

# 2026 Climate Report

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## CAUTIONARY STATEMENTS, DISCLAIMERS AND OTHER MATTERS

This Report is being provided solely for informational purposes and not for the purposes of promoting, either directly or indirectly, any business or business interest.

As required, OSFI Guideline B-15 - Climate Risk Management is applicable to Northbridge's reporting period ending December 31, 2025, for specific disclosure elements. This standalone report provides disclosures expected by OSFI for federally regulated financial institutions' management of climate-related risks. It includes detailed information regarding our climate-related governance, risk management, strategy and metrics.

The forward-looking statements in this Report represent our current expectations, estimates and projections regarding future events and are not historical facts, and remain subject to change. These forward-looking statements are not a guarantee of future performance, involve inherent risks and uncertainties and are based on key factors and assumptions, all of which are difficult to predict. In particular, because of the limitations and uncertainties inherent in climate science, risk analysis and sustainability and climate reporting, we have relied upon various market practices, taxonomies, methodologies, criteria and standards, and made reasonable approximations and assumptions, in our Report. However, there are many factors that we may not foresee or be able to accurately predict which may impact the quality of the data in our Report. The factors and assumptions which may impact the Report include the following: the absence of a standardized taxonomy regarding sustainability-related terms (including in meaning and scope), the availability of comprehensive, comparable and high-quality GHG emissions data, the need for active and continued participation of stakeholders (including enterprises, financial institutions and governmental and non-governmental organizations), the establishment and fulfilment of climate adaptation and mitigation activities and goals (including net-zero and interim goals) by governments and companies, the assumptions underlying third-party decarbonization scenarios, the development and deployment of new technologies and industry-specific solutions (including in hard-to-abate sectors), evolving social views on sustainability-related topics, international cooperation and standard-setting, changes in government, political or regulatory approach or treatment in relation to sustainability disclosures, reporting and other requirements, and our ability to gather and verify data and successfully implement various initiatives under expected time frames, among other unforeseen events or conditions.

Our emissions estimates rely on currently available data, and on assumptions and estimations based on internal and third-party data. Although we believe these sources are reliable, we have not independently verified or assessed the assumptions or estimations or the underlying data, and we cannot guarantee the accuracy of such third-party assumptions, estimations or data. Moreover, the quality, consistency and reliability of data used in connection with our emissions estimates may vary across the sectors that we focus on, and in some cases may not exist. We caution that there are inherent limitations and uncertainties with available data and methodologies that may impact our underlying assumptions and estimations.

We anticipate that our emissions estimates and the methodologies and scenarios we use in connection with those objectives (including to measure our operational and financed GHG emissions) may need to be revised to reflect improvements in data quality and methodologies, the evolution of best practices, regulations, standards and science and changes in our business practices or strategies.

The terms “sustainability”, “sustainable investments”, “climate-related”, “transition”, “environmentally-minded” or similar terms, taxonomies, methodologies, criteria, and standards are evolving in both meaning and scope. Our use of these terms may vary over time to reflect this evolution. Any use of these terms in this report refers to internally defined criteria and not to any jurisdiction-specific regulatory definition or voluntary standard that may exist.

The information contained in this Report is not intended to provide specific financial, tax, investment, insurance, legal or accounting advice and should not be relied upon and does not constitute a specific offer to buy and/or sell securities, insurance or investment services. This Report may contain examples of our internal ESG research processes and is not intended to represent any particular product’s or strategy’s performance or how any particular product or strategy will be invested at any particular time.

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## ABOUT NORTHBRIDGE

Northbridge Financial Corporation is a leading property and casualty (P&C) commercial lines insurance group that's been helping to protect Canadian businesses for more than 100 years. We are 100% Canadian and wholly owned by Fairfax Financial Holdings Limited. The Northbridge Group of companies includes four regulated insurance subsidiaries: Northbridge General Insurance Corporation, Federated Insurance Company of Canada, Zenith Insurance Company, and Verassure Insurance Company (collectively referred to in this report as the "Company" or "Northbridge").

We are acutely aware that a changing climate is having a material impact on our customers and their businesses. Managing climate-related risk is not new for us – it is core to our role as an insurer and has long been embedded in how we assess risk and provide protection against a loss. However, the likelihood and severity of losses are clearly increasing, with 2024 being the costliest year on record for catastrophic weather in Canada with industry-wide insured losses exceeding \$8.5 billion.

Northbridge is focused on helping customers manage climate-related risks, strengthen resilience in the communities we serve, and to reduce the environmental footprint of our own operations.

## GOVERNANCE

### Board Oversight of Climate-Related Risks and Opportunities

Our board of directors (Board) has a primary role of approving and/or overseeing our strategy, risk profile, culture, and operations and providing challenge, guidance, and oversight of the CEO and senior management.

The Board has delegated oversight responsibility for the management of risks, including climate-related risks, to the Audit and Risk Committee, which is comprised of four independent directors that are qualified former executives with established experience and skills in assessing and understanding risk and financial and solvency issues. The Board has delegated the oversight responsibility for the investment of the Company's assets to the Investment Committee, which is comprised of three independent directors with experience and skills in assessing and understanding investment-related issues.

The Company aims to maintain a diverse Board composition with a balance of expertise, skills, and experience. The Company has established a Board skills matrix to help determine the most effective Board and committee structure and membership, and to identify evolving skills needs to support director recruitment and succession planning. Each independent director is paid an annual fee and does not receive any performance-linked or stock-based compensation. Climate-related considerations are not explicitly

factored into their fees. The Board and its committees meet at least quarterly, and more frequently if necessary to execute their responsibilities.

Board and Committee Responsibilities Related to Climate	
<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>• Approves short and long-term business plans and strategy and any significant initiatives, including those related to sustainability and climate</li> <li>• Receives a catastrophe exposure management report, which outlines the Company’s exposure and modelled loss-to-weather events</li> <li>• Reviews the adequacy of the Company’s reinsurance program relative to weather-related catastrophe risk exposure</li> <li>• Receives senior management reports on operations, plans, and opportunities</li> <li>• Reviews key climate information and reports</li> </ul>
<b>Audit and Risk Committee</b>	<ul style="list-style-type: none"> <li>• Oversees the implementation by senior management of policies, practices and controls to identify, manage, and mitigate risks of the Company’s business, including climate-related risks</li> <li>• Approves the Company’s enterprise risk management framework and internal controls framework, including the Company’s identification, management, and oversight of key risks</li> <li>• Approves the Company’s risk appetite framework, including climate-related risks and tolerances</li> <li>• Receives key reports from senior management such as this climate report, quarterly corporate risk reports and regulatory updates, own risk solvency assessment report, and reports from the appointed actuary including outcomes of scenario-based climate risk assessments</li> </ul>
<b>Investment Committee</b>	<ul style="list-style-type: none"> <li>• Approves the Company’s investment policy and monitors compliance of its investment portfolio with the investment policy and the law, including ESG factors</li> <li>• Oversees the Company’s investment manager, including their strategy and consideration of climate in their risk assessments and investment decisions</li> </ul>

## **Management's Role in Climate Risk Management**

As a property and casualty company, understanding the probability and impact risk – including losses arising from climate-related events – is fundamental to our business. Leaders across our underwriting, actuarial, and claims functions closely monitor how climate change is affecting our risk profile. Underwriting and actuarial teams analyze data and short, medium, and long-term loss trends, assess severe but plausible scenarios (including weather-related events), and incorporate those insights into pricing and risk decisions. Our claims department, working directly with customers following losses, provide first-hand insight into the real-world impacts of extreme weather on people, businesses, and communities.

Climate-related risk oversight is embedded into our governance structure. Northbridge's executive management team (EMT), comprised of the CEO and senior leaders across underwriting, actuarial, claims, finance, and risk, is responsible for developing, implementing, and monitoring the Company's strategies, policies, and controls to manage risk (including climate-related risks) and maintain capital strength in support of the Company's purpose and short and long-term objectives. This oversight is supported by a cross-functional Exposure Analysis Committee and a Group Risk Committee that meet at least quarterly, bringing together leaders from key oversight and operational functions to identify, evaluate, and manage material risks and promote a strong risk-aware culture across the organization.

Effective management of climate-related risks – through underwriting and risk selection, pricing, reserving, risk mitigation, and reinsurance – is directly reflected over time in a property and casualty insurance company's profitability or combined ratio. As a result, profitability and disciplined risk management are core considerations across the organization and are reflected in compensation for Northbridge employees, reinforcing shared accountability for sound risk outcomes.

## **STRATEGY**

### **Physical and Transitional Risks**

Climate change presents both physical and transitional risks and opportunities, and we apply a rigorous approach to managing and monitoring our exposure across multiple time horizons, including the use of appropriate scenario testing. Physical risks result from changes in frequency and severity of weather-related events caused by climate change. Transitional risks arise from the shift toward a lower-carbon economy, including changes in government regulation, technological developments, and evolving market and customer expectations.

The following table outlines the climate-related risks and opportunities that could reasonably be expected to impact the Company's cash flows, access to finance, or cost of capital.

Time Frame	Risks	Opportunities
<b>Short-term</b>	Unpredictability of frequency, severity, and nature of severe weather events (physical).  Changes in regulatory requirements for current products (transitional).	Increased demand for insurance as fundamentally changing weather events drive public awareness (physical).  Increased opportunities for insuring or investing in green technology and renewable energy sources (transitional).
<b>Medium-term</b>	Increase in exposures due to a variety of climate change factors such as sea level rise, inland flooding, droughts, and wildfire zones (physical).  Climate change litigation costs (transitional).	New market sectors emerging as a shift to a low-carbon economy occurs (transitional).
<b>Long-term</b>	The devaluation of assets that we hold in sectors susceptible to transitional risk (transitional).	Using our expertise to help our clients adapt to the changing markets by developing strategies and technology (transitional).

**Note:** Short-term is less than 3 years; Medium-term is 3-10 years; Long-term is 10 years or more.

## Our Financial Resilience in the Face of Climate Change

We're committed to remaining well-positioned financially to ensure we are there for our customers when they need us. To do this, we are focused on ensuring that we properly understand, manage, and price for the risks that we insure.

Typically, our products are renewed and priced annually, which gives us flexibility to respond as the impacts of climate change unfold. In addition, the diversification of our P&C business across geographic footprint, industry mix, and lines of business helps to limit the potential impact of any single weather-related event.

We use advanced natural catastrophe modelling and stress testing to understand, monitor, and manage the impact of changing climate-driven perils on our portfolio, balance sheet, and capital strength. This includes modelling exposure accumulation, hazard intensity, and geographic distribution for key risks such as severe convective storms, floods, and wildfires. We apply hazard mapping, risk zoning, and scenario analysis to classify areas of varying risk severity and integrate these insights directly into underwriting, pricing, risk selection, and financial planning. By actively monitoring high-risk exposures and aligning them with defined risk appetite and capital planning, we ensure resilience across our book of business while maintaining our ability to meet customer obligations under a wide range of stress scenarios.

Reinsurance is a core component of our overall risk management approach. It enables us to maximize the diversification of our net retained risks and to reduce earnings volatility. We work with a core panel of reinsurance partners to secure the required capacity at sustainable terms over the medium-term. We regularly assess the benefits and cost of reinsurance against other forms of risk financing and adjust our reinsurance program as market conditions evolve, including potential supply-side changes in the reinsurance market that may arise in response to climate change and broader macroeconomic developments. Our view of natural catastrophe risk is reviewed and kept up to date on a regular basis, and underpins the structuring and purchase of reinsurance, supported by stress testing, catastrophe modelling, and risk accumulation mapping, along with a profitability assessment and strategic capacity allocation for risks assumed from customers.

## **OPPORTUNITIES**

### **Our Commitment to Customers**

Our purpose is to help Canadian businesses have a safer and brighter future. Guided by this purpose, we are committed to supporting our customers as they adapt to the risks of climate change, partnering with organizations that strengthen climate resilience in our communities and reducing the environmental impact of our own operations.

We support our customers in two primary ways. First, as a risk expert, we help them understand and manage climate-related risks, including options to build resilience through more sustainable products, materials, and construction methods that better protect assets from weather-related events. Second, as a risk carrier, we help protect businesses and communities by providing coverage for losses arising from severe weather events. We also continue to evolve our processes and insurance solutions in innovative, environmentally friendly ways.

### **Helping Customers Manage Climate Risk and Build Resilience**

We continually monitor climate-related exposures and risks, with particular attention on the frequency and severity of weather events affecting our customers. A key part of this approach is supporting customers in understanding and managing these risks, while helping them strengthen resilience and advance their sustainability goals.

Northbridge's Risk Services team is comprised of nearly 70 risk management and loss prevention professionals who provide proactive, industry-specific expertise to help customers better understand and manage their risks. Each year, this team completes nearly 6,000 risk assessments and service visits for Canadian businesses. Through these engagements, risk consultants help customers establish best

practices, identify potential hazards, and address gaps in compliance with applicable codes and industry standards.

We continually evolve our processes and coverage offerings to support more sustainable and resilient outcomes for our customers. When an insured loss occurs, customers may wish to rebuild or replace damaged property using environmentally friendly materials or methods that improve resilience to weather-related events. Through our Environmental Upgrade commercial property extension, including Build Back Better components, customers have the flexibility to rebuild in a more sustainable or weather-resilient way, with coverage for additional costs that may exceed standard replacement cost limits—such as upgraded roofing or siding materials. For personal insurance customers, our Green Choice Extension provides coverage for the extra cost of replacing household equipment, appliances, roofing, or siding with more environmentally responsible or weather-resistant options following an insured loss, helping customers rebuild stronger, smarter, and with less environmental impact.

We have identified opportunities associated with the transition to a lower-GHG economy, including selective growth in sectors such as renewable energy and critical minerals, where these activities align with our risk appetite and strategies.

The Company intends to continue exploring opportunities to support its customers over the medium to long-term through development of new products, coverages, and environmentally responsible services.

### **Partnering with Experts to Champion Sustainability**

- **The Nature Force membership:** We are proud members of The Nature Force project led by Ducks Unlimited in collaboration with other leading P&C insurers. This initiative leverages natural infrastructure, such as wetlands, to restore and protect high-risk areas from flooding. These nature-based solutions actively restore and manage natural resources, resulting in positive outcomes like climate resilience, biodiversity, and improved water quality.
- **Nature Conservancy of Canada (NCC) partnership:** We have partnered with NCC to support the conservation of 29 hectares of critical coastal habitat for wildlife, plants, and climate resilience in China Cove on the Saugeen Bruce Peninsula. We also contributed to NCC's conservation intern programs in Ontario and Atlantic Canada, helping to develop the next generation of conservation leaders.

- **Red Cross collaboration:** We have partnered with the Red Cross to support restoration efforts following Canadian wildfires, aiding in the recovery and resilience of affected communities.
- **Climate Proof membership:** We are a member of Climate Proof, an industry coalition focused on preparing for the present and growing effects of climate change through building a more disaster-resilient country.
- **Support of Tree Canada:** In celebration of Earth Day, Northbridge supported Tree Canada's mission to make a lasting impact on our environment. Thanks to the incredible generosity of our employees – and Northbridge's double match – we funded the planting of over 1,300 trees across Canada. This initiative was more than just planting trees; it was about creating cleaner air, restoring ecosystems, and building a greener planet for generations to come.
- **SmartWay:** In 2024, Northbridge became the first Canadian commercial insurer to partner with SmartWay to enhance green freight practices. SmartWay provides tools, training, and resources to help businesses move goods efficiently, reducing fuel costs and environmental impact.

### **Reducing the Carbon-Footprint of our own Operations**

We have partnered with EcoClaim to embed sustainability directly into our claims process, using technology, data, and education to deliver measurable waste diversion and emissions reduction at the claim level. Through EcoClaim's industry-leading training, greenhouse gas measurement tools, and carbon exchange marketplace, we can more effectively measure, manage, and reduce emissions based on real claims data. We require our preferred restoration partners to become EcoClaim Certified, aligning quality repairs with transparent data tracking and continuous emissions reduction. In parallel, we have integrated sustainability training into our own claims education programs – alongside hundreds of hours of technical training each year – so our teams have the knowledge and tools they need to make environmental responsibility part of everyday decision-making. Together, this approach empowers our people and our partners to help reduce landfill waste, cut greenhouse gas emissions, and deliver practical and measurable sustainability improvements with every claim.

To reduce paper waste, we have implemented several initiatives. We encourage our Transportation and Logistics brokers and customers to use our Certificate of Insurance on Demand tool, which enables generation of electronic certificates of insurance and reduces the need for printing. In addition, we use eDocs to deliver policy documentation directly to brokers through their broker management systems.

We are progressively greening our vehicle fleet used by employees whose roles require regular travel to service our customers. In 2025, approximately 30 per cent of the fleet was transitioned to hybrid vehicles. Over the next four years, as leases renew, remaining gasoline-powered vehicles are expected to be replaced with hybrid vehicles.

Finally, we maintain a 50/50 hybrid work from home program for our employees. This flexible approach balances the benefits of in-office collaboration with the advantages of remote work for employees. It also delivers climate-related benefits by reducing our commercial office footprint and lowering the emissions associated with daily employee commuting.

### **Sustainability in our Investments**

Our investments are managed by Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa). Hamblin Watsa applies a long-term mindset to its investment strategy. Its investment approach considers a range of risks and opportunities, including material ESG factors. Deficiencies or excessive environmental, social, or governance risks result in the rejection of investment opportunities or the sale of existing positions. With any investment, good governance and the honesty and integrity of management is fundamental and will never be compromised for short-term gains or benefits. Hamblin Watsa may also direct the investment in sustainable investments and financings, which we may participate in if permitted by regulation applicable to investments by Canadian property and casualty companies.

## **RISK MANAGEMENT**

Our enterprise risk management (ERM) processes outline the way in which we manage and monitor the key risks impacting the Company. Our ERM processes include the identification, monitoring, and reporting of risks, including climate-related risk. The Company's ERM structure and practices are regularly reviewed and enhanced as part of the Company's ongoing efforts to understand and manage our risks.

We maintain a register that identifies key risks that could have a significant and negative impact on the Company. Each risk is assigned to a designated risk owner responsible for assessing the likelihood and magnitude of potential impacts. Risk owners also identify relevant risk controls and mitigants, evaluate their effectiveness, define and monitor key risk indicators (KRIs), and establish risk tolerance. All risk tolerances are set within the Company's Board-approved risk appetite.

The Company has integrated climate risk into its established ERM processes, by reflecting it as a transverse risk that has the potential to amplify other risks across the organization. Risk owners are required to

consider the impact of climate risk on the risks for which they are accountable. Climate-related impacts, including both physical and transitional risks, are classified into the following three categories:

- I. **Direct impact:** Relates to any change to assessed risk impact or likelihood as a result of a climate event. Direct impacts relate to the immediate material impact to the Company following a climate event (e.g. weather event, transition to green technology);
- II. **Indirect Impact:** Relates to any change in assessed risk impact or likelihood resulting from impacts that are not direct but are downstream effects of a climate-related event (e.g. unavailability of reinsurance following a weather event); and
- III. **No impact:** For risks that have no material impact from a climate-related event.

An overall risk rating is derived for each risk through this assessment process. Risk assessments are reviewed and updated at least annually, while KRIs are monitored on an ongoing basis and reported quarterly to senior management and the Audit and Risk Committee.

## METRICS

Total GHG Emissions (tonnes CO <sub>2</sub> e)	2025	2024
Scope 1 – Direct emissions	926	883
Scope 2 – Indirect emissions	219	261
Total	1,145	1,144

Amounts in table are reported in tonnes of Carbon Dioxide equivalent units.

### Methodological Notes

To ensure the accuracy and transparency of our GHG emissions reporting, we use the GHG Protocol methodology. This globally recognized standard provides a robust framework for measuring and reporting our emissions across various scopes and ensures our reporting is comprehensive and aligned with industry best practices.

The GHG Protocol provides comprehensive guidelines for calculating emissions from direct and indirect sources, including Scope 1 (direct emissions from owned or controlled sources), Scope 2 (indirect emissions from the generation of purchased energy), and Scope 3 (all other indirect emissions from activities such as business travel and supply chains).

There is particular difficulty associated with the calculation and disclosure of Scope 3 GHG emissions, including difficulties in obtaining the necessary data to support that disclosure. Regarding financed emissions specifically, the quantification of financed emissions is emerging and one of the most difficult categories to accurately measure. We have also integrated the Partnership for Carbon Accounting Financials (PCAF) methodology into our GHG emissions calculations. The PCAF methodology complements the GHG Protocol by offering detailed guidance for financial institutions to measure and disclose the GHG emissions associated with their loans and investments.

Climate metrics are subject to inherent limitations, including data quality, estimation uncertainty, and evolving methodologies. The Company uses the best available data and methodologies, including the GHG Protocol and PCAF standards, and provides explanations of key assumptions, exclusions, and data sources. The Company is committed to continuous improvement in climate risk management, disclosure practices, and alignment with regulatory and industry standards.