

Federated Mutual Group

2023 NAIC Climate Risk Disclosure Survey (reporting in 2024)

Governance

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

In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:

- Identify and include any publicly stated goals on climate-related risks and opportunities.
 - Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.
- A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities. In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:*
- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.
- B. Describe management's role in assessing and managing climate-related risks and opportunities.*

Response:

Federated's Board of Directors governs Federated Mutual Insurance Company and its subsidiaries at the group level. The board has established the Enterprise Risk Management (ERM) program to identify, measure, control, monitor and assess risks that impact the organization. Climate risk is embedded within that ERM program. The board exercises oversight of ERM through its Audit Committee. The Audit Committee receives regular semi-annual reports from the ERM Steering Committee. These reports and updates provide an understanding of the significant risks of the organization, and processes and controls in place to mitigate these risks. Climate related risks and opportunities are assessed and analyzed as part of the ERM program for the entire Federated family of companies. This includes Federated Mutual Insurance Company, Federated Life Insurance Company, Federated Service Insurance Company, Federated Reserve Insurance Company and Federated Specialty Insurance Company. The Chief Risk Officer oversees the ERM program and leads the ERM Steering Committee.

Federated seeks to continually improve and implement an enterprise-wide risk management

approach that includes environmental, social and governance concerns including climate change. Through this process, we will thoughtfully address both the relevant risks and opportunities presented by climate change, while keeping our mission central to our assessment, thereby focusing on the success of our customers.

Our Executive Leadership Team is charged with oversight of the ERM Program and receives periodic updates from the ERM Steering Committee. In addition, the Environmental, Social and Governance (ESG) Team is engaged on a variety of relevant topic related to ESG which includes climate risk. The ESG Team manages, owns, and provides guidance on risks identified within the Climate Risk program. Further, the ESG Team provides input to the Climate Risk Executive Committee by identifying opportunities for potential initiatives for evaluation by the Climate Risk Executive Committee. The corporate ERM Program is established to maintain oversight of various corporate initiatives, including the Climate Risk Executive Committee and the ESG Team.

Federated's ERM program is responsible for assessing and managing climate-related risks and opportunities. The ERM program reviews risks related to underwriting and investments at least annually and is led by the ERM Steering Committee. Functional Line Teams serve all of our property/casualty companies and a separate team exists for our life company. As a whole, our Functional Line Teams support ERM in the respective business area, which includes identifying risk and integrating strategic plans as identified. The ERM process, as led by the Chief Risk Officer, engages subject matter experts from across the company. The ERM Steering Committee prioritizes risks facing the company, including climate risks, developing recommendations and plans reviewed by the Board, Audit Committee and Executive Leadership.

The Climate Risk Executive Committee is chaired by our Chief Financial Officer and consists of a cross-functional team representing finance, underwriting, compliance, physical services and ERM. The mission of the Climate Risk Committee is to embed climate-related discussion throughout the company, in order to include climate-related risks and opportunities in strategy, underwriting and investments. This is further promoted through the ESG Team and its work on environmental and social issues. The Climate Risk Executive Committee works in conjunction with our ERM Steering Committee to align with identified climate-related risk and strategies for mitigation.

Strategy

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material. In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:*

- Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency.*ⁱ
- Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations.*

A. *Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term. In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:*

- Define short, medium, and long-term, if different than 1-5 years as short term, 5-10 years as medium term, and 10-30 years as long term.

B. *Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning. In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:*

- Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
- Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

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

Response:

Federated's ERM process occurs annually and engages Functional Line business leaders from across the organization, including Commercial Lines, Business Continuity, Life Team, Finance, Information Technology Legal & Compliance, among others. This assessment is focused on the operations, financial, physical and legal risk to Federated, both as it relates to our own operations as well as the

risks within our underwritten book of business. During the ERM review process Functional Line business leaders assess risks, including climate related risks, identified in the prior review cycle. In addition, new and emerging risks are identified and added to the assessment by the Chief Risk Officer or others.

Engagement with our policyholders through our systems of industry aligned Advisory Councils helps us leverage the insight, experience and perspectives of our policyholders. They identify concerns and issues they are facing within their specific industries which further informs and enlightens our risk assessment described above.

In 2023, the following climate related risks were identified during the ERM process. The items mentioned are points of emphasis for our organization. The term “material” is not specifically defined in financial terms. To do so would minimize otherwise noteworthy risks such as those identified below.

- 1) Regulatory or legislative risks exist in the form of state mandates regarding coverage in areas prone to climate change risks. These may impact both Federated and its customers. Examples include legislation mandating coverage in certain geographic areas; moratoriums on cancellation of coverage or non-renewal for nonpayment; requiring additional claims procedures; post-disaster claims data reporting requirements; and requirement to insure a percentage of risks in a high-risk area. (short term risk)
- 2) The impact of a major natural catastrophe is a continuing risk. Intensity and frequency remain unclear. We strive to maintain a balanced portfolio that doesn't provide excessive exposure to catastrophe risk. This year, we are reducing our exposure to earthquake risk as well as increasing deductibles in select states. We initiated increases to wind deductibles in some states that carry our largest exposure to hurricanes. (short term risk)
- 3) Over exposure to a failing asset class or geographic region could lead to surplus losses exceeding the impact threshold. Federated continues to maintain a robust and healthy surplus coupled with an investment policy that includes diversification. That investment policy and resulting surplus are a safety net. The investment policy is monitored closely to continue to meet that objective. (short and medium risk)
- 4) There remains some risk of shortage of supplies and resources (e.g., computer chips) for electronics and cars due to on-going geopolitical tension. Rationing of gasoline could impact our ability to market our products as well as impact the use of generators. (short and medium risk)
 - a. Frequent rotation of cars in our fleet results in newer cars being used. If necessary, cars could be held longer and mitigate concerns about obtaining them.
- 5) The impact of an intense weather event as it relates to the physical operations of the company is risk for which we have developed an extensive business continuity program. (short term risk)
- 6) Inadequate loss reserves could have a material impact on the organization especially as it relates to unforeseen and unreserved for risks such as pollution, construction defect, and/or climate. (short and medium risk)
- 7) The risk that the Company will have unpredictable cash flows due to an event or situation that impacts the short term spending ability of the Company. (short term)
- 8) The risk of the unknowns surrounding climate change could negatively impact Federated from both a pricing and reserving standpoint. (short and medium term)

Underwriting. Several factors help to mitigate the risk of natural catastrophe related to our underwritten policies:

- a. Our reinsurance program will protect our financial strength by redistributing potential losses.
- b. Our risks are distributed broadly across the US geography, as well as broadly across types and industries of customers. This diversification of risks mitigates the impact of any one storm, event or type of loss, creating more stability in the financial position of the company.
- c. We operate in 48 states. Catastrophic weather-related losses occur in regional areas. Although a catastrophic loss would certainly have an impact on Federated's operations, the diversification of our book of business by geographical area and lines of business, and our financial preparation, helps Federated ensure adequate capital is available for catastrophic losses related to climate risks.
- d. Judicious and careful use of peril exclusions are applied to risks outside of the underwriting guidelines to mitigate foreseen climate related risk. (i.e., coastal restrictions).
- e. In areas that are exposed to natural catastrophe risk, we leverage percentage deductibles. This helps ensure that catastrophic risk is appropriately shared between Federated and our clients. These percentage deductibles also help facilitate risk sharing in high inflation environments.
- f. Federated has a relatively limited exposure to assumed reinsurance risk and we manage our portfolio carefully to mitigate assumed reinsurance risk.
- g. We leverage modeling scenarios as part of our reinsurance selection process, to confirm reinsurance coverage is adequate.
- h. In our underwriting processes to address recent increases in both the frequency and severity of wildfires, we have increased the rigor of our underwriting process relative to the wildfire peril. We have modeled our direct portfolio in wildfire exposed states and found limited risk concentration concerns. We also leverage data from vendor resources to quantify wildfire hazard potential as we underwrite new accounts. Through proper programming we mitigate catastrophic exposure.
- i. Regarding coastal risks, we leverage industry standard resources to monitor the density of risks assumed in coastal areas, to remain prudent in the amount of risk we insure in those areas. We continue to conduct periodic internal assessments to review existing underwriting guidelines related to climate impacts on our insured business.
- j. Federated's business is primarily casualty business and secondarily property coverage. Thus, the impact of climate risk upon our financial position is mitigated. Roughly 75% of premium is casualty driven while just 25% is property-related premium.

Federated has expanded its underwriting standards to include contractors that generate a portion of their revenue from solar panel installation. In 2022, Federated expanded its underwriting standards to include wind turbines and geothermal heating. These initiatives support industries that are engaged in addressing climate change. As our businesses evolve, Federated evolves with them understanding the new exposures they bring to the industry. As automobiles and other equipment has moved from gas power to electric, we have understood the new exposures and continued to embrace these industries.

Business Continuity. Mitigation of events impacting our operations, including weather events arising from climate change, is addressed through our Business Continuity Program (“BC Program”). This program is reviewed and approved by the Board on a regular basis. The BC Program includes:

- a. Enhanced attention and resources to build and maintain our corporate business continuity plans.
- b. These business continuity plans include identifying critical business processes, building plans to reinstate those processes in the event of differing scenarios, including storm, hail, tornado, wind or similar climate events.
- c. Redundant systems in the technology area, as well as addition of physical generators reduce the climate risk for the operations of Federated. The pandemic demonstrated that as a company and workforce, we can function remotely in the event of a climate event that damages our physical office spaces.
- d. Federated has offices for office workforce in 11 different states around the United States.
- e. Power or fuel shortages are mitigated through a generator system that is tested routinely.

Risk management remains at the core of our culture. Federated leverages its existing Risk Management department to deliver relevant risk and loss prevention strategies including those related to climate risk. This long-standing service provided by Federated continues to be valuable as climate-related events increasingly occur. Federated focuses on sound risk management with our policyholders and the hundreds of trade associations and industry organizations that recommend Federated. This risk management focus includes loss prevention and loss reduction related to weather-related events, including areas at high risk for wildfires, as well as hurricane, hail and tornado prone areas.

Investment Strategy. Under the guidance of the ESG Team, Federated’s Climate Risk Executive Committee has adopted Federated’s Climate Risk Policy that includes guidelines for Federated’s investment portfolio. This includes, among other things, consideration of investments in low-carbon and no-carbon technologies, environmental factors, geography, climate risk, oil spills potential hazards and other environmental issues. The policy includes review of Federated’s investment portfolio to evaluate climate risks that may exist in the portfolio and to review options to eliminate, reduce, or mitigate that risk.

Federated’s investment strategy includes a review of external asset ratings on ESG issues, including climate change. In addition, we have purchased green bonds to support climate-related projects. Ultimately, in evaluating investment strategies, Federated continues to place the priority on making sound financial decisions to support the policy holder surplus. However, if and when two investment options are similar in nature, with similar financial soundness, we consider the ESG focus and actions of the companies. The one that has a larger ESG focus will be selected over the other.

Physical Operations strategies are embedded in the Climate Risk Policy. Physical plant management seeks to assess, reduce, and mitigate emissions in Federated’s physical operations. This includes, among other things, continual efforts to review building construction and renovation projects for opportunities to apply “green” building practices and resistance to weather related events; evaluating our auto fleet to explore opportunities

to utilize more fuel-efficient or low-emission vehicles; and continued transition to paperless business operations when feasible. Federated has invested in a regional solar farm in which our portion of the project produced nearly 380,000 kWh of electricity in 2023, roughly half of the electricity we used for that location in the same period. We will continue to evaluate further investments of this type. As supply chains allows, we continue to add electric vehicles to our fleet. LED lighting has been installed as renovations and end of life replacements occur.

Federated reduces its carbon footprint and conserves energy and resources by pursuing opportunities to move to a “paperless” business environment. This includes purchasing Energy Star equipment, using virtual servers, recycling paper and computer hardware and equipment, and participating in other energy saving practices. Finally, creating paperless interactions, products, and services with clients is a continuing focus, including leveraging e-signature protocols.

Federated employees participate in the Travel Reduction Program in Maricopa County, AZ, striving to reduce emissions by use of biking, carpooling, bussing, and walking to work. In addition, Federated is committed to continually updating its fleet, thereby utilizing newer vehicles with higher efficiency ratings.

Our claims handling processes continue to leverage technology to reduce our corporate travel miles and related emissions. Utilizing photos and electronic delivery of information between claimants and our company reduces miles driven to otherwise inspect property and claims.

Risk Management

3. *Disclose how the insurer identifies, assesses, and manages climate-related risks. In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:*

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk.*
- Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable.*
- Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered.*

A. *Describe the insurers' processes for identifying and assessing climate-related risks. In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:*

- Discuss whether the process includes an assessment of financial implications and how frequently the process is completed.*

B. *Describe the insurer's processes for managing climate-related risks.*

C. *Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management. In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:*

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.
- Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.
- Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

Response: Climate-related risks are addressed through Federated's ERM program on an annual basis. The process for identifying climate related risks and assessing the degree they

could affect Federated's business is done at the direction of the cross-functional ERM Steering Committee. Risks are reviewed with each of Federated's Functional Lines Teams, including those with financial implications. These Functional Lines Teams periodically assess these risks and identify ways to properly mitigate them throughout the year as deemed prudent. Risks are monitored and reviewed at the next annual ERM review with the goal of bringing the risk back into an acceptable range of risk. Results of the ERM review and outcomes are summarized to the executive and Board levels as appropriate. Risks identified with the ERM process are ranked by score as found on the risk register.

The ERM process engages the relevant Functional Line Team and climate risks are monitored and assessed by the relevant Team. Risks are identified in a variety of ways, including:

- Input from business units regarding increasing claims related to climate
- Feedback from professionals reviewing our operations (i.e. auditors, financial advisors)
- Discussions with our Advisory Councils, made up of business leaders in the various target industries we insure
- Engagement in trade associations
- Review of published materials on the topic
- Input from regulators

In addition, with regard to underwriting risk, Federated works extensively with our reinsurers and other professionals and organizations to evaluate the distribution of our risks. Computer modeling is a key component of this process. Catastrophe models quantify risk from multiple climate-related perils, including wildfire, hurricane and severe convective storm and allow us to monitor changes in our exposure due to changes in our portfolio of clients and changes in the climate. These models and studies enable us to further refine our underwriting and acceptance of risk to maintain appropriate levels of risk within our book of business. Further, Federated leverages outside organizations and vendors to monitor climate related issues like wildfire and severe convective storms (SCS) exposures. Our membership in the Institute for Business and Home Safety provides us additional insight/resources regarding disaster preparedness and business continuity. This enables us to better assist our clients.

As Federated has considered the impact of climate change on its investment portfolio, investment in fossil fuels has diminished. We have enlisted our investment consultant to survey outside investment managers regarding their ESG policies. A ranking methodology was established and communicated to the Board of Director's Investment Committee. We continue to learn more regarding these issues.

Metrics and Targets

4. *Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.*

In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:

- Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.
- A. *Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process. In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:*
- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions)
- B. *Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.*
- C. *Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.*

Response:

Federated has calculated its GHG emissions using the US Environmental Protection Agency Calculation Tool. While we have taken steps to reduce GHG and related costs over the years, 2021 was the first year we have measured it. We have not yet identified GHG emissions targets. 2023 results reveal GHG emissions overall all totals were flat compared to 2022, revealing efforts to improve efficiencies in various ways is paying off. Airline travel miles overall was down which helped to mitigate slight increases in other areas.

GHG Emissions were as follows:

Key Performance Indicator	Unit of Measure	2022	2023
Scope 1 Direct emissions from heating of buildings, refrigerants, and owned vehicles, including leased vehicles, pool cars and maintenance vehicles.	CO2e (metric tons)	3,766.9	3891.0
Scope 2 Calculated using location-based methods; indirect emissions from electrical use in all buildings	CO2e (metric tons)	5,589.11	5834.0
Scope 3 Includes commercial air and ground travel and leased fleet vehicle fuel consumption. Reimbursed employee business miles on personal vehicles are included.	CO2e (metric tons)	2,665.97	2291.0
Total		12,022	12,016

Metrics around waste management and recycling efforts.

Recycling of paper products over the course of the year resulted in 324,960pounds of materials recycled; 2,777 trees saved; 61,742gallons of oil saved; 649,920kilowatts of energy saved; 487 Cubic Yards of Landfill Space Saved and 1,137,360gallons of water saved.

Federated has not established specific climate targets at this time.