Climate Risk Disclosure Survey Reporting Year 2022

Survey Questions

Governance - narrative

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

   Co-op's Executive Management Team (EMT) is responsible for collecting and analyzing information regarding the company's strengths, weaknesses, opportunities, and threats. This includes climate related risks and opportunities. The EMT formulates strategic plans, seeking input and approval from the Board. The EMT is responsible for moving plans forward, reporting on initiatives, progress, and associated risks either at Board or committee meetings, whichever is most appropriate. As respects climate-related risks and opportunities specifically, the EMT and the board stays familiar with climate risks through education obtained by our reinsurance broker (Guy Carpenter), our investment manager (Opus) as well as various industry related periodicals on the subject. The Company bases its risk management decisions on our actual insurance underwriting, claims, and investment related experience respectively.

   Board Governance is done at the entity level, and climate-related risks are addressed in our Enterprise Risk Management (ERM) Plan which is overseen by our most senior Finance employee, our CFO/VP of Finance who also has the title of Chief Risk Officer. The ERM Plan is reviewed annually by the board level Audit Committee for compliance and applicability.

   As part of that plan, we identify our risks into four broad categories as follows:

   - **Insurance risk**: unexpected changes associated with non-investment related events impacting the underlying insured population, such as mortality, morbidity, policyholder behavior, accident, catastrophe, and theft.
   - **Investment risk**: unexpected changes in external markets, asset prices, interest and exchange rates, credit spreads, and liquidity characteristics
   - **Operational risk**: unexpected changes in elements related to operations, such as human resources, technology, processes, and controls
   - **Strategic risk**: unexpected changes in key elements of strategy formulation or execution

   We presently have the following Risk and Mitigation Effort related to Climate Change as part of our ERM plan:

Climate change *Climate change affects weather-related loss activity*	**Use of catastrophe modeling to ensure adequate reinsurance protection, ongoing monitoring of rate adequacy to cover storm losses**

Governance – closed ended questions answered in addition to the narrative

- Does the insurer have publicly stated goals on climate-related risks and opportunities?
  - NO

- Does your board have a member, members, a committee, or committees responsible for the oversight of managing the climate related financial risk?

  The Audit Committee through review of our ERM plan as well as the Investment Committee through managing and mitigating climate risks and opportunities related to the Company's invested assets. The Investment Committee has been working with our current investment manager (Opus) to measure our portfolio from an environmentally sustainable perspective as well as develop a specific policy and strategy for future investing. According to Opus's analysis for 2022, Co-op's portfolio has an overall "A" ESG rating from MSCI without any adjustments for momentum.

- Does management have a role in assessing climate-related risks and opportunities?
  - Yes, as discussed in the narrative section.
- Does management have a role in managing climate-related risks and opportunities?
  - Yes, as discussed in the narrative section.

Strategy – narrative

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

   It is generally understood that the various risks associated with climate include physical risk, financial risk, litigation risk, reputational risk, regulatory risks, and competition risks.

   We address the greatest of these risks through our reinsurance broker, who models winter storm, hurricane, and severe thunderstorm perils individually as well as on an "all perils" basis on our underwritten portfolio. This is done annually and keeps management informed of how our growth in the various parts of our operating territory are driving our reinsurance costs over time as well as the prospective modeled loss associated with each peril. To date, we have only experienced three losses (2014, 2017, 2022) to our Catastrophe (CAT) program in our Company's history, and our rates (market cycles not withstanding) have been increasing commensurate with our increases in exposure. From a practical standpoint, our current operating territory consists exclusively of Vermont (68%) and New Hampshire (32%). With only a limited coastline in NH and little exposure currently written within a 10-mile radius of the coast, the peril of greatest concern to the Company and our reinsurers, continues to be winter storm. In addition, any moderation of historically typical northern New England winter weather that produces more ice vs snow, is also a concern of the Company as well as the potential for stalled cold fronts, which was the case for our 2022 event.

   Outside of any increased projected losses in our operating territories via the understood AIR and RMS risk-based modeling tools available through our reinsurance broking arrangement, we have a limited amount of potential operational expense dollars that can be allocated to this area of analysis. It should be quite understandable that at our size, we cannot afford to build out a specific "Climate Change" model ourselves, nor would the data in our small operating territory have much credibility.

As part of our Board By-laws, we are required to conduct an RFP every 3 years for our invested assets financial manager, whose job is to advise us on our policyholder surplus portfolio. We have begun that process and recently chosen an intermediary to help us determine and manage our selection process in managers. One of the criteria we will be evaluating with the managerss is whether the firm is a signatory to the Principles for Responding Investment (RPI) as well as their support of the UNFCCC 2015 Paris Agreement of limiting the increase of global temperature to below 2 degrees Celsius (preferably 1.5 degrees Celsius) above pre-industrial levels.

Relative to engaging key constituencies of the Company on the topic of climate change, we have hosted/conducted numerous webinars and in person presentations focusing on ESG and its base principals as well as more recently climate change. These have been provided to our EMT, Investment Committee, and Board of Directors. We have also been working for many years, with the Acorn Renewable Energy Co-op of Middlebury, VT to be the "A" investor in two of their recent solar projects. *In fact, the Company has invested approximately $1M (< 1% of assets) in sustainable policy frameworks including two solar projects using local "brown fields". The first went on-line in 2020 and produces 150 kW and the second went on-line in early 2022 and produces 500kW.*

Relative to products or services that help customers adapt to a climate-related risk as well as potentially make us more competitive in our market, we have made a "Green" replacement cost endorsement available to our Homeowner and Farmowners insureds, which provides 125% of RCV settlement value for items defined as a "home component" if they are replaced by "environmentally friendly green home components". Coverage is offered with a maximum of $20,000 per occurrence and premium is $15 per policy. To date, the take up rate for this endorsement has been < 1% of those respective policy holders.

Starting in 2023, we began offering a paperless option to our policy holders through our member portal. Over time this could significantly impact the amount of paper utilized to print policies annually, an environmentally related initiative of the Company.

In addition, for many years we have had a companywide philosophy that the environmental impacts of any upgrades to our facilities or fleet should be considered before a purchase is made. In effect, these purchases should aid in our transition to a low carbon economy. As an example, the Company has made a list of upgrades over the last eight years to the Co-op facilities and fleet that have reduced our environmental impact. They are:

Facilities

1. *Installation of an EV charger at our home office for employee and customer use*
2. *Installation of a facility wide HVAC master control system*
3. *Installation of three new 3-ton air conditioning units for the server room*
4. *Installation of additional insulation in the attic space*
5. *The complete overhaul and replacement of building wide air conditioning and air handling systems.*
6. *System wide upgrade of all electric heaters*

7 *Quarterly Preventative Maintenance Program for all mechanicals*
8 *Heating boiler serviced annually*
9 *Installation of a new Natural Gas heating boiler at our former St-Albans property*
10 *Installation of a new 5-ton air conditioning unit at our former St-Albans property*
11 *Installation of a new 3-ton air conditioning unit at our former St-Albans property*
12 *Recent installation of a new Audio/Visual system to improve our virtual experience when hosting internal and external meetings. Which has had the bonus effect of curtailing company travel and reducing our carbon footprint.*

All the above system upgrades have had an impact on the amount of electrical demand that the Co-op facility places on the overall electrical grid and are positioned to reduce our usage in the future. In addition, the Company now owns a solar field (originally shared with the Town of Middlebury, VT) to offset our annual electrical costs as well as reduce our own carbon position.

Fleet Operation and mitigation

All fleet vehicles (29 in total) are kept in good working order. Vehicle reports are filed each month and reviewed by the fleet manager. The fleet replacement philosophy and practice are to replace major fleet vehicles at 100,000 miles. The average gas mileage for fleet vehicles is 26 miles city / 33 miles highway.

Further, we have considered an all-electrical fleet vehicle, but due to the lack of availability of charging stations in our extremely rural territory, as well as concerns around the proper disposal of spent and damaged batteries, we have deemed it not practical at this time.

Strategy – closed ended questions answered in addition to the narrative

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency?
    - *Yes, as discussed in the narrative section.*
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk?
    - *Yes, as discussed in the narrative section.*
- Does the insurer make investments to support the transition to a low carbon economy?
    - Yes, as discussed in the narrative section.
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations?
    - No formal plan exists, *but for many years we have had a companywide philosophy that the environmental impacts of any upgrades to our facilities or fleet should be considered before a purchase is made.*

Risk Management – narrative

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

   As covered in the Governance narrative, the Company's climate related risks are assessed through the Company's formal ERM process, which is managed and monitored by the EMT, the Audit Committee, Investment Committee, and/or the full Board of Directors, as applicable throughout the year.

   As previously mentioned, the Company's operating territory consists of Vermont (68%) and New Hampshire (32%). With only a limited coastline in NH and little exposure currently written within a 10-mile radius of the coast, this effectively mitigates our risk from East coast hurricanes and rising sea levels.

   The Company also does not provide Flood coverage as part of its offerings. The exposure from local flooding because of swollen rivers and streams as a result of significant rainfall and seasonally with spring snowpack melt is a risk we have evaluated with significant reinsurance support. We have determined that the private market for this coverage is not yet competitive, and we have tabled this potential offering.

   Writing Property and Casualty insurance exclusively in the northern tier of New England, winter -storm is the peril we are most concerned about on our portfolio. This includes weight of ice and snow causing roof collapse and compromising structural integrity of insured structures. It also would include ice build up causing power outages and the associated "freeze up" claims, as well as ice damming and those associated property losses.

   Company management's view of our property CAT exposures is on a 50/50 blended basis using AIR and RMS. We presently buy CAT reinsurance in excess of the 200 year return period on an all perils (AP) basis. In our analysis, of potential weather-related loss, the included return periods range from 20 years to 1,000 years. These results are reviewed annually relative to the Company's surplus on a direct and net of reinsurance basis. This modeling allows Co-op's management to structure the Company's reinsurance program to the levels needed to effectively mitigate underwriting related exposures. Weather-related exposures which increase the frequency and/or severity of losses to an unprofitable level will be factored into future product pricing. Annually, the Company considers the availability and affordability of reinsurance coverage to maintain product rate structures. Over time, our modeled CAT exposures have generally followed our exposure growth, except when significant modeling updates/changes occur due to new loss data being incorporated by the modeler.

   From a litigation risk perspective, the Company is prohibited in the state of Vermont, from excluding pollution coverage. As a result, we consider our Farmowners portfolios in Vermont to be of greatest concern, with a substantial percentage of them operating as dairies. The production of bovine generated methane gas, an understood contributor to globally increasing "greenhouse" gases in our environment, represents some cause for concern. However, Vermont dairy farms are transitioning through automation and consolidating while trying to improve their animal husbandry and land use initiatives to mitigate this concern where possible. The significant reduction in the number of dairy farms in our operating territory over the last few decades and the likelihood of any specific litigation associated with an exposure that is generated throughout the world, mitigates our concerns. In any event, our reinsurance partners do not exclude pollution liability from the contracts we purchase.

Relative to our invested assets, the Company also seeks to mitigate potential climate-related risk of loss by having a well-diversified investment portfolio. The Company's fixed maturity holdings are diversified by issuer and geographic location; this is designed to assist in the reduction of the risk within the portfolio from any single potential climate related event, as a result of a natural catastrophe in a particular geographic location. In addition, Co-op's investment portfolio is composed of high-quality investment grade fixed income securities. When selecting these investments, climate change risk is a factor as well as the limit to be invested. As mentioned previously, according to our investment advisor's analysis for 2022, Co-op's portfolio has an overall "A" ESG rating from MSCI without any adjustments for momentum. The Company will consider purchasing designated "Green" instruments when investing assets based upon terms offered.

Risk Management – closed ended questions answered in addition to the narrative

- Does the insurer have a process for identifying climate-related risks?
    - Yes, through our general ERM process.
- Does the insurer have a process for assessing climate related risks?
    - Yes, through our CAT modeling and the associated changes by major peril.
- Does the insurer have a process for managing climate- related risks?
    - Yes, through our general ERM process.
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio?
    - Yes, with dairy farms being a primary concern.
- Has the insurer taken steps to encourage policyholders to manage their potential climate related risks?
    - Yes, with our "Green" replacement cost endorsement offering.
- Has the insurer considered the impact of climate-related risks on its investment portfolio?
    - Yes, by having our investment advisor use MSCI as mentioned previously.
- Has the Insurer utilized climate scenarios to analyze their investment risk?
    - No, but we are building this required ability into our 2023 Investment Advisor RFP.

Metrics and Target – narrative

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

The Company actively assesses and mitigates exposure to climate risk through disciplined underwriting risk selection, appropriate levels of reinsurance coverage and investment policies. The Company maintains a strong surplus position, encourages risk reduction and mitigation for risks at all levels throughout the enterprise. In addition, the Company has a disaster recovery plan which will maintain business continuity and will expedite the Company's return to normal business operations after any business interruptions, including weather and pandemic related closings.

Co-op's physical office plant is equipped with a generator which automatically transfers to alternative power capable of continuing all building operations without interruption.

As previously discussed, Co-op utilizes both the AIR and RMS catastrophe predictive models to assist in managing exposures to Hurricane, Severe Convective Storm, Winter Storm, as well as on an All Peril basis. These model results are prepared by the Company's reinsurance broker annually to evaluate the potential impact of weather-related disasters, including those deemed to be driven by climate change, and can give us insights into the potential future impact on the Company's underwriting losses.

The Company currently purchases Catastrophe Reinsurance, as outlined in our Risk Management narrative in excess of the 200 year return period on an all perils basis.

In accordance with the Company's mid-range plan (3 years), the Company's goal is to maintain a combined ratio of < 100 percent. Based on our present expense ratio and loss adjustment expense ratios, a 50 percent calendar year net loss ratio for all product lines underwritten or better, is our target.

To achieve this objective, the Company must continually assess, adjust and monitor its product rate structures and coverage provided in accordance with the effects of Climate Change Risks. In addition, we are actively evaluating, and where possible investing in infrastructure and systems to limit our Scope 1 and 2 greenhouse gases.

Metrics and Target – closed ended questions answered in addition to the narrative

- Does the insurer use catastrophe modeling to manage your climate-related risk?
    - Yes
- Does the insurer use metrics to assess and monitor climate related risks?
    - Yes, but CAT modeling only.
- Does the insurer have targets to manage climate-related risks and opportunities?
    - No
- Does the insurer have targets to manage climate- related performance?
    - No