Climate Risk Disclosure Survey

1. Governance

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:
   - o 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.

Climate-related governance is embedded in our Climate Risk Policy Statement. Merchants' Board of Directors considers changing climate conditions as part of, and integral to, overseeing the Company's business and operations. The Board plays an important role in overseeing our Enterprise Risk Management (ERM) practices and strategies, including our company's evaluation of potential risks relating to changing climate conditions. The full Board considers material climate-related information when reviewing and guiding strategy, and routinely receives updates on risk management activities related to severe weather and climate change.

At the management level, Merchants has an ERM Steering Committee comprised of senior leaders from across the enterprise that sets and helps drive execution of the company's enterprise risk management activities, which include climate risk assessments. Our governance structure ensures we are focused on assessing and implementing policies and procedures as it relates to climate-related actions in such areas as risk assessment, underwriting, product innovation, responsible investing policies and practices, and carbon-reducing measures. The ERM Steering Committee meets at least quarterly.

On the Investments side, the Investment Committee of the Board along with its investing partner New England Asset Management (NEAM) monitors the investment portfolio for climate-related exposures as well as Environmental, Social, and Governance (ESG) trends and best practices, and routinely reports about its activities to the Board.

2. Strategy

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.

Our Northeastern U.S. insurance operations expose us to claims arising out of catastrophes caused by various unpredictable natural events frequently attributed to climate change including hurricanes, hailstorms, severe winter weather, windstorms, earthquakes, and tornadoes. Any increases in the values and concentrations of insureds and property in these areas would increase our potential exposure to catastrophic events in the future.

We believe that our approach to climate-related risks and opportunities positions us to mitigate our exposure to climate-related risk, and to provide products and services that both help our customers mitigate those risks and meet our long-term financial objectives. Merchants offers a full range of property-casualty insurance products that help protect our customers from damage that could occur from snow and ice, severe heat, changing weather patterns, wind and other perils.

In the short term (1-5 years), increased climate regulation adopted in response to potential changes in climate conditions may impact the Company and its customers. Those regulations or laws could limit our ability to charge adequate pricing for catastrophe exposures or shift more responsibility for covering risk. Opportunities exist in the short term as state and local regulatory requirements drive renovation work that could lead to increased construction activity, creating opportunities to grow our book of business in those states.

Over the medium term (5-10 years), 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. Opportunities exist to develop new insurance products tailored to changes in demand for renewable energy products and services. In addition, auto emissions regulations may lead to an increase in demand, production and availability of hybrid and electric vehicles, which could lead to increased sales of Merchants automobile insurance products for those vehicles. Conversely, the increased costs of those vehicles will lead to higher loss payments and adverse pressure on surplus and the ability to obtain the appropriate premium rates.

Over the long term (10-30 years), changes in climate and/or weather patterns may increase the frequency and/or intensity of severe weather and natural catastrophe events potentially leading to increased insured losses. The amount we charge for catastrophe exposure may be inadequate if the frequency or severity of catastrophe losses changes over time, or if the models we use to estimate the exposure prove inadequate. Of particular importance will be the Company's continued efforts to strengthen its reserves and surplus positions to offset any potential losses experienced due to climate risks.

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. Understanding climate-related effects on weather perils is part of this fundamental evaluation process, which includes the underwriting and pricing of risks related to many of our products. We maintain a prudent balance between casualty and property lines of business. Recent experience from catastrophic events has caused us to update our BOP forms portfolio including an ACV option for roof replacement and more restrictive utility time element limit and deductible options. We have also raised all peril deductibles and increased the use of wind deductibles. We have implemented a strategy to diversify capital across coastal zones and more inland zones of our western-most states. We also use various risk-assessment tools in the underwriting process to monitor the potential impact of weather on individual properties.

Company actions in relation to climate change-related circumstances include monitoring of coastal property exposures and setting catastrophe retention amounts in our reinsurance model at appropriate levels. Our property catastrophe reinsurance is structured to minimize the impact to policyholders' surplus from a 131-year level storm. Climate change is a factor in our reinsurance purchase process, and we have analyzed alternative methods of risk mitigation due to the potential for more frequent weather-related activity. Merchants has relied on a 50/50 blend of the RMS v2.1 and Verisk models for all perils, hurricane and other wind events supplied by our reinsurance partners.

Through tools provided by our reinsurance partners and others, we manage our risk concentrations and distance to the coast. Merchants has implemented a software tool from our reinsurance partners that aids us in managing and tracking our weather-related exposures by ensuring at the point of sale that costs associated with catastrophe risk are recouped through the policy premium. We also have a comprehensive Business Continuity Plan in place to address weather disruptions.

Through Merchants' Investment Guidelines, the Company looks to control its portfolio exposure to states and municipalities located in CAT-prone locations. The Company's Investment Policy states that individual U.S. state and municipal positions are limited to 1% of invested assets. In addition, all states other than New York are subject to limitations of 10% of invested assets. New York, the state of domicile of Merchants Mutual Insurance Company, is limited to 20% of invested assets. The portfolio currently complies with the investment policy.

Over the past few years, Merchants and NEAM have integrated ESG ratings and analysis into its investment management process. On June 1, 2019, NEAM contracted with Sustainalytics, Inc., a leading ESG research provider to provide comprehensive ESG research on global corporations, to develop credit scorecards and ensure client portfolios are properly aligned with clients' risk tolerances and portfolio objectives. NEAM has long included ESG-related risk factors into their municipal bond analysis, including consideration of governance and climate risk factors.

Merchants is also reducing our own operational impacts. Our facilities operations department works with EC Controls, a facility engineering firm, to maximize the efficiency of the mechanical equipment at the corporate offices. Obsolete and inefficient equipment is replaced to reduce the carbon footprint and utility costs. The corporate office also has a 30,000 Kw solar power plant to contribute to this effort. The corporate office is equipped with low energy light bulbs and uses an automated system to shut down all non-essential lights for evenings and weekends.

Merchants consistently works to reduce its dependency on hardware and emissions-heavy information technology (IT) solutions by maximizing the use of Virtualization technology. Further, while emissions are not specifically monitored or tracked, power consumption, heat output, and general emissions comparison is a decision point in the evaluation for IT Systems, Supporting Data Center Infrastructure, and Building Systems.

Merchants' Datacenter strategy includes the virtualization of all systems. 100% of Merchants' Servers are virtualized on VMware or AS400 hosts to control emissions. The Company also uses Azure or AWS hosting services where client data is secured, and it is economically feasible.

In addition, we have implemented programs over the last few years to send policy and billing information electronically, added the ability to allow our insureds to pay their premium electronically through our company website and their smart phone, and have extended our electronic funds transfer ("EFT") options to the insured. We offer and promote the use of electronic claims payments, and take advantage of virtual claim appraisals, underwriting inspections, and premium audits. The functionality available to send policies electronically eliminates the need for the agent and policyholder to print hard copies of insurance documents.

Merchants has also taken steps to encourage our policyholders to reduce the losses caused by climate-influenced events. Our partnership with Mutual Boiler Re "MBR" (a member of the FM Global Group, rated A+ by A.M. Best) affords many advantages in this area. MBR provides us with specialized coverages and services as part of our package policies that motivate policyholders to purchase energy efficient technology and conserve energy which can help reduce carbon emissions. The equipment breakdown insurance program that MBR designed for Merchants include coverages designed to encourage commercial properties to replace damaged equipment and systems with energy efficient equipment. (Environmental, Safety, and Efficiency coverage pays commercial policyholders up to 125 percent of the loss payable for upgrades to more energy efficient, safer or environmentally friendly equipment.)

As part of MBR's optimize energy efficiency program, Merchants policyholders have access to services that can help them understand how they currently use energy, and what steps they can take to improve energy efficiency and reduce their energy use. MBR's energy optimization program includes providing Merchants commercial policyholders with on-site energy efficiency observations that their inspectors make when conducting a boiler or pressure vessel inspection. Our commercial policyholders also have access to a range of equipment efficiency calculators created by MBR and available on the MBR website for our small to mid-sized commercial clients that cover a wide range of equipment types and sizes including lighting systems, HVAC, electrical and mechanical equipment, motors, "vampire" electrical loads, as well as boilers.

Merchants also offers higher deductibles to promote loss prevention. We've promoted electronic commerce to our policyholders to reduce the carbon footprint and we provide loss control and prevention education though our company website and various social media sites.

3. Risk Management

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.

Risk management for changing climate conditions is addressed within our business model and ERM framework. We utilize several sources to identify climate-related risks: subscriptions to ISO; industry-specific information/seminars/publications from many sources; reliance upon value-added services from our reinsurer and brokerage partners to name a few. As part of our ERM process, business and corporate groups work to identify and assess climate-related risks, both physical and transitional. Our ERM Steering Committee (discussed under "Governance" above) regularly reviews emerging issues, including changing climate conditions, 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. Merchants has a mature, well-developed catastrophe risk management discipline. We evaluate event exposures using CAT models (as discussed under "Strategy" above) and report aggregate exposure and strategies regularly to management. We use a combination of sound underwriting practices, exposure management and reinsurance to mitigate the financial impact of extreme natural catastrophe events.

Our investment portfolio is structured to provide liquidity to adequately address cash flow needs in the instance of significant weather events. Please reference the "Strategy" section above for additional information about our Investment portfolio risk management process, as well as for examples of how we encourage our policyholders to manage their potential climate-related risks.

Merchants' policies and procedures for managing natural catastrophe risks include disciplined underwriting protocols, exposure controls, sophisticated risk-based pricing, risk modeling, risk transfer, and capital management strategies. The Company has established underwriting guidelines for both individual risks, including individual policy limits, as well as risks in the aggregate, including exposure limits by geographic zone and peril for natural catastrophe perils. Significant risks to the company or emerging risks that could be significant in the future are monitored to evaluate how they could affect the properties and people we insure.

The dynamics of climate change and severe weather impact various underwriting and pricing activities across the enterprise. Catastrophe modeling and other analytical tools incorporating climatic assumptions are significant inputs into pricing and underwriting the insurance policies issued by the enterprise, as well as capital requirements.

4. Metrics and Targets

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:
    - o 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.

Merchants analyzes various stress tests (e.g. 1-in-100 return period, 1-in-250 return period) for several natural catastrophe perils (e.g. hurricane, tornado, hail, winter storm.) The Company also uses third-party models to estimate the potential loss to insured exposure resulting from various catastrophe events and the potential impact those events would have on the Company's financial position and results of operations across its businesses.

Merchants generally limits its estimated pre-tax loss due to natural catastrophes for property and casualty exposures from a single 100-year event to less than 25% of the projected total available capital at year end prior to reinsurance, and to less than 5% of the projected total available capital at year end after reinsurance. The estimated 100-year pre-tax probable maximum enterprise loss from hurricane events is estimated to be $89.2 million before reinsurance and $13.6 million net of reinsurance.

Merchants Investment Manager, NEAM, is a signatory to the Principles for Responsible Investment (PRI) that includes five years of historical investment data for 12,000 companies global wide. Based upon

NEAM's analysis, 66% of Merchants investment portfolio has a negligible impact on ESG with 7% rated low, 20% rated medium, 5% rated high, 1% rated severe, and 1% not rated. These results compare favorably to the peer group.

Merchants has not yet assigned targets to manage climate-related risks, and we do not currently track Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. Various activities contributed to a decrease in GHGe the past couple of years, including our work from home and hybrid work programs, a commitment to paperless policy and billing transactions, reduced physical visits to our independent agents' offices, and the ongoing efforts to modernize our physical plant and make the attendant energy efficiency investments as noted in the "Strategy" section above.