CLIMATE RISK DISCLOSURE SURVEY
AGENCY INSURANCE COMPANY
NAIC# 35173
REPORTING YEAR 2020

Background Information:

Agency Insurance Company (AIC) was incorporated on August 14, 1989 for the purpose of conducting and operating a property and casualty insurance company pursuant to the Insurance Code of the State of Maryland. The Company is a wholly owned subsidiary of Agency Holding Company of Maryland, Inc. (the Parent). AIC is domiciled in the State of Maryland and underwrites private passenger automobile, commercial automobile, and motorcycle liability and physical damage insurance. The Company is licensed in the states of Maryland, Pennsylvania, Virginia, Delaware, North Carolina, and Tennessee. Through a network of independent agents, the Company provides insurance to policyholders principally located in Maryland, Pennsylvania, and Virginia. The Company reported $182.5 Million in premium per its 2020 Annual Schedule T and is therefore required to complete the Climate Risk Disclosure Survey.

Survey Responses:

Question One: Does the company have a plan to assess, reduce, or mitigate its emissions in its operations or organizations?

Although AIC does not have a formal plan to assess, reduce, or mitigate its emissions in its operations or organizations, the Company does recognize the importance of the matter and has taken steps towards reducing emissions. Some of the actions taken include an environmentally responsible home office facility with energy saving appliances, motion sensor LED lighting, and energy efficient windows. Our business practices include minimizing and recycling as much waste as possible. We have developed technology and workflows that allow claims to be reviewed through photo submission rather than adjusters driving to damaged vehicles in many cases. We also partner with power and utility vendors to review energy saving alternatives. We continue to enhance energy efficiency in our information technology area by reducing our on premise servers and power needs by movement to a cloud-based environment. We offer a "green discount program" for policyholder document distribution which reduces paper used and carbon emissions from physical mail delivery. We have greatly enhanced our work from home environment reducing commuting carbon emissions and plan to continue that work arrangement for the majority of our employees.

Question Two: Does the company have a climate change policy with respect to risk management and investment management? If yes, please summarize. If no, how do you account for climate change in your risk management?

Climate change is evaluated as a component of the Company's Enterprise Risk Management (ERM) analysis. As a property and casualty insurer, AIC is exposed to various risks including natural catastrophes. Weather trends and changing climate conditions could impact the frequency and severity of natural disasters. AIC's ERM process is managed by management's

Risk Committee, with oversight from the Board of Directors and Audit Committee. The Risk Committee identifies and reviews risks that could have a material impact on the Company, including climate related matters. AIC takes a company-wide view of each risk and understands the potential impact on all aspects of operations. The ERM process is broken down into the following actions steps:

- Identify 5 Risk Categories (Strategic, Operational, Financial, Human Capital, Regulatory, and Compliance)
- Risk Appetite Statements and Risk Surveys are completed and include Risk Statements, Risk Descriptions, Potential Triggers, Likelihoods, Potential Impacts, and Priority Scores
- Risks are Quantified by Event Likelihood and Financial Severity
- Findings are Evaluated and Mitigation Strategies defined
- Stress Testing and Monitoring of Results

ERM is a company-wide initiative that involves identification and assessment of risks that could affect our ability to fulfill our business objectives. A high degree of coordination between the management team's Risk Committee, Audit Committee, and Board of Directors reinforces our strong culture of risk management.

In order to properly analyze and assess risks, the Company uses internal modeling along with catastrophe modeling provided by its reinsurance broker in order to make underwriting and reinsurance decisions designed to manage AIC's exposure to catastrophic events. In addition, AIC monitors its capital adequacy using risk-based capital modeling which is reviewed on a quarterly basis by its board of directors. These analytical techniques support the Company's long-term financial strategies and objectives and ensure capital adequacy in case of a natural disaster.

Question Three: Describe your company's process for identifying climate change-related risks and assessing the degree that they could affect your business, including financial implications.

As discussed in Question Two, AIC's Enterprise Risk Management Process identifies climate change related risks and assesses the degree that they could affect the business and financial implications. As a core part of our business, AIC continually monitors, assesses, and responds to emerging risks within the organization. Climate change is included in this ongoing analysis.

According to www.actuariesclimateindex.org climate is becoming more extreme in temperature, precipitation, wind and sea level and economic losses from extreme climate related events are increasing. When a potential risk is identified, the risk is actively monitored and evaluated as needed. Annual catastrophe modeling of loss estimates, historical loss estimates, loss trend projections, underwriting practices, and market experience are all considered as reinsurance and underwriting decisions are determined. Emerging issues, including climate conditions, are considered in modeling to help determine the need for pricing changes, coverage modifications, or new products. The product team identifies and develops product opportunities and expands services and offers discounts to help customers prepare for and respond to potential risks related to changing climate and "green" trends. Risk appetites are always evaluated to ensure that risks are tempered and within an acceptable range. Since AIC's insurance policies are annual or semi-annual, the Company is able to respond quickly to market changes or changing environmental conditions and has the flexibility to adjust our underwriting strategy and related policy terms and conditions as appropriate.

Question Four: Summarize the current or anticipated risks that climate change poses to your company. Explain the ways that these risks could affect your business. Include identification of the geographical areas affected by these risks.

The Company has identified current and anticipated risks that climate change may pose on AIC. The Company is geographically located in the Mid-Atlantic which has historical low risk of catastrophic events relative to other areas of the United States. Tropical storms and the accompanying flooding from storm surge, tornados, and hailstorms present the most significant risk for this geographic area. However, the Company has identified some examples of potential risks as follows:

- Increasing frequency and severity of weather conditions could result in an increase in our own frequency and severity of claims.
- Changing climate conditions could impact creditworthiness of issuers of securities in which we invest.
- Potential emissions reporting obligations imposed by EPA regulations could impact the cost of future claims.
- Mandated assessments due to catastrophic events could impact financial operations.
- Reinsurance companies could be strained due to changing climate conditions and the frequency of natural disasters.
- Climate change regulation may economically impact policyholders and increase their cost of doing business. This risk is most acute for AIC's commercial auto customers.

Question Five: Has the company considered the impact of climate change on its investment portfolio? Has it altered its investment strategy in response to these considerations? If so, please summarize steps you have taken.

The Company has considered the impact of climate change on its investment portfolio. However, the company has not altered its investment strategy in response to these considerations at this time. Potential climate risks are treated the same as all other potential risks and effects when it comes to investment analysis and decisions. The Company's investment guidelines limit exposure by state to 10% of portfolio assets. The Company is also well diversified regarding bond and corporate purchases across industries with no sector representing more than 7% of our current investments as of June 30, 2021. To the extent that the climate change risks affect any of those entities, our investment process is already performing the analysis that would determine whether that consideration would change the investment decision. Therefore, the investment strategy remains unchanged.

Question Six: Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events.

As stated in Question Four, as a mid-Atlantic insurer, the climate change risks the Company is most often exposed to are worsening tropical storms and the accompanying flooding from storm surge, tornados, and hailstorms. Occasionally localized flooding is also an issue for AIC insureds, but oftentimes policyholders are able to their drive vehicles away from flooded areas and reduce the impact of losses on the Company. In the event of a loss, claims are handled by our team of claims professionals who are trained to deliver high quality service with efficiency and compassion. All claims are adjusted by in-house employees, and over 99% of vehicle appraisals are completed by AIC employees rather than outsourced to a third-party vendor.

AIC offers several products and services with features that encourage policyholders to positively influence climate change. The Company's Green Program offers a discount for policyholders who choose to receive policy documents electronically rather than printed hard copies. The Company also has adopted an electronic signature process that minimizes the need for customers to print, sign, and mail paper documents. In addition, discounts are offered for paid in full and ACH as a recurring payment method. The emphasis on electronic transactions and delivery not only saves on paper and other natural resources, but also reduces carbon emissions from physical mail delivery. These programs therefore positively impact climate change trends.

Question Seven: Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change.

AIC has not formally taken steps to engage key constituencies on the topic of climate change other than the initiatives described in Questions 1 and 6. In concert with our trade and industry partners, AIC supports lobbying and consumer education efforts regarding climate change and loss mitigation. In addition, the Company supports rate adequacy and risk-based pricing across regions, including coastal markets.

Question Eight: Describe actions the company is taking to manage the risks climate change poses to your business including, in general terms, the use of computer modeling.

AIC uses third party computer modeling processes to determine our climate-related risks and exposure to catastrophic events in order to make reinsurance purchasing decisions. We consider loss estimates, historical loss experience, loss trend projections, underwriting practices, geographic concentrations, and industry experience when modeling. The modeling attempts to estimate the likelihood that the estimated losses from a single event occurring in a particular year timeframe are adequately covered by reinsurance purchases. All catastrophe modeling is based on assumptions and judgments and may produce estimates that are materially different than actual results. Tornado and hail models may be less predictive due to the highly random geographic nature and size of the events. As a result, tornado and hail models may have greater difficulty accurately estimating losses.

In addition to computer modeling, AIC limits our exposure to climate related risks in the following ways:

- Short policy terms allow AIC the ability to respond quickly to changing conditions since polices renew semi-annually or annually.
- While the Company does have coastal areas where it writes business, our geographic footprint is such that these are balanced out by areas less subject to flooding and tropical storms.
- Investment risk management diversification considers the impact of climate change on any given city, state, or region by limiting exposure.
- Reinsurance coverage allows AIC to manage our exposure to losses and provides additional capital protection. Our overall exposure and resulting reinsurance purchase is evaluated annually.