

Climate-related disclosure

– Group FY23 Annual Report

This climate-related disclosure is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations addressing how RAA is acting on climate change through governance, strategy, risk management and metrics and targets.

We are aware of the risks of climate change and have an increasing awareness of the opportunities presented by being a low-carbon business. We are continuing to evolve our approach to climate risk, strengthening our response to the threat of climate change and contributing to limiting the increase in the global average temperature to below 1.5°C above preindustrial levels.

RAA is committed to reducing the environmental impact of our operations. We will be visible in our contribution to making life better for members and our community, today and tomorrow. We have recently formalised our commitment to the United Nations Global Compact and our intention to implement the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. RAA currently manages climate risk against large natural perils events and is maturing its understanding of the impacts relating to climate change risk. We have completed our first Communication on Progress against the Ten Principles of the United Nations Global Compact.

Governance

Board of Directors

The Board of Directors is responsible for the oversight of RAA, including:

- Approval of the RAA Environment and Social Impact Framework and Supporting Strategies; and
- Consideration and approval of the external reporting within the Annual Report.

RAA has Board-established Committees to assist with fulfilling these responsibilities for governing climate-related issues. These include:

- Risk and Compliance Committee – overseeing the management of strategic and operational risks of RAA. Climate change is a strategic risk in RAA's Group Risk Management Framework;
- Audit Committee – overseeing the integrity of RAA's external statutory financial reporting framework, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting which incorporates climate risk-related disclosures; and
- Governance, Nominations and Remuneration Committee – which approves the format and content of our annual report.

Chief Executive Officer, RAA and Chief Executive Officer, RAA Insurance

The Chief Executive Officer, RAA and Chief Executive Officer, RAA Insurance are responsible for overall management and financial performance of RAA, including:

- Developing and overseeing overall implementation of climate related strategies; and
- Receiving and reviewing progress reports including assigning actions.

Management Team

The Management Team is responsible for RAA's climate change activities including:

- Embedding climate-related risk and opportunities into RAA's Risk Management Framework and within underwriting decisions;
- Reviewing climate-related disclosures;
- Embedding climate strategy into RAA brand, narrative and engagement; and
- Implementation of the strategy to minimise the climate-related impact of RAA business operations.

Climate-related Committees

The Environment, Social and Governance (ESG) Steering Group has oversight of the strategy and governance for climate, environment and social impact and meets quarterly. The Committee sets the overall direction and monitors progress of RAA's existing and future activities in the areas of Environment and Social Impact. These activities are driven by our risk management process, regulatory obligations, member, stakeholder and community expectations. This work is undertaken in line with Business Strategy and Planning routines.

A Climate Change Working Group, which also meets quarterly, has been established and reports to the ESG Steering Group with responsibility for:

- Defining, approving and monitoring the Environment and Climate Change Strategy; and
- Scanning external environment and reviewing reporting.

Strategy

Integrating climate change into RAA's strategy

RAA's first five-year strategy, designed to achieve our new purpose, 'better for members, better for our community' introduces the United Nations Sustainability Development Goals (UN SDGs). These global goals frame, and increase, our commitment to deliver on our purpose through impactful RAA member, environmental and social activities.

Through the lens of the UN SDGs, we have integrated climate change into our strategy and committed to reducing the environmental impact of our operations, including addressing risks and embracing opportunities presented by climate change. We are focused on expanding our environmental activity to make a tangible contribution to making life better in our community.

RAA is committed to working towards a Net Zero Carbon emissions target, contributing to UN Sustainable Development Goal 13: Climate Action. With an initial focus on our own operations, we have established a baseline for our existing greenhouse gas emissions and are developing strategies to reduce our emissions. From 1 January 2023 RAA's headquarters at Mile End are powered by a green power contract, reducing 85% of our Scope 2 emissions.

As the State's largest member organisation, key to our five-year strategy is RAA's pivotal role in helping others reduce their carbon footprint, contributing to environmental sustainability on a local, national, and global scale. We are focused on developing solutions for solar and batteries, hydrogen, and electric vehicles (EVs) for members, commercial customers, and our community, helping to contribute to the decarbonisation of South Australia. We will establish hundreds of electric vehicle charging points over 140 sites across South Australia over the next two years, with more than 75 per cent of the new charge points located in regional areas. More than 100 chargers have been installed across 13 charging sites.

We are also invested in providing energy products, storage, and plans for solar and batteries systems and EVs. To help members reduce their energy bills, we will invest in a fully integrated system complete with solar, battery storage, EV charging and monitoring. We are also exploring other technology solutions to further contribute to environmental sustainability and reduce energy costs for members.

Our five-year strategy is informed by an Oxford scenario planning approach which provides a framework to evaluate potential alternative futures, mitigate risks and capitalise on future opportunities through looking back from the future to today. A changing climate underpins all the scenarios considered.

Consideration of climate change in underwriting

RAA Insurance is exposed to significant natural perils risk in our Home and Motor portfolios and we currently charge premiums reflecting our assessment of each individual property's exposure to these risks. We are continually developing our understanding of climate risk using insights from specialist experts in natural perils modelling. We are also developing an understanding of portfolio segments most likely to be impacted by climate change in the medium to longer term.

We purchase reinsurance to manage climate risk and profitability and provide capital protection against large natural perils events.

We also proactively monitor new housing developments to build our understanding of how climate change may impact the physical risk in these areas over time. We make decisions on whether to underwrite based on these risks and any proposed mitigation in the area.

Consideration of climate change in investments

The RAA Board has approved a long-standing clear set of investment beliefs that govern its investment framework. As a result, all investment decisions must consider environmental, social and governance factors. This core belief has driven the following arrangements within the RAA portfolios:

- All asset managers engaged by RAA must be signatories to the UN Principles of Responsible Investing (UN PRI). Key amongst these principles is to monitor, manage and reduce the impact on the environment through transport, waste, consumption of natural resources, energy use and procurement.

Environmental challenges are obvious in heavy industry sectors such as metals and mining, machinery, and oil and gas. However, environmental concerns apply across many other sectors as changes in energy and in climate conditions may have pervasive effects. As a signatory to the UN PRI, RAA management has a duty to discriminate against investment in companies that fail to manage their environmental and social impacts effectively, or against those that fail to adopt robust ethical policies and governance practices.

- All RAA asset managers are signatories to the 2021 Global Investor Statement to Governments on the Climate Crisis. This coalition of 732 other investors, with over US\$52 trillion in funds under management, asks that governments raise their climate ambition and implement credible policies to address the climate crisis. Greater clarity will help investors better allocate the capital needed to address climate change before it is too late. The Statement was coordinated by the Investor Agenda, a coalition of investor groups working to accelerate a net zero economy.

Climate scenarios supporting strategy and decisions

RAA is developing a series of climate change risk scenarios, including a scenario aligned with the Paris Agreement, to test the resilience of the business to climate risk over multiple time horizons. Led by our Insurance team, this work will contribute to the expectations of APRA's CPG 229 *Climate Change Financial Risks*.

Risk Management

Climate change risk impacts on RAA

RAA understands physical impacts in Australia present the most material short, medium and long-term climate risks to RAA's business. As such, RAA has a mature approach to responding to extreme weather events. The impacts of climate change could, without proper mitigation activities, result in increases in the cost of natural disasters in South Australia. Where these increased costs drive up the insurance premiums, this would have a negative impact on insurance affordability in the future.

RAA's exposure to physical risk comes from insurance coverage of assets in existing high-risk hazard areas associated with bushfires, floods and storms including locations that may be impacted in the future. The extent to which RAA is exposed to key physical risks is expected to increase over time.

Our understanding of climate change risk is evolving as more data relating to the underlying science and events becomes available. Climate change risk monitoring of the insurance portfolio is used by management to assist decision making around future climate-related strategies and underwriting considerations.

A transition economy will also provide both risks and opportunities for RAA and its members through bespoke products and services. For example, an increased uptake of electric and hybrid vehicles and solar and battery products provide additional social, environmental and commercial opportunities.

In addition to the physical and transition risks, RAA regularly monitors metrics relating to the external climate environment. The metrics focus on anticipated climate changes in our market, with reporting used by management to inform strategic decision making, including:

- Carbon emissions over time (global and Australian, including sources of emissions);
- Changes in the mean temperature over time (global and Australian);
- Changes in sea level over time;
- Changes in rainfall over time (southern Australia);
- Southern Annular Mode, which affects winter storm and rainfall activity in southern Australia; and
- Renewable energy generation over time (global and Australian, including sources of generation).

Managing climate risks and opportunities

Management of climate risks will continue to evolve as RAA further develops its understanding of climate change risk and its impact to the business.

Risks relating to climate are managed across the business through a combination of:

- Disruptive event management, business continuity planning, recovery and resumption plans. The RAA Risk & Assurance team oversee the program, facilitate regular testing and assist in plan development.
- Peril modelling looking at the economic impacts of, and the challenges preparing for, climate change with a scope of activities that includes:
 - Assessing exposure and vulnerability to changing climate risk;
 - Scenario analysis and stress testing; and
 - Assisting with evaluating and designing an appropriate reinsurance program.
- Implementation of the Environment and Climate Change Strategy which includes:
 - Establishing formal metrics to monitor internal risk factors including insurance exposure;
 - Developing a Climate Action Plan;
 - External reporting and disclosure of material climate risks to the market; and
 - Collaboration to build capacity.

Metrics and Targets

With an initial focus on our own operations, we have established a baseline for our existing operational footprint greenhouse gas emissions.

We are also considering the greenhouse gas emissions from our investment portfolio, for example:

- The majority (approximately 90%) of RAA Group investments are held in cash and bonds with these exposures fully placed with governments and financial (mostly banking) entities.
- A minority (around 10%) of Group investments are held in Australian and Global equities via fund manager trusts. All investments of this nature meet the (1) UN PRI (Protocols for Responsible Investing) and (2) meet each managers climate change standards. Further, each manager employed by RAA has detailed climate change filters that discriminate against investment in any company that does not have high regard for climate change in its activities.

RAA's approach to waste management will also be further investigated in FY24. This ongoing work will form the basis of future targets. The development of scenario analysis and stress testing may identify additional metrics and targets for consideration.