NAIC CLIMATE RISK DISCLOSURE SURVEY
TCFD-ALIGNED QUESTIONS
UPDATED 2022

GOVERNANCE

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

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

• Identify and include any publicly stated goals on climate-related risks and opportunities.

• Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.

A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.

In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:

• Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

Governance around climate-related risks and opportunities is handled at the group level. However, the activities performed by the group and the individual companies within the group as it pertains to climate-related risks and opportunities are largely the same. Primary responsibility for oversight of climate-related risks and opportunities ultimately lies with the group's board of directors. But climate-related risks and opportunities have also been identified as an enterprise-level risk, which is managed by the insurer's enterprise risk management (ERM) function. As discussed in later sections, FMH (the "insurer") created a Business Intelligence Department that is tasked with providing data and financial modeling to assist management in making business decisions, including those around climate-related risks and opportunities.

The ERM team consists of management (i.e., risk owners) from across all departments in the company. These risk owners are expected to continually review their respective areas of responsibility and identify climate-related risks and opportunities. The risk owners meet at least quarterly with ERM leaders to discuss current risks and potentially discuss any emerging risks, as well as any associated mitigating strategies that may be applicable to each risk. At least twice annually, the ERM leaders present to the group's board of directors to apprise the board of any developments with respect to risks identified by the ERM leaders or the respective risk owners. Contributions by the Business Intelligence Department to the management of climate-related risks is discussed in greater detail in later sections of this survey.

The group has not currently identified any publicly stated goals with respect to climate-related risks and opportunities.

STRATEGY

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*

In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:

• Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency. *

• Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations. *

A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.

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

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

B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.

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

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

• Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

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

FMH is somewhat unique in that it is one of only approximately fifteen carriers in the country that is approved to sell and service federally regulated, multiple peril crop insurance ("MPCI") policies. FMH's primary line of written business is for crops growing in the field, with approximately 90% of its written premiums being associated with MPCI policies. The other 10% is for privately developed crop insurance policies regulated by the states, and traditional property and casualty policies targeting agricultural related risks. MPCI policies are reinsured by the Federal Crop Insurance Corporation ("FCIC") and regulated exclusively by the USDA's Risk Management Agency ("RMA"). While climate and climate-related risks have a direct impact on FMH's bottom line, the Standard Reinsurance Agreement ("SRA") allows FMH to analyze its spread of risk and cede certain unwanted risks to the FCIC. This analysis is done at least annually, so FMH is able to regularly assess its geographic spread of risk and adjust its ceded risks from year to year. For example, if an area of the country is increasingly experiencing drought, abnormally wet conditions during the planting season, or an increase in convective storm activity, FMH may look to tailor its writings in the area, and/or cede more of those risks with the FCIC through the fund designation mechanism in the SRA. This gives FMH the advantage of being able to write business nationwide but adjust risk retained on an annual basis.

In addition to reinsurance provided to FMH in connection with the SRA, FMH secures commercial insurance from a number of global reinsurers. Increasingly, these global reinsurers (with many based in Europe) have inquired about climate-related risks and the potential impact to FMH's book of business. These inquiries have resulted in greater discussion on geographic distribution of risk and FMH's pricing strategies in areas of the country that may be more susceptible to climate-related risks. For example, while FMH has been pursuing growth opportunities in the Southeast, it is being careful to avoid or limit growth in areas that may be impacted by flood or hurricanes. FMH has also been engaging its constituent independent agents to market products developed by the RMA that are centered on climate-smart agricultural practices. More detailed on these types of products is provided in other sections of this disclosure.

FMH's GHG emissions are mostly attributable to vehicles on the road. It is necessary for claims adjusters, training staff and sales staff to travel on an as-needed basis. However, FMH has implemented, and continues to implement, new business processes and new technologies to help reduce its carbon footprint. First, FMH has implemented a digital signature solution used primarily in the claim adjustment and underwriting processes. It is not uncommon for claims adjusters to visit a farm more than once during the policy year, often to obtain a signature on appraisal worksheets or proofs of loss. Since these crop risks are located in rural areas, an adjuster may need to drive several hundred miles to get to the farm. Digital signatures allow FMH claim adjusters to limit the number of miles driven and in certain situations could eliminate the need to an adjuster to travel to the farm at all. Sales and underwriting staff are also able to leverage digital signatures to capture signatures that may be necessary in the sales/underwriting process.

In addition, one of FMH's strategies for reducing GHG emissions is to focus on the adoption of precision agriculture. Precision agriculture uses sophisticated equipment mounted on farm implements (planters, harvesters, sprayers) to capture numerous on-farm data points. These data points (i.e., planting and harvest data) are necessary for the administration of crop insurance policies. In the past, a claims adjuster would be required to drive to the farm to collect this data. With precision agriculture technology, farmers can upload these necessary data points directly into FMH's policy administration system, eliminating the need for a claims adjuster to visit the farm. In addition to automated crop reporting, precision agriculture allows farmers to more precisely apply farm inputs to only the portion of the field where needed. For example, not all areas of the field may need the same application rate for pesticide, herbicide or other farm inputs. Precision agriculture can show the farmer exactly which parts of the field need farm inputs, which ultimately reduces the total pounds of farm inputs needed to produce a healthy crop. Digital signatures and the adoption of precision agriculture have, and will continue to, reduce the number of miles driven which will lower GHG emissions. While the goal is to reduce miles driven, there will likely always be a need to use vehicles in the sale and service of crop insurance policies. But FMH maintains a leasing program where newer vehicles are continually rotated into the program and these newer vehicles achieve greater fuel-efficiency. It is currently not feasible for FMH to transition its leased fleet to electric vehicles. But as electric vehicles become more commonplace, and as EV infrastructure becomes more available and reliable in rural areas where FMH's business is located, we will look at the feasibility of using more electric vehicles.

The climate related risks and opportunities over the short, medium and long term are mostly aligned, in that changing weather patterns will always affect crops grown in the field. The short-term risk is primarily the impacts of weather events on FMH's underwriting portfolio. In addition, there is short-, medium- and long-term risk of climate change altering buyer behavior, although FMH believes that farmers will continue to rely on crop insurance as the primary risk management mechanism to ensure their operations remain going concerns. The primary medium and long-term risks to FMH would be changing precipitation patterns and the frequency and severity of convectional thunderstorms with propensities for hail and strong winds. In addition, there is risk that crops currently grown in certain parts of the country will no longer be able to be grown in that part of the country. With these risks come opportunities for plant genetics and new plant varieties that may be better suited for wet, dry, or windy weather. For example, new corn varieties are being developed that would result in a shorter cornstalk, which would reduce the stalks susceptibility to wind.

In its capacity as a provider or federally regulated and reinsured insurance products, FMH is increasingly offering products and/or servicing products that are specifically designed to lower carbon emissions. For example, RMA and the crop insurance industry have developed products and adapted underwriting guidelines and procedures to incentivize farmers to adopt regenerative agriculture practices. These practices include but are not limited to additional subsidies or premium discounts if a farmer plants cover crops or uses no-till or minimum till practices. Specifically, FMH offers a Post Application Coverage Endorsement, which helps corn farmers "improve water quality while gaining efficiencies and reducing costs by specifically supporting the practice of "split application." In this case, nitrogen is used in more targeted amounts over multiple applications, rather than one large application." https://rma.usda.gov/en/Topics/Conservation. These products and agricultural practices not only help reduce carbon emissions, erosion, and farm input runoff, but they can also work to actively sequester carbon in the soil. The science behind measuring and valuing carbon sequestration in farm fields is still maturing, but farmers are increasingly getting comfortable with using these regenerative agricultural practices in their respective operations. In addition to subsidies and products that help reduce the carbon economy, FMH's has invested substantial resources to be an industry leader in the use of precision agriculture, as described above. This investment allows FMH to more efficiently service business across its 40+ state footprint and shows its commitment to helping our customers adapt to climate-related risks.

FMH's strategy of focusing on new technology (e.g., digital signatures, video-conferencing) and its commitment to the adoption of precision agriculture provides great resiliency. Most GHG emissions would fall in the "Scope 1" category and are related to miles driven by employees and these technologies and investments in precision agriculture will help FMH reduce or limit GHG emissions as it works towards its growth objectives.

RISK MANAGEMENT

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

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

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability

risk. *

• Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable. *

• Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered. *

A. Describe the insurers' processes for identifying and assessing climate-related risks.

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

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

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

C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.

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

• Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.

• Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.

• Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

FMH's primary climate-related risks are on its underwriting portfolio, and FMH primarily manages and mitigates these risks via reinsurance, both commercial reinsurance and federally-provided reinsurance under the SRA. In 2018, FMH started a new internal department ("Business Intelligence" or "BI"), tasked with compiling historical and prospective loss data from a variety of sources and developing a financial model to help management identity and assess underwriting risk across the 40+ state writing territory, both in the short-, medium- and long-term. This proprietary financial model draws from FMH's own loss history (125+ years) in addition to commercially sourced industry loss data and catastrophe modeling. Information from this department has allowed FMH management to better understand the risk profile of the entire United States as it pertains to crop insurance. For example, certain counties within a state may have better loss history than others. More granular data helps FMH to see where these opportunities may be and to adjust is growth or premiums retained in these areas. This data also helps with rate analysis and helps ensure FMH is charging the appropriate rate for the risk profile of a certain county, state or region. But more importantly as it pertains to its primary underwriting risk (federally regulated and reinsured crop insurance policies), this information helps FMH identify which risks to retain or cede to the FCIC on an annual basis. The assessment and financial implications are done at least annually, in correlation with the various growing cycles for crops insured across the writing territory. FMH's underwriting exposure is mostly physical. The transition to a low-carbon economy does present some risk to FMH in that additional regulations or requirements on farmers to adopt climate-focused agricultural practices could reduce the amount of operating capital that a farmer may devote to risk management products, and thus change buying behavior. However, this risk may be somewhat mitigated by subsidies or other regulatory policies that incentivize a farmer to adopt agricultural practices that reduce the operation's carbon footprint. The transition risk may also be mitigated in that the transition to a low-carbon economy will present farmers with opportunity of future revenue streams. Farmland used for growing crops can be used to sequester carbon, and there will be opportunities for farmers to sell carbon credits that may result from transitioning to climate-smart agricultural practices.

FMH and other providers of federally regulated and reinsured crop insurance policies are unique in that they are required to accept the risk and issue a crop insurance farmer to any individual or entity that meets program eligibility requirements. FMH and other providers of federally regulated and reinsured crop insurance policies also have the unique ability to adjust risks retained on its underwritten book of business each year. For example, if loss history or predictive modeling would indicate increased risk of writing crop insurance policies in areas increasingly affected by drought (e.g., Western United States), FMH might look to cede a greater portion of these risks back to the FCIC via

the SRA. FMH might also look for additional commercial reinsurance capacity in areas more susceptible to climate-related risks.

FMH encourages its policyholders to manage their potential physical and transition climate-related risks by delivering policies and/or coverage endorsements either developed privately or by the RMA that encourage or subsidize farmers to adopt climate-smart agricultural practices, including but not limited to automated crop reporting using precision agriculture technology. These incentives and new conservation-oriented products should help with transition-related risks as they may be perceived by farmers.

FMH uses established, reputable firms such as Morgan Stanley to manage its investment portfolio. These firms have published strong support for investments in transitioning to a low-carbon economy. FMH's CFO and Investment Committee have frequent interactions with investment advisors and look forward to increased opportunities in ESG-related funds.

Climate change has been identified as a risk in FMH's ERM program. To help manage and mitigate climate-related risks, FMH created the aforementioned Business Intelligence Department. This department is tasked with providing management the information needed for financial planning, both in the short- and long-term. The scenario analysis specific to FMH pertains to both historical loss costs and potential future loss costs as modeled or predicted by commercially sourced data or by information provided to FMH by commercial reinsurers or the reinsurance brokers that assist FMH in securing appropriate reinsurance. This analysis is done regularly throughout the year in support of the premium ceding mechanism as provided in the FCIC's Standard Reinsurance Agreement. In other words, FMH has the ability throughout the year to adjust risks retained, and it relies on loss scenarios provided by the Business Intelligence department to guide decision making. FMH also uses loss scenario modeling to plan for future growth efforts or to prepare for potential market retraction in areas perceived to be more at risk to climate change.

METRICS AND TARGETS

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

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

- Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.

A. Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.

In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:

- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions.

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

FMH uses catastrophe modeling primarily to help manage underwriting risk, both on an annual and long-term basis. And FMH primarily manages its climate-related risks by purchasing appropriate reinsurance coverage. FMH purchases reinsurance on its MPCI and private crop insurance policies to protect from a one in 100-year event to a 1 in 250-year event. On an annual basis, FMH incorporates catastrophe modeling when securing commercial reinsurance for business not ceded to the FCIC under the SRA. On both a short and long-term basis, FMH incorporates catastrophe modeling to analyze rates and to help management make decisions about areas of the country in which growth is desirable. Catastrophe models and historical loss costs are analyzed mostly for the perils of wind and hail, as those are the primary risks associated with FMH's underwriting portfolio.

FMH maintains a relatively small corporate footprint, having total office space of about 81,000 square feet. FMH has approximately 266 vehicles on the road driving approximately 4.9 million miles. This equates to approximately 2,731 metric tons of CO2 emitted. https://calculator.carbonfootprint.com/calculator.
Farmers' use of precision agricultural equipment can help with the transition to low-carbon economy. For example, in the past a farmer may have applied fertilizer, pesticides or other inputs on all acres. But if a farmer is using precision agricultural equipment, he or she may find that only certain fields or only parts of certain fields need the input. Not only does this save the farmer from burning unnecessary diesel fuel in the farm implement, but it will also reduce the amount of fertilizer, pesticide or other farm input that is applied to the land. FMH is a leader in the use of precision agriculture to help farmers with automated crop reporting. As discussed in prior sections, the more acres that are processed with automated crop reporting, the fewer miles FMH adjusters have to drive to capture the necessary policy or claim information. FMH is targeting to have at least 50% of eligible insured acres reported using automated crop reporting the end of 2024.

* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.