DONEGAL INSURANCE GROUP

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Climate Risk Disclosure Survey
August 27, 2024

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.

<u>Governance:</u>

The responding companies, as well as their affiliated insurance companies, do business together as the Donegal Insurance Group. Weather-related risks are considered at both the group and at the entity levels. The geographically diverse regions that we serve each have their own weather-related risks and opportunities.[1]

Severe weather-related risks such as hurricanes, tornadoes, hail storms, winter storms, etc. are recognized risks as part of our Enterprise Risk Management ("ERM") process which is administered by our Risk Management Committee. Through this ERM process, the Risk Management Committee provides assistance to, among others, the companies' boards of directors in assessing and monitoring major risks inherent in our insurance business. We

[1] For purposes of responding to this survey, we rely on the National Oceanic and Atmospheric Administration's explanation of the difference between "weather" and "climate": "Weather is what you experience when you step outside on any given day. In other words, it is the state of the atmosphere at a particular location over the short-term. Climate is the average of the weather patterns in a location over a longer period of time, usually 30 years or more." What's the difference between climate and weather?, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION website, What's the difference between climate and weather? | National Oceanic and Atmospheric Administration (noaa.gov) (as of August 26, 2024).

recognize and address catastrophe risk, such as the concentration of specific lines of business or of coverage within certain geographic areas, as a key risk within the ERM process.

Weather-related risks also are an integral consideration of our underwriting process, and the unique weather-related risks of each region we serve are considered in this process. Additionally, the potential for correlation of weather-related risks to our capital position is considered in our economic capital modeling process.

STRATEGY

1. *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.

Strategy:

We recognize that changes in the frequency and severity of catastrophic weather events can present actual or potential adverse impacts to our business, both physically to our own office premises as well as to the automobiles, homes and businesses we insure. We conduct catastrophe modeling of our book of business to assess the potential adverse impact due to, for example, exposure to weather-related risks. We also consider the implications of weather-related risks on the cost of our reinsurance, and their potential effect on our surplus and on future underwriting decisions regarding the types and locations of properties to insure. As noted earlier, we engage in economic capital modeling to assess the potential impact of weather-related events on our capital position and surplus.

Further, we are continuing to explore and implement processes and procedures to reduce or minimize energy usage at our office buildings. For example, we encourage our employees to recycle items in our office buildings, to save energy by powering down equipment at the end of the day, and by generally using business resources responsibly. We also have reduced our use of paper by utilizing digital and electronic documents when appropriate. Our underwriting and claims handling are performed almost entirely electronically through the use of imaging and electronic workflow systems instead of hard copy paper files. Similarly, all personal lines business and most commercial lines business is submitted by our agents in electronic format through our web-based policy quoting and issuance systems. Most agency communication is sent and received via electronic means. We allow many employees to work remotely or on a "hybrid" in-person schedule and utilize conference calls and webinars, when possible, to limit our employees' automobile and air travel. We also converted the main heating system in our home office from oil to natural gas and installed a more energy-efficient chiller unit for our air conditioning system.

RISK MANAGEMENT

1. *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:

As noted above, weather-related catastrophes are a key risk within our Enterprise Risk Management process and are an integral consideration within our underwriting process. We seek to reduce our exposure to catastrophe losses through our underwriting strategies and purchase of catastrophe reinsurance.

Our underwriting process considers a number of factors related to the potential for adverse weather impacts. For example, through the underwriting of risks, we seek to promote high standards of construction of the residential and commercial buildings that we insure. We recognize that an increase in the frequency and severity of weather events requires homes and businesses to be well-built and maintained to minimize the risk of loss to our insureds. Thus, we are encouraging policyholders to mitigate the effects of more severe or frequent weather events by promoting physical resiliency of the homes and businesses. Through the use of higher deductibles for both personal and commercial property policies, we provide insureds with further incentives to maintain dwellings and businesses properly, a meaningful step to promote property conditions that are more resilient to storms and, in turn, to help our policyholders adapt to any increased severity or frequency of those storms. Recognizing that well-built and maintained properties are less susceptible to significant weather-related losses, we continue to inspect properties and endeavor to insure only those properties that display good maintenance and pride of ownership.

Moreover, because generally our policies of insurance renew not less frequently than annually, we have the ability to respond to the impact of changing climatic conditions through adjustments to our underwriting standards, pricing and policy terms and conditions, subject to applicable regulatory approvals.

Our underwriting discipline and pricing of risks should have the added benefit of, over time, encouraging our longer-term policyholders to maintain their properties in a consistent, weather-resilient condition in case the frequency or severity of weather risks increase due to changing climatic conditions in the coming decades.

Historically, we have indirectly considered the impact of weather-related events in our investment strategy, for example, by not investing in municipal bonds for cities located in catastrophe-prone areas.

METRICS AND TARGETS

1. *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.

Metrics and Targets:

We model a number of weather-related, catastrophic risks including hurricanes, tornadoes, hail and winter storms. The consideration of weather-related risk is also an integral part of each company's underwriting process. Additionally, the potential for correlation of weather-related risks to the companies' capital position is considered in our economic capital modeling process.

We continue to collect and analyze data concerning various catastrophic weather events that occur within the geographic areas where we write business, and, over time, we are able to assess the frequency and severity of those events and determine whether, and to what extent, these events are increasing, decreasing or remaining relatively constant in a given geographic area.

Submitted on behalf of:

Donegal Mutual Insurance Company
Atlantic States Insurance Company
Michigan Insurance Company
Southern Insurance Company of Virginia