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Since 1828

Climate Risk Disclosure Survey Reporting Year 2021

(Vermont Mutual Insurance Company #26018; Northern Security Insurance Company, Inc. #25992; and Granite Mutual Insurance Company #14095)

1. **<u>Governance – Narrative:</u>**

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

The Board is actively engaged and receives regular reports on how the company is managing exposure to climate risk through execution on its detailed underwriting and investment strategies. Climate Risk is an identified risk under the Company's Enterprise Risk Management ("ERM") program that is closely managed by the company's leadership team with primary responsibility assigned to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

The Board of Directors meets four times per year (February, April, August and December) and receives detailed in person presentations from its third party investment advisory firm at the February and August meetings. Company Management supplements the advisory firm in person presentations with Investment Strategy updates to the Board at the April and December meetings. Additionally, Company Management provides detailed reports at each Board meeting on the management of Underwriting Risk with a particular focus on how the company is managing the aggregation of property exposure. Further, the Board receives monthly written reports from Company Management that provide regular updates on performance of the business and also information on important issues that may have arisen in-between Board meetings.

Finally, the company ERM program is regularly reviewed by management during the course of the year and updated at least annually with a copy shared with the Board for review and discussion at the December Board meeting.

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

Climate Risk is an identified risk under the Company's ERM program that is closely managed by the Company's leadership team with primary responsibility assigned to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

As a component of our Underwriting Strategy, Company Management closely monitors climate change developments within our geographic footprint. As storms have become more intense across all seasons, Company Management has continually focused on the tools available, both currently and also those being introduced through industry innovation, to manage and mitigate Climate Risk.

The Company's Investment Policy seeks to manage potential exposure to credit risk including the downgrade of investment holdings. The Company's third party investment advisory firm assists the Company in executing on a diversified investment strategy and by regularly evaluating the performance of individual fund managers. The annual due diligence process for fund managers includes an overview of performance on an Environmental, Social and Governance ratings scorecard as compared to other fund managers. The analysis helps to ensure that the Company is engaged with a diversified group of fund managers that are cognizant of a range of risks including considerations related to Environmental, Social and Governance.

Governance – Closed End Questions:

- Does the insurer have publicly stated goals on climate–related risks and opportunities? **No**
- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate-related financial risk? **Yes**
- Does management have a role in assessing climate-related risks and opportunities? **Yes**
- Does management have a role in managing climate-related risks and opportunities? **Yes**

2. <u>Strategy – Narrative:</u>

Describe the climate – related risks and opportunities the insurer has identified over the short, medium and long term:

Short Term climate related risks identified include:

- Potential increase in direct loss severity
- Potential increase in frequency and severity of weather-related events
- Possible negative impact on reinsurance placement & pricing
- Possible adverse financial impact on operations caused by inflation
- Potential for investment/credit risk attributable to climate change

Short Term opportunities:

- The Company utilizes the services of reinsurance brokers and consultants to model projected losses
- The Company has strict underwriting guidelines in high risk coastal areas to actively manage the aggregation of property exposure
- The Company has utilized the services of a third party firm to monitor and make recommendations to improve energy efficiency throughout our two office buildings. Our home office is also connected to a municipal heat plant that serves multiple downtown buildings to help reduce emissions and the use of fossil fuels. The Company has a recycling and composting program in place, encourages employees to reduce their use of paper, and also sponsors a ride share program to encourage employees to car pool.
- The Company utilizes the services of an investment advisory firm to assist the Board of Directors with implementation and monitoring of the Company's investment program.

Medium to Long Term risks identified include:

- Increased potential for adverse effects on claim activity caused by average temperature increases/decreases
- Increased potential on claim activity attributable to increased rainfall or drought and other weather related changes
- Possible negative impact on reinsurance placement and pricing
- Possible negative impact or impairment of investment holdings

Medium to Long Term opportunities identified include:

- The Company utilizes many of the same risk management strategies and opportunities identified above in response to the Short Term identified risks.
- The Company's third party investment advisory firm assists the Company in executing on a diversified investment strategy and by regularly evaluating the performance of individual fund managers

Strategy – Closed End Questions:

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? **No**
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate Risk? **No**
- Does the insurer make investments to support the transition to a low carbon economy? **Yes**
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? **Yes**

3. Risk Management – Narrative:

Disclose how the organization identifies, assesses and manages climate related risks

The Company monitors Climate Risk trends and concerns through our relationship with reinsurers, participation in industry groups such as APCIA, NAMIC, the monitoring of NAIC activity and through bulletins from certain industry vendors. The primary responsibility for assessing and managing the risks and opportunities lies with senior management and the Board of Directors.

The Company closely monitors climate change developments within our geographic footprint of New England and Upstate New York. As storms have become more intense across all seasons, we have continually focused on the tools available to manage and mitigate risk. These include actions undertaken to ensure an appropriate concentration of risk. Also, our pricing strategy is constantly being reviewed and adjusted as necessary in order to ensure appropriate pricing for all underwritten exposures.

The Company also closely reviews industry data related to best practices on identifying, assessing and managing Climate Related Risks in order to better inform the Company's ERM program.

Risk Management – Closed End Questions:

- Does the insurer have a process for identifying climate - related risks? **Yes**
- If yes, are climate - related risks addressed through the insurer's general Enterprise Risk Management process? **Yes**
- Does the insurer have a process for assessing climate – related risks? **Yes**
- If yes, does the process include an assessment of financial implications? **Yes**
- Does the insurer have a process for managing climate – related risks? **Yes**
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? **Yes**
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? **Yes**
- Has the insurer considered the impact of climate-related risks on its investment portfolio? **Yes**
- Has the insurer utilized climate scenarios to analyze their underwriting risk? **Yes**
- Has the insurer utilized climate scenarios to analyze their investment risk? **No**

4. <u>Metrics and Targets – Narrative:</u>

Disclose the metrics used to assess climate-related risks and opportunities in line with the company strategy and risk management process:

The Company strives to maintain an approximate 50/50 balance in underwritten property exposure between Northern New England & New York and property exposure underwritten in Southern New England. Southern New England would likely be more prone to adverse effects from climate change due to the proximity of wind along the coast and predicted increase in ocean levels, whereas property exposures in Northern New England and New York are more geographically dispersed and protected to a certain degree by the mountainous terrain.

As storms have become more intense across all seasons, we have continually focused on the tools available to manage and mitigate risk. These include the utilization of computer modeling for risk assessment/management in order to effectively manage our aggregation of property exposure. Also, our pricing strategy is continually evaluated and adjusted as necessary in order to ensure appropriate pricing for all underwritten exposures.

The Company is regularly evaluating new products and third party capabilities related to catastrophe modeling in order to inform company management and assist with planning and strategy.

Metrics and Targets – Closed End Questions:

- Does the insurer use catastrophe modeling to manage your climate - related risks? **Yes**
- Does the insurer use metrics to assess and monitor climate–related risks? **Yes**
- Does the insurer have targets to manage climate–related risks and opportunities? **No**
- Does the insurer have targets to manage climate–related performance? **No**