The Andover Companies

Governance

Climate related disclosure and governance is applicable at the group level. All three Companies have a similar business profile; share common employees, management and directors, corporate strategy, risk tolerance, risk management, and most financial transactions through a pooling arrangement. Accordingly, all corporate governance-related procedures, policies and approvals of the Companies are determined at a group level.

At the regular meetings held by the CEO and President with the senior management team, risks which may affect the Companies' current operations as well as those related to prospective business strategies are discussed. This is an important component of the management of our operations and contributes to the identification of elevated risks and topics which fall under our ERM program and may require the attention of the Board.

During each Board meeting, as applicable, the CEO and President, along with each member of senior management, reports on relevant topics regarding their business function. This would include discussions on strategic initiatives, risks, costs/benefits, and timeframe.

As outlined in the Audit Committee Charter, the responsibility of the Audit Committee is to discuss the guidelines and policies that govern the process by which the Company's exposure to risk is assessed and managed by management. This includes a presentation by the Vice President and Treasurer with regards to our ERM program. The presentation incorporates elements of our risk management approach, including identification of key risks, establishment of tolerance guidelines, and specific risk management controls that are in place. This presentation is formally done to the Board on an annual basis; however, components are addressed throughout the year at each quarterly meeting.

Strategy

Climate-related risks and opportunities presents itself through various facets of our organization, including operational and strategic initiatives related to direct insurance and reinsurance, through investment opportunities and through corporate responsibilities.

Climate change can be difficult to predict and quantify, however we are committed to continually monitoring and reassessing its potential impact on our business.

Insurance and Reinsurance Business

Climate change could result in physical risks on our insurance business. It could result in more frequent, more severe, new or unmodeled weather phenomena which may impact our strategic and financial results over the short and long-term.

On a direct basis, weather events can have an immediate and potentially significant impact on our insureds and in turn our financial results. Currently, policyholders are offered credits for loss mitigation techniques, including but not limited to certain construction techniques utilized on properties located in coastal areas. For example, we have implemented Hurricane Deductibles which require the policyholders to bear a percentage of the risk; in turn we anticipate they will increase loss control measures such as use of storm shutters or more storm proof construction. We also support improved local building codes as evidenced by a credit which we apply to policies for homes built to stronger codes. Our website provides another resource for policyholders and agents to have quick access to information on reporting claims as well as resources on disaster preparedness and responses. We also frequently issue guides and reminders through social media and other channels about how to reduce losses by preparing for potential events, such as hurricanes and snowstorms. The company also maintains open lines of communications with our independent agents, claims adjusters and other business partners, who are well versed and keep current in their areas of expertise. If not properly managed, our financial results and the affordability of our product may deteriorate.

Opportunities exist to control the financial impact on our direct book by adjusting coastal requirements, minimum distance to coast requirements, adding or revising minimum elevation requirements, increasing deductibles, and adding other additional restrictions.

Reinsurance plays an important part in mitigating financial risk to our business and climate change may impact our exposure, reinsurer's risk appetite, and availability and cost of coverage. Reinsurance brokers play a facilitating role to help better manage potential risk by providing tools to model our direct business, exploring reinsurance solutions, and providing expertise in specialized areas of the business.

Additionally, we participate in assumed property catastrophe reinsurance which, like our direct book, could pose a financial risk due to weather related events. Communications with our brokers and reinsurers is key. These reinsurance partners constantly monitor risk and climate change with internal modelling and research meteorology departments. Each typically has at least one Ph.D. contained within its weather analytics department and, through seminars and meetings hosted by them, we are able to increase our understanding of weather-related risk. This increased knowledge and understanding provides a higher level of confidence with our assumed business and allows us to incorporate the knowledge obtained into our direct insurance business.

Investments

Climate related, transition risks, could impact our investment valuations and the ability to continue to produce a healthy income stream over the medium to long-term. Climate change appears to pose additional risk through investments in fossil fuels or carbon-intensive sectors and other organizations who have not taken adequate steps to mitigate or adapt to climate change.

Our investment portfolio is primarily comprised of large-cap, dividend paying equity securities. Our selection process for investments is thought-out with the goal of maximizing income, preserving capital, minimizing concentration of risk, and maintaining sector diversification. We review our holdings MSCI

ESG ratings which provide indicators for emerging risks, including environmental risks. We have discussions with regards to these risks in conjunction with investment committee meetings and with our investment advisors and managers.

Opportunities exist in this area to explore investments in environmentally friendly companies, green-energy stocks and others who are well positioned to excel in a climate risk sensitive environment

We invest in wholly owned real estate LLC's and some noteworthy green or energy friendly enhancements include the following:

- In 2023, lighting systems were upgraded to LED lighting units in 3 of the 4 properties.

- In 2023, four Charge Point dual-head electric car charging units were installed at one property, offering 8 ports for charging electric vehicles.

- In 2023, an original and failed 26-year-old HVAC rooftop unit was replaced at one property with a new 75 ton high efficiency rooftop unit, with economizer.

Home Office and Operations

Climate change could have both physical and transitional related risks on our organization in the short and long-term. Climate change could pose a physical risk regarding the ability to sustain operations at our current office location. We could experience a significant weather event making the office uninhabitable or we could experience rising water levels at a near-by river. From a transitional perspective, we risk reputational harm around not being proactive in findings ways to mitigate or adapt to climate change.

We have effectively mitigated the physical risk of our building by developing and executing (during Covid) remote-work operations. Virtually all employees can effectively do their job from home. Sustaining operations is supported by increased outsourcing of processes and operating in a cloud-based technology environment. On a recurring basis, we complete business continuity workshops which involve all departments and facilitated by a third party to ensure the plans continue to address evolving changes and challenges in our organization. Financially, the loss of the building would not pose a significant impact.

The company has taken steps to assess, reduce or mitigate its emissions through operational changes including eliminating paper copies, encouraging online and electronic means of payments, recycling, shutting down of nonessential terminals/printers during office hours, increasing online-automation of policy processing, outsourcing print and mailing functions to a provider that creates more efficiency and less impactful on the environment. Also, we have a renewed focus on employee volunteer and charitable giving opportunities, some of which include promoting or serving green-focused initiatives.

An opportunity we have capitalized on to support a transition to a low carbon economy is various energy conservation projects. Some most noteworthy relating to our headquarters include the following:

- In January 2016, we completed the installation of solar panels on the lot adjacent to the home office building. The array has produced over 5,263 megawatt hours of electricity since commissioning with an average production of 104.2% over initial projections.

- Beginning in October 2016 and continuing through 2022, we renovated office space throughout the building that included various energy efficient measures. Improvements included replacement of VAV control boxes with high efficiency electronically commutated motor (ECM) VAV control boxes, replacement of pneumatic control systems with DDC controls, and integration of new DDC controls with the building automation system. Additionally, all lighting was replaced using LED lighting and light motion sensors.

- In 2017, a new irrigation control system was installed to better control landscape watering. The control system includes modern technology that efficiently reduces water consumption and effectively controls the watering during wet weather.

- In early 2019, all windows throughout the building were replaced with new energy efficient double-glazed windows.

- In 2022, 2 Charge Point CT-4021-GW-1 dual-head electric car charging units were installed, offering 4 ports and 18’ charging cords, which will serve those employees and office visitors with electric vehicles. Additional units are currently being planned for in 2024.

- In 2023, various interior sections of the property were modernized which included the removal of original variable air volume (VAV) boxes, replaced with 13 new high efficiency ECM VAV control boxes. The original pneumatic control system serving those VAV boxes was replaced with DDC controls connected to the building automation system.

Risk Management

<u>Risk Identification</u>

Risk identification, assessment, and management of Company-wide risks, including climate-related, are handled by multiple levels of management. The Company Executives comprise the Risk Management Committee and hold the primary responsibility of risk identification and mitigation. Support is provided by the ERM team who facilitates ERM practices throughout the organization, specifically between the Risk Management Committee and the Risk Owners. Risk Owners are also members of the Business Leadership Council, which is comprised of representatives from each department, who serve as subject matter experts, execute risk management practices within their department and facilitate in the identification of new and emerging risks and recommend methods to mitigate.

<u>Insurance and Reinsurance Business</u>

The company monitors the changing facets of the industry and the threats which may impact our operations and financial stability and climate change-related risks are inherently embedded in our thought process.

Risks resulting from climate change are the same types of risks inherently associated with the nature of our business as a property and casualty insurer but may be more severe than average and may become more frequent over time. These risks specifically include, but are not limited to, increased frequency and severity of hurricanes, severe convective storms, coastal erosion, changes in flood zones, and increased chances of drought, which could result in heightened risk of wildfires. Impact to the company could require the purchase of more catastrophic reinsurance coverage, adverse impact to our assumed reinsurance portfolio, and necessitate changes to how we underwrite our direct business.

Currently, we mitigate this risk through monitoring annual changes in probable maximum loss (PML) models, purchasing suitable levels of property catastrophe coverage and diversifying through participation in worldwide assumed reinsurance. We also seek our insured's participation through the completion of recommendations. For example, more frequent and stronger wind events lead to more trees coming down, many of which can damage insured structures. To mitigate this exposure, the company is using aerial imagery to identify hazardous exposures. Recommendations are then forwarded to insureds asking for the removal of overhanging branches and trees which are in close proximity and pose a threat to the structure.

Investments

The company's investment philosophy is to seek to maximize returns while adhering to regulatory requirements and protecting the interests of our policyholders. We are long-term investors with a financially stable portfolio of investments. The company's Treasurer, CEO, Investment Committee, and investment advisors routinely review our investment holdings, sector weightings, and maturity schedules for diversification and liquidity. Although we have not specifically addressed the impact of climate change on our investment strategy, we feel the ongoing monitoring of the portfolio and the level of diversification among sectors and financial stability of our investments do provide security on a variety of risk factors. We have also begun work in assessing environmental, social, and governance (ESG) ratings of our holdings, which gives some indication of company's proactiveness with regards to climate change impacts to core operations and corporate responsibility. We are making ESG considerations when determining new investments or management partners.

Metrics and Targets

Certain metrics and targets have been incorporated formally into our ERM procedures and there are opportunities to continue to expand these metrics and formalize targets on a going forward basis.

Insurance and Reinsurance Business

The Company does make use of computer modeling for the underwriting and reinsurance programs. On an annual basis, our entire book of business is analyzed and modeled by our reinsurance broker. Models are based on all perils, hurricane, winter storm, severe convective storm, and earthquake. PML figures developed by our broker help us in determining our exposures and assist in the determination of reinsurance coverage. The PMLs are reviewed along with our facultative reinsurance coverages and overall surplus to determine reinsurance needs. Typically, we assess and limit our exposure at the 1:100-year event level; however, in recent years, we have shifted more focus to both the 1:250 and 1:500-year return periods.

Some additional measures we take to better understand our exposure to risk include review of our in-force policy count and Total Insured Value (TIV) on a county and state level, and review of Average Annual Loss (AAL) figures at a county level. In addition to the modeling, we monitor our coastal concentrations with both internal reports and through a tool called Advantage Point provided by our reinsurance broker. This tool allows us to segment our book of business into coastal bands (0-1/4, ¼-½, ½-1, 1-2, 2-5, and >5 miles) and analyze by number of risks, total insured value, total value of deductibles, and premiums on both an aggregate and average per policy basis. New in 2023, we are now allocating our reinsurance spend to the policy level and reviewing policies where expenses exceed premiums.

Investments

We annually review our portfolio's ESG scores using the MSCI ratings scale. We review our overall scores relative to the overall ESG Quality Score metrics and further research individual investments that fall outside the average rankings. As part of this same annual process, we are provided further insight on carbon risk indicators, environmental risk, and sustainable impact of our investments. We are provided insight on our allocation of the investment's carbon footprint, including Scope 1, 2 and 3 emission sources.

Quarterly, we do review sector allocations and our largest holdings for concentrations of risk that may exist, whether they have a higher climate risk exposure or not.

We have not yet established set standards or targets, specific to climate change, in which we manage the portfolio.

Home Office and Operations

We have not yet established set standards around target emissions, water usage, energy usage, etc. We have been proactive in applying mitigation techniques in conjunction with our recent renovations and enhancements to our home-office. Please see those described above.