CALIFORNIA DEPARTMENT OF INSURANCE
2022 CLIMATE RISK SURVEY

GOVERNANCE

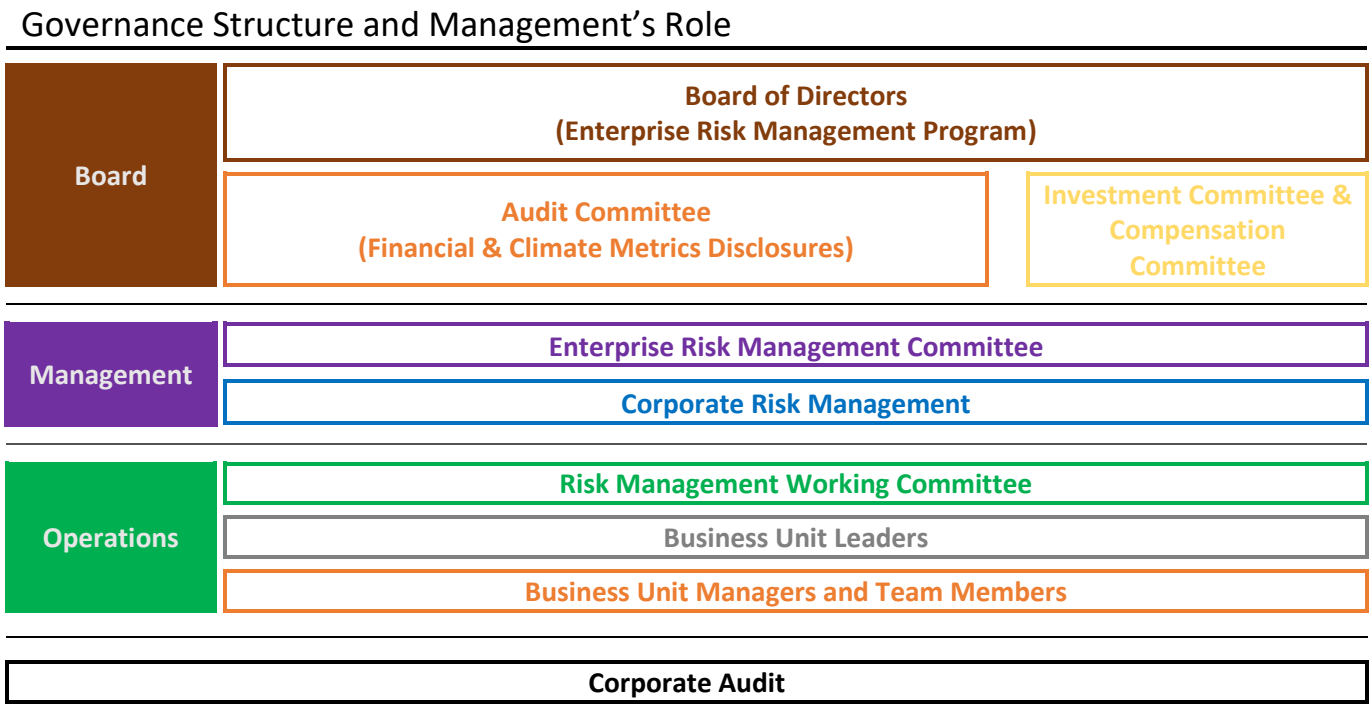
1. Disclose the insurer's governance around climate-related risks and opportunities.

The Board of Directors ("Board") is ultimately responsible for approving the Company's business strategy and has collective responsibility for overseeing the management, direction and performance of the Company. This includes responsibility for climate-related risks and opportunities. The Board has delegated overall responsibility for delivering on the Company's strategy to Mercury's Chief Executive Officer ("CEO"), who has the authority to further delegate responsibility for executing on our strategy.

The Board Chair is responsible for establishing the agenda of each Board meeting. These meetings focus on evaluating performance, value creation, accountability, culture and conduct, and risk management. The Chair ensures appropriate time is allocated to each agenda item to support sufficient discussion.

Described in the Risk Management section, climate risk and related governance are embedded in Mercury's Enterprise Risk Management ("ERM") framework. Significant effort is devoted to risks determined to have a potential material impact on the Company. Climate risk is identified as a material risk. The Board evaluates climate related issues as it relates to Enterprise Risk Management and reporting requirements but does not actively engage the consideration of Climate with business planning, establishing strategy around climate, company objectives, and resource allocation.

The Company's risk governance structure and management's role are depicted in the below diagram. Roles and responsibilities are described in Sections 1.A and 1.B.



The Company manages enterprise risks, including climate risk, at the ultimate controlling parent level. This is where:

- the Company's risk appetite is determined, and
- earnings, capital, liquidity, operations, and reputation are overseen.

Consistent with the above, the Board as the Company's overall governing body also exercises its oversight and governance responsibilities at the ultimate controlling parent level.

At this stage in Mercury's climate-risk disclosure effort, the Company has not publicly stated goals on climate-related risks and opportunities.

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

   To provide oversight, the Board delegates responsibilities for specific activities to Board committees while retaining climate risk and opportunities oversight at the full Board:

Board Committees Governance Structure

Board & Committees	Committee Information	Responsibilities	Activities
Board of Directors (Board)	**Chair:** Lead Independent Director **Membership:** 8 (5 Independent Directors and 3 Non-Independent Members) **Meetings:** 4 held in 2021 **Lead Management Member:** President & CEO	• Oversees the conduct of the Company's business, to evaluate whether the business is being properly managed. • Oversees the Company's processes established to monitor and manage risks to strategies and objectives, including climate-related risks and opportunities. • Oversees the Company establishing and implementing appropriate risk mitigation plans, processes and controls. • Reviews major changes in, and determinations under, the Company's Corporate Governance Guidelines, and Code of Business Conduct and Ethics. • Ensures that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations.	• Received and discussed the annual Enterprise Risk Management Report, which reports on the identification, assessment and mitigation efforts of the Company's risks, including material climate risks. • Received a high-level introduction to the California Department of Insurance climate survey requirements. • Received an update on the open status of the SEC's climate risk disclosure regulation.
Audit Committee	**Chair:** Lead Independent Director **Membership:** 3 (All Independent Directors) **Meetings:** 5 held in 2021 **Management Liaison:** Senior Vice President & Chief Finance Officer	• Oversees the Company's management and disclosure of climate-related financial risks and metrics. • Oversees management of risks related to accounting, auditing, and financial reporting; and maintaining effective internal controls for financial reporting. • Meets regularly with and receives reports from the Company's internal corporate auditors.	• Received an update on the status of the SEC's proposed climate regulation as part of the full Board meeting.
Investment Committee	**Chair:** Independent Director **Membership:** 4 (2 Independent Directors and 2 Non-Independent Directors) **Meetings:** 4 held in 2021 **Management Liaison:** Vice President & Chief Investment Officer	• Oversees the Company's management of its investment portfolio, including environmental, social and governance topics determined to be relevant. • Develops, reviews and maintains a written statement of Investment Objectives and Guidelines that are consistent with the Company's strategies, goals and objectives. • Monitors management's compliance with the Company's investment strategies and guidelines. • Determines the Company has a clearly articulated investment policy.	

Board Committees Governance Structure (continued)

Board & Committees	Committee Information	Responsibilities	Activities
Nominating/ Corporate Governance Committee	**Chair:** Lead Independent Director **Membership:** 3 (All Independent Directors) **Meetings:** 2 held in 2021 **Management Liaison:** None, Non-Management Directors Only	• Determines the skills and experience required of the Board in exercising its current and future oversight function. • Develops, recommends, and reviews corporate governance guidelines and principles applicable to the Company, used in defining the overall ethical culture. • Reviews the performance of each current Director when determining whether or not to recommend the re-nomination of each Director for an additional term. • Oversees the Board in the Board's annual review of its performance. • Performs annual self-evaluations of performance.	
Compensation Committee	**Chair:** Independent Director **Membership:** 3 (All Independent Directors) **Meetings:** 4 held in 2021 **Management Liaison:** Vice President & Chief Human Capital Officer	• Reviews the Company's compensation philosophy, including consideration of climate risk management as deemed appropriate. • Oversees the Company's general compensation plans, policies, and programs – ensuring compensation programs are designed to encourage high performance, promote accountability, and assure that team member interests are aligned with the interests of the Company's shareholders.	• Reviewed risk management factors in compensation policies and practices for all employees, including climate-related risks. • Determined that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

The Company has a robust ERM program for the purpose of providing an enterprise-wide perspective on risks that could affect achieving the company's goals, with the objective of actively identifying and mitigating key risks. Management reports regularly to the Board regarding managing enterprise risks and its activities in implementing and maintaining the ERM program. Senior management and other employees also report to the Board and its Committees from time to time on risk-related issues.

To review enterprise risks, and monitor and oversee progress against goals and targets, the Board receives regular reports from management as described below:

Reporting to the Board

Board & Committees	Management Reporting to Board
Board of Directors (Board)	An enterprise risk management report is prepared and presented to the Board annually. As an identified material risk, climate risk is extensively discussed. Climate risk is also a significant factor in the Company's capital surplus tolerance test. The ERM report is prepared by Corporate Risk Management and approved by the Enterprise Risk Management Committee. Regular Board meeting agenda items also include discussion of financial and operations overview, corporate objectives and forecast, and other items of importance requiring Board involvement. The effects of climate risk are included in this discussion. The CEO provides relevant reports and discusses the Company's strategy, plans, objectives and status through these agenda items to: • Provide the Board information necessary to oversee the conduct of the Company's business necessary to evaluate whether the Company is being properly managed, including the management of climate risks. • Allow the Board to review, and where appropriate, specifically approve the Company's financial objectives and major corporate plans and actions.
Audit Committee	Regular Audit Committee meeting agenda items include discussion of actuarial update, reserving, and operating results review. As part of these discussions: • The Chief Financial Officer and KPMG (external auditors in an advisory role) provide relevant reports and discuss topics that allow the Committee to review, and where appropriate, approve determinations and changes in major questions of choice with respect to the appropriate auditing and accounting principles and practices to be used in preparation of the Company's financial statements and its risk management policies. Climate-related disclosures are included in these reports as appropriate. Disclosure of Scope metrics will be incorporated into this reporting as required by the finalized SEC regulation. • The Director of Corporate Audit provides relevant reports regarding SOX and MAR that allow the Committee to evaluate the effectiveness of the Company's internal controls over financial reporting, including future disclosure of climate-related metrics. • In addition to the meetings discussed above, Audit Committee members meet privately with the external actuaries, KPMG, Corporate Audit and Finance Management.

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

Management establishes and monitors the Company's strategy and performance. The ERM Program supports and informs these efforts, including the management of climate risks. The CEO and President is responsible for the Company's risk management efforts, including the management of climate-related risks and opportunities. The CEO has delegated specific responsibilities for various aspects of the ERM program to several committees and management positions. Consistent with the management of all material risks, addressing climate-related risks requires cross-functional collaboration and support throughout the Company's business units.

Below lists the management committees and individuals involved in the enterprise risk management program.

Management Committees

Committees	Committee Information	Description	Activities
Strategic Planning Committee	**Chair:** President & CEO **Membership:** 10 (Executive Leadership) **Reporting:** Annual Reporting to the Board	• Stands at the center of the planning process, evaluating all ideas put forth by members of the Company. • Develops broad directions and priorities for the long-term. • Creates a framework or guide for decisions about where to invest resources, while limiting detail that would prevent business unit management from making specific decisions within the broader planning framework. • Monitors results on strategic actions, including those related to managing climate risk.	• Met to discuss and updated the Company's 2022 Strategic Plan. • Presented the Strategic Plan to the Board of Directors. • Provided quarterly progress updates against strategic metrics and programs.
Enterprise Risk Management Committee	**Chair:** Senior Vice President & Chief Financial Officer **Membership:** Full Executive Team **Meetings:** Annual **Reporting:** Annual Reporting to the Board	• Exercises overall responsibility for defining, assessing, and overseeing enterprise risks, including climate-related risks • Establishes risk management objectives, risk culture and communication, enterprise risk appetite and tolerances, and thresholds to define material/reportable risks. • Assesses business unit capabilities, identification of emerging risks, and capital adequacy and solvency under selected risk scenarios. • Oversees assessing and remediating material risks; and monitoring, prioritizing, and reporting risks. • Reviews and approves effectiveness of the ERM program, including risk owner assignments and action plans; reporting provided to the Board; and reporting provided externally, including to regulatory agencies (includes the Company's Annual ORSA Summary Report filing).	• Defined a new risk appetite statement to better guide strategic decision-making. • Established a capital surplus risk tolerance statement to test the Company's ability to withstand material risk events, including climate events. • Reviewed and approved the Company's risk profile.
Chief Financial Officer	**Reporting:** Quarterly and Annual Financial Reporting	• Ensures the accuracy, completeness and timeliness of the Company's financial statements and disclosures, including climate-related financial disclosures. • Coordinates with relevant internal and external parties to determine the Company's climate-related financial disclosures. • Presents the Company's financial results to the Audit Committee of the Board on a quarterly basis, with interim reporting to the Chair of the Audit Committee as appropriate. • Serves as Chair of the ERM Committee and the Reinsurance Committee.	• Met with rating agencies to discuss the Company's financial condition. • Issued all quarterly and annual regulatory filings.

Management Committees (continued)

Committees	Committee Information	Description	Activities
Corporate Risk Management	**Manager:** Director ERM **Membership:** Director ERM and Senior Risk Analyst **Meetings:** Annual **Reporting:** Annual Reporting to Enterprise Risk Management Committee	• Establishes enterprise-level risk management frameworks and policies. • Develops enterprise level risk reporting for the ERM Committee, the Board, and external parties. • Models prospective risk-based financial results for measurement against risk tolerance, and capital adequacy and solvency projections for use in strategic decision-making and reporting. • Identifies shifts in the Company's implicit risk appetite.	• Prepared the Company's annual ERM Report. • Modeled stochastic and deterministic stress events on surplus, including selected climate related events.
Risk Management Working Committee	**Chair:** Director, ERM **Membership:** Representatives from Major Business Units **Meetings:** Annual **Reporting:** Annual Reporting to Corporate Risk Management	• Serves as a resource in risk management activities at both the business unit and enterprise levels. • Assists in driving risk awareness throughout the organization, including climate risk awareness.	• Reviewed the Company's risk profile and mitigation efforts.
Reinsurance Committee	**Chair:** Senior Vice President & Chief Financial Officer **Membership:** 6 **Meetings:** Annual **Reporting:** Annual Reporting to the Board	• Evaluates, approves and oversees internal and external reinsurance programs, including recommending whether or not the insurance companies shall enter into new reinsurance treaties or maintain existing treaties, whether with affiliated or nonaffiliated companies. • Evaluates reinsurer's financial strength and performance record.	• Received a reinsurance market update from Aon. • Discussed probable maximum loss modeling and the level of reinsurance to seek. • Approved the purchase of increased reinsurance coverage for 2022/2023 to mitigate climate-related risks. • Approved a new internal reinsurance agreement between selected Mercury companies.

Closed-Ended Questions

- 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? **Yes**
- Does management have a role in assessing climate-related risks and opportunities? **Yes**
- Does management have a role in managing climate-related risks and opportunities? **Yes**

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.

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

   The table below describes timeframes over which the Company views and manages business activities, and summarizes significant climate-related risks and opportunities:

TIME HORIZONS AND CONSIDERATIONS

		High-Level Climate-Related Assessments	
Time Horizon	**Rationale**	**Risks**	**Opportunities**
1 - 3 Years (Short-Term)	Aligns with the detailed business planning time horizon and encompasses our product's policy-term lifecycles	Regulatory mandates, chronic weather-events	Educating insureds to improve their knowledge of resilient actions that can be taken to reduce climate-related exposure
3 - 5 Years (Medium-Term)	Aligns with our strategic planning and forecasting cycles	Regulatory mandates, chronic weather-events	Encouraging customer to get community resilient designation, including leveraging opportunities identified during inspections
5 - 30 Years (Long-Term)	Aligns with changes in strategy prompted by climate-related risks and opportunities	Frequency and severity increases affecting losses from climate-related events	Leverage new products and areas to market services caused by migration patterns towards more resilient geographies

Climate Risks Discussion

Climate risk exposure is most significantly driven by the regions where we operate. Regional climate-related exposures we routinely evaluate and manage include:

- West – wildfire, fire following earthquake and possibly severe convective storms
- Midwest – severe convective storm and winter storm
- South – hurricane, severe convective storm and winter storm
- Northeast – hurricane, severe convective storm and winter storm

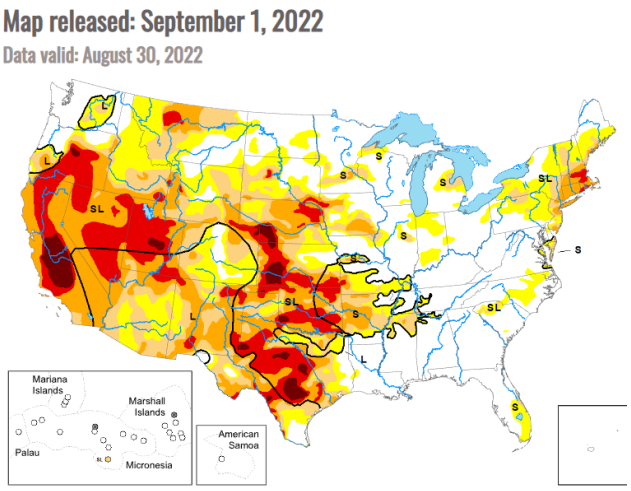
Short-Term Assessment –

Regulatory mandates that impose increased climate disclosures will require unanticipated increases in funding and labor time to collect the data needed to produce such disclosures. Risks associated with these disclosures

include lack of a consensus on the specific effects of climate change and the ability to accurately capture third-party emissions data.

Due to the routine frequency of the below climate-related perils, the Company has assessed that these events have been and will continue to be chronic in nature:

- Wildfire: The western United States is currently experiencing unprecedented drought conditions, with much of California experiencing extreme or exceptional drought conditions. There are many factors contributing to the dry conditions that are increasing the frequency and severity of large wildfires, including La Niña conditions in the Pacific. We continue to improve our knowledge of wildfire and what makes properties less vulnerable to igniting. This effort is expected to lead to product enhancement opportunities.



- Tornadoes and Hailstorms: In general, springtime tornadoes and hailstorms (severe convective storms) are more frequent during La Niña events, especially in the South. La Niñas also correlate with greater hurricane frequency. The Company is improving its understanding of severe convective storms and actions that can harden homes, especially to hail losses. We remain cautious about accumulating exposures along the coast, especially around coastal Texas.

Medium-Term Assessment –

Regulatory mandates could be implemented with the stated purpose of curbing the increase of greenhouse gas emissions to limit average temperature to lower than 2°C above pre-industrial levels. Such actions would likely increase disclosure requirements and could affect consumer behavior such as driving patterns and owning an automobile.

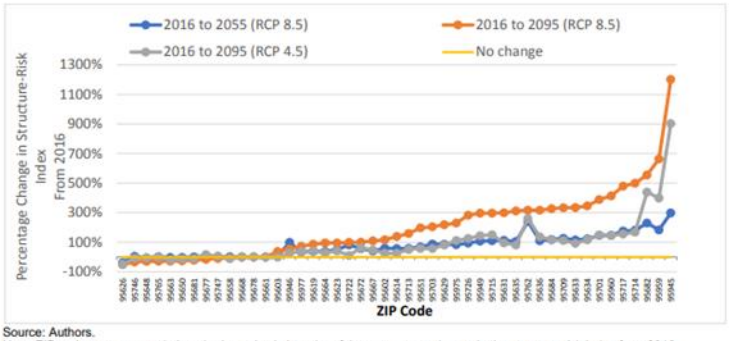
It is more challenging to make detailed predictions of the effects of climate change in the medium term. It is reasonable to say temperatures will be hotter and the weather more extreme. Hurricanes will be wetter, slower and more intense. Severe convective storms may increase in intensity. Wildfire seasons may lengthen, and the probability of large wildfires will increase. Flooding, most significantly in the Northeast and South could increase automobile losses.

In anticipation, the company is monitoring our aggregate exposures in areas where extreme events are more likely to occur. Areas include for example, the forested areas of California, coastal Texas, and the Dallas metropolitan area. Consistent with our risk appetite, the company does not want to build a book that causes Mercury to either require excessive amounts of capital to support or alternatively that would require rounds of non-renewals.

Long-Term Assessment –

According to California's 4th Climate Change Assessment from 2018, it is reasonable to expect the risk of wildfire in forested areas will increase significantly between now and mid-century. For example, the risk increases by around 100% by 2055 for the majority of zip codes in the Sierra Foothills, as shown in the graph from that study.

Extrapolating this effect to other, similar areas, provides direction on managing overall risk exposure. Forward-looking climate change science and modeling point out the challenge of increasing policies in high-risk areas since climate change is not recognized in California when determining rate adequacy. While the impact of climate change is generally recognized in other states, the company will continue to manage aggregations with caution in areas where we expect the most extreme weather to occur.



Source: Authors.
Note: ZIP codes are arranged along horizontal axis in order of the percentage change in the structure-risk index from 2016 to 2095 (RCP 8.5).

Figure 3.10: Changes in Structure-Risk Index for Each ZIP Code, Sierra Foothills Study Area

Climate Opportunities Discussion

Short-Term Assessment –

Short-term opportunities revolve around educating customers to be more aware of how climate-related events can affect their personal exposure and risks.

Medium-Term Assessment –

Short-term opportunities will continue into the medium-term, with additional opportunities to educate consumers in advantages from community resilient designations.

Long-Term Assessment –

Climate-related events will likely result in changes to building codes and people-related migration patterns away from areas of wildfire, hurricanes and flooding. These shifts with provide opportunities to expand our marketing in more resilient areas.

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

Impacts on the business are discussed through the following topics:

Stakeholder Engagement

The company engages with constituencies (e.g., rating agencies and reinsurers) with respect to the risks of wildfires and catastrophic weather events, including hurricanes, but not specifically targeted at the topic of climate change.

Underwriting

The main climate change risks the company faces are wildfires in the western states, and hurricanes and severe convective storms in the East. For each of these catastrophic perils, there are predictions of increasing frequency and severity that could be caused by climate change. For Mercury, the greatest exposure to loss that could be influenced by climate change occurs in California with wildfire risk. For hurricane risk, the exposure to loss is greatest in New York and Texas, with lesser exposure in New Jersey, Georgia and Virginia. For severe convective storms, the greatest exposure to loss is in Texas and Oklahoma, followed by Georgia and Illinois.

Mercury models its exposure to wildfire, weather-related and seismic event catastrophic loss at least quarterly. The company uses at least one computer model to get a better indication of exposure to catastrophic losses. Mercury monitors the accumulations of insured value by zip code, and takes actions to restrict exposure growth,

when permitted, in areas where insured value has surpassed the company's tolerance for risk. The management of insured value primarily focuses on hurricane losses which geographically mostly occur in the coastal areas of the eastern United States. With respect to weather-related events, New York and Texas are Mercury's most exposed states, followed by New Jersey, Georgia and Virginia. California is the state most exposed to wildfire risk.

A major catastrophic loss would affect Mercury in several ways. First, the company could have exceptionally high demands on the claims staff. Next, without reinsurance the company could experience a severe drain on capital. Third, the company might have to sell investment assets to generate cash at a time when the value of those assets are depressed.

Operations

The company's first step in addressing greenhouse gas emissions is to document our current emissions footprint. Disclosure of Scope 1 and Scope 2 emissions are included in the Metrics section of this report. While the company continues to understand the significant complexities of identifying and quantifying Scope 3 emissions, they are not disclosed at this time.

Several initiatives are in place to reduce emissions in our operations. Most significantly, in January 2022 the company adopted a "work from anywhere" business model for almost all team members. This decision will significantly reduce our greenhouse gas emissions through several actions.

The below table summarizes the Company's efforts to reduce emissions from operations:

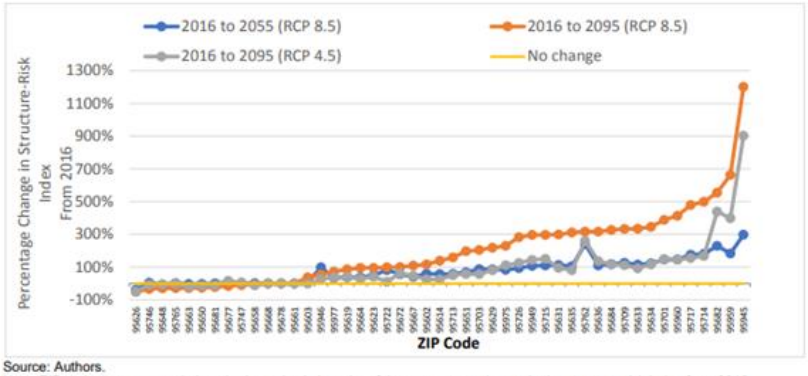
EMISSION REDUCTIONS IN OPERATIONS

Operation	Actions
Locations	Reducing the Company's office footprint by not renewing leased locations and considering reducing owned location's footprints.
	Eliminated emissions from most team members commuting to office locations through work-from-anywhere business model. Reduced in office team members to 100-150 per day from approximately 4,500 pre new business model.
	Reduced emissions by virtualizing our technology infrastructure.
	Supported team members reducing their greenhouse gas emissions by installing 100 electric vehicle charging stations at two owned building locations through Southern California Edison's Charge Ready program.
	Reduced use of paper cups by implementing a "bring your own mug" program in office locations.
Company Vehicle Fleet	Using fuel efficient vehicles from Nissan that employ "Pure Drive" capabilities that start and stop the engine based on when the vehicle is standing still.
Core Insurance Operations	Utilizing digital capture and workflow technologies to conduct business electronically wherever possible, including electronic delivery of billing notices and other policy documents at the option of the consumer and as permitted by law. Where available, discounts are provided to customers who chose paperless options.
Printing	Reducing paper and postage usage through 10th year of our Managed Print Services program that employs duplex printing and leverages our enterprise content management system that includes eSignature capabilities, electronic recordkeeping and correspondence, and other paperless technologies through use of online features and a mobile app.
	Eliminated most personal desktop printers.
	Upgraded printers and multi-function devices to the latest "Energy-Star" compliant equipment.
Recycling	Reducing landfill waste from operations through recycling of paper.
	Reducing landfill waste personally generated by team members by offering battery recycling and paper shredding.

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

A primary strategy for property insurers is to protect the organization against catastrophic losses. Probable maximum losses are one measure used to manage exposure relative to management's risk appetite for potential loss of the company's capital. This is done by managing aggregate exposures geographically, by managing both surplus and reinsurance capital, and by understanding where and how risks will be changing over time. When managing the insurance portfolio, it is critical to incorporate how climate change will affect the company's exposure and risk profile over time.

This chart illustrates the changes in exposure to wildfire for zip codes in the Sierra Foothills for the RCP 8.5 scenario by 2055, and for the RCP 4.5 and 8.5 by 2095. This material change to wildfire risk supports a very conservative approach to managing the property book in these areas. Management also believes this impact will apply to other forested regions of California.



Source: Authors.
Note: ZIP codes are arranged along horizontal axis in order of the percentage change in the structure-risk index from 2016 to 2095 (RCP 8.5).

Figure 3.10: Changes in Structure-Risk Index for Each ZIP Code, Sierra Foothills Study Area

Closed-Ended Questions

- Has the insurer taken steps to engage key constituencies on the topic of climate risk and resiliency? (Y/N) **Yes**
- Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk? (Y/N) **Yes**
- Does the insurer make investments to support the transition to a low carbon economy? (Y/N) **Yes**
- Does the insurer have a plan to assess, reduce or mitigate its greenhouse gas emissions in its operations or organizations? (Y/N) **Yes**

RISK MANAGEMENT

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

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

   Described below, the Company has several processes in place to identify and assess climate-related risks.

   Underwriting Risks

   As an identified material risk, significant resources are devoted to understanding the Company's climate-related catastrophe exposure. Mercury partners expertise from both internal resources and Aon, LLC to identify and assess climate-related risks. We license the Verisk's Touchstone family of catastrophe models to conduct more extensive modeling and analysis of wildfire, earthquake and fire following earthquake, hurricane and other related analyses. The Touchstone product line incorporates current scientific knowledge and is updated regularly.

   Mercury models its gross financial exposure to climate-related events at least quarterly. The modeling includes estimates for the frequency, severity and the variability of these events. We monitor our aggregate exposure to modeled climate-related events (such as wildfire, hurricanes and fire following earthquakes), as well as less catastrophic weather events (such as hail, severe storms or winter storms).

We send our staff to continuing education, where they are exposed to current scientific thought on the implications and the timing of climate change. We also spend time reviewing academic and industry research to understand how and where climate change might alter the risk profile of our portfolio.

Mercury shares knowledge with its reinsurers, and that helps keep the Company current on the industry view of climate-related risk. Most regulators in America recognize the value of risk-sharing for a primary insurer and allow that cost to be included as a component of our rates.

With respect to wildfire risk, we have upgraded our tools for evaluating financial exposure, using various methods to identify properties that need additional underwriting, such as property inspections and aerial imagery to get a more precise estimate of each property's current exposure to fire. We are also evaluating other tools to better our understanding of wildfire risk today and into the future. In addition, we are observing increasing frequency and losses from selected climate-related events and are assessing if these trends are likely to continue and become chronic events.

The table below identifies and discusses management of physical, transition and liability risks.

TRANSITION, PHYSICAL AND LIABILITY RISKS ASSESSMENT

Risk	Description	Impact	Timeframe	Assessment	Management
Transition Risks					
Policy & Legal	Enhanced emissions reporting obligations	Increased costs in data collection and reporting	Short Term	Low Risk	Regulatory Compliance, Corporate Risk Management and Corporate Audit monitor proposed and released reporting regulations
	Increased regulations on insurance products	Reduced premiums and/or increased loss costs from mandated wildfire acceptability or electric vehicle discounts	Short to Medium Term	Low Risk	Product and Underwriting teams monitor proposed and enacted regulatory requirements
	Increased carbon pricing on supply chain, including utilities	Increased repair costs and utility costs	Medium to Long Term	Low Risk	Product and Risk Management monitor developments in carbon pricing regulations
	Regulatory limitations that do not allow for use of telematics	Negative consumer sentiment	Short to Medium Term	Low Risk	Product monitors telematics developments and regulations
Market	Changing customer behavior, reducing need for insurance products	Reduced revenue from lower policies in force	Medium to Long Term	Medium Risk	Management monitors customer sentiment and changes in behavior, decision-making
	Increased use of government driven markets such as assigned risk	Private insurers reluctant to provide selected coverages	Long Term	Low Risk	Management monitors industry trends to identify availability of product offerings
Reputation	Shifts in consumer expectations, desire to work with "green" companies	Reduced revenue from lower policies in force	Long Term	Low Risk	Marketing and Sales Development stay abreast of consumer sentiment
	Increased stakeholder concern or negative stakeholder feedback	Reduced policies in force	Ongoing	Low Risk	Marketing monitors social media and other outlets to gauge stakeholder expectations

TRANSITION, PHYSICAL AND LIABILITY RISKS ASSESSMENT (continued)

Risk	Description	Impact	Timeframe	Assessment	Management
Physical Risks					
Acute	Increased severity of extreme weather events	Increased losses from selected weather events	Medium to Long Term	Medium Risk	Management monitors and Actuary models weather events combined with actual results to monitor weather event trends
Chronic	Long-term changes in precipitation patterns and extreme variability in weather patterns	Increased loss costs and increased inability to model and predict loss costs combined with inability to price or get reinsurance would limit our market appetite and ability to insure broadly	Long Term	Low Risk	Management monitors and Actuary models weather events combined with actual results to monitor weather event trends
	Rising mean temperatures	Increased loss costs in the West, Mid-West and Southern states combined with inability to price or get reinsurance would limit our market appetite and ability to insure broadly	Long Term	High Risk	Management monitors and Actuary models weather events combined with actual results to monitor weather event trends
	Rising sea levels	Increased loss costs in coastal locations combined with inability to price or get reinsurance would limit our market appetite and ability to insure broadly	Long Term	Low Risk	Management monitors and Actuary models weather events combined with actual results to monitor weather event trends

TRANSITION, PHYSICAL AND LIABILITY RISKS ASSESSMENT (continued)

Risk	Description	Impact	Timeframe	Assessment	Management
Liability Risks					
Litigation	Pressure from regulatory bodies and/or litigation exposing the Company to pay out catastrophe claims beyond policy limits	Increased catastrophe loss costs unaccounted for in coverage	Short to Long Term	Low Risk	Management monitors proposed changes in regulations and implications from court rulings

Investment Risks

The Company has considered the impact of climate change on its investment portfolio and has determined that no changes to the overall investment strategy are warranted. Mercury considers known fundamentals in reviewing investments and management outlooks. Mercury may apply certain estimates from climate implications to investment forecasts that consider government-imposed barriers or selective market aids, as well as free-market forces impacting positively or negatively companies or industries. Mercury managers do not explicitly consider the costs of carbon emissions for any specific company or investment but prefer to evaluate profit margins where the impact is already real or potentially an impact. Climate change is a low-risk consideration for most of Mercury's investments. The Company does not have a formal system in place to manage correlated climate risks between its underwriting and investments, but the investment managers have a general understanding of the business the Company conducts and the climate risks that can affect the Company's financial results. This understanding does impact the investment decisions to a certain extent. The Investment management team assesses the risk related to climate change and the majority of invested assets are in marketable securities that have a high degree of liquidity. This reduces the risk of having to recognize significant market declines to pay claims during catastrophe loss events.

Operations Risks

Climate events also pose risks to the Company's operations. Experienced at the beginning and throughout the Covid-19 event, the continuous testing of our business continuity program successfully demonstrated the Company's operations resilience to location disruption. Bolstering operations resilience, in January 2022 the Company transitioned to a work-from-anywhere in the United States model for most team members. Since implementing this program, the Company has seen a nation-wide diversification of where team members work. In addition to supporting team members working at home, the program continues to support a small number of team members working in offices where critical functions are performed.

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

The management of climate-related risks is addressed from several perspectives discussed below.

Products, Pricing and Placement

Mercury takes a very proactive approach in managing its catastrophe risk and senior management reviews all exposure plans.

Our view of wildfire risk evolved with the events of 2017 and 2018. We have a rigorous process in place to monitor changes in growth, particularly in areas with higher wildfire exposure. These reviews take place monthly, and moratoriums are updated in areas where our aggregate exposure becomes too high. Mercury also frequently researches what community efforts are ongoing to combat the effects of climate change such as fuel mitigation efforts or community programs to support home hardening. If Mercury is confident with the efforts being made in certain communities, the tolerance level for those communities increases. Mercury also keeps a close eye on resourcing and how quickly efforts can be put together to combat wildfire, and our comfort level increases where the fire support is rapid and multi-channeled.

Mercury faces climate change risk related to increases in hurricane and severe convective storm frequency and severity. Recognizing the predicted increase in frequency, Mercury is taking numerous steps to monitor, control, or even reduce exposure to catastrophic losses caused by hurricanes. Mercury also monitors overall growth in states with these exposures and implements restrictions to slow exposure growth to acceptable levels when aggregate exposure exceeds our risk appetite. Like our approach for wildfire, we monitor building materials and home characteristics, such as roof type, age and pitch, in areas that are growing rapidly.

Results from models using the Verisk Touchstone product line are used to inform managing the exposures discussed above.

To the limited extent permitted by California's rate regulations, the company endeavors to manage the risk associated with more frequent and more intense wildfires. Those regulations, however, do not allow insurers to consider the impact of climate change, so Mercury's rates will be inadequate to the extent future fires or storms are more frequent and/or more severe than what exists in our historic data.

Reinsurance

We buy reinsurance to mitigate the financial impact of the most severe weather events and to have access to the knowledgebase of the reinsurance community. Both gross and net of reinsurance catastrophe losses are modeled and reviewed along with reinsurance costs when selecting reinsurance coverages. Where allowed, we also adjust our rates to reflect the most current estimate of the exposure to weather-related losses.

Although the company cannot add the cost of reinsurance to our rates in California, we purchase reinsurance coverage for our California business. As the effects of climate change cause more frequent or more severe catastrophic events, the cost of catastrophe reinsurance coverage will rise. Offering a homeowners product is a non-wheels strategic focus, so in the event the company needs to reduce its reinsurance purchase, we would also have to reduce our property portfolio's risk profile.

The company also buys coverage for an atmospheric river event in California. While the effects of climate change on the frequency of atmospheric river events has not been determined, the USGS has shown atmospheric river events, also known as an ARkStorm, do recur in California, and we buy coverage to protect the company in the event of an ARkStorm.

Underwriting Operations

Consistent with our evolving view of wildfire risk, we now have moratoriums in areas around California where our aggregate exposure has become too high. We will continue to manage aggregate loss exposure within our risk appetite to mitigate the very largest events (even if rates were adequate to pay for expected loss costs and to cover the net cost of reinsurance). We have also taken actions to manage our severe convective storm exposure, especially around Dallas, Texas.

Claims Operations & Policyholders' Experiences

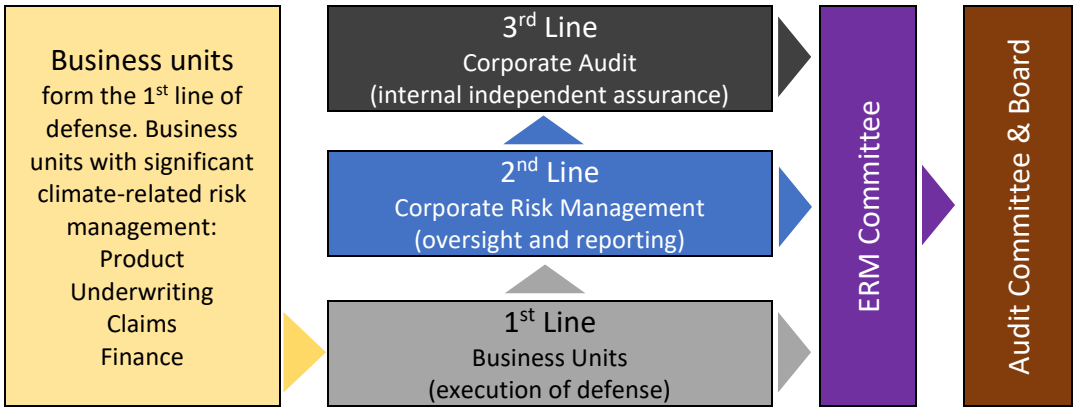
To support our homeowners policyholders, we have formed a Cat Strike Team that is constantly prepared to respond to catastrophes in all of the states where we operate. On several occasions, this team quickly responded to wildfire events in California and provided a degree of comfort to our insureds.

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

Managing climate risk and related governance are embedded in Mercury's Enterprise Risk Management ("ERM") framework. Tenets of the risk management program include:

- Establishing – risk management objectives, risk culture and communication, enterprise risk appetite and tolerances, and thresholds to define material/reportable risks.
- Assessing – business unit capabilities, existing risks (including climate-related risks), emerging risks, and risk capital adequacy.
- Overseeing – material risks remediation; and monitoring, prioritizing, and reporting risks.
- Reviewing and approving – the effectiveness of the ERM program, including risk owner assignments and action plans, reporting provided to the Board, and reporting provided externally.

Built on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) risk management framework and driven by the Company's strategy, the ERM program relies on three lines of defense plus management and Board oversight.



Business units are the first line of defense and perform "blocking and tackling" to protect the Company against undesirable outcomes. Corporate Risk Management serves a governance and executive reporting role. Corporate (Internal) Audit serves an assurance role in addition to being a consultative resource.

Specific roles for each line are described below:

- 1st Line – Business Units and Team Members: Performs known and emerging risk identification and assessment; determines and identifies actions to exploit, accept, mitigate, transfer, or avoid risk; provides assertions on risk exposure; manages risk day-to-day; and defines and executes controls and supervisory functions.
- 2nd Line – Corporate Risk Management: Oversees and facilitates implementation of an effective risk management program, promotes methods of risk assessment and use of tools, monitors risk exposure and provides status and reports to management and the Board. Additionally, Finance, Legal and Human Capital serve in both 1st and 2nd line roles.
- 3rd Line – Corporate (Internal) Audit: validates controls effectiveness, performs an objective review of risk management processes, provides assurance to senior management and the Board on assertions of risk exposure, and importantly provides recommendations to improve the risk management environment in a consultative role.

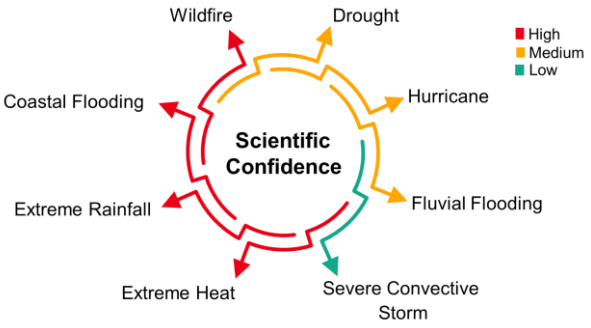
The efforts of identifying, assessing and managing climate related risks (including the physical and transition risks from climate change) are incorporated within the company's enterprise risk management structure. Our enterprise risk management program includes Corporate Risk Management, the Enterprise Risk Management Committee and regular reporting to the Board. The company does not have a dedicated point-person or team specifically focused on climate change strategies.

Scenario Modeling

Mercury continues evaluating methods to reasonably model climate-related exposure scenarios. Conditions currently used to model our short-term view include:

- Wildfire – recent year's activity is equally weighted with older years. The 2017 and 2018 events are not included in the model.
- Hurricane – Current vendor models are generally in line with the 20-yr averages.
- Severe Convective Storm ("SCS") – incorporates historical trends.

With the above said, model assumption changes related to climate change are being discussed. There is consensus that embedding climate change into analytical tools for risk quantification is dependent on the availability of appropriate evidence by peril with agreement between observation, physical theory, and modeling. This chart depicts the degree of scientific confidence in understanding how climate change will influence selected U.S. perils.



Below is a summary of current scientific confidence levels:

- Wildfire – Overall high confidence that conditions favorable to wildfires have increased and will continue to do so with future warming. Specific confidence levels:
  - High: Increase in burn area in western US forests due to increased fuel aridity.
  - High: More frequent fire weather conditions (hot, dry, & windy).
  - Medium: Earlier spring snowmelt may prolong wildfire season.
  - Low: Changes in lightning or wind patterns that might affect ignition or fire spread.
- Hurricane – Overall medium confidence wind intensities will increase due to a warmer ocean. Specific confidence levels:
  - High: Rain-rates will increase due to the Clausius-Clapeyron relationship.
  - High: Increased storm surge impacts due to compound effects of sea level rise ("SLR") and increased wind speed.
  - Medium: Maximum wind intensities will increase due to a warmer ocean.
  - Low: Changes in the overall frequency of storms or landfall trends.
- Severe Convective Storm – Overall low confidence in any detectable climate change impacts, other than increased extreme rainfall. Specific confidence levels:
  - Medium: Increased frequency of springtime SCS due to increased available fuel for storms.
  - Medium: Losses will increase in the future, primarily due to exposure changes rather than hazard changes.
  - Low: Past trends in hail or severe straight-line winds due to limited historical record.
  - Low: Details of future changes of SCS over the U.S. due to model disagreement and/or inadequate resolution.
- Inland Pluvial (surface water drainage from rapid/extreme rain) Flood – Overall high confidence pluvial flood risk will increase, especially central and eastern states and urban areas:
  - High: Rain-rates will increase due to the Clausius-Clapeyron relationship.
  - High: Future increase in the frequency and intensity of extreme rainfall in the central and eastern U.S.
  - Medium: Urbanization increases pluvial flood risk due to increased surface runoff and decreased soil infiltration.
  - Medium: Future increase in the frequency and intensity of extreme rainfall in the western U.S.
- Inland Fluvial (water from lakes and rivers) Flood – Overall medium confidence fluvial flood will increase due to the compound effects of increased streamflow and rainfall:
  - High: Significant regional variations in the frequency and magnitude of river flood events, generally coinciding with changes in rainfall.
  - High: Peak streamflow in snow-dominated regions will tend to occur earlier in the year with future warming.

- Medium: Increased compound flooding events due to a combination of drivers: extreme rainfall, increased streamflow, and sea level rise.
- Low: Observed trends in streamflow due to difficulty parsing climate change impacts from river engineering influences.

Model changes are being explored that may incorporate the above views and other impacts being identified on an ongoing basis.

Policyholder Encouragement

In addition to the risk management process described above, there are two general principles in effect in all states that encourage policyholders to manage and reduce losses from physical and transition-related events that may be influenced by climate change. First, Mercury offers a number of credits for utilization of more resilient building materials. Common examples include installing storm shutters and roofing materials that offer superior wind resistance. Second, Mercury surcharges areas that are more prone to weather-related events which may encourage home building in less risky locations.

In California, Mercury has changed the acceptability of homeowners policies with respect to wildfire risk. While Mercury historically was more open to accepting this type of risk, recently we have adopted more rigorous underwriting processes for evaluating wildfire risk. Among the considerations are clearance around a home and being part of a Firewise community, both of which the homeowner and/or community have some ability to control.

The company provides tools and resources to help policyholders protect their homes before disaster strikes. We also offer discounts to policyholders who proactively take steps to "harden" their homes.

The company provides green discounts to encourage policyholders to take actions that reduce their carbon footprint. Mileage is a rating factor in California and New Jersey which saves money and helps the environment by encouraging less driving. Policyholders outside of California and New York can receive a discount for owning an electric vehicle. We also provide green discounts on homeowners and business policies for buildings with LEED certifications.

Closed-Ended Questions

- Does the insurer have a process for identifying climate-related risks? **Yes**
  - If yes, are climate-related risks addressed through the insurer's general enterprise-risk management process? **Yes**
- Does the insurer have a process for assessing climate-related risks? **Yes**
  - If yes, does the process include an assessment of financial implications? **Yes**
- Does the insurer have a process for managing climate-related risks? **Yes**
- Has the insurer considered the impact of climate-related risks on its underwriting portfolio? (Y/N/Not Applicable) **Yes**
- Has the insurer taken steps to encourage policyholders to manage their potential climate-related risks? (Y/N) **Yes**
- Has the insurer considered the impact of climate-related risks on its investment portfolio? (Y/N) **Yes**
- Has the insurer utilized climate scenarios to analyze their underwriting risk? (Y/N) **Yes**
- Has the insurer utilized climate scenarios to analyze their investment risk? (Y/N) **No**

METRICS AND TARGETS

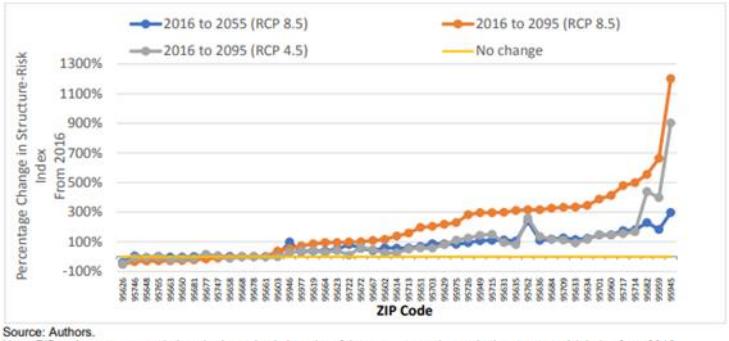
4. Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.

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

   We license the Touchstone family of models from Verisk. Every quarter, we model the book of business for our largest states/products. We monitor changes in average annual loss estimates and various probable maximum loss ("PML") estimates, and we evaluate the perils and events that drive our largest losses. Metrics generated leverage years of simulated activity that reflect the scientific understanding of potential future events. A key model output is a fully probabilistic loss distribution, which is typically expressed as an exceedance probability ("EP") curve. The mean of this distribution is the average annual loss ("AAL"), or the expected loss per year, averaged over many years. Other metrics are used to compare premium volume with larger catastrophe losses to manage the balance between the two. We also measure risk using various rating agency metrics such as BCAR from A. M. Best.

   Loss data generated from these models is used when determining our catastrophe peril rates, the catastrophe peril portions of class plans, and territorial relativities. We use Fireline for wildfire acceptability and for rating.

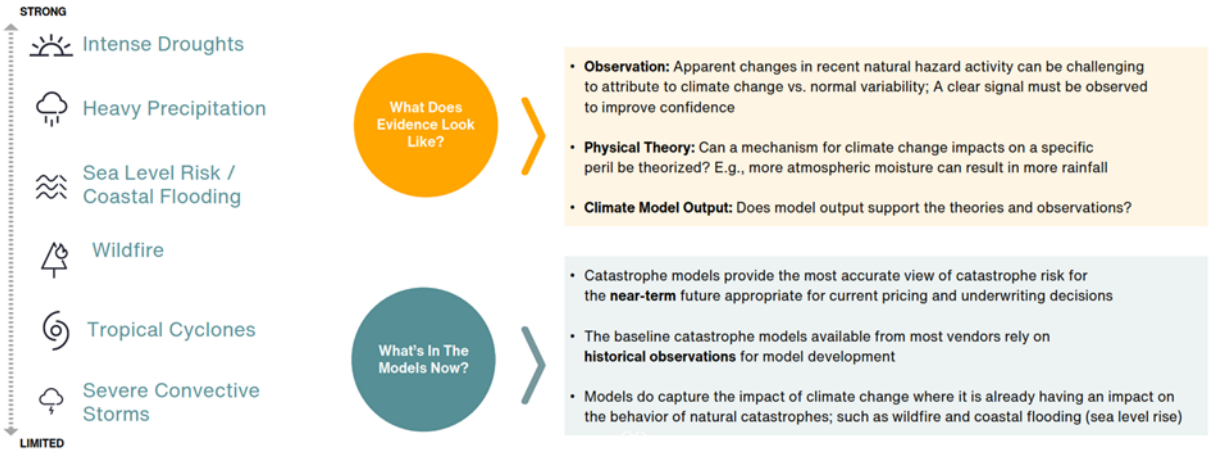
   The Company attempts to understand how the various RCP scenarios will impact catastrophic events for our portfolio. The most important scenario managed is the expectation of significantly increased wildfire risk in the forested areas of California under either RCP 4.5 or 8.5.



Source: Authors.
Note: ZIP codes are arranged along horizontal axis in order of the percentage change in the structure-risk index from 2016 to 2095 (RCP 8.5).

Figure 3.10: Changes in Structure-Risk Index for Each ZIP Code, Sierra Foothills Study Area

We previously provided a summary of the current scientific confidence in how climate change may be affecting selected perils. We continue working to improve our understanding of how these climate scenarios will affect our portfolio. A slightly different view, below is a ranking by peril of how confident science is about the impact of climate change on various cat perils. Note that wildfire is in the middle, while tropical cyclone and severe convective storm are near the bottom of the spectrum.



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

The table below discloses our Scope 1 and Scope 2 emissions. 2019 has been established as the base year for disclosures and comparison.

Greenhouse Gas Emissions [1,2]

Source	2019	2020	2021
Scope 1 - Company Facilities and Vehicles (metric tons CO_2e) [3]	5,300	2,812	1,508
Scope 2 - Electricity (metric tons CO_2e) [4]	4,012	3,429	3,216
Total Scope 1 and Scope 2 Emissions (metric tons CO_2e)	9,312	6,241	4,724

[1] Emissions calculated using the Greenhouse Gas Protocol methodology

[2] Emissions data was not available for one company-owned location and will be included in next year's filing

[3] Emissions include purchased natural gas

[4] Emissions include purchased electricity

Operating as an insurance company, our Scope 1 and Scope 2 emissions are relatively small and limited to the minimal operations of our office locations. Since transitioning to the work-from-anywhere operating model, Scope 3 emissions will decrease as we reduce our office footprint when leases expire. With this is mind and the Scope 3 assessment provided below, the company has not established specific emissions targets.

The Company is investigating Scope 3 emissions and during this investigation, Scope 3 emissions are not being disclosed. However, the Company has conducted a high-level materiality assessment of the Scope 3 categories, described below:

Scope 3 Categories Assessment

Category	Category Title	Category Description	High-Level Assessment	Rationale
1	Purchased Goods & Services	Emissions from purchased goods and services.	Under Investigation	
2	Capital Goods	Emissions from the production of purchased capital goods.	Under Investigation	
3	Fuel & Energy Related Activities	Emissions from indirect fuel and energy consumption not under the company's control.	Under Investigation	
4	Upstream Transportation & Distribution	Transportation and distribution emissions occurring before products or services are delivered.	Under Investigation	
5	Waste Generated in Operations	Emissions created by the third-party treatment and disposal of waste from the company's controlled or owned operations. This covers all future emissions from waste and includes both wastewater and solid waste.	Under Investigation	
6	Business Travel	Emissions from conducted business travel, including by air, ground & lodging	Under Investigation	
7	Employee Commuting	Emissions from employee commuting, including by air, ground and lodging.	Not Material	On average less than 100 team members commute to office daily
8	Upstream Leased Assets	Emissions from the operation of assets leased from other organizations, including utilities and fuel burned.	Not Applicable	Included in Scopes 1 and 2 disclosures
9	Downstream Transportation & Distribution	Transportation and distribution emissions occurring after the product or service is delivered, including shipping of finished products.	Not Applicable	Company does not manufacture physical products.
10	Processing of Sold Products	Emissions from "processing" of sold products, including manufacturing, packaging, and assembly.	Not Applicable	Company does not manufacture physical products.
11	Use of Sold Products	Emissions from the "use" of sold products, including operating machinery, vehicles, and appliances.	Not Applicable	Company does not manufacture physical products.
12	End-of-Life Treatment of Sold Products	Emissions from the end-of-life treatment of sold products, including from recycling, incineration, and landfills.	Not Applicable	Company does not manufacture physical products.
13	Downstream Leased Assets	Emissions generated from the operation of owned or leased assets that are leased or subleased to other entities.	Under Investigation	
14	Franchises	Emissions from franchise operations.	Not Applicable	Company has no franchise relationships.
15	Investments	Emissions from investments held by the company in its investment portfolio.	Under Investigation	

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

Discussed throughout this survey, the Company has defined several metrics used to manage climate related risks. Investigating and ultimately defining new metrics are in progress. Below describes these activities.

RISKS, OPPORTUNITIES AND PERFORMANCE METRICS

Metric Category	Description	Metric	Timeframe	Assessment
Risks				
GHG Emissions	Scope 1 - Facilities and Company Vehicles	Metric Tons of CO_2e	Short Term	Emissions are targeted to decline as the Company reduces its office locations
	Scope 2 - Electricity	Metric Tons of CO_2e	Short Term	Emissions are targeted to decline as the Company reduces its office locations
	Scope 3 - Upstream and Downstream Emissions	Metric Tons of CO_2e	Medium to Long Term	Analyzing complexities in determining relevant Scope 3 emissions before assessing future actions
Transition Risks	Regulated restrictions on use of fossil fuels transitioning customer towards ridesharing, work-from-home, etc. and away from personal auto use	Written Premiums and Policies in Force	Long Term	Focused regulations changing consumer behavior are anticipated in the long term, with more stringent regulations expected in the long term
Physical Risks	Modeled and Actual Catastrophe Events by State - Wildfire, Fire Following Earthquake, Hurricanes, Severe Convective Storms	Modeled and Actual Cat Loss Severity and Frequency, Loss Ratios and Dollars	Medium to Long Term	Catastrophe events are expected to increase more significantly in the medium to long term, with selected locations having reduced events that result in opportunities

RISKS, OPPORTUNITIES AND PERFORMANCE METRICS (continued)

Metric Category	Description	Metric	Timeframe	Assessment
Opportunities				
Climate-Related Opportunities	Increased severity of extreme weather events	Modeled and actual results by geography	Long Term	Increased extreme weather events in some regions could create opportunities for driving new customer behaviors
Capital Deployment	Long-term changes in precipitation patterns and extreme weather variability	Modeled and actual results by geography	Long Term	Precipitation in some regions is expected to decrease, providing opportunities due to migration
	Rising mean temperatures	Modeled and actual results by geography	Long Term	Rising mean temperatures could increase drought and wildfire events, creating opportunities for growth in areas of new migration
	Rising sea levels	Modeled and actual results in coastal areas	Long Term	Rising sea levels are likely to reduce the habitation in coastal areas, providing opportunities in areas of new migration

Closed-Ended Questions

- Does the insurer use catastrophe modeling to manage your climate-related risks? (Y/N) **Yes**
- Does the insurer use metrics to assess and monitor climate-related risks? (Y/N) **Yes**
- Does the insurer have targets to manage climate-related risks and opportunities? (Y/N) **No**
- Does the insurer have targets to manage climate-related performance? (Y/N) **No**