2024 Climate Statements

AA Insurance

1 July 2023 – 30 June 2024

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Important information

This report contains forward-looking statements in relation to AA Insurance's strategy, business operations and targets. Forward-looking statements may be identified with words such as 'anticipate', 'commit', 'continue', 'expect', 'may', 'plan', 'potential', 'project', 'should', 'target', 'will' and other similar terms and phrases.

AA Insurance has sought to provide accurate information in respect of the year ended 30 June 2024 as at the date of publication but would caution against reliance being placed on representations that are necessarily subject to significant risks, uncertainties or assumptions. In particular, climate change is an evolving challenge, with high levels of uncertainty and significant data challenges, particularly over long-term horizons. Descriptions of the current and anticipated impacts of climate change on AA Insurance necessarily involve estimates and uncertain projections. Risks and opportunities described in this report, and AA Insurance's strategies to achieve its targets, may not eventuate or may be more or less significant than anticipated.

The standards and methodologies around estimating and calculating greenhouse gas emissions remain under development with different stages of adoption across the financial services industry. There are also several complexities, limitations and assumptions involved in the future modelling and projections of climate states and pathways. National and international standards and frameworks, practices and requirements are subject to different interpretations at a given point in time, including AA Insurance's own understanding and circumstances when setting its climate-related ambitions and targets.

Any forward-looking statements should not be considered a guarantee of future outcomes but rather reflect our understanding, as of the date of this report's publication, within the limitations, uncertainties and assumptions of current climate models and scenarios. Actual results, performance and outcomes may differ materially from those expected or targeted in any forward-looking statements and rely on factors which are, in many cases, beyond AA Insurance's control. AA Insurance expects that some forward-looking statements made in this document may be amended and updated in future documents as the quality and completeness of its data and methodologies continue to evolve and improve.

AA Insurance maintains that reliance should not be placed on any forward-looking statements. The forward-looking information and opinions in this report do not offer an invitation or solicitation or recommendation to buy financial products in relation to AA Insurance. AA Insurance gives no representation, guarantee, warranty or assurance about future business performance, or that the outcomes expressed or implied in any forward-looking statements made in this document will occur. AA Insurance does not accept any liability whatsoever for any loss arising directly or indirectly from any use of the information contained in this report.

Introduction

Welcome to AA Insurance's 2024 Climate Statements.

The information presented here covers the reporting period 1 July 2023 to 30 June 2024 (FY24). We have prepared these Climate Statements in accordance with, and to comply with, the Aotearoa New Zealand Climate Standards (NZ CS), using the following adoption provisions (permitted by the NZ CS).

Adoption provision 1

The current financial impacts of physical and transition impacts identified (NZ CS1 para 12(b)).

Adoption provision 2

The anticipated financial impacts of climate-related risks and opportunities reasonably expected (NZ CS1 para 15(b)) and a description of the time horizons over which the anticipated financial impacts of climate-related risks and opportunities could reasonably be expected to occur (NZ CS1 para 15(c)).

Adoption provision 3

The transition plan aspects of our strategy, including how our business model and strategy might change to address our climate-related risks and opportunities (NZ CS1 para 16(b)) and the extent to which transition plan aspects of our strategy are aligned with internal capital deployment and funding decision-making processes NZ CS1 para 16(c)).

Adoption provision 4

Certain sources of gross greenhouse gas (GHG) emissions in metric tonnes of carbon dioxide equivalent (tCO2e) classified as scope 3 (NZ CS1 para 22(a)). See the 'Metrics and targets' section of this report, page 18, for more information.

Adoption provisions 5

In relation to scope 3 GHG emissions, comparative information for the immediately preceding two reporting periods for each metric disclosed in the current reporting period (NZ CS3 para 40). We have included comparative information where available. However, some categories of scope 3 emissions do not include comparatives as we measured them for the first time in FY24. See the 'Metrics and targets' section of this report, page 18, for more information.

Adoption provision 6

In relation to other metrics beyond scope 3 GHG emissions, comparative information for the immediately preceding two reporting periods for each metric disclosed in the current reporting period (NZ CS3 para 40). We have not included comparative information for any other metrics disclosed within the metrics and targets section of this report.

Adoption provision 7

An analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period (NZ CS3 para 42).

Directors Jimmy Higgins and Nadine Tereora (pictured) sponsored our Climate Reporting management team in FY24. They have approved our FY24 Climate Statements, for and on behalf of the Board.

James (Jimmy) Higgins
Director – AA Insurance
2 October 2024

Nadine Tereora
Director – AA Insurance
2 October 2024

About us

AA Insurance is a New Zealand-based joint venture between Vero Insurance New Zealand Limited ('Vero') (68% ownership) and the New Zealand Automobile Association Limited ('NZAA') (32% ownership). Vero is owned by Suncorp Group Limited, a listed Australian company. NZAA is an incorporated society that is governed by a National Council and Board.

Since 1994 we have provided home, contents and car insurance in New Zealand and in 2018 we introduced small business insurance. Our cover includes protecting customers against many of the financial impacts that natural disasters and climate-related events can have on their assets.

We underwrite our own policies and sell direct to New Zealanders. Our 1,100+ New Zealand-based employees look after around 560,000 customers with more than 1,100,000 policies.

Standard and Poor's (Australia) Pty Ltd has given us an Insurer Financial Strength Rating of AA- (Very Strong). You can read more about our financial strength on our website.

Governance

Building climate-related risks and opportunities into our governance and management processes helps to give them appropriate focus and oversight.

Throughout FY24 we have started to update our policies, frameworks and standards to consider climate and wider sustainability. We introduced our new Climate Governance and Reporting framework, which draws together the existing and new ways we oversee and manage our climate-related risks and opportunities.

The following table reflects our governance structure throughout FY24. After year end, the role of the Remuneration Committee has been extended to include responsibilities for monitoring the effectiveness of the Company's broader people and culture policies and practices. It is now called the People, Culture and Remuneration (PCR) Committee and meets at least four times a year. After year end, the Board has also established a Nominations Committee, which meets at least twice a year, to assist in assessing and planning the Board's composition, including by evaluating the skills, experience, diversity and independence of the Board.

Table 1: Our governance structure in FY24

Board level

AA Insurance Board (the Board)

The Board is the governance body responsible for overseeing climate-related risks and opportunities. It approves policies, risk appetite, strategy, targets and external climate disclosures.

» It meets at least five times a year.

Board Audit Risk and Compliance Committee

The Board Audit Risk and Compliance Committee (BARCC) receives and reviews reports from management concerning climate-related risks and opportunities in order to provide appropriate oversight of the assessment and management of such risks and opportunities. It also reviews and endorses climate-related disclosure reporting annually.

» It meets at least five times a year.

Remuneration Committee

The Remuneration Committee assesses performance using a balanced scorecard that considers financial and non-financial measures. This is used to assess Management's incentive. At this stage, climate-related performance metrics are not incorporated into remuneration policies but this is subject to ongoing review.

» It meets at least twice a year.

Investment Committee

The Investment Committee sets our investment guidelines and oversees the performance and management of our investments, including compliance with our Responsible Investment Policy.

» It meets at least twice a year.

Management Level

Executive Leadership Team (ELT)

Our ELT manages climate-related strategy, business planning, risks and opportunities, and performance against climate-related targets. They engage with the Board and BARCC at least five times a year at formal Board and BARCC meetings.

» Specific climate-related accountabilities are shown below.

Chief Executive Officer

- Strategy

Chief Financial Officer

- Sustainability sponsor
- Sustainability reporting and climate-related disclosures
- Climate risk support
- Investments and capital management
- Procurement

Chief Product and Marketing Officer

- Product and portfolio
- Pricing and underwriting

Chief Operating Officer

- Claims management and response
- Claims supply chain

Chief People Officer

- Performance and remuneration
- Properties and facilities

Chief Risk Officer

- Risk frameworks
- Governance oversight

Risk Committee

The Risk Committee oversees management of our strategic, financial, insurance, operational and compliance risks, including climate-related risks.

» It meets at least five times a year.

Sustainability Committee

The Sustainability Committee supports our transition to best-practice sustainability frameworks, practices, and governance.

» It meets at least quarterly.

Other management committees

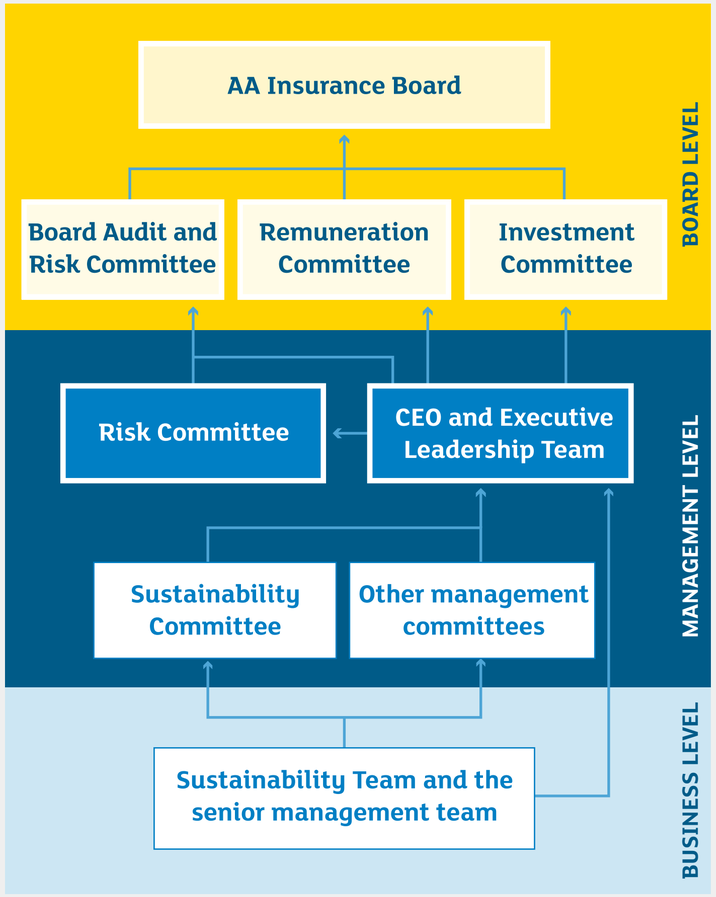
Other management-level committees help to manage product and pricing, claims, trading, people and business performance.

Senior management

The Sustainability Team and members of our senior management team provide day-to-day support to the ELT on climate-related matters.

» The Sustainability Team meets with the Chief Financial Officer sponsor monthly and the Board at least annually.

» The Sustainability Team also runs Sustainability Committee meetings at least quarterly.



→ Formal reporting line

Board skills and experience

Our Board members have complementary skillsets, experience and backgrounds. No single Director is responsible for a topic, rather the Board exercises its responsibilities collectively. All members are experienced in operating in a rapidly changing regulatory environment and managing risks and opportunities during uncertainty.

We complete a Board skills matrix annually to rate Directors' skills and experience in areas such as risk management, corporate strategy and sustainability. Board members refresh their climate knowledge at least twice a year, through education sessions held by management or external providers. This year the focus was on mandatory requirements and Directors' duties (externally provided), measuring GHG emissions and Climate Change Scenario Analysis (both internally provided).

Throughout FY24, two Directors have 'sponsored' our climate-related disclosures, acting as a point of contact to guide management and give feedback on matters related to our disclosures.

How we govern and manage specific issues

Climate-related risks and opportunities

Our Sustainability Team presents outcomes of the annual Climate Change Scenario Analysis (CCSA) process, including climate-related risks and opportunities, to the ELT and Board annually. These outcomes help to inform our Business Plan. The Risk Committee and BARCC monitor operational climate-related risks as part of our business-as-usual risk management processes.

The Strategy (page 7) and Risk management (page 16) sections contain more information.

Climate-related metrics and targets

Our Sustainability Team monitors our existing metrics and targets, which relate to GHG emissions. The Team collates results monthly and these form part of our Chief Executive Officer's monthly report to the Board.

Any new metrics and targets are recommended by the Sustainability Team and approved by Board. We do not currently monitor or report on climate-related metrics and targets other than our GHG emissions.

The Metrics and targets section (page 18) contains more information.

Strategy

Our current business model and strategy

We are a New Zealand-based joint venture between Vero (68% ownership) and the NZAA (32% ownership). Since 1994 we have provided home, contents and car insurance in New Zealand and in 2018 we introduced small business insurance. We underwrite our own policies and sell direct to New Zealanders.

Our customers include households and small businesses who opt for insurance cover to protect their homes, belongings and vehicles from unforeseen events. Customers enter an insurance contract with us and pay a premium. In return, we provide cover for that customer within the limits of their insurance policy. We have a comprehensive reinsurance programme and an investment fund to help pay out claims to customers when they need us and to meet our capital solvency requirements as defined by the Reserve Bank of New Zealand (RBNZ).

Our purpose is “We care, we help and we get things sorted”. Our long-term strategy is centred around engaged and thriving people, exceptional customer experience, being a trusted and iconic brand and leading with operational excellence. This aligns with our vision to earn the trust of every New Zealander by protecting what matters most.

We’re investing in a multi-year programme to modernise our core systems. Our transformation programme is designed to enhance the customer experiences we deliver today and improve our ability to meet changing customer needs over time. Once embedded, our people will have access to modern tools and technology to simplify their work and reduce operational complexity.

Managing and adapting to climate change is a core pillar of our sustainability strategy and overarching business strategy. The climate resilience pillar of our sustainability strategy centres around supporting the transition to a low emission, climate resilient future. It supports our other two pillars, which focus on strengthening the long term resilience of our people, customers and communities, and providing insurance products and services that our customers value and trust.

As an insurance business, we have always been affected by weather. However, with severe events predicted to become more frequent and the transition of the economy towards low carbon alternatives, we are facing new challenges.

We face both transition and physical impacts:

Transition impacts

Transition impacts occur as we move to a low-carbon economy. They include changes in market, technology, policies and laws, plus impacts to our reputation as a business.

Physical impacts

The physical impacts of climate change can be acute (e.g. more frequent, severe weather events) or chronic (e.g. longer-term shifts in climate patterns).

How we have been impacted this year

These are the main ways in which climate change is already affecting our business.

Transition impacts

Insurance affordability and availability

Rising premiums put financial pressure on customers, especially those in vulnerable financial situations or struggling with the cost of living.

Insurance premiums are rising due to various factors, which can be exacerbated by climate change:

- **Increasing claims costs.** This is due to factors such as increasing volume and severity of weather claims, supply chain constraints and other inflationary pressures.
- **Rising reinsurance premiums.** Reinsurance is becoming more expensive around the globe, partly due to the increased frequency of severe weather events.
- **Taxes and levies.** Fire and Emergency New Zealand (FENZ) and Natural Hazards Insurance (NHI) levies have increased within the past two years, while GST increases proportionally.

Also, while insurance is still widely available, government and some local councils have been reclassifying some areas of land to restrict development and land use where there is intolerable risk to life due to climate-related hazards. Our underwriting practices are regularly reviewed and updated to reflect change in risks where appropriate.

Reinsurance affordability and availability

Due to the impact of past events and natural peril events being more likely in the future (including those made worse by climate change), reinsurers are classifying New Zealand's risk as higher than before. The reinsurance market is also competitive, with insurers from all over the world vying for the limited capital available. As a result, our reinsurance premiums rose significantly in FY24.

Integration of climate into the business

Climate is increasingly being considered in our business activities, requiring an increase in time and cost focused on this area. In FY24 this has involved integration of climate into our governance and risk management processes, maturing our GHG measurement, identification of climate risks and opportunities and preparing our first Climate Statements.

Physical impacts

Call volumes and customer experience

Cyclone Gabrielle and the Auckland Anniversary Weekend floods caused an unprecedented volume of weather claims in FY23. In FY24 we did not experience any catastrophes such as extreme weather events, although several smaller events still occurred. Our customers need to be able to reach us quickly and feel reassured in these stressful situations. While we are proud of our response to these events, we have reviewed our response to identify further opportunities for improvement.

Climate change scenario analysis

Potential future impacts on our business

It is important to consider how climate change could affect us in the future too. CCSA is a useful tool that helps us explore what the world might look like in the future and identify potential climate-related risks and opportunities that may impact our business. It helps us better understand the resilience of our business model and strategy.

CCSA is not designed to predict the future. Rather, it provides insight into areas of the business that may experience physical and transition impacts under plausible climate change scenarios, all other things staying the same. The scenarios we have explored are designed to provide a range of plausible futures based on how well the world mitigates and adapts to climate change. However, they are highly unlikely to play out exactly in reality. Assumptions around temperature and how the world might react to climate change are uncertain so far into the future.

Scenarios used

We sought external advice from Aon, a leading global professional services firm with a strong New Zealand presence, to help us explore three scenarios. Their Climate Risk Advisory team provided specialist climate modelling and expertise.

As a New Zealand-based General Insurer, we consider the scenarios relevant and appropriate for our business because they align with those developed alongside the Insurance Council of New Zealand (ICNZ) in June 2022 for the New Zealand General Insurance sector. The data sources used to construct these scenarios were largely drawn from several global frameworks; Representative Concentration Pathway (RCP), Network for Greening the Financial System (NGFS), Shared Socio-economic Pathway (SSP) and the Climate Change Commission (CCC).

The scenarios capture, at a high level, how the physical impacts of climate change and changes to government policy, people, data and technology and duties of care may affect New Zealand's General Insurers.

Our physical analysis focused on the temperature change defined by the equivalent RCP. The transition analysis considers wider socioeconomic factors, too.

Table 2: Scenarios and time horizons used in our FY24 CCSA

Time horizons:	Transition	Physical
Short	Present day – 2025	2025 (assumed present day)
Medium	2026-2035	2030s (2020-2040 average)
Long	2036-2050	2050s (2040-2060 average)
Very long	N/A	2090s (2080-2100 average)

For our transition analysis, we matched our short, medium and long term horizons with the General Insurance sector scenarios. For physical analysis, we adapted the timeframes used to longer, average timeframes to the end of the century, as this is when the physical impacts of climate change diverge significantly depending on the pathway followed.

Scenario narratives	Orderly: Net Zero 2050*	Disorderly: Delayed Transition	Hot House World: Current Policies
RCP pathway	RCP 2.6	RCP 4.5	RCP 6.0, RCP 8.5
NGFS pathway	Net Zero 2050 (1.5°C)	Delayed Transition (<2.0°C)	Current Policy (3°C+)
SSP pathway	SSP1: Sustainability	SSP2: Middle of the Road	SSP5: Fossil-Fuelled Development
CCC pathway	Tailwinds	Headwinds	Current Policy Reference
Policy reaction to reduce emissions	Immediate and smooth. An ambitious, coordinated transition linked to warming of 1.5°C. The world halves GHG emissions by 2030 and reaches net-zero emissions around 2050.	Delayed action followed by sudden and uncoordinated transformation causes warming to land at <2.0°C. Deeply destabilising policies are now required to keep total warming below potentially catastrophic levels.	Climate policies are sporadic and weak, with current policy settings leading to uncontrolled warming of 3°C+ by 2100. There is a strong reliance on fossil fuel resources.
Physical impacts	Limited, we avoid a tipping point in our climate system.	Substantial, but largely manageable by the end of century. It is more likely than not that we have avoided a tipping point in our climate system.	Substantial through mid-century with increasing scope, scale and ferocity from 2050. We have almost certainly surpassed a tipping point in our climate system.
Technology advancement	Fast. Medium use of carbon dioxide removals.	Slow then fast. Low use of carbon dioxide removals.	Slow change. Low use of carbon dioxide removals.
Natural resources	New Zealand is effectively preserving, and even beginning to restore, its natural resource base.	Strong prioritisation of economic over social/environmental values. Environmental conservation is a low priority.	Natural resources continue to be exploited to maximise economic returns.
Economy/trade	Consumption is oriented towards low material growth and lower resource and energy intensity. Major markets impose additional costs on trade from countries failing to do 'their fair share' in the transition to a sustainable future. New Zealand has secure access to critical markets as a recognised and respected trading partner.	Most economies are politically stable with partially functioning and globally connected markets. Additional costs are imposed on trade with countries failing to do 'their fair share' in the transition to a sustainable future.	Economic growth is high, amid energy and food supply shortages, price hikes and other security concerns is prioritised, regardless of planetary boundaries or environmental outcomes.
Social	Driven by an increasing commitment to achieving development goals, inequality is reduced both across and within countries. The economy shifts from a focus on economic gain to broad human wellbeing.	Global average per-capita income levels grow at a medium pace, with slowly converging income levels between developing and industrialised countries. Intraregional income distributions improve slightly with increasing national income, but disparities remain high in some regions.	Socio-economic development is relatively rapid due to the high and growing capacity to adapt to the impacts of climate change. Climate migration from poorer to wealthier countries increases and income convergence between developing and industrialised countries is as rapid.
Adaptation	Adaptation is focused on sustainable land use and urban design, with high near-term costs but long term benefits. Policies ensure the protection of vulnerable populations during the transition to New Zealand's low-emissions, climate-resilient future.	Adaptation is piecemeal, reactive and decidedly delayed, with costs placing significant strain on New Zealand's economy and society. When and where it does occur, adaptation is primarily motivated by short-term economic considerations and powerful special interests. Initial changes are ad-hoc with little protection for vulnerable social groups or the environment.	New Zealand does not see itself as having a meaningful role in mitigation and focuses on adaptation despite ever-increasing costs. Adaptation is led by central government, with banks, insurers and councils working together in areas where risk is intolerable.
Insurance industry	Government intervention into the insurance market is not significant and managed retreat is a specific and well understood requirement. Early and substantial investment in data, sharing platforms and adaptation measures means physical risks are effectively controlled, keeping insurance available and affordable.	There is significant backlash from the public and relationships with reinsurers are at breaking point. Insurers are managing retreat with sporadic government support. Delayed sharing of climate data and implementing of adaptation measures means flood insurance is now largely unaffordable for vulnerable communities. The government is seen to have failed in its duty of care and insurers are facing backlash and criticism.	Insurers rely on sophisticated data and technology to identify areas to retreat from, with directors and leadership teams openly expressing concern about how long this situation can last. Flood insurance remains readily available, but is only affordable because of substantial government subsidies.

* We understand that limiting warming to 1.5°C is looking less plausible as times goes on. However, we have included this scenario to meet the disclosure requirements of NZ CS1.

Physical analysis

Our physical analysis looked at how our view of risk, measured through Average Annual Loss (AAL), could change in the short, medium and long terms under the three scenarios. AAL is the financial loss we expect in a year for an insured risk or portfolio due to damage from extreme weather events.

The scope of this analysis covered:

- portfolios: home and contents, motor
- perils: flooding (surface water, coastal inundation and riverine), storm (fronts and ex-tropical cyclones).

Aon helped us perform this analysis by overlaying climate modelling on top of our present-day portfolios and estimating future AAL across the different time horizons and scenarios. The analysis used portfolio data as at 30 June 2023.

General findings

The modelling suggests that Australian East Coast lows, Southern Ocean lows and tropical cyclones forming in the central Pacific Ocean may become less frequent towards the end of the century. This means that New Zealand should experience fewer of these systems as the climate warms.

While we expect fewer cyclones, the ones that reach us are likely to be more severe with intense, extreme, short periods of rain and minor increases in the severity of wind. The main result is likely to be more severe surface water flooding.

Potential impact on our current portfolios

The modelling suggests that wind damage or ‘top down’ flooding (i.e. water ingress through things like roofing or windows) from storms and cyclones would not significantly affect our AAL in the future. It predicts only a small increase in AAL in both percentage and monetary terms. However, the ‘bottom up’ risk of floods (i.e. surface water flooding or riverine flooding) is likely to increase significantly over the short, medium and long terms. This could increase our AAL significantly if we do not manage and mitigate the risks appropriately.

The analysis suggests that the largest percentage increase in AAL in the short term would relate to coastal inundation, rising by around 23% across all emissions pathways. Projections around the rise in both mean sea level and vertical land movement along the coast add considerably to the amount of physical damage this peril is expected to cause.

Looking over the medium and long terms, the analysis suggests that the surface water flooding AAL could increase by a large range, between 36% under RCP 2.6 and 158% under RCP 8.5.

AAL from riverine flooding is suggested to increase between 8% and 84% across the different pathways and time horizons. To put this in context, riverine flooding represents the largest present-day dollar cost in AAL from flood-related perils. This means that, despite the estimated percentage shift in AAL from climate change being less than for surface flooding and coastal inundation, the real financial impact of riverine flooding is higher.

Putting this in context

Despite what seems like significant increases in potential losses, we need to put this information in context. Firstly, loss projections are predicted to change over decades, meaning there is time for the business to adapt. Improvements in the built environment, more sophisticated risk and pricing tools, and adjustments to products and portfolios are likely to mitigate future losses significantly. Secondly, the analysis we have carried out is inherently limited. The models we used in our physical analysis do not take into account potential future macroeconomic changes such as inflation and they are based on assumptions such as extrapolation of available data and the location of motor vehicles.

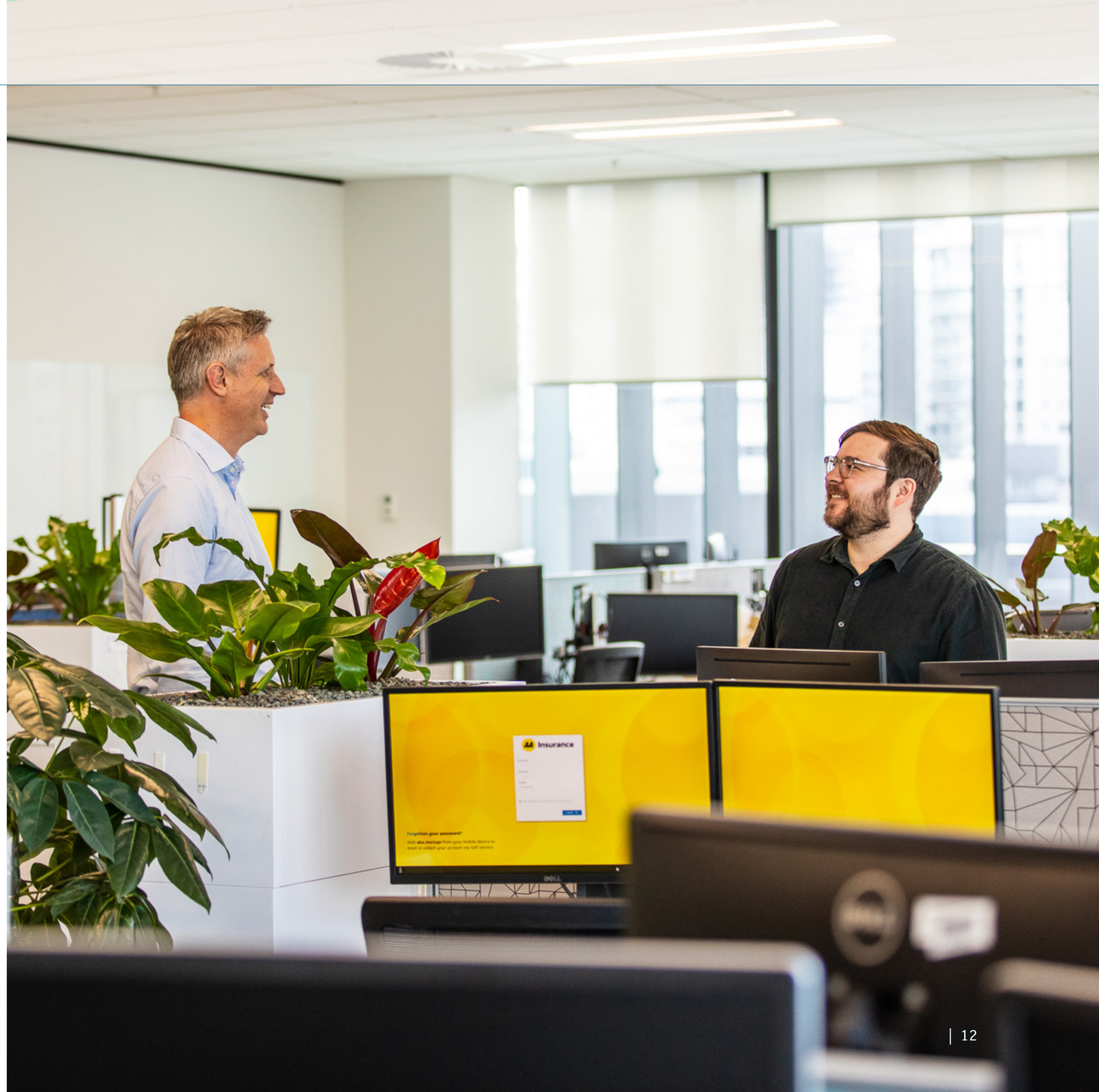
Transition analysis

Aon also helped us to facilitate our transition analysis for FY24. A CCSA working group confirmed the areas of focus through completing an internal survey and used the resulting data to assess which parts of our value chain could be most exposed to climate change. We then carried out our transition analysis by holding workshops with relevant management and other subject-matter experts across our business. We focused on how the different scenarios may affect our motor and home and contents portfolios from a product, pricing and underwriting point of view in line with the internal survey results. The risks and opportunities identified through these workshops are shown on pages 13 to 15.

Aon also helped us to undertake an assessment of transition risk in our investment portfolio as at 30 June 2023. Due to the low level of equity exposure in the portfolio and the nature of those investments, Aon estimated that less than 5% of the portfolio was invested in sectors vulnerable to climate transition risk.

Involving management and our governance body

The Board oversaw the FY24 CCSA process. They received updates from the Sustainability Team at Board meetings and provided challenge and oversight of the results through a CCSA focused Board session. The ELT also helped to refine and challenge the identified risks and opportunities as part of the process.



Risks and opportunities

Table 3: The main risks and opportunities identified through CCSA

Name	Type	Risk or Opportunity	Anticipated impacts	Time horizon*	Management response
Increased frequency of severe weather events	 Physical risk	**Risk** Increasing frequency of severe weather events, especially flooding.	**Customer impact:** Customers may experience longer claims response and resolution times and may see higher premiums if their address is at higher risk of flooding. **Business impact:** We may experience a higher volume and cost of claims, negatively impacting our financial performance. Our reputation may also be impacted negatively due to worsening customer affordability and claims experience.	 All time horizons	**Flood modelling and risk-based pricing** We have invested in data and our flood modelling capability to price flood risk more accurately at an address level. We have begun customer communication and public education initiatives to help explain the drivers and potential impacts of these changes. **Advocating for change** We are aware that improvements in urban planning and infrastructure are needed to reduce the impacts of weather events over time. We continue to engage with central and local government via the ICNZ and directly to encourage investment in measures that promote resilience and adaptation. These include improving targeted flood management infrastructure to mitigate risk, using data to make future land use decisions and improving where and how new buildings and infrastructure are planned and built.
Government intervention in the insurance industry	 Transition risk (policy and legal)	**Risk** Government change or introduce policies and regulations that affect our operations and operating model.	**Customer impact:** Customers may experience some disruption if the government changes affect their policies. **Business impact:** We may experience operational disruption and incur associated costs.	 Short to medium	**Advocating for change** We continue to support ICNZ and others' efforts to advocate for climate resilience and adaptation solutions that protect New Zealanders and their communities. We also contribute to discussions directly and stay informed on industry trends and government and regulator concerns.

* Time horizons are defined in the description of our CCSA processes on page 9.

Table continues next page

Table 3 continued: The main risks and opportunities identified through CCSA

Name	Type	Risk or Opportunity	Anticipated impacts	Time horizon*	Management response
Reduced uptake of insurance	Transition risk (market)	**Risk** Uptake of insurance products falls as insurance becomes more expensive, complex and less comprehensive.	**Customer impact:** Customers may take on more risk themselves or need to self insure, exposing them to more risk. **Business impact:** We may experience a reducing customer base and lower premium revenue, negatively impacting our financial performance.	Medium to long	**Working with our customers** Our customer communications include material to help our customers learn about the value of insurance. We offer a range of products, excess options and customisable benefits to best suit our customer's needs. We train our people to identify when a customer may be experiencing financial difficulty and to look for solutions. We have also developed a financial hardship working group to help identify new opportunities to improve how we support our customers in this space. **Managing claims costs** Workstreams in our claims division are focusing on how we can make claims more efficient to improve customer experience and put downward pressure on our claims and operating costs.
Shifting mobility trends – Electric Vehicles (EVs)	Transition risk (market)	**Risk** More people invest in electric or hybrid vehicles, which carry a different insurance risk profile.	**Customer impact:** Customers may not be provided with suitable and appropriately priced products that meet their needs. **Business impact:** We may experience a reducing customer base and lower premium revenue, as well as rising claims costs if the repair and replacement of new EV and hybrid technology is more expensive than for internal combustion engine (ICE) vehicles. Both of these negatively impact our financial performance.	Short to medium	**Managing our EV motor portfolio** We continue to offer insurance to customers who have EVs. We regularly review our motor portfolio from a pricing and underwriting perspective, including monitoring claims costs for different vehicle types. We follow and invest in customer research to understand the feasibility of potential product and service innovations. It is important that we maintain awareness of these changes in the market and have products that provide appropriately priced cover as these technological evolutions appear.
Shifting mobility trends – decline in personal vehicle ownership	Transition risk & opportunity (market)	**Risk** Personal vehicle ownership declines as consumers shift to other more sustainable methods of transport such as public transport and shared-economy mobility options. **Opportunity** We diversify towards other products and services that meet changing customer needs and preferences.	**Customer impact:** Customers may require different products and services to meet their insurance needs. **Business impact:** We may experience either reducing or increasing customer base and premium revenue, depending on how we diversify our product and service offerings.	Medium to long	**Managing our portfolio** We continue to monitor trends and do not anticipate material changes to personal vehicle ownership in the near term. We continue to grow our home and contents portfolios, helping our business to be more resilient to changes in mobility.

* Time horizons are defined in the description of our CCSA processes on page 9.

Table continues next page

Table 3 continued: The main risks and opportunities identified through CCSA

Name	Type	Risk or Opportunity	Anticipated impacts	Time horizon*	Management response
Working with our communities	Transition opportunity (market)	**Opportunity** We work closely with the communities we serve to make them more aware of climate change and how they can become more resilient to extreme weather events.	**Customer impact:** Customers may not need to make a claim or may have fewer or less significant claims. **Business impact:** We may experience a decrease in the volume and cost of claims, positively impacting our financial performance.	Medium	**Supporting our communities** Customer communications on our website and in other customer channels explain how our customers can prepare for weather events. We have partnered with the Student Volunteer Army (SVA) to help communities prepare for and recover from major events. To date this has included building our employee volunteering programme to support SVA's strategic objectives and working with them to improve our on the ground customer support following major events.
Working with our partners	Transition opportunity (market)	**Opportunity** We work closely with our partners such as the NZAA and our repairers to strengthen our advocacy and diversify our product and service offerings to match customers' changing needs.	**Customer impact:** Customers may experience improved product and service offerings. **Business impact:** We may experience an increasing customer base and higher premium revenue, positively impacting our financial performance.	Short to medium	**Understanding our stakeholders and value chain** We talk with our shareholders and repairers to ensure we understand how climate change affects their businesses and how they are responding. **Investing in transformation** Our transformation roadmap includes opportunities for AA Insurance and NZAA to work together more closely in the future to improve customer experience.

* Time horizons are defined in the description of our CCSA processes on page 9.

What this means for our strategy and capital deployment

We assess our business strategy annually, planning for the next three to five years. The Sustainability Team reports climate-related risks and opportunities identified through our standalone CCSA process to management and our Board, who consider these materials as part of the annual strategic planning process. Our strategic plan is linked to our annual financial plan. A large portion of funding for FY24 and FY25 is allocated to upgrading our systems through our transformation programme to improve the experience for our customers and employees.

The short, medium and long-term horizons used in our CCSA look out much further than the horizons we use in our strategic planning and to deploy capital. CCSA helps us to identify potential risks and opportunities that may emerge in the future and ensure that our business is prepared for these if and when they do occur.

We are working on how our business model and strategy will need to adapt as the global and domestic economies transition to a low-emissions, climate-resilient future. We have already begun to transition our business through our response to the impacts we are already facing and the risks and opportunities we have identified. We are engaging with external consultants to help us with transition planning. This will guide us to manage our emissions, mitigate and adapt to the risks we face and take advantage of the opportunities available.

Risk management

Successful risk management is key to being a sustainable business.

We employ a ‘three lines of defence’ model across our business to manage the accountabilities and governance arrangements for the management of risk:

- **Line 1** – All of our people are responsible for identifying, assessing and managing the risk and control environment, including our Risk Advisory Team.
- **Line 2** – Our Chief Risk Office, which is responsible for overseeing, monitoring, guiding and challenging Line 1 activities.
- **Line 3** – Our internal auditors who are responsible for providing independent and objective assurance to management and Board that risk management practices and internal controls are functioning as intended.

These important documents and tools guide how we identify, assess and manage our risks. We do not exclude any part of our value chain when identifying, assessing and managing our risks, including climate-related risks.

Our Risk Management Programme

Our Risk Management Programme (RMP) sets our approach to identify and manage our risks, including climate-related risks, and the way these risks are recorded, reported and escalated within our organisation. The RMP is supported by more specific standards and frameworks, including our Risks, Obligations, Controls Self-Assessment (ROCSA) Standard, which helps us identify and assess risks and compliance obligations in a structured way.

The RMP categorises our risks into strategic disruption risks, strategic execution risks, financial risks, insurance risks or operational (including compliance) risks.

During FY24 we have introduced three new definitions of climate-related risks into the RMP:

- Climate change physical risk (insurance risk) - the risk related to the physical impacts of climate change.
- Climate change transition risk (strategic execution risk) - the risk that we fail to adapt to changes arising from transition to a low emissions economy, including missed opportunities and reputational damage.
- Climate change liability risk (operational and compliance risk) - the risk of litigation, regulator action or reputation risk, where we do not adequately consider or respond to the impacts of climate change, including risks from inaction or false or misleading statements.

See table 4 on the following page for more detail on these different types of risks.

Our Risk Appetite Statement

Our Board sets and approves our Risk Appetite Statement (RAS) annually, outlining the nature and level of risk, including climate risk, that it is willing to accept in pursuit of our strategic objectives.

Our risk management system

We record material risks apart from strategic disruption risks in our Integrated Risks, Issues, Incidents System (IRIIS). We use IRIIS to log incidents and record and monitor action plans, risks, controls and obligations. It is an activity-based, dynamic platform that is constantly evolving to deliver insights and respond to the changing needs of our customers and business.

Climate change has been recently added to the IRIIS risk and causes library.

Identifying, assessing and managing climate-related risks

We identify, assess and manage climate-related risks in five broad categories; each may have several sub-categories.

We escalate risks that are ‘outside of appetite’ to Risk Committee and BARCC and monitor them until we bring them ‘within appetite’. We do not have a separate process for prioritising climate-related risks differently to other types of risks, however we may prioritise our response to the risk as we mitigate it.

Table 4: Our risk categories

Category	Operational	Insurance	Financial	Strategic execution	Strategic disruption
Description	Risk of loss caused by inadequate or failed internal processes, people and systems, or from external events. This includes compliance and legal risk.	Risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose AA Insurance to financial loss and the consequent inability to meet its liabilities.	Risk that the Company will be unable to meet its financial obligations and solvency requirements.	Risk of failing to achieve our strategic business objectives through not executing our business plan.	Risk of adverse changes in the external environment that may affect the viability of our business model. Strategic disruption risks include emerging risks.
Timeframe	Short: within the next 12 months			Medium: 1-5 years	Long: 5-10 years
Identification	Line 1 teams apply the Risks, Obligations, Controls Self-Assessment (ROCSA) process, which is a dynamic, methodical, activity-based way to identify risks, obligations and controls. Line 2 provides challenge and oversight.				Through an annual strategic disruption risk workshop as part of the annual strategic and financial planning and review cycle.
Assessment	The ROCSA process includes guidance on risk ratings, both before (inherent rating) and after (residual rating) controls, based on a risk matrix. The matrix includes likelihood and impact scales for assessing the risk and escalation/approval tables. When a risk is inherently rated as moderate or above on the rating scale, it requires formal, tested controls and must be recorded in IRIIS. All IRIIS risks, obligations and controls are reviewed at least annually.				By ELT as sustainable, moderate, severe or critical. This assessment depends on the impact rating (low to extreme) and velocity rating (very slow to very fast). Assessment occurs at least annually.
Management	We use defined processes and procedures specific to each business activity, supported by oversight, robust audit and review processes. In addition to Line 1 monitoring and management, Line 2 independently monitors and reports these risks to the Risk Committee and BARCC as required.				Due to the longer periods associated with these risks they are not recorded in IRIIS. The ELT decides the strategic response to manage or mitigate the risk, which is recorded in the Annual Plan. Strategic disruption risks are discussed by the Board and considered when reviewing the strategy and RAS.
Tools and methods used	ROCSA Standard				CCSA, environmental analysis (regulatory pipelines, elections, media activity, competitor activity, etc).

Metrics and targets

GHG emissions metrics

We currently monitor our impact on the climate by measuring our GHG emissions, both on an absolute and intensity basis. We measure these using the operational control consolidation approach under the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard (revised version).

In FY24 we used the New Zealand Ministry for the Environment's July 2023 emissions factors and Global Warming Potential (GWP) rates where available. We sourced a small number of rates from the United Kingdom Government GHG Conversion Factors for Companies where these were unavailable from the Ministry for the Environment. Where we calculate market-based emissions for electricity, we used the latest 2022/23 Toitū certified Ecotricity Measured Product emissions factors, and the 2022/23 BraveTrace residual emissions factor.

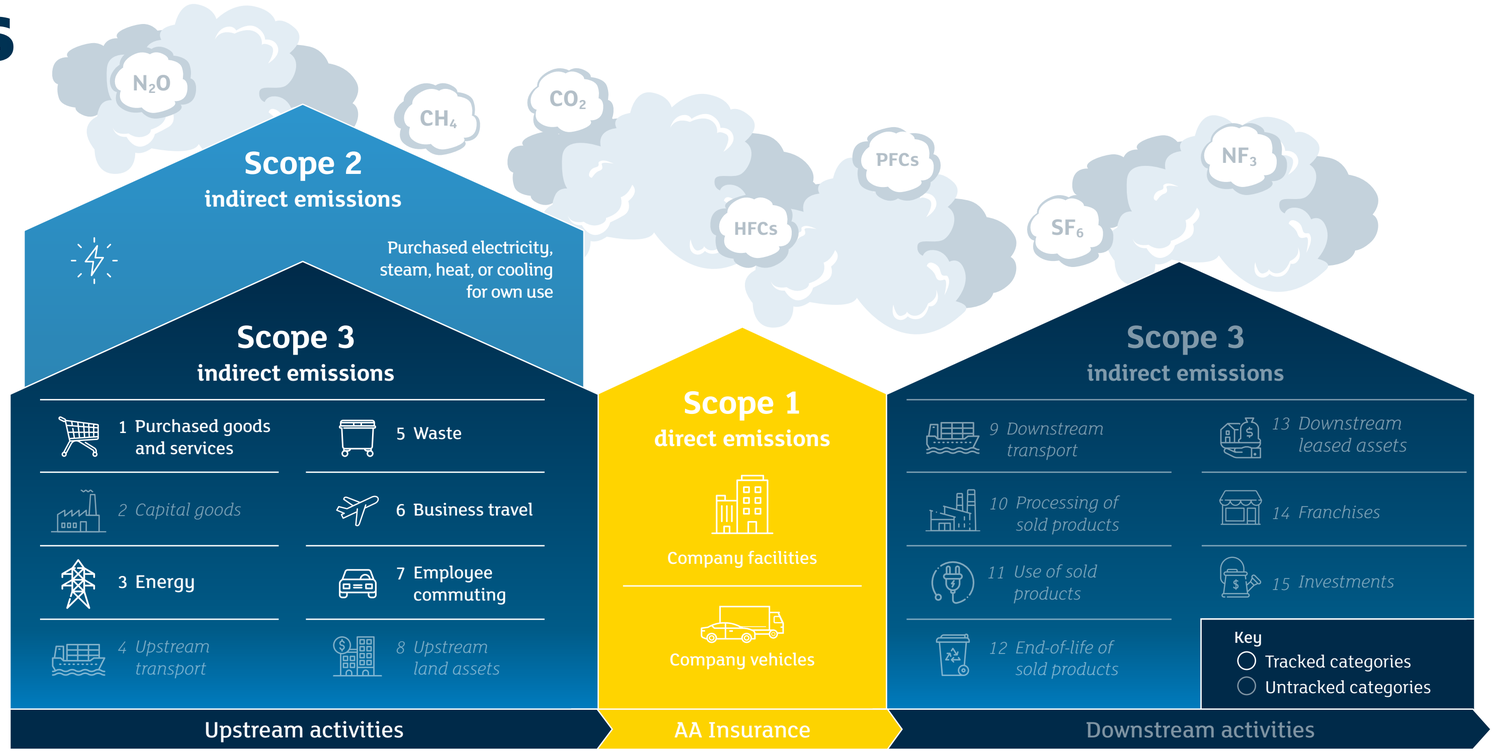


Table 5: Our progress in measuring emissions categories

	Scope 1	Scope 2	Scope 3: Category 1	Category 3	Category 5	Category 6	Category 7
Measured since FY20	Fuel	Electricity (location-based)	Paper	Transmission and distribution (T&D) losses	Solid waste	Business flights	
Additional GHG emissions measured from FY24		Electricity (market-based)		Upstream emissions of purchased fuel and electricity		Taxis and accommodation	Employee commute and work from home (WFH)

Exclusions

This year we have used Adoption Provision 4, which allows us to exclude some categories of scope 3 emissions in FY24. For category 1 (purchased goods and services beyond paper use, including our claims supply chain), category 2 (capital goods) and category 15 (investments and underwriting emissions), we are using the time available to ensure our data is robust enough to calculate these larger and more complex categories by FY25. We expect the inclusion of these new emissions categories will significantly increase our reported emissions footprint next year. We have not excluded any other material facilities, operations or assets from our emissions calculations.

McHugh & Shaw Limited has independently verified emissions for FY24, FY23 and FY20. We have obtained reasonable assurance over our scope 1 and 2 emissions, and limited assurance over our scope 3 emissions. More information on the scope can be found in the assurance reports provided by McHugh & Shaw, which are published on the sustainability page of our website.

Our FY20 emissions differ immaterially from those reported in our 2022 CSR report due to small changes made as part of the verification process.

Year-on-year, our total emissions have increased due to the inclusion of new categories in FY24. We have chosen not to update or reset our base year with the material change to the reporting boundary. A more comparable view of year-on-year performance is shown in table 7 on the following page, which excludes these new FY24 categories.

Table 6: Our currently measured emissions footprint

Metric	FY24 tCO_2e (location based)	FY24 tCO_2e (market based)	FY23 tCO_2e (location based)	FY20 tCO_2e (location based)
Scope 1				
Fuel	98.87	98.87	88.21	130.05
Scope 2				
Electricity	50.83	7.15	52.39	90.25
Scope 3				
Category 1 – paper	9.20	9.20	21.39	13.94
Category 3 – T&D losses	5.89	0.56	6.22	9.08
Category 3 – upstream energy and fuel	55.75	27.28		
Category 5 – waste	7.05	7.05	16.59	8.02
Category 6 – business flights	73.75	73.75	42.48	47.70
Category 6 – taxis and accommodation	11.26	11.26		
Category 7 – employee-related emissions	312.50	312.50		
Total scope 3	475.40	441.60	86.68	78.74
Total emissions	625.10	547.62	227.28	299.04
Intensity of emissions per thousand policies	0.56	0.49	0.21	0.35
Intensity of emissions per million dollars of premium revenue	0.73	0.64	0.29	0.66

Other metrics

We do not currently track any other climate-related metrics beyond GHG emissions. As we gain a deeper understanding of our climate-related risks and opportunities, we will consider how new metrics could be used to monitor these. These may include monitoring the percentage of business activities vulnerable to climate-related risks, the percentage of business activities aligned with opportunities and the capital deployed towards climate-related risks and opportunities.

We do not currently use an internal emissions price when making our business decisions. There are no other climate-related KPIs that we use or industry-based metrics or targets that we are aware of at this stage.

Our targets

We have a short-term target to reduce the categories of emissions that we have measured since FY20 (shown in table 5) by 42% on an absolute basis between our FY20 base year and FY30. This target excludes any newly measured scope 3 categories from FY24 onwards. While this target is not accredited by the Science Based Targets initiative (SBTi) as science-based, we aligned to their guidance for limiting global warming to 1.5°C since pre-industrial times to set it. We do not rely on any offsets to meet this target.

We are currently on track to meet this target, having reduced these categories of emissions by 17.9% since FY20.

We currently do not have a target for the remaining categories of emissions that we measure. Once we have measured all material emissions categories by FY25, we will investigate setting new targets as part of our climate transition plan.

Table 7: Summary of movement in emissions categories measured since FY20

Metric (location based)	FY24 tCO_2e	FY20 tCO_2e (base year)	Movement from FY20
Scope 1	98.87	130.05	(24.0)%
Scope 2	50.83	90.25	(43.7)%
Scope 3*	95.89	78.74	21.8%
Total emissions	245.59	299.04	(17.9)%

* Excluding any newly measured scope 3 categories from FY24 onwards

Estimating our emissions

When we calculate or estimate emissions, we use a range of methods and assumptions. These limitations mean that there is an element of uncertainty in our calculations. This in turn means that what we understand of our emissions footprint may change over time as data and guidance matures. When we choose between different methods available, we have used the method that gives us the most accurate and specific calculation based on the data that we currently have available.

Table 8: Methods, assumptions and estimation uncertainty

Emissions type	Source	Method	Assumptions, uncertainties and limitations
Scope 1			
Fuel	Fleet and pool cars	Fuel based	Minimal uncertainty. Calculations are based on actual litres of fuel purchased. We assume this is consistent with the amount we use.
Scope 2			
Electricity	Used in our two offices and four Customer Service Centres	Location based	Minimal uncertainty. Calculations are based on actual kilowatt hours (kWhs) used, as provided by our electricity provider or meter readings.
		Market based	Minimal uncertainty. Most of the electricity we use is purchased from a Toitū climate-positive certified electricity retailer, which only purchases electricity from wind, hydro and solar. Ecotricity can't guarantee that customers only receive the renewable energy it purchases (because all electricity is supplied through the National Grid). However, it measures how much energy its customers are using and how much it needs to purchase from renewable sources on an annualised basis, so the net effect is that purchases by Ecotricity's customers are equivalent to Ecotricity's purchased renewable electricity. The remainder is based on actual kWhs used and the market based emissions factor.
Scope 3			
Category 1 – purchased goods and services	Paper usage	Average data	Minimal uncertainty. Calculations are based on actual number or weight of units we buy.
Category 3 – upstream energy and fuel	T&D losses	Location based	Minimal uncertainty. Calculations are based on actual kWhs (see scope 2) and the New Zealand average T&D loss factor.

Table continues next page

Table 8 continued: Methods, assumptions and estimation uncertainty

Emissions type	Source	Method	Assumptions, uncertainties and limitations
Scope 3			
Category 3 – upstream energy and fuel	Upstream energy and fuel	Average data	Minimal uncertainty. Calculations are based on actual litres of fuel and kWhs of electricity consumed multiplied by the relevant emissions factors. Where we use renewable energy there are no upstream energy and fuel emissions when using the market based method.
Category 5 – waste	Solid waste from rubbish bins	Waste type-specific	Slight uncertainty. Calculations are based on the weight and type of waste collected. Collection companies estimate some weights. We assume they are materially accurate.
Category 6 – business travel	Business flights	Distance based	Minimal uncertainty. Calculations are based on actual kilometres travelled (international and domestic) and class of fare.
	Taxis	Spend based	Slight uncertainty. Calculations are based on actual invoiced spend in the period, however actual distances travelled and type of vehicle are unknown.
	Accommodation	Average data	Slight uncertainty. Calculations are based on the number of nights that a person stays in accommodation away from their usual working location based on country factor, as factors for specific accommodation is unknown.
Category 7 – employee-related emissions	Employee commute	Distance based	Moderate uncertainty. Calculations are based on the distance travelled and mode of transport used by our employees commuting to the workplace. We gathered this information by surveying our employees in September 2023 based on their average week, which 78% of our employees responded to. We extrapolated results over our total number of employees at 30 June 2024. We assume that the results of the survey and subsequent extrapolation materially portray the actual emissions of our employees commuting.
	Employees WFH	Average data	Moderate uncertainty. Calculations are based on the number of days worked from home by our employees in an average week. This information was gathered through the same survey used to gather employee commute data noted above. We assume that the results of the survey and subsequent extrapolation materially portray the actual emissions of our employees working from home.

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