Climate Change Disclosure

Environmental Risk Statement

We strive to create a sustainable workplace for our employees, our community, and our planet, with an objective towards preserving our environment for future generations. As a property and casualty insurance company, we understand the risks posed by climate change and seek to mitigate catastrophe risk for our customers and shareholders through prudent exposure management, underwriting initiatives, and proactive notifications. Our efforts at environmental preservation include capital allocation through our underwriting and claims functions. We take every opportunity to reduce our use of natural resources and reuse or recycle the products that we consume.

Mitigating Environmental Risk

As a property and casualty insurance company, natural catastrophes are among the most serious risks facing our customers and communities. Climate change is increasing the unpredictability of catastrophes, such as hurricanes, floods, severe convective storms and wildfires, and causing significant property and business income losses. Our responsive claims team helps restore our customers' lives after a catastrophic loss. We have taken active steps to allocate capital through underwriting initiatives away from environmentally hazardous classes of business. Our enterprise risk management framework, overseen by senior management and the Board, models and assesses loss probabilities. To reduce the impact of climate change, we are reducing our environmental footprint and investing in building a more sustainable environment for future generations. At our headquarters, we have implemented paperless policies, reduced power and water usage, and recycled more commingled materials than in past years.

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Strong Enterprise Risk Management Framework:

As a property and casualty holding company, our Insurance Subsidiaries are in the

business of assuming risk. We view climate change and associated catastrophe risks as among the most serious ones impacting the financial position of the company and have a strong Enterprise Risk Management (ERM) framework to assess, model and help mitigate the risk.

ERM Framework

Our ERM framework is driven mainly by senior management and the Board of Directors' recognition that continued growth and the achievement of long-term objectives requires the adoption of certain and more formal best practices. Having a formal ERM framework is one of our core management best practices. We recognize that ERM enables management to more effectively deal with uncertainty, associated risk and opportunity, and enhances the capacity to build value.

As wholly-owned subsidiaries of a publicly traded company, some aspects of an effective ERM framework have been in place and formalized for years; others naturally evolved in the course of managing our relationship with our rating agency and our reinsurers. The Company continues its commitment to document how it manages risk. Our commitment to risk management is solid and unwavering, as evidenced by our successful 28 plus year record of accomplishments; we continually balance the need to be nimble and profitable with the need to manage risk in a manner that is appropriate to our size and our risk profile.

Risk Governance Structure

The Company has several roles in place within the risk management structure. The company's risk process begins with the Board of Directors and is further driven by the ERM Committee and, ultimately, performed on a day-to-day basis in the operating business units. As illustrated, the relationship between the elements within the structure is both top-down and bottom-up.

Company's Process for Identifying Climate Change-Related Risks

Some of the indicators that would suggest we may experience financial exposure from climate change are:

- Large percentage of risks located in potential impact zones of catastrophic events.
- The price of reinsurance due to increasing frequency of catastrophic events
- Increasing number of claims filed per weather related loss event
- Growing number of weather events annually
- Increased claim payments due to more severe damages caused by more intense storms

Our Occurrence Exceedance Probability ("OEP") Summary Reports can show the results of our book of business run against the Applied Insurance Research ("AIR"), Risk Management Software ("RMS") and Karen Clark Corporation ("KCC") catastrophe models. We use these models to track the change to the probable maximum loss due to catastrophic events. This analysis tells us if our book is changing in a way that will

increase our financial exposure on a claims paid and reinsurance cost basis. These models, each to varying degrees, are specifically designed to factor in more heavily the sea surface temperatures of more recent years to adjust for climate change.

The Claims Distribution by day report is a way we track the number of losses being filed for all weather-related losses. We can use it to see where a larger than normal number of claims were filed in consecutive days to help find weather events that are more impactful to our book.

Risks Climate Change Poses to Our Company/Business

A body of scientific evidence indicates that climate change is occurring. Climate change, to the extent that it affects weather patterns, is likely to cause an increase in the frequency and/or the severity of catastrophic events or severe weather conditions. Our financial exposure from climate change is most notably associated with losses in connection with the occurrence of hurricanes striking Florida, Louisiana and Texas. We mitigate the risk of financial exposure from climate change by restrictive underwriting criteria, sensitivity to geographic concentrations, and reinsurance.

Restrictive underwriting criteria can include, but are not limited to, higher premiums and deductibles and more specifically excluded policy risks such as fences and screened-in enclosures. New technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to flood prone areas. Our amount of maximum reinsurance coverage is determined by subjecting our homeowners exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every “n” years. If the statistical forecasting models fail to contemplate an emerging claim trend, such as the assignment of insurance benefits in Florida, then there is the risk we may not purchase adequate catastrophic wind coverage. Our reinsurance coverage contemplates, at a minimum, the effects of a catastrophic event that occurs only once every 130 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation. There can be no assurance that our reinsurance coverage and other measures taken will be sufficient to mitigate losses resulting from one or more catastrophic events.

The company has identified potential risks that climate change poses to the US insurance industry and has considered how each of these risks might impact our own business.

Perils considered when assessing the potential risks posed by climate change include:

- *Hurricane and tropical storm*
- *Tornado*
- *Flood*
- *Drought*
- *Wildfire*

Catastrophe Risk Management

Our Exposure Management function has responsibility for modeling and monitoring catastrophe risk, including ongoing assessment of our catastrophe risk within our predetermined limits. The risk of loss from a particularly large destructive weather event or a series of smaller destructive events poses significant risk to the Company. Pre-hurricane season, we subject our risk portfolio to accredited catastrophe modeling such as AIR, RMS and KCC modeling software as well as consultation with AON and their proprietary view of storm modeling based on significant metrics such as total insured value and probable maximum loss ("PML") estimates. We use this information to assist with the purchase of the annual catastrophe reinsurance treaty. The selection of reinsurance partners requires the company to annually enter a competitive marketplace where carriers are competing based on available terms, quality data and ongoing corporate relationships to secure the guarantee of capital based on the occurrence of predefined events. The financial quality of the reinsurance partners is a key risk to the Company and is mitigated by our reliance on securing a multitude of reinsurance partners with the highest credit ratings or by providing capital guarantees such as unconditional letters of credit in favor of the insurance companies or cash deposits held in trusts.

In addition to relying on our reinsurance brokers to quantify our risk to natural and man-made catastrophes, we have brought components of our catastrophe modeling in-house along with hiring a qualified catastrophe modeler to run the models. As noted above, we monitor our catastrophe exposure on both a gross and net basis, using multiple third-party vendor models. We also assess this risk by monthly and quarterly monitoring of new and renewal in-force total insured value, premium per policy, expected catastrophe reinsurance costs per policy, and PML.

Purchasing the right amount of reinsurance requires a balance of retention and cession. Our study for determining the relative adequacy of the current reinsurance treaty by models our current risk portfolio and measures against historical catastrophic weather events, updated for loss cost inflation. Post season the Company evaluates the adequacy of the reinsurance purchase by comparing estimates to actual exposures. Terms of the agreement require a preseason estimate of exposures and a postseason true-up exposure measurement. We use this information to improve future reinsurance purchases.

We buy a significant amount of reinsurance protection from highly rated reinsurance carriers, many of whom we have had relationships with for several years. Note that our assessment of catastrophe risk is key to ensuring that our risk profile remains aligned with our Risk Appetite Statement.

Metrics and Targets

In 2021, FedNat will further develop metrics to measure and monitor climate-related risks and opportunities relating to our underwriting activities.

Our current climate-related targets are presented below:

MEASURE	***TARGET***	***EXPECTED TIME FRAME***	***BASE YEAR***
Energy use *See* FedNat's Energy Usage History graph *below*	*15% reduction*	*By 2023*	*2020*
Air travel (tCO_2-e)	*Reduce air travel by 50%*	*By 2023*	*2019*

Exposure to fossil fuels

FedNat doesn't finance fossil fuel projects as it doesn't have an institutional bank. FedNat does not directly invest in, finance or underwrite new thermal coal mining projects, or new thermal coal electricity generation. FedNat leases its facilities in Sunrise Florida and subscribes to power generation from Florida Power and Light Company (FPL). FPL serves most of South Florida and produces 25 gigawatts of power sourced primarily from natural gas and then from Nuclear power.

Playing Our Part in Addressing Climate Change:

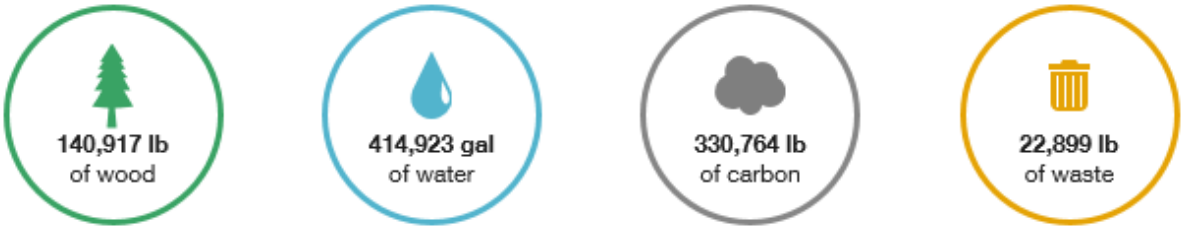
Climate-related risks are among the most serious threats facing our local communities and the world at large. Greater unpredictability of catastrophic events creates the potential for significant losses. We have focused our environmental efforts through catastrophe loss mitigation efforts for our customers, managing our own catastrophe risk aggregations, and allocating capital in underwriting and investing. While FedNat is not a meaningful emitter of greenhouse gases (GHGs) as part of our day-to-day business, we nevertheless seek to actively reduce our own carbon footprint through environmental initiatives, including reducing our use of natural resources, and increasing our energy efficiency and recycling of waste materials.

- Recycling: Our Companies participate in programs that encourage the recycling of paper, bottles, styrofoam, cans, cardboards, plastics, as well as ink cartridges. We eliminated all use of styrofoam products in our kitchen. Document destruction bins and a pick-up service are used by nearly all offices within the Group that allow for proper destruction of paper files. This service picks up, shreds, and recycles the paper in those destruction bins so that trees are preserved within the environment. We continually strive to promote a greener environment by converting to paperless as much as possible and imaging paper files into electronic documents. Email and phone communication, both with internal and external customers (namely policyholders) is encouraged to reduce the Companies' carbon footprint and cut down on printed hard copy communications. One example of this conservation of paper to protect the environment is the setting up of claims electronically via telephone or email. Most offices convert the delivery of marketing materials to electronic format rather than in paper format. Additionally, whiteboards and digital projectors are installed in meeting rooms so that the amount of paper consumed is reduced when meetings are held.

- Office/Building Footprint: Redesign of office space utilizing smaller more collaborative areas for the same number of people resulting in a reduction of overall lease space/footprint.
- Water & Conservation: We have reduced our water usage through the installation of automatic plumbing fixtures.
- Lighting: Lighting of buildings at most office locations is set for regularly scheduled business hours and is of limited use on nights and weekends. In some offices, motion activated sensors have been installed for lighting so that energy is automatically conserved when an area is not being used.
- Heating and Cooling: On nights and weekends, heating and cooling is limited to areas where an employee is based and is on a timer scheduled system. Having areas on a timer system eliminates the need to heat or cool an entire building for an individual during non- standard business hours. Regular, scheduled preventative maintenance is done on heating and cooling systems to ensure optimum efficiency and cut down on any possible wasted energy (this includes regular changing of air filters, etc.).
- Technology: We practice continuous process improvement in the use of electronic communication. Company intranet pages and emails are encouraged as a main source of communication. Additionally, Companies have developed electronic portals which allow the agent and/or policy holder to download or save their policies electronically from the portal, thus reducing use of paper, printer ink and mailing costs. Tablets are available to management to help to minimize the need to print reports and materials for meetings with internal and external customers. IT has enhanced their technology by replacing older monitors and computer systems with more up to date, energy efficient models. Hardware and software updates are performed periodically to optimize the performance and security of our environment. In addition, there are power shut offs on desk computer systems to further save on energy during non-standard business hours and weekends. Employees have the capability to access the office remotely to curtail transportation to and from the office. Video/web conferencing is also becoming more common amongst offices to reduce the frequency of travel, but still allow individuals to meet on work-related topics as required.
- Transportation: Some of our offices have a designated bicycle storage facility within their office building to promote the use of greener means of transportation to and from work, whether that be biking to work or using public transportation and then biking to the office. Telecommuting and hiring remote workers is increasing for some departments and offices. When hiring, we giving much greater credence to hiring new employees to work remotely including hiring out of state. This enables us to expand our workforce nationwide and allows employees to remain in their state of residence in order to stay close to family or in a location of their choosing. The ability to work from home allows individuals to remote in and work from their home, to save fuel costs, reduce the number of cars on the road. Additionally, remote working cuts down on the emissions released into the air by vehicles.

Another alternative that's offered by our company is allowing employees to work flexible hours so that employees may avoid commuting during high traffic times to and from work.

Below is our environmental impact associated with reduced paper use, based on our use of DocusSign.



Graph reflects activity in past 12 months: 12/1/2019 – 11/17/2020

Below is FedNat's Energy Usage History graph: