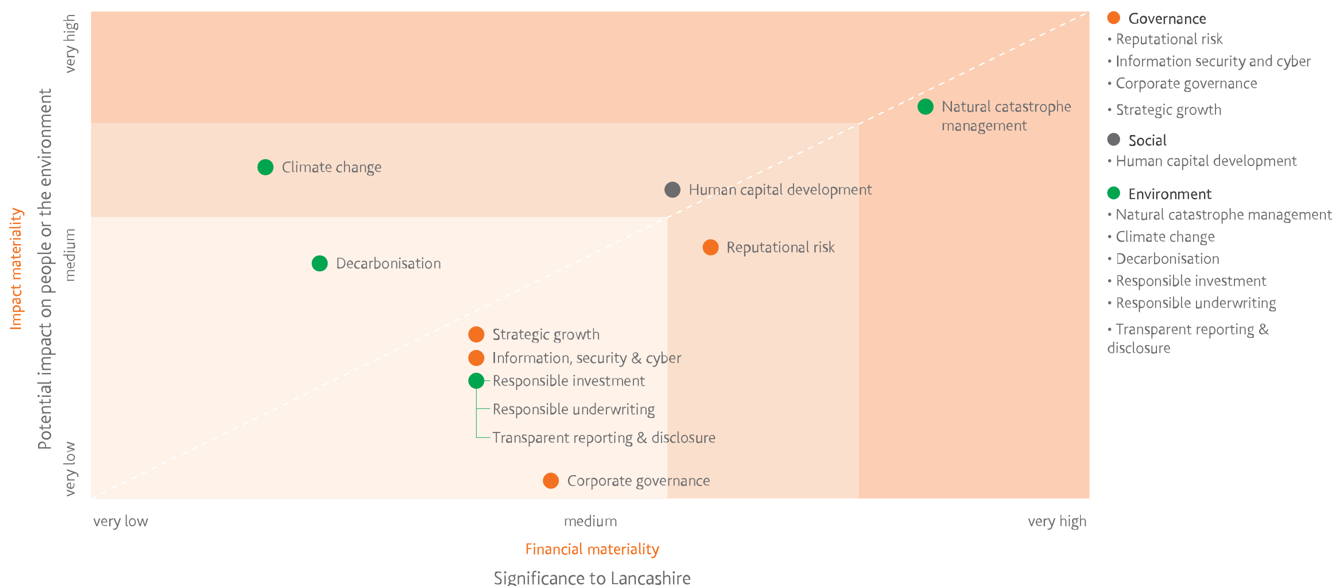
Proactive risk management strategy

Our risk management strategy is proactive. Detailed analysis of the assets to be insured, underwriting strategy days and the Group catastrophe underwriting strategy day, 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 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 are considered with respect to both their magnitude and timescale.

Materiality assessment

In 2023, we identified the need for a materiality assessment to inform our sustainability strategy further and, in 2024, we undertook the work to further our understanding of ESG issues and stakeholders' expectations. We chose to approach this assessment through a double materiality lens. The objective was to identify key considerations that are material to our business and analyse them from two different perspectives: the potential effects of the Group on climate-related issues and the effects climate-related issues might have on the Group. Our tabletop exercise of the double materiality assessment comprised our evaluation of external drivers (being an impact on people and environment and/or a financial impact on the Group) and the relevance these are considered to have to our stakeholders. A range of stakeholders were identified (e.g. insured clients, shareholders, regulators, rating agencies, executives, employees) and relevance was rated as low, medium or high. In addition, the impact and financial materiality of the drivers was assessed ranging from very low to very high. The impact materiality analysis assessed Lancashire's potential effect on the economy, environment, and society, whilst considering the positives and negatives of our operations, including the value chain. Conversely, financial materiality looked at these sustainability issues' impact on Lancashire's financial performance and future viability.



Climate change as a factor in business planning using the Group's ORSA

For more information please see page 26.

ESG strategy and framework

For more information please see page 40.

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

Stress and scenario testing

Stress and scenario tests and reverse stress tests are performed as part of the business planning cycle 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. Stress testing allows us to understand the impact should the higher catastrophe event experience witnessed over recent years be more indicative of the average experience than that currently predicted by the third-party catastrophe models. Testing includes prescribed underwriting loss event scenarios as outlined in the BSCR and the Lloyd's RDS.

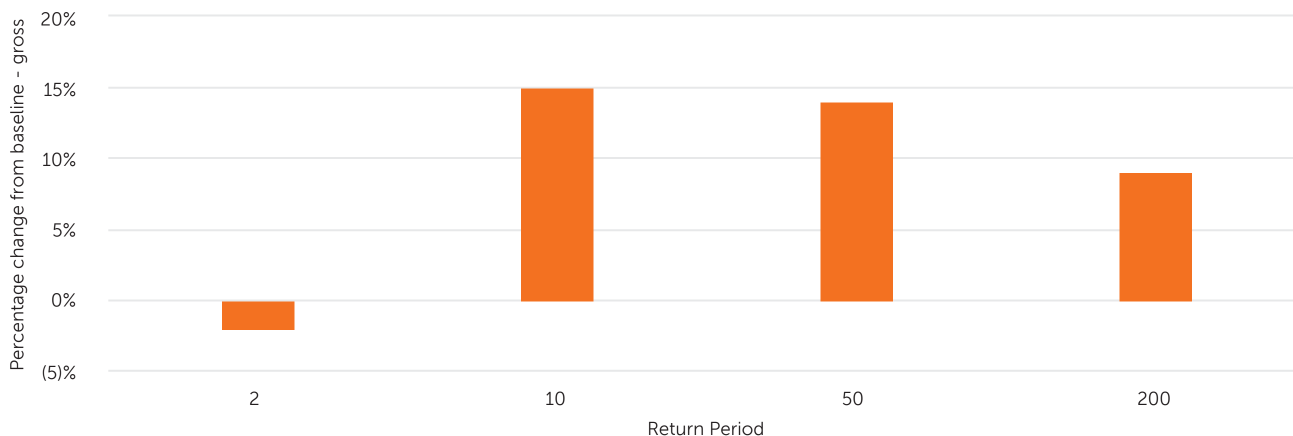
Use of third-party catastrophe models

The Group uses a leading third-party catastrophe model vendor and other portfolio modelling software to assess the Group's exposure to natural catastrophe risk. We explicitly consider the impact of climate change to ensure hazard selections within the model are appropriate for our understanding of current conditions and reflect any identified climatic trends. All material new models and model changes are validated via the View of Risk Committee, including any appropriate adjustments to address any identified gaps. We license a separate software tool that enables us to consider climate change scenario projections at varying levels to regularly assess potential impacts under future emissions scenarios for major exposed atmospheric perils. We also regularly undertake reviews of relevant scientific publications to ensure our scenarios are appropriate and representative of currently available knowledge.

Wind scenarios 2°C of global warming

We routinely measure the potential impact on our business of material physical risks, e.g. hurricanes and related storm surge, through the use of modelled PMLs and monitor these against Board approved risk appetite tolerances, which are set at a defined percentage of capital we are willing to lose in a specific event. We also periodically run scenario tests using a licenced third-party model. Our latest testing for US hurricane risk focused on the impact of 2°C of global warming, resulting in a 4% increase in severity of Tropical Cyclones, along with a 15% reduction in frequency according to the 2020 Knutson study[1]. In addition, we assumed a 30cm sea level rise giving increased storm surge. The results show the percentage change from our baseline (on a gross basis) against various return periods. In 2024, we undertook additional research to confirm our central assumptions for our scenarios were still relevant by reviewing recent research findings.

Climate change stress test - Occurrence PML change as at 31 December 2024



1. Knutson, T., Camargo, S.J., Chan, J.C.L., Emanuel, K., Ho, C.-H., Kossin, J., Mohapatra, M., Satoh, M., Sugi, M., Walsh, K. & Wu, L. "Tropical Cyclones and Climate Change Assessment. Part II: Projected Response to Anthropogenic Warming." Bulletin of the American Meteorological Society 101, no. 3 (March 1, 2020): E303–322. https://doi.org/10.1175/BAMS-D-18-0194.1

Our business planning process includes the modelling of anticipated new business for the forthcoming year, including climate-related risks and opportunities. The business plan is then stress tested for various scenarios, including climate-related scenarios. The results of these stress tests are considered during the review and approval process of the business plan at the management and Board level.

Continuously monitoring the investment portfolio

The Group's investment portfolio is continuously monitored using a variety of tools to measure the ESG profile, climate change risk exposure, and carbon intensity, including the MSCI ESG and carbon intensity rating tools. While it is acknowledged that most available tools and methodologies for ESG, carbon, and climate factors are imperfect, the Group is committed to further developing and refining its ability to analyse these factors in the future. This will be done in consultation with the Group's external advisors and portfolio managers, and in alignment with evolving market and regulatory standards and expectations for measuring and reporting in these areas. Despite these current perceived imperfections, the carbon intensity of the fixed maturities within the portfolio is tracked for those assets covered by the MSCI carbon intensity rating. It's important to note that US and other government-related bonds, which comprise 36% of the fixed maturity portfolio and are not covered by MSCI.

3. Risk management

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

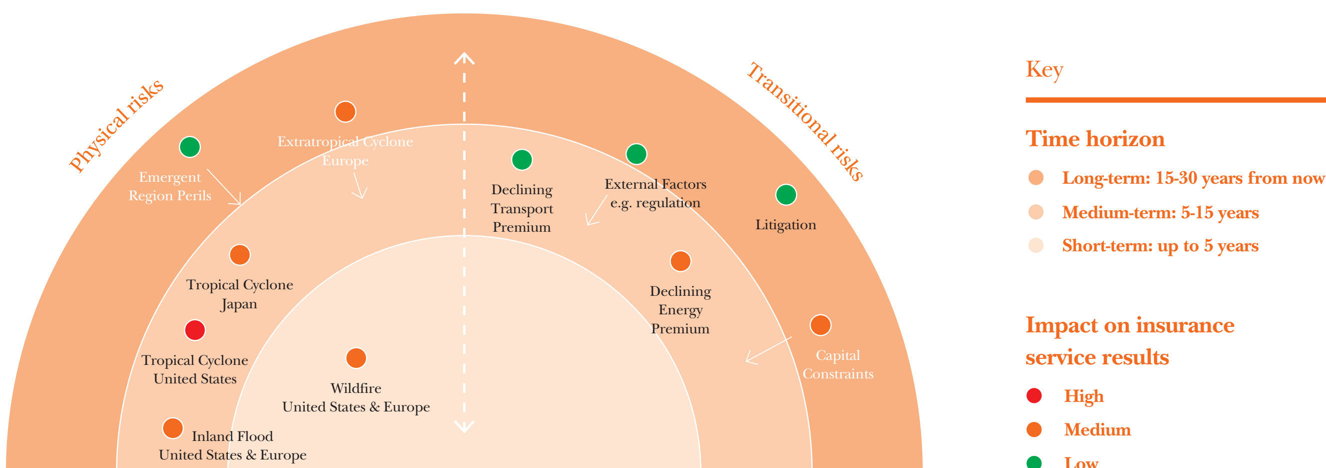
Risk management

Our risk management strategy is closely aligned with the Group strategy. It is focused on adding value to the business and providing assurance over the Group's most material and emerging risks, including climate risk. The Board is responsible for managing risk and retains responsibility for the oversight of risk management activities. The risk management function, led by the Group CRO, ensures there is appropriate risk governance and a risk management framework to support the Board, Group CEO and Group Executive Committee in managing risk. The risk management framework must adapt to any change associated with delivering the Group's strategy. The risk strategy is updated annually, and the Board approves the related work plan. The process for identifying and assessing climate-related risks is the same as the process for all other risks detailed in the ERM section starting on page 24.

Internal View of Risk

In 2021, we developed a Climate Risk Radar, which is reviewed annually and refreshed as necessary. It illustrates Lancashire's current internal view of the physical and transition risks from climate change, including the potential time horizon over which they may be faced, the potential magnitude of financial impact, and the geographical region (for physical risks). It allows us to map the climate dependencies to understand where the disruption might occur and financially impact our business from a physical or transition risk.

Climate risk radar



The arrows pointing inward indicate shortening time-frames for these risks.

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 with specific loadings in respect of climate risk. In addition, we further load these models based on our own views of climate risk and use our clients' exposure data to create aggregate loss scenarios.

Individual risks that are likely to materially utilise the Group's capital are reviewed by senior and experienced underwriters. The modelling data and the capital deployment are closely monitored by the Group's senior management. Likewise, the Board monitors this on a quarterly basis as part of its strategic risk and capital management assessments, 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.

Integrating investment considerations

The Investment Committee meets quarterly to monitor the management of the Group's investments against the asset allocations, risk tolerance and risk preference levels, and the approved investment guidelines.

The Group's overall risk tolerance for investment risk is expressed as a VaR metric as a proportion of shareholders' equity. More information on how the Investment Committee discharges its responsibilities can be found on page 87.

In 2023, a portion of the funds was dedicated to an ESG sweep facility product, an investment book that directs cash into a money market fund account daily. In 2024, we continued to look at other suitable sustainable funds, with a target allocation we expect to fund in 2025. In addition, the majority of our private funds are UNPRI signatories. Separately, $154.5 million has been committed to private funds classified as Article 8 under the Sustainable Finance Disclosure Regulation, of which $53.2 million has been funded.

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

ESG Insurance Underwriting Guidelines

Our ESG Insurance Underwriting Guidelines are agreed by the senior underwriting management team and are a guide for integrating ESG risk factors into insurance underwriting decisions.

Investment strategy and guidelines

We track and monitor the emission intensity of our investment portfolio every quarter. Our investment strategy guidelines incorporate ESG and climate-related targets and appetites as part of the overall strategy and guidelines which align with our commitment to responsible investment.

Our investment policy and stewardship practices allow us to engage with our investment managers around discussions and decisions to improve ESG and climate-related factors to protect the portfolio's long-term value as we move towards net-zero for 2050. We have regular engagement with our investment managers for a more collaborative relationship and aligned approach to our investment strategy.

More information on our ESG and carbon management investment can be found on page 87.

Three lines of defence – Governance framework

Risk governance is a major component of the overall risk management framework and provides for clear roles and responsibilities in risk oversight and management. It also provides a framework for the reporting and escalation of risk and control issues across the Group. Lancashire operates a three-lines of defence governance model.

See page 27 for further information.

The three lines of defence model is the framework we use to outline responsibilities for the ownership and management of risk (first line), risk oversight (second line) and independent risk assurance (third line). The interaction of responsibilities within this framework helps ensure the effectiveness of our risk management. As we continue to develop our understanding of ESG and climate risks, we are taking steps to embed those considerations into our risk management to ensure we future proof our business model.

Enterprise Risk Management framework and ORSA process

The Group considers and adapts 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.

More information on this can be found in the Enterprise Risk Management section starting on page 24.

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

Annual Board risk assessment

The Board's risk assessment considers risks that threaten the business model, future performance, solvency, or liquidity while also considering our offices' business continuity plan and disaster recovery plan. Climate-related risks are considered as part of this process, with their impact being considered within each existing principal risk rather than a separate climate change principal risk. Business plans are evaluated on a one-year, three-year and 2030 time horizon.

First and second line of defence management committees

As detailed in the graphic on page 27, dedicated management-level Committees have specific responsibilities. The relationship between the internal key control functions and the various Committees leverages the opportunity for oversight of responsibilities. While management has an obligation to oversee the delivery of strategic objectives, the first and second lines of defence in the model have responsibility for an additional layer of risk management including consideration of climate-related factors. Specific Committees have focussed management and oversight mandates. A description of the responsibilities and work of each Committee is outlined in their reports starting on page 76.

Risk identification and management discussions

Climate-related risks are identified and assessed as part of the formal risk identification and management process, including discussions with risk owners and subject matter experts across the Group, and discussions at the ERF 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. These reviews include the physical location of assets insured, weather-related perils that have impacted, or have the potential to impact, the location, and their historical frequency, and their severity. The Group's post-bind underwriting controls further offer additional insight of accepted risks, including climate risk. As part of the control process, peer reviews, appropriate for each of the pre-bind levels of authority, are carried out using real-time data.

Repositioning the portfolio

In 2022, the Investment Committee directed its external managers to begin repositioning the portfolio to reduce the carbon intensity score, a process that continued in 2023 and into 2024. The Committee noted that 96.7% of the Group's externally managed investment portfolio is assigned to managers which are signatories to the UNPRI (as at the 2024 year-end). The Group operates a framework for measuring climate sensitivity for corporate bonds within the fixed maturity portfolio using a Climate VaR, which is aligned with the Paris Accord goal of limiting global temperature increases to a maximum of 1.5°C, for the Group's investment risk tolerance statements. The Investment Committee and Board have a preference for the financial impact of this scenario on the Group's fixed maturity portfolio, covered by MSCI, to have a less detrimental impact than the MSCI benchmark model. The Committee noted that the fixed maturity portfolio continues to outperform the benchmark portfolio on the Climate VaR measure, demonstrating the Group's effective risk management strategy.

Incorporating ESG into vendor management

The Group has taken a ground-up approach to understand the underlying objectives of ESG criteria across the sourcing lifecycle, and how the data collected from traditional vendor due diligence can be assessed from a sustainability perspective.

As part of our strategic commitment to sustainability, we include climate and ESG-related questions in our vendor RFP and onboarding due diligence processes.

In the second quarter of 2024, the vendor RFP questionnaire underwent significant revisions. It now features a set of questions that all vendors, when participating in an RFP, are required to answer.

4. Metrics and targets

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

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 the percentage of capital we are willing to lose in a specific event, and we set a capital loss tolerance for the Company and track modelled PMLs to weather-related hurricane perils.

The table below sets out the possible financial impact of physical risk based on our portfolio as at 31 December 2024. If the exposure were to change materially the financial impact could be more significant. However, the longer-term impact would likely be managed by our ability to reprice contracts upon renewal if needed, and the development of new products.

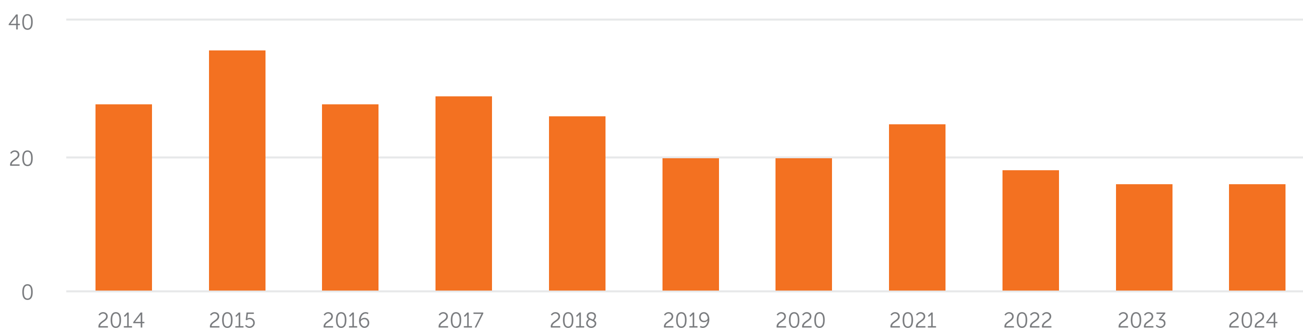
Physical: acute and chronic (100-year event)	Time frame	Magnitude of impact	Potential financial impact Group net PML/% of tangible capital
Tropical Cyclone			
US. Windstorm – Gulf of Mexico	Medium	High	$335.8 million/19.3%
US Windstorm – Non-Gulf of Mexico	Medium	High	$233.4 million/13.4%
Japan Typhoon	Medium	Medium	$102.3 million/5.9%
Extratropical Cyclone			
European Windstorm	Medium – Long	Medium	$129.4 million/7.4%

Mitigation

- positive feedback loop in pricing models that reflect heightened risks from climate change;
- gross risk appetite is adjusted wherever the risk is viewed as inappropriately priced for the exposure;
- outwards reinsurance is adapted to reflect the changing exposures;
- robust internal controls ensuring PMLs are monitored monthly by the RRC;
- additional secondary perils now modelled; and
- continue to develop views on other perils

PML as a percentage of GWP

The chart below illustrates the Gulf of Mexico 1-in-100-year PML event, expressed as a percentage of GWP and how the proportionate risk to the Group has been managed over time.



Our PMLs are derived using stochastic models licensed from third-party vendors. These models include perils such as windstorm, convective storm, wildfire and flood. The View of Risk Committee assesses the assumptions within the licensed model and, where appropriate, applies loadings. Model outputs are regularly challenged at both the macro and specific account levels. The RRC reviews our PMLs and the actual in-force exposure versus tolerance every month. The loadings applied to the model are periodically reviewed by the View of Risk Committee to assess their ongoing appropriateness.

Additionally, risk learning can be performed following a large catastrophe event to compare the actual loss versus the modelled loss, further assessing the appropriateness of the assumptions and loadings within the model, and establishing whether further adjustments are required. More information on how the Group actively monitors risk levels and manages catastrophe can be found on page 137.

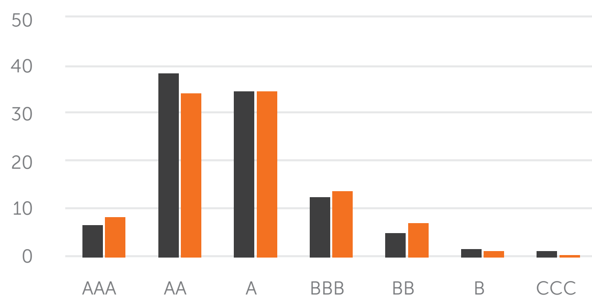
Monitoring the investment portfolio

The majority of assets within our investment portfolio are fixed maturity securities, making up 82.4% as at 31 December 2024, of which almost half were government-related securities. We had a 35.1% allocation to corporates bonds, of which we had a small exposure to climate-related risks. The Group continued to review and monitor its investment portfolio from an ESG perspective through the approved MSCI climate VaR metric. Lancashire's overall risk tolerance for investment risk is expressed as a VaR metric as a proportion of shareholders' equity. Every quarter, the Climate VaR is monitored versus the MSCI benchmark through analysis of the underlying securities as measured by MSCI for the Group's Level (i) and Level (ii) securities.

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.

Lancashire monitors the ESG profile of its fixed maturity portfolio for those securities covered by the MSCI ESG rating tool. Much of the portfolio for the year-end of 2024 was designated within the 'average' ESG category.

MSCI Overall Rating (%)



* Percentages for the MSCI benchmark data are up-scaled to compare with the Lancashire securities covered by MSCI

Group investment guidelines

The Group's investment guidelines continue to restrict investments in companies that 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. Compliance with the investment guidelines is monitored every month and any adjustments are approved by the Board and the Investment Committee. The Investment Committee continues to consider developing market practices for further analysing the Group's investment portfolio from an ESG exposure perspective. As of 31 December 2024, 96.7% of our external investment portfolio was administered by managers who are signatories to the UNPRI. The Group's external investment managers must operate within the parameters set in our guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored monthly.

4.b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.

Offsetting and reducing our energy use

The tables on pages 61 and 62 presents a comprehensive view of our environmental impact, with year-over-year GHG data comparison. Each year, we purchase carbon credits to offset our calculated emissions for our own operations, a practice that underscores our commitment to sustainability. We will continue to monitor and report on performance.

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

Board-approved offset programme

The Group has set GHG reduction targets for the Scope 1 and Scope 2 carbon emissions related to its own operations measured by carbon emissions for each full-time employee, and committed to meet the UK Government's net-zero strategy by 2050. The Group continues with its Board-approved carbon credit offsetting programme for its own operations, and the Board monitors these targets to ensure they are aligned with the overall strategy and the operational requirements of the business.

Commitment to offset emissions

The Group continues its commitment to offset 100% of Scope 1 and 2 emissions, and 100% of the Scope 3 emissions of our own operations over which we exercise sufficient control at the current time. Scope 3 includes business travel, waste generated in operations, employee commuting, along with upstream fuel and energy-related activities not included in Scope 1 or Scope 2.

More information on our path to meet the UK Government's net-zero target by 2050 can be found on page 61 of this report.

Targets going forward

Wherever possible, the Group operates out of sustainable offices. Our London office, 20 Fenchurch Street, is a BREEAM 'excellent' building that uses 100% renewable electricity, evidenced by a tariff backed up by associated REGOs certification. Our facilities team continues to engage with the building management's 'Green Building' meetings and the property's energy-saving initiatives. The meetings are an opportunity to share best practices with other tenants and understand green initiatives in The City of London. More details on our GHG reduction targets can be found on pages 61 to 62.

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