Universal Group Inc.
PO Box 71338 San Juan Puerto Rico 00936-8438
T: (787) 641-7171, 1-877-641-7171
www.miuniversalpr.com

August 31, 2023

By electronic submission through interactive web application

Hon. Alexander Adams Vega, Esq.
Commissioner of Insurance
Office of the Commissioner of Insurance of Puerto Rico
361 Calle Calaf
PO Box 195415
San Juan, PR 00919

Re: CLIMATE RISK DISCLOSURE SURVEY 2023
UNIVERSAL GROUP, INC.

Honorable Mr. Adams Vega:

In compliance with the provisions of Ruling Letter No. CN-2022-316-AF published by the Office of the Commissioner of Insurance on June 9, 2022, and electronic notification issued on June 30, 2023, Universal Group, Inc. hereby submits the required Climate Risk Disclosure Survey following the guidelines established by the NAIC for the following entities:

Universal Insurance Company (NAIC Company Code 31704);
Universal Life Insurance Company (NAIC Company Code 60041);
Point Guard Insurance Company (NAIC Company Code 15324);

And on the mainland United States of America for:

Universal North America Insurance Company (NAIC Company Code 10759)

If you have any doubts, concerns or need any additional information, you can contact me at any time at (787) 793-7202 ext. 5041 or by email at oramirez@universalpr.com.

Sincerely,

Osvaldo Ramírez Bermúdez

Osvaldo Ramírez Bermúdez
Chief Risk Officer
Universal Group, Inc.

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PO Box 71338 San Juan Puerto Rico 00936-8438
T: (787) 641-7171, 1-877-641-7171
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CLIMATE RISK DISCLOSURE SURVEY REPORT

Filed with the Office of the Commissioner of Insurance of Puerto Rico
Through electronic submission on the interactive web application

By

Universal Group, Inc.
(NAIC Group Code: 0071)

On Behalf of/Related to the Following Insurance Companies

Universal Insurance Company (NAIC Company Code: 31704)
P.O. Box 71338, San Juan, Puerto Rico 00936-8438

Universal Life Insurance Company (NAIC Company Code: 60041)
Point Guard Insurance Company, Inc. (NAIC Company Code: 15324)
Universal North America Insurance Company (NAIC Company Code: 10759)

Date: August 31, 2023

Name, Title, Address and telephone number of Individual to Whom Notices and Correspondence Concerning This Statement Should Be Addressed:

Osvaldo Ramírez Bermúdez
Chief Risk Officer
Universal Group, Inc.
P.O. Box 71338, San Juan, Puerto Rico 00936-8438
Tel.: 787-793-7202
oramirez@universalpr.com

CLIMATE RISK DISCLOSURE SURVEY - 2023

Universal Group, Inc. (UGI) respectfully submits this Climate Risk Disclosure Survey (CRDS) pursuant to the terms and conditions established in Ruling Letter No. CN-2022-316-AF of June 9, 2022, issued by the Office of the Commissioner of Insurance of Puerto Rico and subsequent electronic notification issued on June 30, 2023. This CRDS follows the guidelines and instructions established by the NAIC in its Climate Risk Disclosure Survey Form, which itself adopts some of the internationally recognized disclosure standards established by the Task Force on Climate Related Financial Disclosures (TCFD) as they apply to insurers. In addition, UGI recognizes that the Office of the Commissioner of Insurance of Puerto Rico (OCI) is identified as

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UNIVERSAL Insurance™

the lead state regulator for purposes of reporting according to the NAIC under NAIC Group Code 0071.

A. CONFIDENTIALITY OF INFORMATION

The information being provided in this CRDS is submitted pursuant to the provisions of Ruling Letter No. CN-2022-316-AF of June 9, 2022 and its contents and information contained herein, as well as any supporting documentation that may be submitted along with this document or as a result of this document are considered confidential and privileged and will not be subject to public inspection. Therefore, the OCI as the lead state regulator in this exercise, recognizes the information and documentation included herein as being proprietary and containing trade secrets. All those documents, materials, or other information shall be confidential by law and privileged. Therefore, they shall not be subject to disclosure by the Commissioner. However, UGI acknowledges and accepts that the OCI, in the performance of its duties may share the information, documents, and reports included in this form with the NAIC and other state, federal, and international enforcement agencies for the insurance industry, provided they agree not to disclose this information.

B. GOVERNANCE

For purposes of this CRDS, UGI has opted to provide information on climate risk related activities that occur at UGI, which is the ultimate controlling parent level for all of its subsidiaries and affiliated entities. This level of disclosure has been chosen as UGI is the level at which the earnings, capital, liquidity, operations, and reputation of its subsidiaries and affiliated entities are overseen collectively and at which supervision of those factors are coordinated and exercised.

UGI has embraced the climate risk topic as part of its culture. UGI and its subsidiaries write commercial, auto and residential property coverage in areas that are exposed to damage from hurricanes, tornadoes, earthquakes, wildfires and severe storms, the severity, frequency and intensity of which may be affected by climate change and other unforeseen or unpredictable occurrences. A natural catastrophe could cause property damage to a large number of policyholders, which would result in significantly increased losses. Management attempts to mitigate these risks through its conservative philosophy toward our extensive reinsurance program. We use, and we expect to continue to use, reinsurance to help manage our exposure to property and casualty risks, as well as for our life insurance and annuity business.

UGI is a holding company organized under the laws of the Commonwealth of Puerto Rico. The following entities and subsidiaries are under the UGI umbrella:

1. **Universal Insurance Company, Inc. ("UNICO")** – a wholly owned subsidiary, is a Property & Casualty insurance company operating in Puerto Rico. UNICO in turn, has the following wholly owned subsidiaries:

a. **Universal Life Insurance Company ("ULICO")** – a Life Insurance company operating in Puerto Rico engaged in the life, annuities, accident and health insurance business.
b. **Point Guard Insurance Agency ("PGIA") and Point Guard Insurance Company ("PGIC")** – PGIA is a general agency and PGIC is a Property & Casualty and Guaranty insurance company operating in Puerto Rico engaged in the compulsory auto liability insurance, as well as regular auto liability business.

2. **Eastern America Insurance Agency ("EAIA")** – a wholly owned subsidiary, is a general agency engaged in underwriting of Property & Casualty and other insurance business in Puerto Rico.

3. **Universal Financial Services ("UFS") –** a wholly owned subsidiary duly authorized by the Commissioner of Financial Institutions of Puerto Rico and FINRA, that mainly distributes ULICO's variable annuities through other broker-dealers in Puerto Rico.

4. **Universal Insurance Holdings of North America ("UIHNA") –** this is wholly owned non-operating Delaware holding company for UGI's North America insurance operations:

   a. **Universal Insurance Managers ("UIM") –** wholly owned subsidiary that is a managing general agent domiciled in Florida. It is the managing general agent for Universal North America Insurance Company in Texas, South Carolina, North Carolina, Hawaii, Arizona, Nevada, California, and Florida.

   b. **Universal North America Insurance Company ("UNA") –** wholly owned subsidiary that is a Property & Casualty insurance company domiciled in the state of Texas and authorized to write business in 17 states, including California, Texas, Florida, New York and New Jersey.

It is important to note that UGI provides shared services for all its subsidiaries and affiliates. These shared services consist of legal, accounting, finance, investment, risk management, and human resources support to the corresponding departments and functions of its affiliates and subsidiaries. In addition, UGI's Board of Directors and its Board Committees have direct oversight over all its subsidiaries and affiliates.

Each company that belongs to UGI has its own Board of Directors. These Boards share some of the same Directors as the Board of UGI. However, the overall strategy, risk appetite, performance monitoring and compliance is established and supervised by the Board of Directors of UGI.

The subsidiaries day to day business is conducted by its employees, directors and officers, under the direction of the President of each particular subsidiary and the oversight of the subsidiary's and UGI Board and its standing committees. The Board monitors the performance of the President, the various officers, and other senior management of each subsidiary to assure that the long-term interests of the shareholders are being addressed and to ensure profitability, compliance and solvency of the operation.

The Boards of each subsidiary and UGI are committed to engendering a culture of compliance and risk management with respect to all applicable regulatory requirements wherever their business is conducted. In addition, UGI's Board always strives to adhere and comply with industry corporate governance best practices, including climate risk identification and management.

Corporate Structure:

UGI's Board with the help and input from the Group ERM Advisory Committee, is responsible for the governance of climate risk by ensuring that management maintains a sound system of risk management and internal controls to safeguard shareholder's interests and UGI's assets, and evaluates and determines, along with the senior management team, the nature and extent of the risks which UGI is willing to take in achieving strategic objectives.

The climate risks are proactively identified and addressed utilizing a formalized, uniform, and standard risk identification, prioritization and assessment methodology documented in a formal ERM policy. These Risk Identification and Assessment exercises are conducted on an annual basis, along with periodic strategy meetings of senior executives. The ownership of these risks lies with the respective business and corporate executive heads with the stewardship residing with the UGI management ERM Advisory Committee and finally the UGI Board.

Risk areas are reported to the UGI Board as a whole, as well as to the Audit and Investment Committees by members of senior management (i.e. CEO, CFO, Chief Investment Officer, Chief Information Officer, etc.), as well as the CRO for UGI. Findings and recommendations are discussed at both the UGI Board level and at the corresponding Board Committee level. The CRO continues to develop and implement a quarterly and annual reporting structure to facilitate presentation of a risk profile for each entity, as well as for UGI as a whole. This reporting structure will also help to provide uniformity in terminology and minimize the silo effect that could exist without standardization of terminology and methodologies.

C. STRATEGY

<u>Steps taken by Group to engage key constituencies to address on the topic of climate risk and resiliency.</u>

UGI's and its subsidiaries key constituencies are its policyholder's, producers, authorized representatives, reinsurers, Enterprise Risk Management Unit (ERM) and branch service offices. Producers and authorized representatives are a key constituency to keep policyholders engaged in the wide array of resources available to help reduce risks and loss from natural events. UGI and its subsidiaries periodically publish informational materials addressing policyholder preparation and best practices prior to the beginning of hurricane season. In addition, many of

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the producers, general agencies and authorized representatives that serve as UGI's, and its subsidiaries distribution channels make physical and virtual connections with many of our policyholders to evaluate a policyholder's performance and/or loss potential and offer recommendations to assist them in their loss prevention efforts.

UGI is also very active in social initiatives such as: promoting changing local laws in Puerto Rico in order to require windstorm reinsurance purchase from 1/100 years to 1/250 years; and, promoting adequate property valuations. UGI is also an active participant in local and national trade associations, including the Association of Insurance Companies of Puerto Rico and the American Property Casualty Insurance Association.

Reinsurers are engaged through the evaluation of the UGI's claims data from which they model losses and analyze risk concentration. Climate related risks are included in their models.

As part of UGI's commitment to its constituencies, we have participated in NAIC, CERES, RIMS and other climate risk related webinars and workshops, as well as subscribed to their newsletters and informational updates in order to stay abreast of new developments and methodologies related to climate risk identification and metrics to be developed and implemented over time. In addition, UGI and its ERM unit are currently examining the desirability of joining the Insurance Institute for Business & Home Safety (IBHS). This organization has the IBHS Research Center, whose mission is to advance the scientific understanding of severe weather perils and their interaction with the homes and businesses being insured at real scale.

Does Group have a plan to assess, reduce or mitigate its greenhouse emissions in its operations or organization:

UGI and its Puerto Rico subsidiaries (UNICO and PGIC) have taken the following actions to mitigate its greenhouse emissions in its operations and organization:

- Starting in 2018, UGI transitioned its Puerto Rico company car fleet to a mix of hybrid and electric vehicles to reduce emissions caused by business travel via automobile. In addition, UGI's vehicle fleet is comprised of both owned and leased vehicles. Rarely is a vehicle older than three years.
- Implemented in 2009 UGI has an ongoing recycling program in all its operations. This includes recycling of paper, plastic and aluminum with collections bins located in designated areas.
- UGI has also transitioned to a mostly paperless environment, and we are actively providing policyholders with subscription of business, notifications and claims handling via electronic transactions rather than printed paper mailings for postal delivery.
- UGI has increased the use of meetings via virtual platforms such as Microsoft Teams, Zoom, WebEx, etc. in order to reduce emissions related to business travel.
- UGI has rolled out the installation of solar panels in various corporate office buildings, including its Metro 2 building and its satellite service offices located throughout Puerto Rico.

- UGI has an established Corporate Responsibility Program which includes the Luis Miranda Casañas Foundation, a not-for-profit organization founded by the Miranda family in 2012, through its programs the Foundation invests in projects related to environmental conservation and social initiatives.

UNA: UNA has taken the following actions to mitigate its greenhouse emissions in its operations and organization:

- UNA has transitioned to work from home or hybrid work from home, reducing emissions from commuting between home and office by over 50%.
- In addition, UNA has transitioned its company car fleet to hybrid vehicles to further reduce emissions caused by business travel via automobile.
- UNA has increased its use of virtual meetings thereby reducing business travel and emissions from business travel.
- UNA has increased its use of virtual tools for risk assessment in lieu of on-site physical inspections, further reducing emissions.
- UNA participates in recycling paper, plastic and aluminum with collection bins located throughout the corporate offices. Water coolers have replaced single use plastic bottles in UNA's office.
- UNA offers paperless document delivery options in some states, as permitted by law, to reduce the use of paper and need for postal delivery.

Describe the climate related risks and opportunities the insurer has identified over the short, medium and long term. (1-5 years as short term, 5-10 years as medium term, and 10-30 years as long term).

The geographic distribution of UGI's and its subsidiaries business subjects us to catastrophic exposures primarily in the Caribbean (Puerto Rico) and in the United States mainland. UGI's geographical concentration of risks in Puerto Rico is high for UNICO and PGIC as all its business is conducted in Puerto Rico. Its geographical concentration of risk for UNA is also high as a result of its homeowner's business in high-risk coastal states such as Florida, Texas and California. UGI has identified the following climate related risks for each time horizon defined in this section:

- Hurricanes for Puerto Rico and for coastal states such as Florida, Texas, California;
- Severe thunderstorms throughout the 17 states in which UNA writes homeowner's business;
- Hail storms in Texas;
- Wildfires in the state of California for UNA;
- Floods in Puerto Rico and in all states in which UNA does business;
- Earthquakes in Puerto Rico and in California;
- Possibility of Tsunami exposure in Puerto Rico and all coastal states in which UNA does business

The above mentioned catastrophe risks are examples of climate related risks that UGI has identified that have direct impact on our operations and business. However, they are not an exhaustive list and they are constantly being revised and updated.

Time horizons established by UGI:

1. Short term – UGI has defined short term as a time horizon comprised of 1 to 5 years. This time horizon aligns with the average length of our Property & Casualty policies and the time frame for which we perform detailed business plans. Risks and Opportunities identified in this time horizon include:

    a. Risks - Increased regulation adopted in response to potential changes in climate conditions. This increased regulation may impact UGI and its customers. Regulatory action may limit UGI's ability to manage catastrophe risk. This may occur when regulators or government pass legislation, executive orders or directives that mandate a prohibition on insurers from reducing exposures or withdrawing from catastrophe-prone areas. In addition, insurers may be required to participate in residual markets and/or guarantee associations. This type of required participation has resulted in significant losses or assessments to insurers, including UGI, especially it subsidiaries UNICO, Pt. Guard and UNA.

       In addition, in response to catastrophes or disasters, Regulators may also impose moratoriums on policy cancellations or nonrenewal for nonpayment of premium, establishing additional claims handling requirements or procedures; imposing daily claim data reporting requirements; modifying adjuster licensing procedures for independent and public adjusters. For example, new Florida law requires UNA to stay on the risk until repairs are completed. Also, California limits and restricts the use of CAT models. These were all risks that were experienced by UNICO, Pt. Guard and UNA as the direct impact of regulatory actions taken as a result of Hurricanes Irma, Maria, Fiona, and Ian, as well as the repeated incidence of earthquakes that affected the southern part of Puerto Rico.

       Climate-related regulation could increase our customers' costs of doing business. This increase in costs would affect our customers' capital and their ability to invest in loss prevention and safety features. Over time, this would also have a negative impact on the number of insurable interests and businesses. Therefore, affecting UGI's and its subsidiaries' profitability, as well as its business and underwriting strategies.

    b. Opportunities – Environmental legislation and regulation related to solar energy, wind turbines, or other sustainable building related requirements or incentives, could lead to an increase in demand for UGI's products that respond to customer needs resulting from these initiatives. Said initiatives could result in increased sales of specialized insurance and surety products that are created to cover renewable energy associated risks. We seek to balance our risk exposure so that there is never too much exposure in any one type of business line.

2. Medium term – UGI has defined medium term as a time horizon comprised of 5 to 10 years. This time horizon aligns with UGI's development of and execution of business strategies that impact strategic planning and market related adjustments based on ongoing or changing conditions. Risks and Opportunities identified in this time horizon are:

    a. Risks – There is continued uncertainty as a result of the constant changes in policy at the Environmental Protection Agency (EPA) and its local counterparts at the state level. Especially dealing with applicability of regulations related to air and water pollution, emission standards (i.e. greenhouse gas (GHG), carbon dioxide emissions from coal fired electric steam generating units (EGUs), incentives for renewable energy projects and for hybrid or electric vehicles. New, tighter and more restrictive regulations could negatively impact the demand for UGI's traditional insurance products and services.

    b. Opportunities – Development of new products or services for renewable energy businesses, as well as establishing renewable energy goals at the state and local government levels. This, in turn, provides an opportunity to develop new insurance products tailored to related markets. In addition, new auto emissions regulations at the federal government level may lead to an increase in the demand, production and availability of hybrid and electric vehicles. The increase in those types of vehicles could lead to a corresponding increase in the demand for UNICO's and PGIC's automobile insurance products for hybrid and electric autos.

3. Long term – UGI has defined long term as a time horizon comprised of 10 to 30 years. This time horizon aligns with longer term change such as climate-related risks, energy consumption and energy sources that present risks and opportunities that are beyond those mentioned above in short- and medium-term time horizons.

    a. Risks – Changes in frequency and severity of catastrophe losses and uncertainty surrounding weather volatility and climate related risk. Over the last twenty years we have experienced an increase in catastrophe related losses due to a number of potential factors: weather/climate variability, aging infrastructure, and more people living in high-risk areas, population growth in areas with weaker enforcement of building codes or outdated building codes, unreliability of flood risk maps, among other factors. In addition, different government and industry studies indicate that we are expected to continue to experience an increase in the frequency and severity of hurricanes, heavy precipitation event, flash flooding, sea level rise, droughts, heat waves and wildfires. This has been clearly evidenced by the intensity of the recent hurricanes that have passed by Puerto Rico and have hit the mainland United States, especially in Florida. Wildfires and severe droughts have also increased in the West of the United States, especially in California. This unpredictability may affect the reliability of the catastrophe modeling that is currently being utilized.

b. Opportunities – Development of new products and initiatives to address the developing needs of our customers and policyholders. There is also an opportunity to participate in the review of legislation and outdated codes that need to be revised to reflect our current and future realities. This includes, UGI's participation in revision of the Puerto Rico Insurance Code, promoting changing law to require windstorm reinsurance purchase from 1/100 years to 1/250 years, promoting revisions to Puerto Rico's general building code, promoting the adequate valuation of property in both Puerto Rico and the jurisdictions in which UNA does business. There is also the opportunity to create internal Risk Control services that can be offered to our clients which can provide safety and loss prevention services that can help our customers to mitigate and minimize property losses caused by weather related events. This in turn can help customers to improve their resiliency over time.

Products or services to support transition to low carbon economy or help customers adapt to climate risk.

UNICO: UNICO's underwriting includes providing products and services which support the transition to low carbon economy and support customers as they adapt to climate risk. Our underwriting guidelines promote this philosophy in all our lines of business by insuring hybrid and electrical cars, solar panels, batteries and other hardware for our clients. We insure the liability exposure of contractors of solar and integrated renewable solutions for homes and business and our professional liability products allows us to cover engineers and other professionals that design and build zero-carbon emission projects. Universal continuously evaluates potential environmentally friendly opportunities and in fact has reinsurance capacity to cover this type of risk.

UNA: UNA's mission is to assist our policyholders in recovering from disasters including those related to climate events. UNA offers its products in some of the most disaster-prone regions in the country and provides protection against hurricanes, earthquake, tornado, wind and hail and wildfire. UNA also offers flood coverage through an NFIP policy in all states and also offers a private flood insurance option in Florida.

Does Group make investments to support transition to low carbon economy

Yes, UGI has started to create a bucket of environmental, green bonds and other social sustainability Instruments within its portfolio. For the current year, UGI and its subsidiaries hold approximately $25 million of these securities.

UGI intends to continue investing in these securities with a target of at least 5% of its total portfolio in environmental friendly instruments by year –end 2023.

Describe the resiliency of the organization's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario

We analyze the potential impact of climate-related changes as part of the strategic planning process. UGI's strategy to increase market share in the personal property-liability business and expand protections offerings for customers is resistant to increased severe weather. After experiencing severe catastrophe losses in 2017, UGI re-evaluated its underwriting of the homeowner's business, which is now consistently profitable. Along with changing product details and underwriting practices, UGI continued with its comprehensive catastrophe reinsurance program to reduce certain risks. As a result, of our conservative approach and successful creation of a solid and reliable reinsurance tower structure, UGI's subsidiaries were able to successfully weather Hurricanes Maria and Irma as opposed to what was experienced by the rest of the insurance industry in both Puerto Rico and Florida.

Additionally, models developed internally and by third-party vendors are used along with UGI's subsidiaries historical data in assessing property insurance exposure to catastrophe losses. Losses and changes in exposure are analyzed and reported to senior leaders regularly. UGI's internal stress tests focus on predicting business continuity, resiliency, and solvency through a variety of catastrophe scenarios.

UGI and its subsidiaries measure and monitor insurance risk (which includes claims frequency and severity and catastrophes and severe weather) with different approaches, including stochastic methods and scenario analysis.

D. RISK MANAGEMENT

Process for identification of climate related risk

UNICO: Identification of climate change risks is the cornerstone of our underwriting process. For a very long time, Universal has been recognized by our reinsurance partners for the reliable geocoding tools we use to identify property risks in maps, which allows us to monitor accumulation of property values, and risk geography. UNICO also has robust risk inspection program that helps our personnel understand our book of business and promptly detect any deviations from our underwriting guidelines. Our understanding of our client's exposures begins with our independent sales force which is supported by underwriters and loss control personnel who provide specific advice in how to protect against all types of exposures including climate related risks.

UNA: We manage climate change risk as part of the ERM program. Enterprise risks and opportunities are identified, prioritized, measured, managed, monitored, and reported under an integrated ERM framework policy, which includes our risk appetite statement, Risk and Return Principles, key risk and return categories, governance, modeling, analytics, and transparent management dialogue. The Board's Risk Committee also annually assesses risk associated with extremely low frequency scenarios.

Impact of climate related risks on underwriting portfolio

UNICO: Our underwriting guidelines seek risks that are able to withstand hurricane wind forces and earthquake. Universal crafts its property and casualty portfolio based on climate related risks, which begins with a process that includes examining construction, location, and type of risk as well as distance from bodies of water and surrounding geography of the risks. We support environmental reliance by pricing risks according to construction type. A building constructed mostly of concrete throughout would pay a much lower premium than a metal building. Our underwriting guidelines also promote coastal preservation since we do not insure property that is located less than 1,000 feet from the beach. If as an exception, we underwrite a structure close to the coast, premiums would be extremely high. Lack of insurance availability and high premiums discourages building on coastal areas.

UNA: Impacts of climate related risks on the underwriting portfolio to date have been related to increasing premiums in response to the rising frequency and severity of climate events covered by UNA products. In addition, higher deductibles have been employed to increase the policyholders' contribution to loss dollars needed for covered repairs after such events. Underwriting requirements also take mitigation features into account when determining acceptability of risk. Where these measures have not produced adequate results, capacity has been reduced so that UNA's risk of loss remains within tolerance.

Steps to encourage policyholders to manage their potential climate related risks

UNICO: Favorable terms and conditions provide incentives for policyholders to protect their insured assets against climate related exposures such as windstorms and floods. In auto, for example, certain incentives promote less utilization of insured's vehicle, ridesharing, and use of public transportation since it decreases carbon emissions and waste as the probability of an accident diminishes. We are implementing a usage-based insurance that encourages sensible pricing based on use, speed, cornering, and other factors. Under this product, an insured receives a larger discount the less they drive which encourages drivers to think that insurance expense is part of the overall cost of transportation much like fuel.

UNA: Universal encourages policyholders to manage their potential climate related risks by charging actuarial supported rates that vary based on the location and physical characteristics of the property being insured. These rates recognize mitigation efforts and the strength of local building codes and enforcement thereof. Higher deductibles are offered and often required to increase the policyholders' contribution to loss dollars needed for covered repairs after such events. Underwriting criteria also take mitigation efforts and features into account when determining acceptability of risk.

How the insurer has considered the impact of climate related risks on its investment portfolio

UGI on behalf of its subsidiaries has reviewed its internal investments portfolio to assure there is no exposure to carbon related instruments. This not only reduces environmental risk from an economic perspective but is also consonant with UGI's stated and long-running commitment for a better environment.

On the investments side, UGI supports environmentally friendly investments by increasing the allocation into these segment. We do not perceive any risk through the investment in these securities since they do not affect the economic profile of the portfolio due to its credit ratings and all other characteristics.

Climate risk is also related to catastrophic events which we have recently experienced with Hurricanes Irma, Maria, Fiona and Ian. These events did not have an impact on the investment's portfolio, since there was no need to liquidate investments due to UGI's strong re-insurance program. Still, any unexpected events would create limited investment portfolio exposure, since all portfolios are created with a ladder type structure, which provides constant cash flow roll-offs, significantly reducing the need to liquidate investments at any given moment.

UGI maintains a strong liquidity capacity throughout its different affiliates. Available borrowing sources for UGI includes the use of repo facilities, FHLB Advance programs, credit line facilities and access to margin, UGI could address any cash need at any time any given day.

<u>What are the financial implications of the process of identifying and assessing climate related risks</u>

The use of different assumptions and updates to industry models, and updates to our risk transfer program, could materially change the projected loss. Our growth strategies include areas where we believe we can enhance diversification and earn an appropriate return for the risk.

As part of the process of identifying and assessing climate related risks, UGI and its subsidiaries track the frequency and severity of catastrophe related incidents and regularly monitors the effects that these have over time on claim costs. Specifically, UGI's Actuarial Department runs a regular dashboard report that tracks claims and reserve development based on coverage and business type of activity.

In addition, regular catastrophe modeling and stress testing is performed for each subsidiary and for UGI as a whole in order to determine the possible financial impacts of different scenarios. In the case of climate related risks, this modeling and stress testing is performed for UGI's largest exposure which is hurricane related disasters or catastrophes. This analysis is also conducted for claims related to earthquake exposure.

<u>Describe process for managing climate related risks/How climate related risks are addressed through the insurer's ERM process and how frequent</u>

The primary function of the UGI Board of Directors is to provide effective leadership and direction to protect capital and enhance the long-term value of UGI to its shareholders and other stakeholders. The UGI Board oversees the business affairs of UGI, in collaboration with the senior executive management for UGI, its affiliates and subsidiaries. The UGI Board has the overall responsibility for reviewing the strategic plans and performance objectives, financial plans and annual budget, key operational initiatives, major funding and investment proposals, financial performance reviews, and corporate governance practices. This also includes overseeing UGI's ERM program which is managed at Group and subsidiary level.

The Board has delegated certain functions to various board committees, specifically the Audit Committee and Investment Committee. The Board accepts that while these board committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board. These committees along with the UGI Board as a whole consider climate related risks to the extent it is necessary to fulfill their responsibilities.

Climate related risks are one of many risks considered within UGI's ERM process, especially those risks related to natural catastrophes. In addition, UGI includes other climate related risks as part of its emerging risks category and is always on the lookout for these types of risks. This has become much more evident with UGI's recent participation in NAIC, CERES, and RIMS informational meetings in which these topics have been addressed and standards for examining and reporting have been discussed.

The Executive Leadership Team at UGI and its subsidiaries, under the direction of UGI's CEO and the Presidents of each subsidiary have been delegated by the UGI Board with overseeing UGI's ERM initiatives. The day-to-day management of ERM activities is overseen by UGI's Chief Risk Officer. The Chief Risk Officer, in consultation with senior executives of each subsidiary and UGI's CFO and its Chief Underwriting Officer regularly meet to discuss various topics related to climate risk, specifically:

a. Ongoing review and understanding of the Task Force on Climate-Related Disclosures (TCFD) standards for disclosures and corresponding guidance.
b. Ongoing review of the revised NAIC's Climate Risk Disclosure Survey and the information required to be disclosed.
c. Identify climate related risks and opportunities that need to be brought to the attention of UGI's CEO and its Board.
d. Evaluate and receive input as to metrics that could be used to establish benchmarks to inform future analysis of climate related risks.
e. UGI's Chief Risk Officer and Chief Underwriting Officer keep UGI's CEO and senior management informed on the activities and conclusions of these discussions and evaluations.

Utilized climate scenarios to analyze their underwriting risk

UNICO: Universal models diverse climate scenarios to analyze underwriting risk. Product development and risk pricing include expected claims from potential losses from climate related exposures. Catastrophe modeling has been part of the risk management process that Universal has followed since its founding. Along with our broking partners, we run simulations on AIR and RMS to ensure that all possible loss scenarios are covered. These simulations are performed multiple times a year and are based on our risk data that includes location, construction, geocoding, characteristics of the risk, occupancy, and value exposure of the risks in our book of business. This data is simulated with different natural disaster scenarios to estimate the frequency and severity of potential losses. The models help us design and implement robust catastrophe protections program, which includes large buffer protection beyond regulatory requirements as mandated by our internal corporate policy. This modeling capability was thoroughly tested for frequency and severity in real life after hurricanes Maria and Irma directly hit Puerto Rico in 2017.

UNA: Catastrophe models incorporate thousands of actual and possible events applied to the UNA risk portfolio to simulate loss events for understanding the potential impact to the portfolio. The models assist in understanding the average annual loss of all such events on a certain risk as well as groups of risks subject to any given loss. The models also assist UNA in understanding the impact of the larger and less frequent events that could result in a probable maximum loss (PML) well exceeding the average in any given year. Analysis of these modeled risk measures and the features of the properties that have the greatest influence on the average loss and ultimate PML drive business decisions such as proper risk pricing and acceptability criteria and the level of reinsurance purchased to protect UNA's capital.

Discuss climate scenarios utilized by insurer to analyze risks on its investments, including risk factors, types of scenarios and timeframes

Measurement of investment risk which is performed on a quarterly basis through cash flow analysis and shock analysis which measures interest rate risk. Concentration risk has always been a critical factor embedded within the analysis. All portfolios lack concentration in any particular region which reduces significantly any exposure to climate risk. Municipals are distributed throughout the mainland. Florida and Puerto Rico are exposed to frequent climate events such as hurricanes and have limited portfolio concentration. This applies to all asset segments including mortgage and corporate instruments. In addition, the portfolio has a significant concentration in federal instruments and government sponsor agencies which mitigate exposure to climate risk. The time frame for this evaluation or portfolio analysis is executed up to 3 year horizons combined with up to 10 year cash flow analysis.

Due to corporate mandates described in our investment policy, UGI maintains a conservative approach with a high concentration of liquid investment grade fixed income securities. Additionally, UGI maintains a conservative portfolio duration (currently less than 5 years) through all affiliates, with a ladder type structure so cash roll-offs are not concentrated on any given period of time during the next 4- to -5 years.

E. METRICS & TARGETS

UGI and its subsidiaries constantly monitor their risk exposure performing quality reviews and testing our assumption of risk against the market and our own models. Our exposures are assessed by using a dashboard that is reviewed by senior managements that measures climate risk tolerance against the limits of accumulation of property risks and our reinsurance program. This process allows UGI and its subsidiaries to adapt to the changing conditions of the book of business on a real-time basis to protect the business against adverse selection of climate risk and protecting our policyholder surplus. Our underwriting staff is consistently evaluating our risk profile to ensure strict compliance with management goals.

Catastrophe modeling to manage climate related risks

UGI and its subsidiaries have a conservative risk management approach and base their decisions on actual insurance underwriting, claims, historical experience as well as results from catastrophe models. Property catastrophic exposure is managed on our property business based on modeled assumptions and currently available industry models. As such, property catastrophe exposure management includes the purchasing of reinsurance for known exposure such as hurricanes, earthquakes, wildfires, and other catastrophes. UNICO's and UNA's historical and inforce data is used to assess the related experience from past weather-related events and to estimate current expected losses respectively. Loss trends, including those caused by weather related events and natural disasters, are closely monitored as part of the UGI's risk management process. The UNICO's, PGIC's and UNA's key business risks are communicated to and evaluated by its senior leadership. UGI and its subsidiaries maintain a conservative reinsurance program and business continuity and disaster recovery plans to mitigate its insurance catastrophe and operational risks respectively.

UGI's subsidiaries (UNICO, PGIC and UNA) factor in weather related events experience into their pricing models and also assess the exposures to the catastrophic perils insured by each subsidiary using the latest catastrophe models from RMS and AIR. In order for UGI's subsidiaries to assess the expected losses from its book of business, it uses catastrophe models to run analyzes in a monthly basis. Both vendors review and update their models frequently in order to incorporate the latest science, including adjustments for climate change, and data available for catastrophic perils. The different models are calibrated on a regular basis allowing them to adapt to climate changing patterns. The Company evaluates loss estimates using long-term event rates, as well as alternative sets of the RMS medium term rates and the AIR warm sea-surface temperature (WSST) rates. Utilizing both catalogs, in addition to the modeling of storm surge, allows the Company to capture a comprehensive view of hurricane risk. .In addition, the Company utilizes catastrophic event data and analytics provided by its reinsurance broker and factors it into the Company's reinsurance strategy.

Metrics to assess and monitor climate related risks

With respect to measuring Scope 1, Scope 2 and Scope 3 emissions we are compiling the information needed to establish the metrics that will be implemented and methodology to be used in order to be able to compare year to year progress and differences. We are also working with an outside consultant to help in this analysis. In any event, the plan is for 2023 to be UGI's baseline year.

Our outside consultant enjoys a long and storied relationship with UGI and its subsidiaries and is very familiar with UGI's operations and those of its subsidiaries and affiliates. We are currently working with this consultant to develop a Carbon Tool with the purpose of being able to analyze the carbon exposure that UGI's underwriting portfolio has. We expect to be able to also implement this tool for UNA in the event that we identify possible carbon exposure in their underwriting portfolio. Initially, we have been able to determine with the use of the above-mentioned Carbon Tool that from 2021 to 2022, UNICO was able to experience a 16% reduction in carbon exposure in its underwriting portfolio.

In addition, we continue to examine the California Department of Insurance's Climate Risk Analysis report and website to determine next steps and strategies to implement at UGI and its subsidiaries and affiliates to help in the identification and evaluation of UGI's and its subsidiaries exposure to investment in climate pollutants and reduction of greenhouse emissions.

Target to manage climate related risks, opportunities and performance:

UNICO: UGI intends to further align its disclosures with the recommendations of the TCFD by completing scenario analysis work which is currently being analyzed and evaluated for implementation. UGI and its subsidiaries continue to develop a financed emissions inventory and heat map which helps identify the impact of our portfolio on climate change and facilitate emissions reductions. UGI and its subsidiaries will continue to work toward setting science-aligned targets and establish an approach to integrating carbon-reduction targets into investments and operations.

UNA: UNA underwriting uses risk level modeling results to assist in risk selection decisions based on the ability to price the risk adequately to support the risk's modeled average annual loss from catastrophe events as well as its potential impact to the overall probable maximum loss. This type of analysis considers larger risks and those more exposed to catastrophe based on the risk location. Outside of these larger risks, modeled loss insights are incorporated into the overall portfolio pricing and eligibility criteria.

F. CONCLUSION

UGI and its subsidiaries consider all relevant factors that we have identified as being material and which may affect our business, investment and underwriting processes. These factors include environmental factors such as climate related risks. After careful evaluation and analysis UGI, as appropriate, will review and adjust our strategies and practices, as we deem them appropriate and needed, as the energy market and governmental policies continue to evolve and mature.

UGI will continue to examine ways to integrate Climate Risks and environmental concerns into its ERM framework. This is an ongoing process that will experience continued revision and modification as we continue with UGI's commitment to understanding the short, medium, and long-term implications of climate and environmental related trends on its business, its customers and the communities it does business in. In addition, as a responsible corporate citizen, UGI and its subsidiaries will continue to seek cost-effective ways to reduce the environmental impact of our own operations.

Universal Group Inc.
PO Box 71338 San Juan Puerto Rico 00936-8438
T: (787) 641-7171, 1-877-641-7171
www.miuniversalpr.com

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