Allied World – August 31, 2024
NAIC – California Climate Change Survey Responses

SECTION 1 – GOVERANCE

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 - Narrative:

References in this survey to the "Company" shall mean the collective operations of Allied World Insurance Company, Allied World National Assurance Company, Allied World Assurance Company (U.S.) Inc. and Allied World Specialty Insurance Company. The Company is a subsidiary of Allied World Assurance Company Holdings, Ltd (known as "Allied World" the "Group" or "we," "us," or "our,"), a Bermuda holding company with global insurance and reinsurance operations.

Allied World's ultimate parent is Fairfax Financial Holdings Limited ("Fairfax"), a Canadian holding company. Allied World follows Fairfax's Guiding Principles and supports their Environmental, Social and Governance ("ESG") initiatives that aim to foster meaningful change worldwide, including the mitigation of climate change. Please refer to Fairfax's 2023 ESG Report for more information (2023-Fairfax-Financial-Holdings-Limited-ESG-Performance-Report_FFH.pdf).

Fairfax has established a global risk committee which is chaired by its President & Chief Operating Officer. The committee includes senior officers of Fairfax's insurance subsidiaries, including Allied World's Chief Risk Officer. The purpose of the committee is to provide clear and consistent monitoring, measuring, modelling, and aggregating of risks across the Fairfax enterprise and for individual Fairfax companies.

In addition to Fairfax's efforts to address climate change Allied World is taking its own actions. To reduce the impact of thermal coal on our planet, Allied World has aligned our underwriting guidelines with the Paris Agreement. We will generally not provide coverage (i) on risks related to the construction and operation of new coal-fired plants; (ii) to insureds that derive over 30% of their projected revenue from thermal coal mining; or (iii) to insureds that generate more than 30% of their energy production from coal, taking into consideration the alternative energy sources available within the respective territory. Any remaining in-force coverage for insureds that do not meet these thresholds are being phased out in 2024, or non-renewed. Information related to this is included in the Social Impact page on the Group's website (Social Impact – Allied World (awac.com)).

Allied World's Board of Directors (the "Board") believes that risk management is a significant component of the Group's governance processes. The responsibility for the operational ownership and implementation of our risk management strategy has been delegated to the Group's Risk Management function which is led by the Group's Chief Risk Officer.

The Allied World governance structure uses the three lines of defense model for managing risk, with the ultimate responsibility for oversight residing with the Board. We view climate change as an organization wide risk that is captured within our three lines of defense model. The responsibilities for each line of defense are allocated in a manner consistent with the operations of the business:

- The first line of defense includes functions responsible for day-to-day operations such as Underwriting, Pricing, Investment Management, Catastrophe Modeling, Claims and Human Resources.
- The second line of defense is comprised of functions whose responsibilities include oversight of the first line of defense. This includes functions such as Risk Management, Legal and Compliance, Finance and Actuarial.
- The third line of defense provides independent assurance and includes internal and external audit and any independent advisors.

Our Catastrophe Modeling and Risk Management functions are responsible for calculating and monitoring our exposure to natural catastrophes which may be impacted by climate change. An analysis of our exposure to natural catastrophe losses is reviewed by management periodically (at least quarterly) throughout the year and presented to the Group's Risk Management Committee and the Board on a semi-annual basis. Based on this analysis, management makes changes to our global underwriting portfolios in an effort to optimize returns while managing our risk concentration across the regions and perils exposed to natural catastrophes.

The Group's investment portfolio is managed by another Fairfax subsidiary, Hamblin Watsa Investment Counsel Ltd ("Hamblin Watsa"). Each of Allied World's operating companies, including the Company, has an investment management agreement in place with Hamblin Watsa mandating that all investments satisfy all regulatory policies and limits established in the relevant jurisdictions in which we do business. This includes any ESG requirements. Allied World's Finance department continually monitors all of our operating companies' investment portfolios to ensure Hamblin Watsa's compliance with the investment management agreements.

SECTION 2 – 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. *
- 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 - Narrative:

Allied World works with various industry trade associations in assessing the impact of potential legislation and disclosure requirements related to climate change. Additionally, the company has engaged in a number of initiatives related to climate change, these include:

- Working alongside the National Wildlife Federation ("NWF") for over ten years, including providing significant monetary support. In December 2023, Allied World and the NWF collaborated on the fourth in a series of reports on nature-based hazard mitigation solutions developed by the NWF and Allied World titled, The Versatility of Nature-Based Solutions: Protections and Benefits from the Parcel to Community Scales

(The Versatility of Nature-Based Solutions: Protections and Benefits from the Parcel to Community Scales (nwf.org)). Previous reports include: The Protective Value of Nature: A Review of the Effectiveness of Natural Infrastructure for Hazard Risk Reduction (2019), Natural Defenses in Action: Harnessing Nature to Protect Our Communities (2016), and Natural Defenses from Hurricanes and Floods: Protecting America's Communities and Ecosystems in an Era of Extreme Weather (2014).

- Allied World's President and Chief Executive Officer, Lou Iglesias, co-authoring a number of pieces with the President and Chief Executive Officer of the NWF. In September 2022, they co-authored "A Natural Ally for Climate Resilience, Disaster Mitigation". This article discusses that natural infrastructure solutions are often more cost-effective and can recover better from disasters than man-made structures (https://thehill.com/opinion/energy-environment/3636010-a-natural-ally-for-climate-resilience-disaster-mitigation/).
- Allied World's North American Environmental Insurance underwriting team hosting a joint podcast with NWF's top scientists in November 2021, "Harnessing Natural Infrastructure to Protect the Built Environment". The podcast brought together scientist and experts in the field of implementing green and human engineered infrastructure to help mitigate the impacts of climate change. (https://alliedworldinsurance.com/wp-content/uploads/sites/2/2022/04/AW_NWF_Webinar.mp4?rid=183871).

From an operations perspective, Allied World has a number of initiatives in place that support the reduction of energy usage and greenhouse gas ("GHG") emissions from our operations. These include:

- A Flexible Work Arrangement Policy which provides most employees with the opportunity to work from home for up to two days per week: thereby potentially reducing their carbon emissions from commuting and energy usage in our offices.
- A payroll deduction benefit for employees in the U.S. that encourages the use of mass transit.

- Limiting air travel.
- Establishing recycling programs in our offices and utilizing energy efficient appliances and automatic water and light shut off systems.
- Installing water filtration systems in our offices to reduce bottled water usage. We have eliminated plastic and paper disposable items and replaced them with aluminum water and coffee cups.
- Significantly reducing the number of printer / copy machines in our offices which has significantly reduced our paper consumption. Additionally, we encourage employees to utilize our electronic data management systems for record retention.

Allied World has integrated environmental standards into our underwriting guidelines consistent with the Paris Climate Agreement objectives to reduce carbon dioxide emissions, increase renewable energy and increase energy efficiency. As such, we have limited our underwriting exposure to oil (tar sands), construction of new thermal-coal mines and arctic energy exploration while continuing to assess opportunities to support our policyholders through their transition to a low-carbon economy.

Our North America Environmental Insurance underwriting team has developed online webinars and white papers for brokers, clients, and risk managers on the topics of environmental risk and the impact it has on their operations. These resources are available year-round to customers through our website portal. These value-added, thought leadership publications cover topics of environmental interest that readers can use to improve their understanding of associated risks and exposures. When customers express additional interest, the North America Environmental Insurance underwriting team will provide additional resources or direct access to environmental subject matter experts as needed to mitigate the frequency and severity of those risks.

Allied World's assessment of the potential impacts of climate-related risk and opportunities on our business strategy aligns with Fairfax's 2023 ESG report, as follows:

Time Horizon	Risks	Opportunities
Short-Term **(1-5 years)**	• Unpredictability of frequency, severity, and nature of severe weather events (physical). • Changes in regulatory requirements for current products (transition).	• Increased demand for insurance as fundamentally changing weather events drives public awareness (physical). • Increased opportunities for insuring green technology and renewable energy sources (transition).
Medium-Term **(5-10 years)**	• Increase in exposure due to a variety of climate change factors such sea level rise, inland flooding, droughts, and wildfire zones (physical). • Climate change litigation (transition).	• New market sectors emerging as a shift to a low carbon economy occurs (transition).
Long-Term **(10-30 years)**	• The devaluation of assets that we hold in sectors susceptible to transition risk (transition).	• Using our expertise to help our clients adapt to the changing markets by developing strategies and technology (transition).

Allied World also provides insurance coverage for the construction of solar farms along with the transmission lines which transfer the power that they generate and supports construction of "green" buildings. We also support the insurance of offshore and onshore renewable energy, both solar and wind, and will consider opportunities that focus on sustainable initiatives.

Fairfax holds significant investments in companies with sustainable initiatives within its insurance subsidiaries' investment portfolios, including Allied World's operating companies. These include: Kennedy Wilson, a global real estate investment company, that is implementing sustainable building practices and AGT Foods & Ingredients which is one of the largest suppliers in the world of plant-based products including value-added pulses, staple foods, and food ingredients.

Allied World considers climate change resilience across different climate change scenarios. For additional details please reference Section 4 - Metrics and Targets herein.

SECTION 3 – 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:

Allied World has in place an effective enterprise risk management ("ERM") framework that is integrated into the management of our business to manage and monitor relevant risks, including climate related risks. Our ERM framework supports our Group-wide, risk-based, decision-making processes by providing reliable and timely risk information. Our ERM framework is underpinned by the following risk management principles:

- Explicit identification and prioritization of risks through our Risk Register, our Economic Capital Model, and stress and scenario tests.
- Robust governance maintained through a three lines of defense structure, and ownership of risks in the Risk Register by our most senior executives.
- Risk appetites and tolerances that are explicitly defined in policy and strategy documents.
- Regular reporting on the results of the outcomes of the qualitative assessments of Allied World's risk exposures to the Group's Risk Management Committee and the Board.

Allied World continues to advance its approach to climate change and to embed the associated risks within its ERM Framework. These risks include:

- Physical risks that may challenge our ability to effectively underwrite, model and price catastrophe risk. Allied World's reinsurance, actuarial and catastrophe modelling functions actively review analyses by third-party catastrophe modelling firms and other industry organizations on the impact of climate change on catastrophe perils, most notably windstorm, flood, wildfire, severe convective storm.

- Transitional risks that may arise from the impact on asset values as a result of the effort to transition towards a lower-carbon economy. Allied World's insurance operations hold a large proportion of their investment portfolio in investment classes with low exposure to environmental issues: namely, cash, short-term securities, or government bonds.
- Liability risks that may arise from third parties seeking compensation from the effects of climate change. For example, Allied World limits its exposure to oil (tar sands), construction of new thermal coal mines and Arctic energy exploration.

Allied World provides numerous resources to its customers to help promote risk management practices amongst our policyholders and clients. Information regarding loss prevention, including events impacted by natural catastrophes (that may be exacerbated by climate change), is shared with policyholders through on-site loss control visits and client meetings, marketing material and other publications. Additionally, policyholders and ceding companies who take proactive risk management measures may be rewarded with more competitive pricing and terms than those clients who do not maintain the same level of risk prevention in their operations.

Allied World considers the impact of climate change on our investment portfolio and has altered our investment strategy accordingly. Our investment objectives are: (a) to invest on a long-term basis in accordance with applicable insurance regulatory guidelines; and (b) to ensure preservation of invested capital for policyholder protection, always providing sufficient liquidity for the payment of claims and other policy obligations. Investment guidelines require all investments to be made using the long-term value investing approach by investing in securities of companies and other entities at prices below their underlying long-term values to protect our capital from loss, earn income over time and provide operating income as needed. ESG issues have become factors in the investment analysis and decision-making process. Deficiencies or excessive risk in these areas could lead to the rejection of investment opportunities or the sale of existing positions. In some cases, climate change or other environmental issues will be a risk to a business – perhaps as products are phased out, capital expenditures increase to comply with stricter environmental laws, carbon taxes reduce demand, new technology creates substitutes for high carbon footprint products, etc. Environmental risk is viewed as a category of business risk, and it is part of the overall decision-making process when assessing an investment. A large portion of our investment portfolio is held in cash, short-term securities, or government bonds. These investment classes typically tend to have less exposure to ESG issues.

Section 4 – 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:

The impacts from natural catastrophes (which include windstorm, flood, wildfire, and severe convective storm) are incorporated into Allied World's risk management policies and risk tolerance thresholds. At the Allied World group level, we limit our exposure by geographic location in order to ensure that no one catastrophe, measured as a one-in-250-year event loss on an occurrence exceedance probability basis from our peak zones and perils, will cause a reduction greater than 20% of our prior year-end tangible capital. Tangible capital is defined as Allied World's total shareholders' equity adjusted to include senior notes and to exclude goodwill and intangible assets (net of deferred tax liabilities for intangible assets). Additionally, we also utilize significant outwards reinsurance protections which are designed to help mitigate our exposure to such events. As noted in the Governance section of this survey, our exposure to natural catastrophe losses is reviewed by management periodically throughout the year and presented to Allied World's Risk Management Committee and Board on a semi-annual basis.

Additionally, in part due to increasing global regulatory requests, Allied World has established our view of the impact of climate change on our global catastrophe risk exposures. This is quantified in terms of the increase in the probable maximum losses at various return periods for Allied World, on both occurrence exceedance probability and aggregate exceedance probability bases.

Our assessments consider different time horizons and scenarios. These scenarios reflect either solid global attempts to combat climate change (global warming of approximately 1.5°C by 2050) or alternatively if global efforts are insufficient (global warming of approximately 2.0°C by 2050). Where available, we will utilize climate change event sets from the catastrophe modeling firms to assess the potential probable maximum loss impacts from climate change, although these are limited. We apply a factor-based approach for modelled losses for certain region/perils which leads to the generation of augmented probable maximum losses on an overall and on a per region/peril basis. We continually review our assumptions with this approach and will make adjustments as needed.

Regions considered include, but are not limited to, North Atlantic Hurricane & Storm Surge, U.S. Wildfire and U.S. Severe Convective Storm. Ultimately the modeled outputs will be utilized by key stakeholders, including our Capital Modelling team, for incorporation into the broader business environment, and will serve as a foundation for the completion of climate change reporting and regulatory returns.

Allied World's Chief Risk Officer is part of the Fairfax GHG Working Group which includes other Fairfax affiliates. Fairfax has developed a carbon accounting engine that enables its operating entities, including Allied World, to calculate, report, and monitor carbon emissions. The carbon accounting engine is built on the GHG Protocol with a set of common emissions factors that ensure a consistent methodology is applied across all of the Fairfax companies. During 2024, Allied World is utilizing this tool to calculate the material Scope 1 and 2 GHG emissions for 2023, as well as certain components of its Scope 3 GHG emissions.