Acuity, A Mutual Insurance Company

2021 NAIC Climate Risk Disclosure Survey

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Introduction

As a regional property and casualty insurer, Acuity, A Mutual Insurance Company (Acuity/Company) has a vested interest in monitoring and assessing the expected frequency and severity of storms and other natural disasters throughout our geographic operating territory. While acknowledging the unpredictability of future climate events and trends, Acuity uses modeling and other analytical techniques to better understand the potential impact to its business and customers from climate-related changes both currently and in the future.

We continually monitor, assess and respond to the challenges and opportunities posed by various risks, including changing climate conditions, as they relate to our business. With regard to climate-related losses, by protecting our policyholders and offering appropriate products and coverages to mitigate these events, we are also meeting and preserving the long-term financial objectives and capital strength of the Company. We also stay abreast of new insurance products and services that could be useful to our customers for addressing climate-related risks.

Acuity is committed to a long-term sustainable approach to protect the environment through its operations. We recognize that being a responsible steward of policyholders' surplus (capital) and protecting the planet can go hand in hand. We do this by limiting our carbon footprint, supporting economically viable climate-friendly investments and employing cost-effective, environmentally sound solutions for our operations, where possible.

This report discusses our approach to managing changing climate conditions consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).[1]

[1]The inclusion of information in this report should not be construed as a characterization regarding the materiality or financial impact (or potential impact) of that information.

Governance

Board Oversight

Acuity's Board of Directors (Board) and its Board Enterprise Risk Management Committee (Board ERM Committee) regularly review and evaluate emerging and other risks, including changing climate conditions as part of, and integral to, overseeing the Company's business and operations. The Board of Directors plays an important role in overseeing our Board ERM Committee's practices and strategies, including the Company's evaluation of potential risks relating to changing climate conditions. The Board ERM Committee, composed of four independent directors plus the President & CEO, is responsible for assisting the full Board fulfill its oversight responsibilities of the Company's risk management program and ERM framework.

The company's overall ERM program includes strategies, processes and controls relating to risks in our operations, including property and casualty insurance underwriting and claims, reinsurance, catastrophe exposure and the impact of changing climate conditions. The Board ERM Committee assists the Board in overseeing the identification and review of risks that could have a material impact on Acuity's operations, including risks related to changing climate conditions.

The Board ERM Committee's discussions include, for example, information regarding historical loss experience, loss trend projections, lessons learned from recent catastrophe events, reinsurance strategy, underwriting practices, diversification efforts by geographic region and line of business as well as market share analysis. These meetings cover various underwriting, claims, regulatory concerns and emerging risks, which include changing climate conditions. These discussions inform, among other things, the Company's financial plan, risk tolerance and risk appetite. The Board ERM Committee, in turn, reports its key findings and activities to the full Board at least quarterly.

While the Board ERM Committee oversees the implementation, execution and performance of Acuity's ERM program and reviews the strategies, processes and controls pertaining to Acuity's insurance operations, the Board has allocated and delegated risk oversight responsibility to various committees of the Board. Accordingly, all committees of the Board share responsibility for the oversight of strategic objectives, risk management and the sustainability of our business.

Senior Management

Acuity also has an Officer ERM Committee, comprised of Acuity's executive management team plus other senior management, which meets at least quarterly. The Officer ERM Committee is a key element of our risk management program and ERM framework. The Officer ERM Committee helps to establish and reinforce Acuity's strong culture of risk management, including with respect to changing climate conditions, on a tactical level. As with the Board ERM Committee, the Acuity Officer ERM Committee discusses and reviews risks that could have a material impact on Acuity's operations including historical loss experience, loss trend projections, lessons learned from recent catastrophe events, reinsurance strategy, underwriting practices, diversification efforts by geographic region and line of business as well as market share analysis. These meetings cover various underwriting, claims, regulatory concerns and emerging risks, all of which may include changing climate conditions. These discussions inform, among other things, the Company's financial plan, risk tolerance, risk appetite. The Officer ERM Committee meets with and presents key risk management updates to the Board ERM Committee at least quarterly.

We also have other business-level risk committees that meet multiple times a year with executive and other senior management to discuss potential risks to Acuity, which may include risks to the environment and changing climate conditions. These committees include the Reinsurance Committee, Pricing Committee and Officer Investment Committee.

Strategy

Identified Climate-related Risks and Opportunities

Acuity considers climate risks and opportunities across a range of time horizons:

TIME HORIZON	CONSIDERATIONS	CLIMATE RISKS (TRANSITION OR PHYSICAL)	CLIMATE OPPORTUNITIES
Short-term: 1–3 years	Aligns with the length of an Acuity policy and the timeframe for which we prepare detailed business plans and execute shorter-range business strategies.	• Mandates on, and regulation of, existing products and services (transition) • Continued or increasing velocity of climate-related changes (storms and/or other natural disasters) despite mitigation measures or in the absence of sufficient mitigation measures (physical)	• Increased revenue from more units and/or higher insured values to ensure properties are insured adequately for storm and/or other natural catastrophes. • Increased revenue from pricing required to adequately cover higher loss costs from increased storms/natural disasters. • Increased revenue from development of new products or services (requiring insurance) related to demand for energy efficient, renewable and/or clean technology and/or climate change mitigation.
Medium-term: 3–5 years	Aligns with the length of time for development and execution of our longer-range business strategies.	• Changing emissions-reporting and/or other regulations/mandates/ obligations on new products/services (transition) • Continued or increasing velocity of climate-related changes (storms and/or other natural disasters) despite mitigation measures or in the absence of sufficient mitigation measures (physical).	• Increased revenue from pricing required to adequately cover higher loss costs from increased storms/natural disasters. • Increased revenue (insurance and/or investment) from development of new products or services related to demand for energy efficient, renewable and/or clean technology and/or climate change mitigation. • Increased revenue through fewer losses from better building standards to withstand storms and/or protect against wildfires and other natural disasters.
Long-term: 5–50 years	Aligns with longer-term changes (e.g., climate-related risk, energy consumption/energy sources) that present risks and opportunities that extend beyond the short- and medium-term.	• Changes in frequency and severity of catastrophe losses and uncertainty surrounding weather volatility and climate-related risk (physical) • Continued or increasing velocity of climate-related changes (storms and/or other natural disasters) despite mitigation measures or in the absence of sufficient mitigation measures (physical)	• Lower losses over time for customers who take advantage of new products/services to mitigate climate-related risks. • New revenue sources potentially related to the development of energy-efficient, renewable and/or clean technologies, many of which are yet to be imagined.

Climate Risks

The following are examples of specific climate-related risks Acuity has identified for each time horizon. The inclusion of these examples should not be construed as a characterization regarding the probability, materiality or financial impact (or potential impact) of these risks.

1. **Mandates on, and regulation of, existing products and services (short-term)**

   Increased regulation adopted in response to potential changes in climate conditions may impact Acuity and its customers. For example, from time to time, states pass legislation and regulators take action that could have the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe prone areas or mandating that insurers participate in residual markets. Participation in residual market mechanisms has, at times, resulted in and could, in the future, result in significant losses or assessments to insurers, including Acuity.

   Increased insurance regulation in response to disasters or catastrophes may also include imposing moratoriums on policy cancellation or nonrenewal for nonpayment of premium; establishing further claim handling requirements or procedures; imposing additional claim data reporting requirements; establishing mediation programs for resolution of disputed claims; and modifying adjuster licensing procedures for independent and public adjusters. Acuity's exposure to catastrophes both by peril and by geographic region is monitored on a regular basis. When appropriate, this exposure analysis can lead to changes in the underwriting strategy for a given peril/location.

   Acuity also may establish new or additional procedures and processes and/or adjust staffing levels or its use of contracted services to help ensure that it remains compliant with additional regulatory standards imposed on insurers in the event of a future disaster or catastrophe. The cost of managing compliance with additional regulatory standards could vary and would be impacted by the number and types of additional standards imposed on insurers, including following a future disaster or catastrophe. Additionally, following catastrophes there are sometimes legislative and administrative initiatives and court decisions that seek to (i) expand insurance coverage for catastrophe claims beyond the original intent of the policies, (ii) retroactively mandate coverage for losses that our insurance policies were neither intended nor priced to cover or (iii) prevent the enforcement of the policy terms, including the application of deductibles. Costs associated with these risks vary depending on the specific action taken and are often hard to predict, but they could be significant.

   In addition, climate change regulation could increase Acuity's customers' costs of doing business. For example, insureds faced with carbon management regulatory requirements may have less available capital for investment in loss prevention and safety features, which may, over time, increase loss exposures. Increased regulation may also result in reduced economic activity, which would decrease the amount of insurable assets and businesses.

2. **Changing emissions-reporting obligations (medium-term)**

   Continued uncertainty amid legal challenges over the future of the Environmental Protection Agency (EPA) regulations regarding air and water (including coal-related standards) may give rise to more environmental regulation at the state level. This, in turn, may result in differing sets of standards in each state, which could make insurance risk more difficult to underwrite and price, particularly as air and water travel beyond state boundaries.

   Depending on the final outcome of the legal proceedings and any related impact on the EPA's scope of authority to establish federal emissions guidelines (or on states' ability to choose how to meet such guidelines), new rules proposed by the EPA to regulate power plant emissions could potentially (i) facilitate more environmental regulation at the state level to regulate existing power plant greenhouse-gas (GHG) emissions, (ii) impact the demand for renewable energy at the state level or (iii) disrupt the current balance between federal and state regulatory

authority to regulate GHG emissions in ways not yet understood. Over time, this may result in lower demand for Acuity and other company's insurance products and services related to renewable energy in the United States.

3. **Changes in frequency and severity of catastrophe losses and uncertainty surrounding weather volatility and climate-related risk (long-term)**

Acuity is subject to catastrophe exposures in each of the geographies where we write business and to varying peak catastrophe perils in different regions.

The incidence and severity of catastrophes are inherently unpredictable, and it is possible that both the frequency and severity of natural and man-made catastrophic events could increase. Severe weather events over the last two decades have underscored the unpredictability of future climate trends, and changing climate conditions could add to the frequency and severity of natural disasters and create additional uncertainty as to future trends and exposures. The insurance industry has experienced increased catastrophe losses due to a number of potential factors, including, in addition to weather/climate variability, more people living in high-risk areas, population growth in areas with weaker enforcement of building codes, urban expansion and an increase in the average size of a house.

Additionally, both the frequency and severity of tornado and hailstorms (severe convective storms) in the United States have been more volatile during the last decade. The frequency and severity of wildfire losses have also been elevated in recent years, due in part to record droughts in western states that some climate studies suggest are likely to increase over time, as well as demographic changes in areas more prone to wildfires.

Moreover, catastrophe models may be less reliable due to the increased unpredictability in frequency and severity of severe weather events, emerging trends in climate conditions, inadequate reflection of regulatory changes and other factors. Also, we could experience more than one severe catastrophic event in any given period.

4. **Continued or increasing velocity of climate-related changes (storms and/or other natural disasters) despite mitigation measures or in the absence of sufficient mitigation measures (short, mid, long-term)**

The Fourth National Climate Assessment (NCA4) report published in 2017 confirms the increasing velocity of climate changes in recent years as measured by increasing levels of carbon dioxide (CO2), warmer ocean temperatures, shrinking glacial ice and snow cover, and warming, rising and more acidic sea levels. We see the impacts around us with longer and record heatwaves, persistent drought conditions and increased wildfires in some areas and torrential rains, stronger hurricanes, and storms in others. The impacts to humans and various ecosystems are well-documented as are potential responses.

Societal responses may include both mitigation and adaptation. Mitigation includes efforts to reduce emissions/CO2. Carbon dioxide lasts for a long time in the atmosphere so experts believe cumulative years of reduced emissions are needed to halt further increases in CO2 levels and related negative climate effects. Adaptation refers to actions to prepare for and adjust to new conditions, thereby reducing harm or taking advantage of new opportunities.

Both mitigation and adaptation efforts are beginning at the federal, regional, state and local levels as well as in the corporate and non-governmental sectors. Using scientific information to prepare for climate changes in advance can provide economic opportunities and proactively managing the risks can reduce impacts and costs over time. However, if global society's responses are not effective, timely or sufficient, the risks of and impacts from severe climate-related changes (storms and/or other natural disasters) will continue and the need for action may become more urgent.

Climate Opportunities

The following are examples of specific climate-related opportunities Acuity has identified for each time horizon. The inclusion of these examples should not be construed as a characterization regarding materiality or financial impact (or potential impact) of these opportunities.

1. **Increased revenue from more units and/or higher insured values to ensure properties are insured adequately for storm and/or other natural disasters (short-term)**

   As climate changes continue to affect storm and other natural disaster frequency and severity, it will continue to be critical for customers to have adequate insurance coverage (keeping pace with inflation and other building costs) to rebuild/repair their homes in the event of a significant loss or losses. More insurance coverage to adequately protect insureds from more frequent, severe or inflationary losses when they occur will translate to additional premium revenue.

2. **Increased revenue (insurance and/or investment) from development of new products or services related to demand for energy efficient, renewable and/or clean technology and/or climate change mitigation (short, medium and long term)**

   Auto emissions regulations throughout the United States may lead to an increase in demand, production and availability of hybrid and electric vehicles (EVs), which could lead to increased sales of Acuity automobile insurance products for hybrid and electric autos. The projected substantial increase in the number of EVs and charging stations could lead to an increase in demand for Acuity products over time.

   New renewable and clean energy products and technologies as they are developed will create additional insurance and investment opportunities as well as mitigate negative climate related impacts.

   In August 2022, legislation to address climate change was signed into law at the federal level via the Inflation Reduction Act. The goal of the climate and energy part of the bill is to put the U.S. on a path to reduce greenhouse gases by 40% below 2005 levels by 2030 and to put non-fossil fuel alternatives in reach of more people.

   Building up U.S. capacity to build renewable technology, like solar panels or electric vehicle components, and ensuring people can use these items more easily by shoring up energy infrastructure in a key facet of the Inflation Reduction Act. The bill includes a number of tax credits and other financial incentives aimed at making clean energy options more accessible for consumers, such as bolstering the affordability of heat pumps and other home infrastructure that revolves around electric power.

   The bill also includes more than $60 billion to support 'on-shore clean energy manufacturing in the U.S.' with the goal of easing inflation and making future price shocks less likely by reducing the costs associated with clean energy options. This funding includes production tax credits to help U.S. manufacturers accelerate production of solar panels, wind turbines, batteries and processing of key minerals, investment tax credits for new manufacturing facilities that make clean technologies like electric vehicles, wind turbines and solar panels, grants to help automakers transition to clean vehicle production and loans to construct new manufacturing facilities for clean vehicles.

   Renewable Portfolio Standards (RPS) require that a specified percentage of the electricity utilities sell comes from renewable resources. States have created these standards to diversify their energy resources, promote domestic energy production and encourage economic development. Renewable energy policies help drive the nation's multi-billion market for wind, solar and other renewable energy sources. Twenty-nine states and the District of Columbia have active renewable or clean energy requirements.

   These federal incentives in addition to various standards and goals at the state level coupled with the related (and incentivized) increased demand for renewable energy products and services provide the opportunity to develop new insurance products tailored to changes in related markets.

3. **Increased revenue from pricing required to adequately cover higher loss costs from increased storms/natural catastrophes (short and medium term)**

   Higher frequency and/or severity from storms and other natural catastrophes, coupled with recent high inflation, is adding to Acuity's (and all insurance

companies') loss costs. In order to be able to provide insurance to future customers, insurance companies need to price their products adequately in order to be able to fulfill their insurance contract promises to pay in the future should a loss occur. Therefore, higher loss costs incurred by insurers for climate-related events will require higher prices to account for climate-related exposures.

4. **Lower losses over time for customers who take advantage of new products/services and technologies to mitigate climate-related risks (long-term)**

   Climate trends, which manifest over long periods of time, provide a long-term opportunity for Acuity's Loss Control and other sector specialists to offer and develop services to help current and potential customers mitigate the risks associated with changing climate conditions. For example, to help mitigate and minimize property losses caused by weather-related events, Acuity Loss Control engineers work with commercial customers to review their risks and mitigation methods in place, related to climate-related (and other) risks, including physical improvements. Loss Control engineers monitor stay abreast of industry events and claim trends in order to assess innovative building products and new technologies to minimize wind, hail, flood and wildfire exposures.

   In addition, our Loss Control professionals stay abreast "green" products or systems designed to help reduce carbon emissions and/or increase environmental sustainability. These products and systems include, for example, solar panels on residential and commercial rooftops, lithium-ion batteries used to store solar energy and vegetative roofs on commercial buildings.

   Acuity's Loss Control engineers maintain membership in the National Fire Protection Association (NFPA) to stay current on and evaluate the reliability and fire safety of "green" products and systems to determine how these products and systems impact fire, structural and safety exposures. This knowledge empowers our Loss Control professionals to help our customers mitigate the risks associated with changing climate conditions and incorporate "green" trends, where viable and cost effective, with a goal of improving outcomes while strengthening customer relationships.

Impact of Climate-related Risks and Opportunities on Acuity's Business and Strategy

Our approach to climate-related risks and opportunities is multifaceted, and we believe it allows us to mitigate our exposure to climate-related risk and provide products and services that both help our customers mitigate those risks and meet our long-term financial objectives. Our approach includes underwriting and pricing to manage transition and physical risks, as well as monitoring environmentally friendly trends and offering products and tailoring pricing to respond to climate-related opportunities. Other aspects of our comprehensive climate strategy include monitoring our own operations and employing economically and environmentally friendly solutions, where possible.

Climate Scenario Analysis - All Perils

Core to our strategy is the incorporation of weather and climate variability into our ERM framework, underwriting pricing and reinsurance decisions. Our catastrophe modeling, as described in the **Mitigation of Climate Risks in Our Underwriting and Pricing Decisions** section below, is critical to this effort.

It is important to note that there are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

Acuity is primarily impacted by tornado/hail events (severe convective storms) with low exposure to wildfire, earthquake and hurricanes in our operating territory. Within our ERM analysis, we utilize both scenario and dynamic financial analysis to model the impact from all perils (wind/hail, earthquake and hurricanes). For scenarios analysis, we use results from industry-leading catastrophe modelling software (RMS and AIR) both for a single occurrence as well when aggregated. We also use our internal modelling to create a scenario for an extreme catastrophe event (1 in 5000 year severe convective storm), among other events.

Within this scenario analysis, we evaluate the impact from these climate-related events along with other risks that could reasonably and materially affect our insurance operations. We do this on both on an individual risk basis and in combination to review their after reinsurance, pre-tax and after-tax impact to policyholders' surplus. Within

dynamic financial analysis, we create thousands of combinations of the various risks to quantify the most likely results. We then use the results from both scenario and dynamic financial analysis to evaluate the severity of the impact from these climate and other risks to risk-based capital as well as other measures of capital strength and resiliency. Acuity's scenario and dynamic financial analysis process and results are part of our overall ERM framework and are shared with the Board ERM Committee and full Board at least annually.

Impact of Non-Weather Trends

While we are taking a thoughtful and comprehensive approach to evaluating climate risk in our underwriting decisions, we also remain mindful of non-weather-related trends that have a significant impact on the risks we write. These trends are likely to have a significantly greater impact on catastrophe risk aggregation over the short, medium and long-term time horizons than physical risk changes. Risk factors that may increase catastrophe risk over time include aging infrastructure, population growth in high-risk areas or in areas with weaker enforcement of building codes, urban expansion, an increase in the average size of a home, increased inflation and post-event demand surge. Conversely, factors that may decrease catastrophe risk over time include increased adoption of more resilient building code standards and zoning and climate change adaptation (e.g., sea walls, levees, urban sewer capacity).

The risks associated with changing climate conditions will be with us for the foreseeable future. While we can't predict what the next weather-related catastrophe will be or where it will occur, we need our underwriting and overall risk management areas to address the various risk factors that may impact potential losses. Whether climate-related or other than climate-related, we need to continue to ensure we are providing the best coverage and claims service at the right price relative to the exposure.

Incorporating Climate Considerations in Our Investment Process

The primary purpose of our investment portfolio is to enable us to fulfill our promise to our customers and fund the payment of future claims; accordingly, we employ a thoughtful investment philosophy that is focused on appropriate risk-adjusted returns. We approach the impact of climate on our portfolio the way we would approach any other investment risk.

As a related matter, insurance companies are subject to significant regulatory investment requirements that place limitations on the types of investments insurers may make, as well as limitations on concentrations of credit and equity risk. These requirements have the primary objective of ensuring that insurers have sufficient liquidity to pay claims as they are presented. As a result, insurers do not have the flexibility that other segments of the financial sector may have with regard to investments and, thus, property casualty insurers tend to have large, fixed-income portfolios.

At Acuity, as of December 31, 2021, 94% of our fixed investment portfolio is in highly-rated, fixed income securities, with an effective duration of approximately five years. Climate trends, which manifest over many decades, should already be reflected in the credit ratings and price of these investments. The relatively short average maturity and liquidity of our fixed income investment portfolio allows the portfolio to be continually adjusted as trends evolve over time.

Our portfolio management has a history of carefully managing risk (with default losses in our fixed income portfolio well below those of the overall market), including risks related to changing climate conditions. The high credit quality of our fixed income holdings further reduces the potential negative impact of climate risks. Specifically, the weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was "AA-" at both December 31, 2021 and 2020.

Acuity has established an Investment Policy Statement, approved by the Board of Directors. This investment policy reflects Acuity's long term view on investing as well as compliance with applicable insurance investment regulations. Acuity's investment policy does not have a specific mandate to include/exclude ESG factors. We continue to believe that screening investments for risks and opportunities specifically or solely related to ESG factors, when definitions and standards are not consistent, may miss opportunities for returns to the portfolio we might otherwise achieve. Instead, we prefer that ESG (and related socially responsible investment) factors be used, where applicable, as an element of fundamental credit analysis to determine where long-term rewards and benefits outweigh the associated risks. We believe this evaluation of the long-term outlook and economic viability

for ESG or other potential investment opportunities will achieve optimal returns and when applicable, promote climate-friendly products and services for well-managed, profitable companies.

GHG emissions data for the substantial majority of segments of our investment portfolio (e.g., municipal bonds, structured bonds) is not readily available and, where it is available, the data quality remains uneven. Accordingly, at this time, we cannot accurately calculate the total emissions of our investment portfolio and are therefore unable to disclose the emissions, or establish any emissions reduction targets, with respect to our portfolio. Nonetheless, we believe we have incorporated the relevant risks into our investment analysis. As of December 31, 2021, 41% of our fixed income portfolio is invested in municipal bonds. Our portfolio's focus on fixed income investments enables us to provide significant funding for many projects that will result in environmental and other societal improvements, including for utilities, water, energy, transportation, housing, healthcare and other infrastructure sectors.

Other Aspects of Acuity's Climate Strategy

In addition to accounting for climate risk in our underwriting and pricing decisions and providing products and product features that capture climate-related opportunities, our climate strategy includes the following components:

Improving Our Eco-Efficient Operations

We continually analyze the effects of our operations on the environment and work to minimize negative impacts. We regularly review our facilities and operations to identify opportunities that increase efficiency and reduce costs. This includes maximizing energy-efficient features within our facilities and related equipment as well as properly maintaining them to be in good working order.

The facilities team monitors building and related equipment for proper use, safety, security and efficiency. They also periodically evaluate emerging technologies and alternative energy products for potential use in our facilities. Acuity continually works to be an energy efficient consumer, lowering our energy use and associated costs. We also minimize and recycle waste as much as possible. We have an open workspace environment that is designed to increase operational efficiency and maximize natural light as well as available office space, further minimizing our impact on the environment. During COVID in 2020, remote work became the norm. Post-COVID, we continue to have a hybrid work option, allowing employees to work on-site, remote or a combination. Many employees enjoy the flexibility of working remote at least part of the week, reducing emissions from commuting.

Greenhouse Gas Emissions

As an insurer, most of our GHG emissions result from office activity, mobile combustion (e.g., claim vehicles, commuting) and business travel. While we strive to reduce our emissions, our primary climate-related risks and opportunities relate to our property insurance business and claim service.

Our Vice President – Services and Administration and staff oversee Acuity's corporate headquarters facilities, automobile fleet, Purchasing and business travel enterprise-wide. These areas regularly monitor and analyze our operations and facilities to identify ways for us to operate more efficiently, reduce our environmental impact and lower our operating expenses. We prioritize projects based on their expected operational benefits versus financial impact, so our efforts to reduce our energy consumption and waste not only reduce our environmental impact but also frequently lower our operating expenses.

Reducing our own carbon footprint is one important aspect of our climate strategy. Acuity does not have stated statistical emissions or GHG reduction goals but as we seek to optimize operations, we do so in a cost-effective, environmentally-friendly way where possible.

In recent years, we have implemented various emissions reduction initiatives, including:

- **Lighting**. We have made significant investments at our corporate headquarters to upgrade our lighting to LED. Also, automatic lighting is present throughout, with timers and sensors to minimize energy use.

- **Facilities Maintenance Program**. Acuity's corporate headquarters is well-maintained with much of the campus very new, having been built and placed into service within the last ten years. This allowed us to

incorporate many energy-saving and cost effective features during the building and design process.

That said, targeting windows, roofs and doors, we have a comprehensive preventive maintenance and repair program to ensure building integrity, facility security and reduced energy loss. Comprehensive building maintenance and security programs have been in place for many years, including automatic heating and cooling timers, and are continually reviewed and enhanced to improve energy efficiency, maintenance requirements and changing technology and security needs.

- **Efficient Fleet Vehicles**. We continue transitioning our automobile fleet to more environmentally efficient vehicles/engines.

- **Information Technology (IT) Equipment Upgrades**. We stay current with the latest IT technology equipment in our data centers, both for operational and additional energy efficiency. We typically upgrade this equipment every three years.

- **Cloud Migration**. We continue to move toward more cloud-run software and storage solutions to reduce our dependence on data centers. This improves our business resumption capabilities and portability of our systems and also reduces our carbon footprint over time.

- **Hybrid/Remote Work Environment**. In 2020, with COVID shelter-in-place directives, Acuity corporate headquarters employees, other than on-site essential staff, needed to work remote. Productivity stayed high and actually increased, with many employees responding that they liked the flexibility having the option to work remote available. Therefore, Acuity's policy post-COVID continues to provide employees the option for remote work/on-site work or a combination thereof. Many Acuity employees take advantage of at least some remote work, thereby reducing emissions from commuting to the office each day.

- **Claims Technology and Drones**. Implementing virtual claims tools allows customers to share photos and videos when filing a claim, often without the need for a physical visit from a claims adjuster. Leveraging our state-of-the-art digital capabilities can accelerate claims payments to customers and also reduce miles driven by our claims fleet. Also, more widespread use of drones to inspect roof and other damage improves the customer experience and eliminates safety hazards, while reducing emissions associated with roof inspections. Drone use also eliminates the need for ladder-assist and other heavy equipment vendors to travel to the affected property and operate their equipment.

Water and Waste

As with energy and GHG emissions, we see many opportunities to align our long-term financial interests with responsible water use and waste disposal, creating shared value for our operations and the environment. Acuity monitors waste production and water usage across the Company's operations and has implemented certain practices to help ensure proper waste handling and water use. Specifically, we:

- Employ a third-party vendor to properly recycle and dispose of obsolete IT equipment; dispose of other equipment and materials properly.
- Securely shred and recycle paper.
- Faucets have auto shut-offs and bathrooms are equipped with water-efficient toilets.
- Provide water and ice dispensers for easy water bottle filling to encourage re-use and discourage the use of and disposal of single-use cups and water bottles.
- Have a bottle and can recycling program.

Paper Usage

Acuity has implemented a variety of business initiatives over the years to reduce our paper usage. We monitor the pages printed in our data center on a monthly basis. As we've grown, our paper usage has remained stable or declined. Most internal reports have been converted to electronic, we encourage paperless billing and policyholder payments via electronic means and we continue to move accounts payable and claims payments to ACH and other digital platforms.

Also, policies and related documents are e-delivered where regulations permit. Reduction in paper usage creates many financial, energy and operational benefits. Thousands of dollar in postage savings, convenient, more timely and secure delivery to policyholders and claimants, with easy access and retrieval of documents as needed. Further, reduced use of paper enhances employee productivity and business resumption efforts. Energy and climate benefits are gained immediately since less paper usage means less paper needed, saving the energy input and loss of trees used in the paper-making process.

Additional energy benefits are gained from less electricity needed from printers, mail inserting and postage machines as well as GHG and emissions from postal routing and ultimate delivery.

Risk Management

Acuity employs a long-term financial strategy to manage risk/reward over time. We continually measure results to understand the performance of our products and business operations and apply our collaborative understanding of risk to adjust our current view of risk/reward, as appropriate. Through our ERM framework, we actively evaluate the risk/reward relationships on both an individual and a portfolio basis. This evaluation impacts the risks we decide to insure and the appropriate rates to charge.

Acuity's Underwriting departments are key since they carry out Acuity's corporate underwriting risk appetite and controls on a day-to-day basis, ensuring consistency in risk selection and adequate pricing per exposure across the enterprise. Underwriting also defines and manages the related underwriting authority standards and thresholds and performs routine audits and testing to ensure controls and standards are operating and being carried out as expected.

Risk management for changing climate conditions is addressed within our business operations and ERM framework. As part of our ERM process, we work to identify and assess climate-related risks, both physical and transitional. We regularly review emerging issues, including changing climate conditions, to consider potential changes to our risk models and their use, as well as to help assess the need to adjust underwriting, pricing or reinsurance strategies, coverage terms and conditions or to develop new products or otherwise explore climate-related opportunities.

We evaluate event exposures using CAT models, as discussed under **Strategy** above, and report aggregate exposure and strategies regularly to management and the Board ERM committee. For more details on how we incorporate climate-related risk into our reinsurance strategy, see **Mitigation of Climate Risks in our Underwriting and Pricing Decisions**.

Our integrated, iterative and collaborative ERM process includes evaluating risk and reward, setting underwriting and operational strategies, and monitoring the results of our efforts. As part of our process, we consider various external environments and influences, including the economy, insurance marketplace, and views of regulators, the investment community and rating agencies. This process includes:

1. **Risk Identification & Management**. (Discussed in further detail under **Process Used to Determine Climate-related Risks**.) Supports business activities to identify, monitor and assess climate-related risks. Participants include representatives from our Officer ERM, Pricing and Reinsurance committees.

2. **Products, Market Development & Customer Services**. (Discussed in further detail under **Process Used to Determine Climate-related Opportunities**.) Supports activities to identify and develop product opportunities, explore potential new markets and expand services to help customers prepare for and respond to potential risks related to changing climate and "green" trends. Participants include Officer ERM, Pricing and Reinsurance committees.

3. **Facilities & Operations Management**. Coordinates the Company's initiatives and activities to develop and implement environmentally responsible corporate practices. Discussed further in **Strategy, Eco-Efficient Operations.**

Process Used to Determine Climate-related Risks

Acuity uses various analyses and methods, including proprietary and third-party computer modeling processes, to evaluate our climate-related risks and make underwriting, pricing and reinsurance decisions designed to manage the Company's exposure to catastrophic events. In addition to catastrophe modeling and analysis, Acuity also models and analyzes the Company's exposure to other extreme events. We also utilize proprietary and third-party computer modeling processes to evaluate capital adequacy. These analytical techniques are an integral component of our ERM process and further support our long-term financial strategies and objectives.

As also discussed in the **Governance** section of this report, business-level risk committees play an active role in developing and executing our Enterprise Risk Management (ERM) strategy. In addition to the Board and Officer ERM Committees, the Reinsurance and Pricing Committees at Acuity are directly involved with

determining climate-related risks and opportunities, respectively. The Pricing Committee is discussed in more detail under **Process Used to Determine Climate-related Opportunities**.

The Board and Officer ERM Committees stay current on emerging climate-related and environmental risks through industry publications, reinsurers and reinsurance brokers and other subject-matter experts. The Committees actively monitor various relevant risk factors, such as:

- Climate-related litigation and new theories of liability.
- Legal and regulatory requirements impacting climate, energy and the environment.
- Efforts by governmental and nongovernmental organizations to adopt policies or implement programs designed to reduce emissions.
- Impacts related to emerging “clean” or “green” energy and technology trends and products.
- Emerging scientific analyses and published reports relating to weather trends and the effects and risks of changing climate conditions. These studies often document historical changes over long periods of time, with more recent periods showing changes at an increasing velocity. These publications include:
    - The National Climate Assessment Reports and other data issued in the United States by the National Oceanic and Atmospheric Administration (NOAA).
    - The World Economic Forum, annual Global Risks Report, as it relates to climate, severe weather and environmental risks.
    - Articles published in scientific journals.

When a potential material risk is identified, the various officer committees engage in a comprehensive review to evaluate the risk. This process involves the relevant internal stakeholders and, if appropriate, may be elevated under our ERM framework for discussion with senior management and the Board of Directors.

Separately, Acuity’s Actuarial and Claims units assess catastrophe (CAT) risk and manage the development of our strategic CAT efforts, including the use of proprietary and third-party models and geospatial analysis to analyze CAT events and related risks.

These units actively monitor and evaluate changes in third-party and our own internal models. We consider historical loss experience, recent events, underwriting practices, market share analyses, reinsurance, external scientific analysis and various other factors, including non-modeled losses, to refine our view of catastrophe risk. Our proprietary models, which are an integral part of our ERM process and support our long-term financial strategies and objectives, are updated on a regular basis as new information and techniques emerge. Importantly, in addition, our underwriting appetite evolves as the environment evolves, and we modify our underwriting if we believe that the risks exceed our risk tolerance.

Finally, as discussed under **Mitigation of Climate Risks in our Underwriting and Pricing Decisions**, in addition to factoring in catastrophe models and historical experience, we are able to respond quickly to changing conditions since our policies (and reinsurance terms) renew annually. This gives us the flexibility to adjust our underwriting strategy and related policy terms and conditions, as appropriate.

Process Used to Determine Climate-related Opportunities

Acuity’s Pricing Committee is comprised of executive leadership including the President & CEO as well as actuarial, underwriting, marketing, sales, claims and business consulting vice presidents. The Pricing Committee is responsible for reviewing pricing and profitability by state by line of business and recommending changes to pricing as needed for loss costs, including from climate-related risks.

Acuity has specialized industry experts across our largest commercial sectors including Trucking, Retail, Manufacturing and Construction (4M groups). Also, all products are reviewed in detail by Product (2M groups). These subcommittees consist of Acuity specialized industry experts and product professionals, who collaborate, among other things, on:

- Reviewing market share, profitability and exploring potential new markets.
- Identifying potential new products and services and assessing their feasibility.

- Monitoring the impact of climate and “green” trends on current product offerings.
- Sharing ideas and exploring possibilities to avail ourselves of additional climate-related opportunities.

When we identify a potential opportunity, we conduct a comprehensive evaluation of the viability of the opportunity, as well as the risks associated with the opportunity. This process involves experts from the relevant disciplines across the organization, including industry experts and our Loss Control professionals. After a determination is made that a product is viable and within our risk appetite, further vetting is conducted through our ERM process prior to product development and/or launch.

Mitigation of Climate Risks in Our Underwriting and Pricing Decisions

Our risk appetite for property and casualty risks seeks to avoid extreme climate related risks where possible. We try to avoid exposures that cannot be evaluated or have unacceptable levels of uncertainty. For both property and casualty lines of business, we consider environmental factors, including weather trends and patterns, alongside other relevant risk variables in our underwriting evaluation process and in our underwriting strategies.

For example, given our risk/return requirements, we avoid direct exposure to hurricane and earthquake prone areas These areas not attractive to us from a risk/return standpoint.

Understanding weather trends, including climate-related effects, has been and is part of our fundamental evaluation process, which includes the underwriting and pricing of risks related to many of our products. At Acuity, pricing of property and casualty insurance products is developed based upon a number of factors, including an estimation of expected losses; the expenses associated with producing, issuing and servicing business and managing claims; the time value of money related to the expected loss and expense cash flows; and a reasonable profit margin that considers, among other factors, the capital needed to support the company’s business. Acuity has a disciplined approach to underwriting and risk management that emphasizes profitable growth over the long term rather than short term premium volume or market share.

Catastrophe Modeling

Core to our strategy is the incorporation of weather and climate variability into our underwriting and pricing decisions. Our catastrophe modeling, as described in the **Process Used to Determine Climate-related Risks** section above, is critical to this effort. It is important to note that there are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

Acuity is primarily impacted by tornado/hail events (severe convective storms) with low exposure to wildfire, earthquake and hurricanes in our operating territory. The table below shows both tornado/hail events individually as well as combined with hurricane/earthquake in the column ‘All Perils’. Based on the proprietary and third-party computer models utilized by the Company, the table below sets forth, as of December 31, 2021, the probabilities that estimated losses, comprising claims and allocated claim adjustment expenses (but excluding unallocated claim adjustment expenses), from a single event occurring in a one-year timeframe will equal or exceed the indicated loss amounts (expressed in dollars, net of reinsurance but pre-tax, and as a percentage of the Company’s statutory policyholders’ surplus). For example, on the basis described in the table below, the Company estimates that there is a one percent chance that the Company’s loss from a single U.S. tornado/hail event in a one-year timeframe would equal or exceed $37.6 million, or 1.2% of the Company’s policyholders’ surplus at December 31, 2021.

	DOLLARS IN MILLIONS		PERCENTAGE OF POLICYHOLDERS' SURPLUS[2]	
Likelihood of Exceedance[1]	Single US Tornado/Hail	Single US All Perils	Single US Tornado/Hail	Single US All Perils
2% (1-in-50)	$36.1	$36.2	1.2%	1.2%
1.0% (1-in-100)	$37.6	$37.7	1.2%	1.3%
.4% (1-in-250)	$38.5	$39.0	1.3%	1.3%
.1% (1-in-1000)	$129.7	$148.2	4.3%	4.9%

[1]An event that has, for example, a 2% likelihood of exceedance is sometimes described as a ‘‘1-in-50 year event.’’ As noted above, however, the probabilities in the table represent the likelihood of losses from a single event equaling or exceeding the indicated threshold loss amount in a one-year timeframe, not over a multi-year timeframe. Also, because the probabilities relate to a single event, the probabilities do not address the likelihood of more than one event occurring in a particular period, and, therefore, the amounts do not address potential aggregate catastrophe losses occurring in a one-year timeframe.

[2]The percentage of policyholders' surplus is calculated by dividing (a) indicated loss amounts in dollars by (b) total policyholders' surplus. Accordingly, the Company's management uses the percentage of policyholders' surplus as a metric to evaluate the potential impact of a tornado/hail (severe convective storm) and/or 'all perils' event on the Company's financial position for purposes of making underwriting and reinsurance decisions.

The threshold loss amounts in the table above, which are based on the Company's in-force portfolio at December 31, 2021 and catastrophe reinsurance program at January 1, 2022, are net of reinsurance, pre-tax and exclude unallocated claim adjustment expenses, which historically have been less than 10% of loss estimates.

Catastrophe modeling relies upon inputs based on experience, science, engineering and history. These inputs reflect a significant amount of judgment and are subject to changes which may result in volatility in the modeled output. Catastrophe modeling output may also fail to account for risks that are outside the range of normal probability or are otherwise unforeseeable. Catastrophe modeling assumptions include, among others, the portion of purchased reinsurance that is collectible after a catastrophic event, which may prove to be materially incorrect. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In the table above, the uncertainty associated with the estimated threshold loss amounts increases significantly as the likelihood of exceedance decreases. In other words, in the case of a relatively more remote event (e.g., 1-in-1,000), the estimated threshold loss amount is relatively less reliable. Actual losses from an event could materially exceed the indicated threshold loss amount. In addition, more than one such event could occur in any period.

While a relatively small portion of Acuity's losses modelled, Acuity is also exposed to catastrophe losses from perils other than tornadoes/windstorms and hail, including wildfires, severe winter weather, floods, hurricanes, earthquakes and other naturally occurring events. In addition, compared to models for hurricanes, models for earthquakes are less reliable due to there being a more limited number of significant historical events to analyze, while models for tornadoes, hailstorms, wildfires and winter storms are newer and may be less reliable due to the highly random geographic nature and size of these events. Accordingly, these models may be less accurate in predicting risks and estimating losses.

Further, changes in climate conditions could cause our underlying modeling data to be less predictive, thus limiting our ability to effectively evaluate and manage catastrophe risk. In addition, models for some events are either in early stages of development and, therefore, not widely adopted, or are not yet available.

Catastrophe Experience

Our underwriting also incorporates lessons learned from recent events and past events. These lessons are reflected in our:

- Disciplined approach to policy terms and conditions that are designed to make outcomes more predictable.
- Risk control initiatives, which help us with risk mitigation, selection and pricing.
- Evaluation of wildfire risk factors using specialized software to review terrain slope, vegetation density and propensity to burn, as well as road access, including proximity to fire stations, and historical wildfires in a given area.

Events such as those of the past few years (extreme and/or multiple severe convective storms in a single year) are occurring more often than we thought previously. As a consequence, for certain perils, we are weighting our more recent experience somewhat more heavily than we otherwise would have in modeling catastrophe losses going forward.

Additional Factors Limiting Our Exposure to Climate-related Risks

In addition to factoring in catastrophe models, external studies and historical experience, we are able to mitigate our exposure to climate-related risks including through the following:

- **Annual Policies.** We are able to respond quickly to changing conditions since our policies renew annually. This gives us the flexibility to adjust our pricing, underwriting strategy and related policy terms and conditions, as appropriate. In addition to making short-term tactical adjustments to our underwriting strategy and product pricing based on the climate-related risks we identify, we monitor climate-related risks on a medium- and long-term horizon to arrive at a holistic view of climate-related impacts on our business, further allowing us to adjust and refine our strategy, products and pricing.

- **Reinsurance**. Informed by our risk selection, claim experience and risk appetite, we reinsurance a portion of the risks we underwrite to further manage our exposure to losses and to protect our capital. We cede to reinsurers a portion of these risks and pay premiums based upon the risk and exposure of the policies subject to such reinsurance. We annually review our risk and catastrophe coverages, making changes to our reinsurance program as we deem appropriate. For example, Acuity utilizes a corporate catastrophe excess-of-loss reinsurance treaty with coverage above the 1 in 250 year event as well as catastrophe aggregate coverage to protect in the case of multiple catastrophe events in the same year with unaffiliated reinsurers to manage its exposure to losses resulting from catastrophes and to protect its capital.

- **Geographic Diversity.** Acuity's geographic footprint has expanded over the last 20 years to include exposures in states outside of our historically denser areas of Wisconsin, Minnesota and Illinois. However, it is still our strategy to avoid coastal areas. This diversification by location has been done to reduce concentration risk of climate events in any one area in a short period of time.

- **Product Diversity**. Our broad product diversity also mitigates our exposure to climate-related risks. We provide coverage across nine major lines of insurance across both personal and commercial segments. Our business is further diversified by geography and customer size and type. Our commercial business represents approximately 75% of our book with personal lines filling out the remaining 25%. Our book of business includes products that are less susceptible to climate-related risks, such as commercial and personal auto liability, workers compensation, commercial multi-peril liability and general liability. In 2021, 60% of gross written premiums were from liability lines (e.g., workers compensation, general liability, auto liability and commercial multi-peril liability insurance), whereas 40% of domestic premiums came from property lines (e.g., homeowners and commercial property).

- **Claims Service**. In the catastrophe modeling section within **Mitigation of Climate Risks in Our Underwriting and Pricing Decisions** we note that Acuity's catastrophe events are primarily tornado/hail events with low exposure to wildfire, earthquake and hurricanes. When an event occurs, Acuity's Claims staff use specialized software to determine what Acuity policyholders reside in the affected area or zip code and proactively contact these insureds, often before they have reported a claim to us. We do this to provide superior claims service to our insureds but also to mitigate further damage or loss from the disaster.

- **Communication and Education.** Acuity actively communicates relevant content targeted to applicable consumers via email, newsletter, blogs, vlogs and/or social media platforms to provide timely, educational information related to various insurance matters, including those related to climate change such as storms or wildfires. Tips and content include how to ensure your property is insured for its proper value, maintenance, safety and security best practices for your home or business and what to have on hand/what to do in the event disaster strikes.

Metrics and Targets

We measure a variety of climate-related metrics that inform our climate and overall business strategies.

Catastrophe Losses

On an annual basis, Acuity estimates and analyzes various climate and weather-related metrics that are considered when evaluating our overall business strategies on weather-related risks. We monitor storm claims using cause of loss codes. Acuity defines a 'catastrophe' as an event for which the Company's estimate of its ultimate losses before reinsurance and taxes exceeds a pre-established dollar threshold. These Acuity 'catastrophe' events are a subset of total storms but measure the size and scope of storm activity on Acuity's book of business. The Company's threshold for disclosing catastrophes is primarily determined by the Claims department. The threshold per event for 2019 through 2021 ranged from approximately $12.5 million to $25 million, before reinsurance and taxes. The most common and costly of these events to Acuity are severe convective storms (wind, hail, tornados, derechos), winter-storms and wildfires. Acuity maps company-defined events to PCS (Property Claim Services) or industry events, where applicable.

(DOLLARS IN MILLIONS)	2021	2020	2019
Catastrophe Losses (pre-reinsurance and pre-tax)[1]	$36.9	$106.8	$84.1
Earned Premiums Ceded (Reinsurance Premiums)[2]	$106.9	$85.7	$73.2
Reinsurance Recoverable[2]	$36.4	$35.4	$24.2

[1] Amounts pre-reinsurance, pre-tax as of October 31, 2022.

(2) For total company, including related to catastrophes.

Greenhouse Gas Emissions

As an insurer, most of our Scope 1 (direct emissions from organization activities under our control) and Scope 2 (indirect emissions from the purchase of energy) GHG emissions result from office activity and mobile combustion (e.g., claim vehicles and employees commuting). While we strive to reduce our emissions, our primary climate-related risks and opportunities relate to our property insurance business and claim service.

Acuity does not have a stated GHG goal. However, we will continue to implement cost-effective, efficient, climate-friendly solutions where possible. We believe efficient, cost-effective operations and reduced GHG emissions, energy and water consumption can go hand in hand. Technological advances such as drones, claim reporting by phone/photo as well as hybrid work policies are helping to reduce vehicle/equipment use for both claims adjusting and employee commuting. New, cost-effective, climate-friendly solutions are becoming more readily available which will further incentivize us and other companies to move toward operations that produce less GHG and are more energy/water efficient.

Conclusion

Property and casualty insurance is our only business. As such we take into account all relevant risk factors, including climate and environmental, in our underwriting and investment processes. As the energy, renewables and other 'green' markets as well as governmental policies evolve, we will evaluate and adjust our strategies and practices in order to continuously provide optimum insurance products and services to meet and exceed our customers' needs. Also, we will continue to maintain and seek out new cost-effective solutions to reduce our own carbon footprint and the environmental impact of our own operations. By considering climate and environmental risks, as we do other risks, in the key areas of our business, we believe we are also meeting our long term financial objectives and preserving the capital strength of the Company.