

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

Answer:

Merchants Bonding Company does not have publicly stated goals regarding climate-related risks and opportunities or a specifically dedicated role for such. However, our ERM framework provides the governance structure to oversee all risks, including climate-related risks.

Our Executive Team and various committees are responsible for identifying material risks (including financial, operational, strategic, and climate-related risks) that could impede the Company's ability to meet its strategic objectives. These are aggregated by the Risk Department and discussed in the Company's quarterly Enterprise Risk and Governance Team (ERGT) meeting, along with any emerging risks. In addition, ERGT oversees a portfolio of Key Risk Indicators (KRIs) that show early signs where risks may be manifesting that need attention before becoming material. Risks material to the Company are discussed with Board of Directors quarterly, including any risks exceeding the Company's tolerances or risk appetite.

All committees (Investment, Reinsurance, Privacy and Security, Executive Committee, etc.) are accountable for discussing and overseeing risks that could impact their area of expertise and responsibility, including controlling the exposures within acceptable tolerance levels. Input from these committees help inform overall response and discussion in the ERGT.

Question 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.

Answer:

Merchants Bonding Company is primarily a surety bond company, as such our products are not materially impacted by climate change and do not directly support a low carbon economy. Currently we do not have any modeling to forecast the future of our business should temperatures change by 2 degrees Celsius. Any financial, reputational, or operational impacts resulting from changes in regulations or policyholder behavior in response to climate change, have the potential to become material. As these risks emerge, they will be monitored and addressed through our ERM program.

The Company values strong corporate citizenship and has taken steps to reduce our impact on the environment. These steps includes: moving to paperless processes (electronic billing, bond processing, electronic communications), new corporate office built to meet green certification standards, hybrid work from home schedule, and electric vehicle charging stations.

Question 3 - Disclose how the insurer identifies, assesses, and manages climate-related risks.

Answer:

As noted in question one, we utilize our ERM process to identify, assess, monitor, and respond to any emerging risks that could become material. Should such risks arise, our Risk Department, Enterprise Risk and Governance Team (ERGT), and Executive Team will evaluate the risk and ensure appropriate

mitigation strategies are in place. Risks material to the Company are discussed with Board of Directors quarterly, including any risks exceeding the Company's tolerances or risk appetite.

Our investment committee and investment manager actively assess and manage our portfolio to mitigate risks, including considerations for climate-related risks.

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

Answer:

Because climate change risk is not material to our products, we do not have specific measures in place for climate change. Should this risk become material, appropriate measures and mitigation strategies will be implemented.

Questions – Detail For Reference Purposes

Question 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.

Question 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 1-5years as short term, 5-10years as medium term, and 10-30years 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.

Question 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.

Question 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.