AA Insurance

Climate Statement **2025**



AA Insurance

1 July 2024 – 30 June 2025

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→ **Refer to Appendix 4** for some important information about the contents of this report.



Introduction

Welcome to AA Insurance Limited's ('AA Insurance') 2025 Climate Statement.

The information presented here covers the reporting period 1 July 2024 to 30 June 2025 (FY25) and all currency amounts shown are in New Zealand Dollars. We have prepared this Climate Statement in accordance with, and to comply with, the Aotearoa New Zealand Climate Standards (NZ CS), subject to the listed adoption provisions.



Directors Jimmy Higgins and Nadine Tereora (pictured) sponsored our climate-related disclosures throughout FY25. They have approved our 2025 Climate Statement, for and on behalf of the Board.

James (Jimmy) Higgins
Director
8 October 2025

Nadine Tereora
Director
8 October 2025

Certain disclosures have been excluded as permitted by the following adoption provisions in the preparation of our 2025 Climate Statement:

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 4: Certain sources of gross greenhouse gas (GHG) emissions in metric tonnes of carbon dioxide equivalent (tCO_2e) classified as scope 3 (NZ CS1 para 22(a)). See the Metrics and Targets section of this report for more information.

Adoption provision 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 two years of comparatives as we measured them for the first time in FY24. See the Metrics and Targets section of this report 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 as we measured them for the first time in FY25.

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).



Section 2

Governance

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Governance

Our governance structure

We are continuing to evolve climate governance practises to manage and oversee climate risks and opportunities.

During FY25, we refreshed our Climate Governance & Reporting Framework and have continued to work with the wider business to integrate climate and sustainability formally into company frameworks.

Our governance structure remains mostly unchanged when compared to prior year, however, there have been some changes to our Board level committees. During FY25, the role of the Remuneration Committee was expanded and it was renamed to the People, Culture and Remuneration Committee, and a Nominations Committee was established, as shown in table 1.

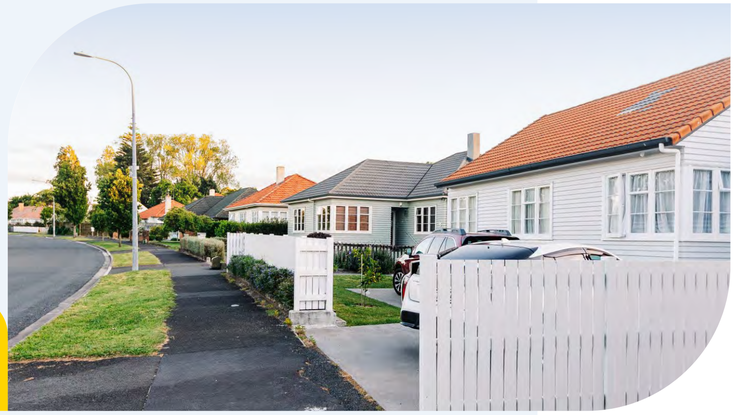
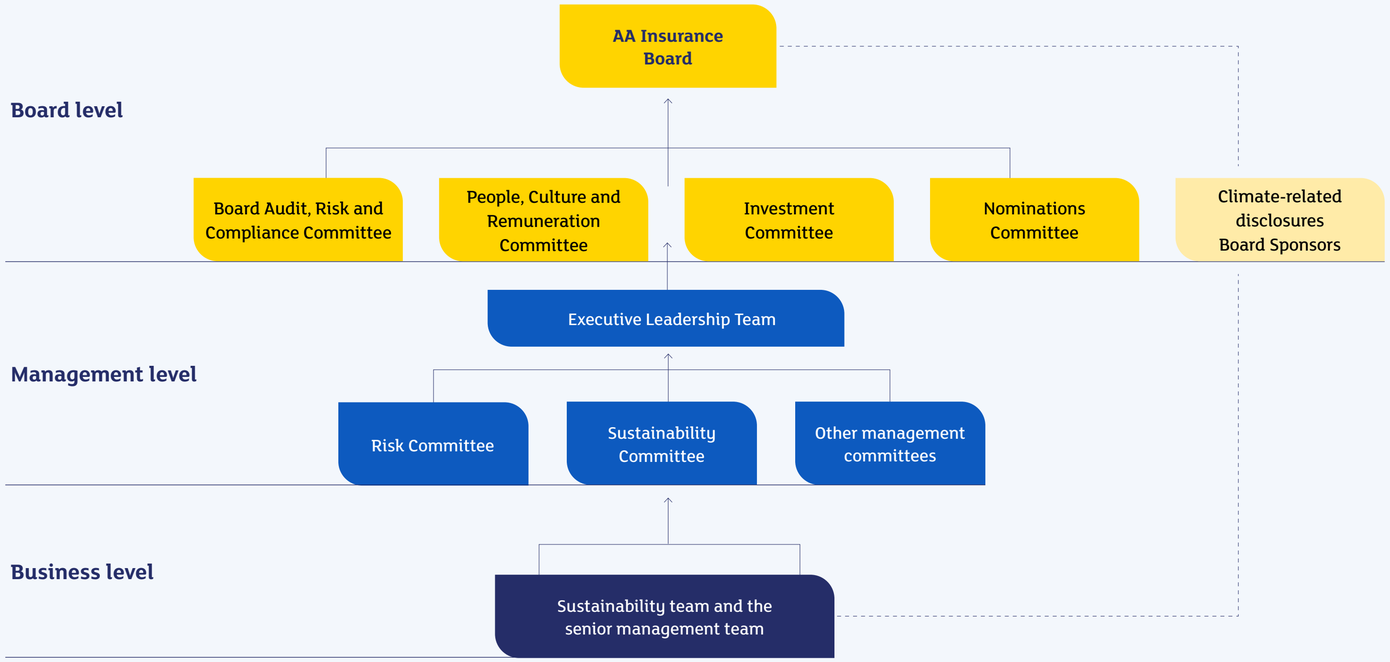


Table 1: Our governance structure in FY25



Governance

Board level

Our Board is supported by a variety of Board level committees, each with distinct responsibilities as shown in table 2.

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

A Board skills matrix is completed to review the individual and collective skills, knowledge and experience of Board members. Areas included in the matrix include risk management, corporate strategy and sustainability. The Nominations Committee assists in this assessment as well as evaluating the competencies and suitability of any prospective directors.

Table 2: Board level climate-related responsibilities

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, metrics, targets, and external climate-related disclosures. It meets at least five times a year.

Board sponsors

Directors Nadine Tereora and Jimmy Higgins act as an interface between Management and the Board, providing guidance and feedback on mandatory climate-related disclosures (CRD) matters.

Board Audit, Risk and Compliance Committee (BARCC)

The 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 our climate-related disclosures annually.

It meets at least five times a year.

Nominations Committee

The Nominations Committee assesses Board composition by evaluating skills, experience, diversity and independence.

It meets at least twice a year.

People, Culture and Remuneration (PCR) Committee

The PCR Committee assesses performance using a balanced scorecard that considers financial and non-financial measures, and monitors the effectiveness of our broader people and culture policies and practices. The balanced scorecard 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 four times 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.

Board members are provided with learning materials and climate education sessions where uplift opportunities are identified. This year, educational materials were provided to the Board covering changes to the CRD regime, Directors' duties in relation to the CRD regime, an overview of the FMA's December 2024 report *'Climate-related Disclosures: Insights from our reviews'* and recommended key areas of focus for Directors in FY25. Management also held an important session with the Board to discuss and approve climate transition planning principles.



Governance

Management level

Our Executive Leadership Team (ELT) supports the Board with the day-to-day management of the business.

They engage with the Board and BARCC at least five times a year, supported by senior management and management level committees.

Table 3 shows specific areas of climate-related responsibility at a management level.

Table 3: Management level climate-related responsibilities



Michelle James

Chief Executive Officer

- Strategy



Simon Hobbs

Chief Operating Officer

- Claims management and response
- Claims supply chain
- Community engagement



Martin Chisholm

Chief Financial Officer

- Finance
- Sustainability reporting and climate-related disclosures
- Investments and capital management
- Procurement



Vanessa Leishman

Chief Risk Officer

- Risk frameworks
- Governance oversight
- Risk oversight
- Legal services



Shaun Rees

Chief Product and Marketing Officer

- Product and portfolio
- Pricing and underwriting
- Community engagement



Paula Williams

Chief People Officer

- Performance and remuneration
- Workplace experience



Mark Daniels

Chief Transformation Officer



Ange Nash

Chief Information Officer

Supporting formalised management level climate responsibilities through technology evolution, cyber security and transformation.

Culture

Risk Committee

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

During FY25, it changed from meeting at least five times a year to meeting monthly.

Sustainability Committee

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

It meets at least quarterly.

Other management-level committees

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

Business level

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 monthly, the Board Sponsors and BARCC at least five times a year, and the Board at least annually.

Governance

Governance of climate-related risks and opportunities

Our sustainability team presents outcomes of Climate Change Scenario Analysis (CCSA), including identified climate-related risks and opportunities, to the Risk Committee and BARCC annually.

In FY25, we used external support to help us identify and assess climate-related risks and opportunities through CCSA. Results of CCSA are reviewed by the BARCC and relevant senior leaders to inform management of climate-related strategic risks and opportunities. While these insights contribute to strategic awareness, a formalised process for integrating them into strategic planning and capital allocation is not yet in place. Refer to the Strategy section of this report for further information.



→ Operational climate-related risks are managed as part of our business-as-usual risk management processes. Refer to the **Risk Management section** of this report for further information.

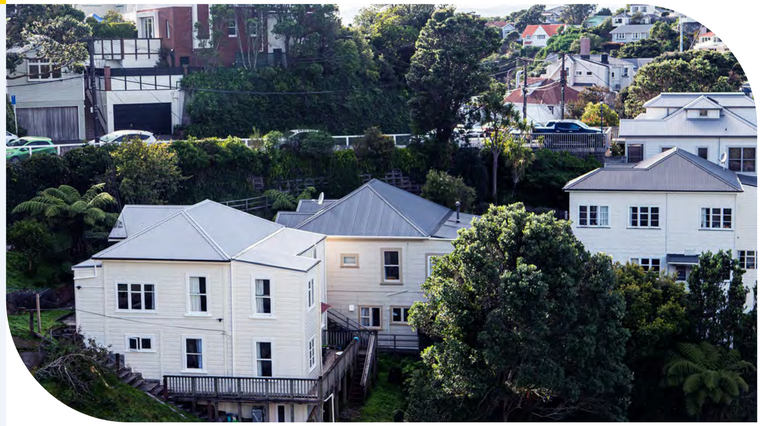
Governance of climate-related metrics and targets

The sustainability team reports GHG emissions metrics and progress against targets to the ELT through the monthly Business Performance Committee.

This information also forms part of our Chief Executive Officer's monthly report to the Board, providing Directors with oversight. Targeted updates are provided to the Sustainability Committee on an ad hoc basis to ensure Management receives additional detail where appropriate.

Other metrics are reported annually within the Climate Statement, and at this stage are not formally monitored throughout the year.

→ Any new metrics and targets are recommended by the sustainability team and approved by the Board. Refer to the **Metrics and Targets section** of this report for further information.





Section 3

Strategy

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Our business model and strategy

Our customers include individuals 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 their 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 long-term strategy is centred around our ambition to be the most valued insurance company in New Zealand, and our vision to earn the trust of New Zealanders and their communities by protecting what matters most. This strategy is supported by four strategic pillars: leading brand and propositions, digitally enabled experiences, unique partnerships, and adaptative culture and capability.

During FY25, a key strategic focus was making significant behind-the-scenes changes to how we operate, rolling out a multi-year core platform upgrade to replace legacy systems with modern technology. This investment is strengthening our internal capabilities and enhancing how we collaborate with partners, so we can deliver a better, more seamless experience for our customers.

We are 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).**

AA Insurance

Since 1994 we have provided **home, contents and car insurance** in New Zealand and in 2018 we introduced **small business insurance.**

Standard and Poor's (Australia) Pty Ltd has provided us **with an Insurer Financial Strength Rating of**

AA-
(Very Strong)

We underwrite our own policies and sell direct to **New Zealanders.**

Our **1,100+** New Zealand-based employees look after more than **1,100,000** policies.

Current impacts of climate change

The impacts of climate change can be physical (more frequent, severe weather events and longer-term shifts in climate patterns) or transition (changes to the market, technology, policy or reputation because of the shift to a low emission economy).

We have assessed whether we have experienced any physical or transition impacts from climate change during FY25, noting that it is often difficult to know whether impacts are definitively caused by climate change.

Our assessment involved a review of whether any anticipated climate-related impacts (as detailed on pages 12-14) materialised in the year. We analysed FY25 business performance data including claims costs, reinsurance premiums, policy numbers, cancellations trends and reputation indices and quantified the financial impacts where we judged these to be material.

Physical impacts

During FY25, we experienced five weather-related natural hazard events, which we define as events with expected customer claims of more than $1.5m. We estimate that the total claims cost from these events will be around $19.7m, up from $6.2m in FY24, a relatively benign year with only two weather-related natural hazard events.

For context, over the last 20 years we have averaged around three weather-related natural hazard events per year. Once adjusted for inflation and growth, the 20-year average claims costs in relation to these events is $29.3m per year, however this is heavily skewed by the 2023 North Island Weather Events. If excluded, the average is around $16.4m per year, which has been gradually rising. Whilst we cannot attribute these increases to climate change with certainty, climate change is expected to increase the frequency and severity of weather events and therefore may be responsible for the long-term average increase in weather-related claims.

The reinsurance premiums that we pay have stabilised in FY25 after increasing significantly in FY24 in the aftermath of the 2023 North Island Weather Events. Whilst the increase from FY24 is negligible, these costs have risen by $64.6m, more than 200%, since FY22. Whilst some of this increase is due to policy growth, our average reinsurance premium on a per policy basis has increased by 170% between FY22 and FY25. These increased reinsurance premiums represent a significant increase in costs to the business each year.



Transition impacts

During FY25, we were not materially impacted by any changes related to the transition. Whilst our exposure to electric vehicles (EVs) is increasing, this is not having a material impact on our claims costs or cycle times, and we continue to see growth in our motor portfolio.



Climate change scenario analysis

Climate Change Scenario Analysis (CCSA) is a tool that helps us to explore what the world might look like in the future and identify potential climate-related risks and opportunities that may impact our business.

The scenarios are designed to provide a range of plausible futures based on how well the world mitigates and adapts to climate change, which helps us to better understand the resilience of our business model and strategy.



Table 4: Scenario overview

Orderly	Disorderly	Hot House
Key sources ICNZ Orderly NGFS Net zero 2050 IPCC SSP1 - 2.6 CCC HTHS	**Key sources** ICNZ Disorderly NGFS Delayed transition IPCC SSP2 - 4.5 CCC HTLS	**Key sources** ICNZ Hot House NGFS Current policies IPCC SSP3 - 7.0 CCC Reference
An ambitious and coordinated transition aligned with a 1.5°C warming trajectory	Delayed action, followed by sudden and uncoordinated transformation, landing at <2.0°C	Continuation of current policy settings, leading to uncontrolled warming of 3°C+
Assumptions and Pathways • Steady increase in emissions pricing • Strong growth in renewable energy, EV uptake and electrification • Growth in native and exotic forestry • Commitment to achieving social goals • Economic growth is positive but slower than other scenarios, but living costs are lower than in other scenarios	**Assumptions and Pathways** • Slow then rapid increase in emissions pricing • Slow growth in renewable energy, EV uptake and electrification, then rapid acceleration after 2030 • Growth in exotic forestry • Socio-economic trends are similar to today • Economic growth is slower than the Hot House scenario, but disruptive policy leads to very high inflation and living costs after 2030	**Assumptions and Pathways** • Emissions pricing is the main policy tool in New Zealand and prices only rise slowly • Renewables increase along with EVs and electrification, but much slower than other scenarios • Nationalism driven by competitiveness and security is prioritised over social goals • Economic growth is strong, but inflation rises and living costs grow

Scenario development

The scenarios developed alongside the Insurance Council of New Zealand Te Kāhui Inihua o Aotearoa (ICNZ) in June 2022 for the New Zealand General Insurance sector were used as a starting point.

These were further developed through a workshop held in November 2024 with a variety of business units including Claims, Pricing, Underwriting, Product, Corporate Affairs, Sustainability and Risk, to ensure the scenarios were relevant and appropriate for our business. The group identified key uncertainties and drivers of change including EV trends, reinsurance and government action, which were integrated into the scenario narratives.

The data sources used to construct these scenarios were largely drawn from several local and global frameworks: Network for Greening the Financial System (NGFS), the Intergovernmental Panel on Climate Change's (IPCC) Shared Socio-economic Pathways (SSP), and the Climate Change Commission (CCC). Policy assumptions were updated to reflect the updated CCC scenarios provided to Central Government as part of their advice on the Fourth Emissions budget.

An overview of the three scenarios is shown in table 4, with full scenario narratives included in Appendix 1.

Climate change scenario analysis (continued)

Time horizons

We updated our definitions of short, medium and long term, to better reflect our internal view of these time horizons. This change has had no material impact on our disclosure.

Short term
2025 – 2030

Aligns with our short-term emissions reduction target and our 3–5-year business planning cycle

Medium term
2030 – 2040

A midpoint between the short and long terms

Long term
2040 – 2050

Aligns with the New Zealand Government's target of net zero emissions of long-lived gases by 2050



Physical analysis

The analysis of physical impacts looked at how our view of risk, measured through Average Annual Loss (AAL), might change in the short, medium and long terms under the three scenarios. AAL is the average financial loss we expect in a year for an insured risk or portfolio due to damage from weather events, which can be modelled based on the projected temperature changes defined by the equivalent SSP.

We analysed our present-day home, contents, motor and small business insurance portfolios and overlaid climate models for flood, storm and coastal inundation. Further details behind the modelling methods, assumptions and limitations can be found in Appendix 2.

The analysis concluded that AALs are projected to increase under each scenario due to the increased frequency of severe weather events. Increases to AALs are predominantly due to flooding and coastal inundation, whereas the AALs for storm are not projected to change materially under the three scenarios.

Transition analysis

We used economic modelling to identify and assess risks and opportunities that could arise due to the economic impacts of climate change, including due to the net zero transition. The assessment was performed for each of the three scenarios and looked at the potential flow on impacts to our investment portfolio and on insurance affordability. Further details behind the modelling methods, assumptions and limitations can be found in Appendix 2.

Under each scenario, insurance affordability for New Zealanders is projected to get tighter over time. The disorderly scenario is projected to see the greatest stress on affordability of the three scenarios, with projected high inflation and financial instability caused by a delayed yet aggressive shift towards sustainability.

The transition risk within our investment portfolio was assessed as relatively low (around 5%) due to the low level of equity exposure in the portfolio and the nature of those investments.

→ The analysis performed helped to identify several physical and transition risks and opportunities, as detailed on **pages 12-14**.

Risks and opportunities

Climate-related risks and opportunities were identified through a further workshop in December 2024 with the same key teams who helped to develop the scenarios, plus key members of our ELT.

To improve transparency, table 5 below builds on our prior year disclosure by showing the anticipated impact of each risk and opportunity under each scenario and time horizon.

→ Details on how we are responding to these risks and opportunities is included in the transition planning section of this report on **pages 15-18**.



Table 5: Climate-related risks and opportunities

Risks

Name	Type	Description	Customer impact	Business impact	Time horizon	Orderly	Disorderly	Hot House
Rising volume, severity and cost of customer claims	**Physical**	The volume and severity of claims rises as the increasing frequency and severity of extreme weather events causes more damage to our customers' insured assets. The cost of claims also rises, not only due to the rising volumes, but price inflation from national and international supply chain shortages as a result of local and global extreme weather events.	Negative financial and wellbeing impacts of longer claims response and resolution times. Premium increases for addresses where risk has increased or general inflationary premium increases.	Potential reputation damage, decreased customer satisfaction and decreased customer growth due to premium increases and worsening customer claims experience. Increasing number of high-risk customers if pricing is not adjusted appropriately or in a timely fashion. Operational stress causing longer claims response and resolution times and the subsequent negative impact on employee wellbeing. Reduced profitability if pricing is not adjusted effectively and claims costs are not controlled.	**Short**	**Low**	**Medium**	**Medium**
					Medium	**Low**	**Medium**	**High**
					Long	**Low**	**Medium**	**High**
Supply chain inflation from the net zero transition	**Transition**	Costs to the business increase as the net zero transition puts inflationary pressure on the national and global economy, e.g. through emissions pricing.	Premium increases as increased costs are passed on to customers.	Reduced customer growth if consumers opt to self-insure as the cost of insurance become prohibitive. Reduced profitability if claims costs are not controlled.	**Short**	**High**	**Low**	**Low**
					Medium	**Medium**	**High**	**Low**
					Long	**Low**	**Low**	**Low**

Risks and opportunities (continued)

Table 5: Climate-related risks and opportunities - continued

Name	Type	Description	Customer impact	Business impact	Time horizon	Orderly	Disorderly	Hot House
Affordability and accessibility of insurance	**Physical and Transition** 	Premium increases or withdrawal of insurance from high-risk areas cause insurance to become unaffordable or inaccessible.	Customers cannot get insurance or decrease/ cancel their cover, taking on more risk themselves.	Reduced customer satisfaction and retention leading to reduced premium revenue and profitability. Reputational damage and loss of social license due to the expectation to provide affordable and accessible cover.	**Short**	**Low**	**Low**	**Low**
					Medium	**Medium**	**Medium**	**Medium**
					Long	**Medium**	**High**	**High**
Sustainable mobility and construction trends	**Transition** 	As New Zealand transitions to net zero, the shift to electrification, sustainable transport options and building practices creates challenges for timely repair and rebuilds as the materials and skills required by the workforce are different.	Longer wait times for repairs and rebuilds.	Potential reputation damage, decreased customer satisfaction and decreased customer growth due to longer customer claims resolution times. Reduced profitability if the cost to repair and rebuild sustainably are higher and potential costs of workforce retraining.	**Short**	**Medium**	**Low**	**Low**
					Medium	**Medium**	**High**	**Low**
					Long	**Low**	**Low**	**Low**
Decline in personal vehicle ownership	**Transition** 	Personal vehicle ownership declines as consumers shift to more sustainable methods of transport such as public transport and shared mobility options.	Traditional mobility insurance products not fit for purpose.	Reduced customer growth, premium revenue and profitability as personal vehicle ownership declines.	**Short**	**Low**	**Low**	**Low**
					Medium	**Medium**	**Medium**	**Low**
					Long	**High**	**Medium**	**Low**
Affordability and accessibility of reinsurance	**Physical** 	Reinsurance premiums rise and/or reinsurance cover reduces for certain perils or high-risk areas.	Premium increases as increased reinsurance premiums are passed on to customers. Reducing cover in areas where reinsurance does not provide cover, meaning customers have to take on more risk themselves.	Reduced profitability due to higher reinsurance premiums. Reputational damage and loss of social license due to the expectation to provide affordable and accessible cover.	**Short**	**Low**	**Low**	**Low**
					Medium	**Low**	**Medium**	**High**
					Long	**Low**	**Medium**	**High**

Strategy

Risks and opportunities (continued)

Table 5: Climate-related risks and opportunities - continued

Name	Type	Description	Customer impact	Business impact	Time horizon	Orderly	Disorderly	Hot House
Government intervention leads to changes in the private general insurance market	**Physical**	Government intervention causes material changes to the private general insurance market such as significant changes to the scope of the Natural Hazards Commission Toka Tū Ake (NHC), or requiring general insurers to contribute financially to managed retreat and/or other climate adaptation measures.	Disruption to customer policies if their cover changes as a result of the intervention.	Operational disruption to adapt to a new business model. Reduced customer satisfaction and customer growth if the disruption is not appropriately managed. Reduced profitability due to costs associated with operational disruption and/or additional adaptation costs.	**Short**	**High**	**Medium**	**High**
					Medium	**High**	**Medium**	**High**
					Long	**Low**	**Low**	**Low**
Inability to de-risk or price based on risk	**Physical and Transition**	Affordability and accessibility lead the Government to require insurers to cover high-risk addresses and/or cap premium increases, regardless of risk.	Potential pricing increases across the board (return to broad base community pricing).	Potential reputation damage, decreased customer satisfaction and decreased customer growth if prices increase. Reduced profitability due to higher claims costs or potentially loss-making products and the inability to adjust prices.	**Short**	**Low**	**Low**	**Low**
					Medium	**Medium**	**High**	**High**
					Long	**Medium**	**Medium**	**High**
Opportunities								
New insurance product offerings	**Physical and Transition**	Opportunity to offer new products to customers to meet evolving needs and incentivise risk mitigation.	Fit for purpose products, increased flexibility and improved customer satisfaction.	Innovation and customer growth opportunities. Increased customer satisfaction, customer growth and profitability.	**Short**	**High**	**Medium**	**High**
					Medium	**High**	**Medium**	**High**
					Long	**High**	**Medium**	**High**
Government and community advocacy	**Physical**	Insurers have a key role to play in managing the physical effects of climate change and New Zealand's response through guiding decisions about risk and influencing national and local governments about adaptation, resilience and managed retreat decisions.	Customers may need to make fewer claims and experience less disruption if they are less impacted by weather events. Affordability and accessibility challenges ease providing more cover options for customers.	Enhanced brand reputation. Increased uptake of insurance causing customer growth and increased profitability. Lower volume and cost of claims, increasing profitability and long-term business model stability.	**Short**	**Medium**	**Medium**	**High**
					Medium	**Medium**	**Medium**	**High**
					Long	**Medium**	**Medium**	**Medium**

Transition planning aspects of our strategy

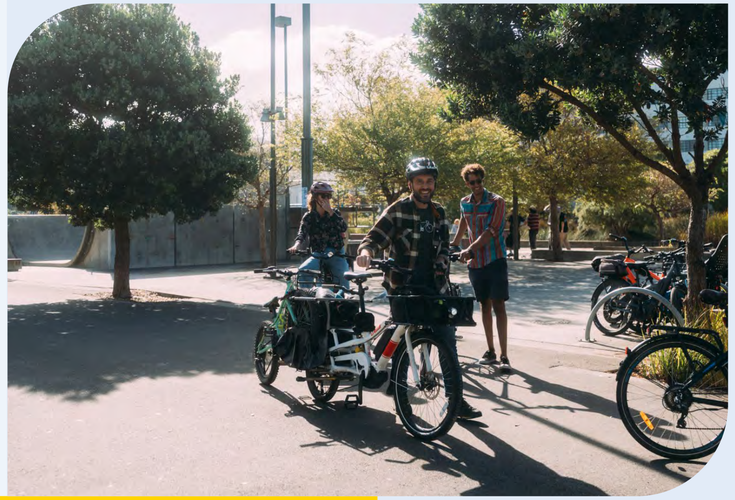
We assess our business strategy annually, planning for the next three to five years. The strategy is underpinned by our annual financial plan, which ensures our resources are aligned with our strategic direction.

In FY25, we refreshed our core business strategy, with climate change being one of the drivers of change that it aims to respond to. The CCSA process is currently standalone and not yet fully integrated into our strategic process, however we do utilise informal processes to ensure the identified climate-related risks and opportunities are considered as we set our strategy and make internal funding decisions. Various members of ELT, who are responsible for setting strategy, took part directly in the CCSA process and outputs were brought to Sustainability Committee for further challenge and refinement. Final outputs were provided to the Risk Committee and to the BARCC for oversight and discussion. We are investigating how to improve the integration of climate-related risks and opportunities into formal strategy setting processes, however until then, these are promoted for strategic consideration informally.

When determining the climate transition planning aspects of our strategy, we used guidance from the Transition Planning Taskforce to ensure we were taking a strategic and rounded approach.

Source: Transition Plan Taskforce (TPT) Disclosure Framework





To help guide climate-related prioritisation and decision-making as part of our wider strategy, the Board approved three transition planning guiding principles, one for each of the three interrelated pillars shown in the diagram above. These are explained in further detail on **pages 16-18**.

Strategy

Transition planning aspects of our strategy (continued)

Pillar 1: *'Decarbonising the entity'*

Description:

'The entity's ambitions and actions, in either its own operations or value chain, in the short-, medium- and long-term to reduce its GHG emissions'.

Guiding principle:

AA Insurance will take a proportionate role in reducing emissions using 1.5 degrees as a north star, provided our efforts do not have a materially detrimental impact on our customers or ability to operate.

During the year we have been working to further reduce our operational emissions as covered by our short-term emissions reduction target.

Between FY20 and FY25, we have reduced the operational emissions covered by our FY30 42% reduction target by 21.3% (see page 25 for further detail).

During FY25, we assessed our vehicle fleet, which was made up of 45 hybrids and two personal ICE vehicles, on a case-by-case basis to determine if any could be converted to EVs or retired from the fleet. In FY25, we removed 31 hybrid vehicles and both ICE vehicles, 22 of which were replaced by EVs. Most vehicle retirements took place in the latter half of the financial year, meaning our fuel emissions do not yet fully reflect the impact of these changes, but we expect to see decreasing fuel use from FY26.

We are also closely monitoring air travel, which began to rise after the end of the COVID-19 pandemic. Last year, we introduced stricter permissions for approving business flights, and air travel emissions fell in FY25 compared to FY24. Whilst we plan to meet our FY30 target through fleet conversion, we are also relying on air travel not increasing significantly.

A large portion of flights in FY25 related to a large scale but short term technology project, meaning there is scope to further reduce our air travel emissions going forwards.

Currently our business model and strategy have not changed and are not planned to change to meet our current decarbonisation target, which we believe can be met through operational changes rather than fundamental strategic changes. We plan to meet this target by replacing our hybrid vehicle fleet with EVs, whilst closely monitoring air travel. Most of the fleet was converted in FY25, however further conversions have been budgeted for in FY26.

Achievement of this target is partially dependent on the stability of emissions factors, which are outside our control. This includes the emissions factors associated with the fuel and electricity we use, both directly and indirectly. We also understand that travel is sometimes required where in-person engagement is essential to ensure successful outcomes, therefore further reductions to air travel emissions will depend on balancing these needs with our emissions reduction target.

We currently do not have a long-term emissions reduction target as we are still working to gather data and measure our full scope 3 emissions baseline. Future decarbonisation strategies will be assessed in line with our climate transition planning guiding principles and any impacts on our business model and strategy will be communicated in future reports.



Transition planning aspects of our strategy (continued)

Pillar 2: *'Responding to the entity's climate-related risks and opportunities'*

Description:

'The entity's ambitions and actions to enhance its resilience to the changing climate and respond to the risks and opportunities that arise from the transition to a low-GHG emissions, climate resilient economy'.

Guiding principle:

AA Insurance proactively considers short-, medium- and long-term climate risks and opportunities in our business strategies, plans and decisions.

Our strategy and the way we operate is changing in response to climate-related risks and opportunities, key elements of which are detailed below, noting this is not an exhaustive list of responses.

The main physical risks that we face stem from increasingly severe and frequent weather events affecting our customers' assets that we have insured. A key aspect of our strategy is to understand and balance our portfolio of risks, so that we are not disproportionately affected when events occur and can continue to meet the needs of our customers when they make a claim. We have invested in third party models and address level data, which allowed us to introduce risk-based pricing for flooding in FY24 and begin working on the introduction of risk-based pricing for storm, which we expect to introduce in the future. We have also reassessed our underwriting strategy to pause offering new home insurance cover where we have reached a certain level of exposure in a higher risk area. Whilst we do not take decisions like this lightly, it is key to ensuring we can deliver on our promise of caring, helping and getting things sorted for our existing customers.

To respond to the transition risk around mobility trends, we are focused on re-balancing our product portfolio, including growing our market share of home and contents policies. We also closely monitor our number of motor vehicle policies and market share each month, alongside investing in customer research to understand changing market trends, in order to monitor any changes to the motor vehicle market that could indicate personal motor vehicle ownership is declining.

Both physical and transition impacts of climate change are expected to have an impact on insurance affordability, for both us as a business and for our customers. We are working to improve efficiency and reduce our own costs per policy, which is a contributing factor when determining pricing, although this is not solely in response to climate change. A key strategic development this year was the opening of a second Drive Group site in Auckland, bringing the total to two key locations across the region. Drive Group offers vehicle repair services and adds valuable repair capacity to the market. In recent years, we have experienced significant policy growth, requiring scalable and innovative solutions. This collaboration strengthens our ability to meet rising customer demand.

We remain focused on building strong partnerships - including with Drive Group and our wider quality repairer network - to deliver efficient, customer-focused outcomes through collaboration and operational resilience.



Strategy

Transition planning aspects of our strategy (continued)

Pillar 3: *'Contributing to an economy-wide transition'*

Description:

'The entity's ambitions and actions to use the levers and capabilities it has available to embed and accelerate a transition to a low-GHG emissions and climate-resilient economy'.

Guiding principle:

AA Insurance supports its people, customers and communities to adapt to the impacts of climate change through education, risk transparency and the development of fit for purpose insurance products and services.

In our approach to contributing to the economy wide transition, we do not expect our business model to fundamentally change. We continue to focus on helping our customers and their communities adapt to and become more resilient to the potential impacts of climate change.

As we continue to embed risk-based pricing, we are committed to improving premium breakdown transparency with our customers who are now seeing the risk at their address more accurately reflected in their premiums. These changes are currently communicated at a high level through customer renewal notices, and our frontline teams have been provided with training to support customers who contact us for more detailed information. We also provide education about natural hazards as part of our community engagement and social impact programmes, including with the Student Volunteer Army. Through this partnership and others, we are working to raise awareness and support New Zealanders to adapt and respond well to any climate risks that they may face.

We understand that we can support customers further through offering products and propositions that support climate resilience. Since FY24, we have been focused on a multi-year transformation programme to modernise our core systems, enhance the customer experiences we deliver, and improve our ability to meet changing customer needs over time. Our refreshed strategy aims to reap the benefits of this significant investment. Our existing motor products already cover EVs, however further opportunities exist to create competitive sustainability linked products and propositions, including those which could improve resilience to weather events. These are in consideration for our future roadmap, once capability becomes available.

We regularly advocate for climate resilience and adaptation at a government, local government, and community level. Our engagement with central government is often in collaboration with Suncorp New Zealand, where we put forward a joint voice on measures we believe are important to help protect New Zealanders from the worst impacts of climate change, and to ensure that the private general insurance market remains financially robust, so we can be here for our customers in the long term.

Our local government engagement is focused on many of these same objectives, as well as hearing from those on the ground around the country, ensuring that we are informed, and our actions are representative of our customers' needs. We are also active within the financial services sector, for example with the ICNZ, and participate in their education and advocacy discussions and consultations.

At a community level, we have various partnerships that focus on natural disaster response and recovery, which we have built into our Major Event Response plans. This year we developed a Customer Response Team, which is responsible for on-the-ground insurance support for customers after a major event.

We welcomed the Independent Reference Group's Climate Adaptation Report and acknowledged its valuable contribution to shaping a resilient future for New Zealand. We look forward to engaging constructively in the legislative process upon the introduction of the proposed adaptation framework to New Zealand Parliament.





Section 4

Risk Management

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Our risk management model

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.

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.



We do not exclude any part of our value chain when identifying, assessing and managing our risks, including climate-related risks, and do not have a process for prioritising climate-related risks relative to any other types of risks.

Our risk documents and tools

The following documents and tools guide how we identify, assess and manage risk:

Our Risk Management Programme - Our Risk Management Programme (RMP) sets our approach to identify, assess and manage our 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, and 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. See table 6 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) outlining the nature and level of risk, including climate risk, that it is willing to accept in pursuit of our strategic objectives. We escalate risks that are ‘outside of appetite’ to Risk Committee and BARCC and monitor them until we bring them ‘within appetite’. In FY25, our climate transition planning principles were incorporated into the RAS.

Our risk management system - We record all material risks, excluding 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. IRIIS is not used to record longer term strategic disruption risks, including the climate-related risks and opportunities identified through CCSA, however shorter term operational impacts stemming from climate-related risks may be recorded in IRIIS where material.



Identifying, assessing and managing risks

We identify, assess and manage risks in five broad categories as shown in table 6, although each may have several sub-categories.

The climate-related risks and opportunities identified through CCSA as shown in table 5 are not formally integrated into strategic risk management processes at this time. They were identified in a risk identification workshop that formed part of the wider CCSA process and informally rated as part of this workshop. A gap analysis has been performed against existing strategic disruption risks and their mitigations to identify any areas where the climate-related risks are not captured or are not being mitigated. Recommendations have been made to uplift the existing strategic risks, which are managed as described in table 6.

Table 6: 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 us to financial loss and the consequent inability to meet our liabilities.	Risk that we will be unable to meet our 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: 1-20+ years**
Identification	Line 1 teams apply the 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 risk workshop as part of the annual planning 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. From late FY25 onwards these are reported directly to the Risk Committee at least annually.
Tools and methods used	ROCSA Standard.				CCSA, environmental analysis (regulatory pipelines, elections, media activity, competitor activity, etc).



Section 5

Metrics and Targets

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GHG emissions

Our GHG emissions measurement is informed by the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), Scope 2 Guidance, and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

We use the operational control consolidation approach, capturing emissions from our two offices and four customer service centres (CSCs) located in Auckland and Hamilton. We do not have operational control over AA Home Limited, a joint venture between AA Insurance and the NZAA. For information on the methods, assumptions and estimation uncertainty within our GHG calculations, see Appendix 3.

We have measured scope 1, scope 2 and a subset of scope 3 emissions since FY20, with some further scope 3 categories measured and reported from FY24 onwards. We have not disclosed any new sources of emissions in FY25 as we continue to use adoption provision 4 to exclude certain material emissions from disclosure. Table 7 summarises all material emissions sources across our value chain and our approach to measurement and disclosure in FY25.

The table does not include any emissions categories that are either immaterial or not applicable to our business. We have not excluded any other material facilities, operations or assets from our emissions calculations beyond those listed.

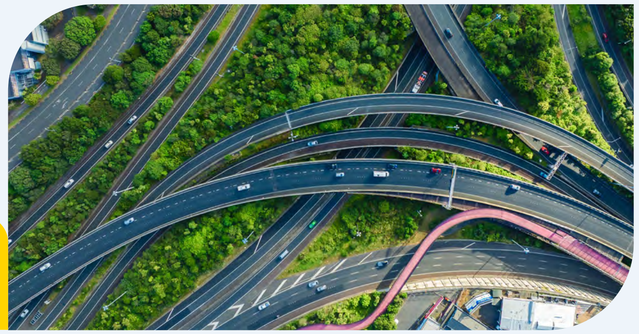


Table 7: Material emissions sources and FY25 approach

Scope 2

Indirect emissions

- Electricity

Regarding the material exclusions, we are using the time available to refine our data and methodologies for these larger and more complex categories. We expect the excluded categories will significantly increase our reported emissions footprint once measured and disclosed.

Scope 3

Indirect emissions

- **C1:** Paper
- **C1:** Operational spend
- **C1:** Claims supply chain
- **C2:** Capital goods
- **C3:** T&D[1] losses
- **C3:** Upstream energy and fuel
- **C5:** Waste
- **C6:** Flights
- **C6:** Taxis
- **C6:** Accommodation
- **C7:** Employee commute and working from home (WFH)

Key

- Measured since FY20
- Measured since FY24
- Material exclusions
- **C** GHG Protocol category

Scope 1

Direct emissions

- Fuel

Scope 3

Indirect emissions

- **C15:** Investments
- **C15:** Underwriting

Upstream activities | **AA Insurance** | **Downstream activities**

[1] Transmission and Distribution losses

GHG emissions (continued)

GHG emissions metrics are presented in table 8 in tonnes of carbon dioxide equivalent (tCO_2e). We show market-based and location-based emissions separately, however we have only measured market-based emissions since FY24.

All years displayed have been independently assured by McHugh & Shaw Limited. 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, which are published on the sustainability page of our website.

Year-on-year, our total emissions have increased. This is predominantly due to the increase in scope 3 category 7 emissions, due to more employees now commuting to the office, however increases to the relevant emissions factors also contributed. The decrease in scope 3 category 3 upstream energy and fuel emissions and the increase in market-based scope 2 electricity emissions are also mainly due to changes in the emissions factors used.

Emissions factors are set externally, therefore we do not have control over these changes. We have not restated any previous years as the changes to emissions factors did not have a material impact on our historical GHG inventory. For more information on the factors used, see Appendix 3.

Table 8: Our currently measured emissions footprint

Metric	FY25 tCO_2e (location-based)	FY25 tCO_2e (market-based)	FY24 tCO_2e (location-based)	FY24 tCO_2e (market-based)	FY23 tCO_2e (location-based)	FY20 tCO_2e (location-based)
Scope 1						
Fuel	83.31	83.31	98.87	98.87	88.21	130.05
Scope 2						
Electricity	67.06	18.61	50.83	7.15	52.39	90.25
Scope 3						
Category 1 – paper	11.34	11.34	9.20	9.20	21.39	13.94
Category 3 – T&D losses	5.10	0.63	5.89	0.56	6.22	9.08
Category 3 – upstream energy and fuel	31.56	22.38	55.75	27.28		
Category 5 – waste	6.63	6.63	7.05	7.05	16.59	8.02
Category 6 – flights	61.87	61.87	73.75	73.75	42.48	47.70
Category 6 – taxis and accommodation	7.27	7.27	11.26	11.26		
Category 7 – employee commute and WFH	578.10	578.10	312.50	312.50		
Total Scope 3	**701.87**	**688.22**	**475.40**	**441.60**	**86.68**	**78.74**
Total emissions	**852.24**	**790.14**	**625.10**	**547.62**	**227.28**	**299.04**
Intensity of emissions per 1000 policies	0.74	0.69	0.56	0.49	0.21	0.35
Intensity of emissions per million dollars of insurance revenue	0.86	0.80	0.73	0.64	0.29	0.66

GHG targets

We have a short-term target to reduce the location-based emissions that we have measured since FY20 (as shown in table 7) by 42% between our FY20 base year and FY30.

The targeted reduction is on an absolute basis, therefore we are not relying on any offsets to meet it.

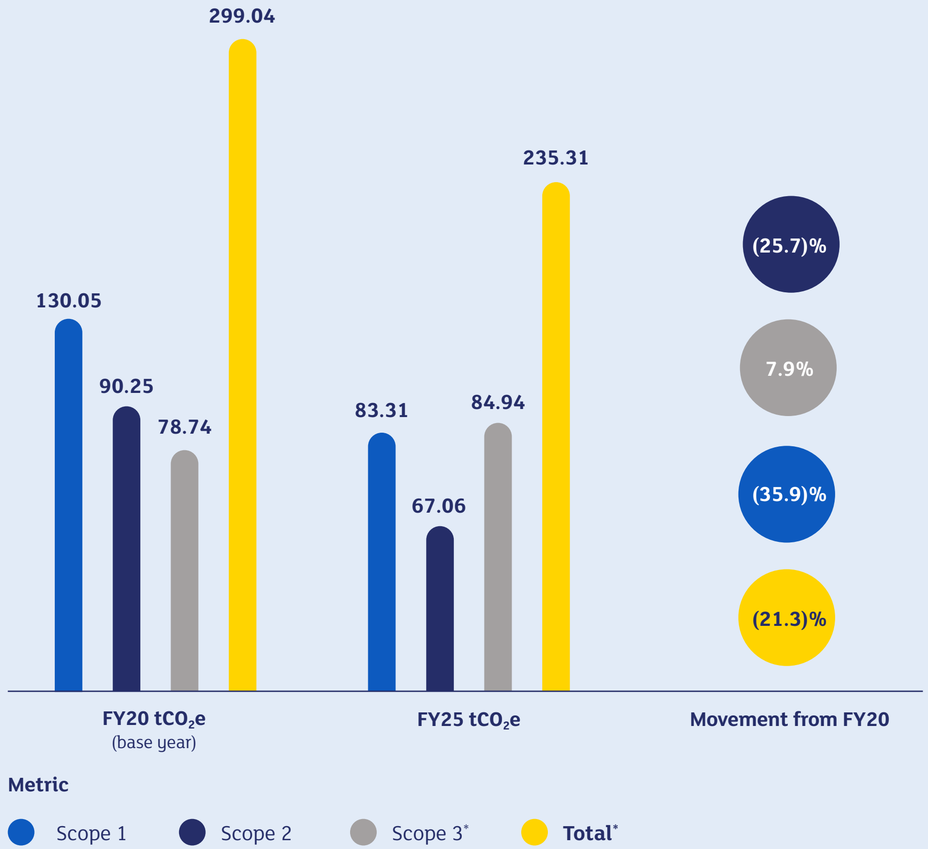
This target does not cover any newly measured scope 3 categories from FY24 onwards, nor any excluded categories of emissions.

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.

Per table 9, we have reduced these emissions by 21.3% between FY20 and FY25. Key reductions over the past 5 years have been realised through optimising electricity usage in our offices and CSCs and converting our vehicle fleet to hybrids and EVs. On a straight-line basis, we are on track to meet this target by 2030, however this is dependent on further decarbonisation activity occurring. This is explained in further detail under the 'Decarbonising the entity' pillar of the transition planning section of this report on page 16.



Table 9: Summary of movement in emissions categories covered by our FY30 target



* The scope 3 and total figures for FY25 do not include any scope 3 emissions that are not covered by this target. In FY25, the reported scope 3 location-based emissions not covered by this target total 616.93 tCO_2e.

Metrics and Targets

Other metrics

Physical risks

The material physical climate-related risks stem from increasingly severe and frequent weather events affecting our customers and the assets we insure, particularly from flooding. Therefore, to understand the extent to which we are vulnerable to physical risk, we analysed address level data to understand the portion of our home and contents portfolios that are deemed high or very high risk[2] of flooding[3]. We considered but ultimately excluded our motor portfolio as the impact was deemed immaterial.

As at 13 May 2025, 4.2% of our home and contents portfolios were classed as either at high risk or at very high risk of flooding. As per the transition planning section of this report, we are working to ensure we maintain a fair and balanced portfolio of risk and we are committed to ongoing education and engagement to help stakeholders understand why this is a critical step in upholding our responsibilities as a trusted insurer.

Transition risks

The transition risks we face stem from a variety of drivers, including market conditions and changing consumer preferences. Potential inflationary pressures, the flow on impact on affordability of insurance, and the anticipated electrification of assets could impact all portfolios, whereas the anticipated decline in personal vehicle ownership is specific to our motor portfolio.

As at 30 June 2025, 55.9% of our total gross written premium was derived from personal motor policies. We do not expect the whole portfolio to be vulnerable to transition risk as New Zealanders will continue to need a range of transport options, which will likely require insurance. There is not yet reliable data to estimate what portion of New Zealand's personal motor vehicle fleet will be impacted by changing mobility trends, therefore a more specific metric will be considered for future reports.

Opportunities

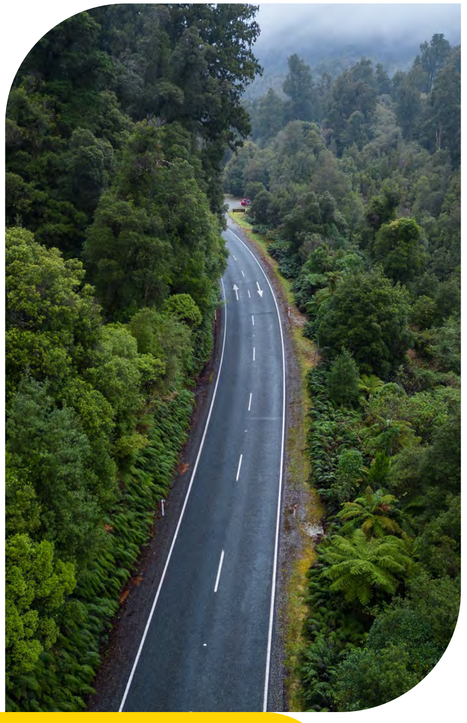
A key opportunity we face is to provide climate and sustainability linked products and propositions for our customers. During FY25 we have been focused on a core systems transformation that should allow the business more flexibility in product and proposition development in the future, although we are still defining our priorities and roadmap at this stage.

We already insure EVs, with our EV exposure[4] sitting at 3.2% of the motor portfolio between January and April 2025. This exposure includes battery electric vehicles and plug-in hybrids.

Capital deployed

During FY25 we deployed $1.56m towards climate transition planning activities including understanding and responding to climate-related risks and opportunities. This includes both operational and capital expenditure on key areas such as transitioning our fleet vehicles to EVs, address level modelling and data, natural hazards awareness, community resilience partnerships, customer research and consultancy costs.

This metric is limited to spend which can be directly attributable to responding to climate change. It does not include spend that was deployed for a separate business reason, but indirectly helps with our climate change response, for example efficiency improvements. It also does not include any salary cost attribution.



Beyond these, we do not currently use any other climate-related metrics or KPIs within our business. We do not use an internal emissions price, and we have not linked management remuneration to any climate-related metrics or targets. There are also no other industry-based metrics that we are aware of.

[2] The definitions of 'high' or 'very high' risk are our own definitions based on the chances of damage occurring and the subsequent repair cost. The definition is used internally and is not necessarily a consistent definition with any other public source.

[3] Flood includes surface water, riverine and coastal inundation.

[4] Exposure can be defined as one year of a policy and therefore exposure to risk of a claim. If held for a full year, one policy equates to one unit of exposure.



Appendices

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Appendix 1: Full scenario narratives

Orderly



Net Zero 2050
IPCC SSP1-2.6

An ambitious and coordinated transition aligned with a 1.5°C warming trajectory

The orderly scenario is an ambitious and coordinated transition scenario with a warming trajectory limited to 1.5°C. From a social perspective, this scenario represents a coordinated and inclusive world that prioritises human and environmental wellbeing. Technology for mitigation and adaptation improves rapidly, and its uptake is supported through government policy. The economic impact is mixed, with some sectors (such as fossil fuels) shrinking and others (such as horticulture) growing in response to the changing world.

Scenario Narrative

Government action to reduce emissions is strong, clear and consistent across the economy. New policies are introduced to accelerate emissions reductions, including incentives on the uptake of electric vehicles and home electrification, which create significant structural change to the economy. Despite being highly consequential, policies are designed in consultation with key sectors and stakeholders, creating a sense of inclusivity, and implementation is supported so industries can manage the transition.

The National Direction on Natural Hazard Decision-making is implemented in mid-2025, which gives councils the tools they need to effectively identify, measure and manage climate risks. By 2030, home insurers are put under pressure as they are expected to play a stronger role in protecting homes from climate impacts. Systems must be updated quickly to accommodate this additional risk and competition in the market for innovative products grows.

ICE vehicles are practically gone from the light vehicle fleet by 2040. The changing risk profile of electric homes and vehicles makes historically profitable portfolios demand a new approach. This gives an opportunity for new entrants into the market and fuels further competition. Certain insurers risk falling behind due to their slow innovation and uptake of new technologies.

Physical impacts worsen, but outcomes are not as severe as they might have been without climate action. Sea level rise, however, is partly locked in. There are some isolated affordability issues in the most exposed areas. Generally, these issues are manageable and only occur in certain areas. Reinsurance is therefore accessible for the New Zealand market, albeit at an increased price.

Technological	Economic	Social
Technology for mitigation and adaptation improves rapidly and its uptake is supported by government.	Some costs rise and sectors shrink (fossil fuels) or grow (horticulture) in response to the changing world.	This is a coordinated and inclusive world that prioritises human and environmental wellbeing.

EV Uptake	Carbon Price	Warming	Sea Level Rise
28% of light passenger vehicles on the road are electric by 2030, **100%** by 2045. *Source: Climate Change Commission HTHS Scenario*	**$237** NZD2024/ tonne shadow price of carbon in 2030 and **$428** by 2050. 166% increase in cost from 2025. *Source: Treasury shadow emissions values High price pathway*	**1.8°C** temperature increase by 2100 relative to 1850-1900 baseline. *Source: IPCC SSP1-2.6 (note that the low end of the range is consistent with 1.5°C)*	**44cm** rise in sea level by 2100, relative to 1995-2014 baseline, not including vertical land movement. *Source: NIWA SSP1-2.6*

Disorderly



Delayed transition
SSP2-4.5

Delayed action, followed by sudden and uncoordinated transformation, landing at <2.0°C

The disorderly scenario assumes that climate action is delayed initially, but changes in weather around the world results in a rapid shift so that sudden and uncoordinated transformation takes place. The scenario assumes a warming trajectory that stays below 2.0°C. From a social perspective, the uncoordinated and rapid shift results in a wider gap between rich and poor, and between urban and rural. Expectations for the role of insurers increase. Technology for mitigation and adaptation improves rapidly after 2030, but at high cost. The economic cost is high; while government is focused on the transition, the blunt nature of policies implemented increases many costs for businesses.

Scenario Narrative

Government policy on mitigation remains consistent throughout the 2020s before, in 2030, a record year for weather events globally, coupled with an alignment of political views, drives a global political shift. Governments around the world quickly commit to meaningful action on climate change, including in New Zealand.

Rapid reductions in emissions are necessary to meet the Paris Agreement temperature goals. This is a disruptive transition with insufficient consultation with the insurance and other critical sectors.

Conversations about expanding the NHC continue without action through the 2020s, before affordability concerns and a significant flood event in 2030 prompts the Government to rapidly expand the scheme's coverage, and a new flood levy is introduced. This flood levy captures some of the market historically held by home insurers. Reinsurers withdraw in some regions, and some are unable to offer cover for lower layers.

The disruptive transition creates uncertainty for insurance companies. In particular, the EV transition becomes inevitable as emissions pricing and ICE vehicle running costs increase. But, in the sudden rush for EVs and electrification globally, inflation rises. By 2035, many households find the costs of running ICE vehicles expensive, and nor can they afford to purchase a new EV. Some households drop their insurance. At the same time, supply chains, parts and materials become very expensive as freight restrictions tighten and extreme weather events worsen.

The rural sector is considered by some to be high-emitting and overpriced, while rural communities see corporate New Zealand as out of touch with rural issues. Some corporates are dragged into this dichotomy as they are torn between customer expectations of them to help homes invest in electrification and rising costs of repair, increasing extreme weather risk and inflation, and catastrophe-driven increases in reinsurance prices.

Technological	Economic	Social
Technology for mitigation and adaptation improves rapidly after 2030, but costs are high.	Governments are aligned on the transition, but policies are blunt and drive many costs up for businesses.	The gap between rich and poor, and urban and rural widens. People expect more from insurers.

EV Uptake	Carbon Price	Warming	Sea Level Rise
100% uptake of electric light passenger vehicles by 2050. *Source: Climate Change Commission HTLS Scenario*	**$178** NZD2024/tonne shadow price of carbon in 2030 and **$428** by 2050. 257% increase in cost from 2025. *Source: Treasury shadow emissions values Central price pathway until 2030 then High price pathway thereafter*	**2.7°C** temperature increase by 2100, relative to 1850-1900 baseline. *Source: IPCC SSP2-4.5 (note that warming is limited to <2°C in 2050)*	**57cm** rise in sea level by 2100, relative to 1995-2014 baseline, not including vertical land movement. *Source: NIWA SSP2-4.5*

Hot House



Current policies
SSP3-7.0

Continuation of current policy settings, leading to uncontrolled warming of 3°C+

The hot house scenario assumes that current policy settings continue until 2100, leading to uncontrolled warming of at least 3.0°C. From a social perspective, communities fracture and geopolitical tensions rise; populations focus on access to basic needs. Technology improves but continues to be focused on extraction and adaptation rather than transition. Governments invest in education and health, but the physical impacts of climate change severely damage many sectors and supply chains.

Scenario Narrative

Government action globally remains at the levels of the early 2020s, and global emissions continue to rise inexorably, even while New Zealand's emissions fall.

The intensification of severe weather events is such that, by 2035, insurance in parts of New Zealand becomes very expensive. In response to this, the New Zealand Government focuses on strong adaptation policy. This includes an expansion of the NHC to cover most perils, taking a historically large market away from general insurers.

Reinsurers withdraw from covering certain perils in the New Zealand market. The withdrawal of reinsurance, which is driven partly by increasing risks in New Zealand and partly by uncertainty in key overseas markets, means some insurers cannot provide cover in certain areas anymore. Insurers write more innovative products.

Where coverage is still provided, costs are very high, and customers are frustrated. In this world, everything is expensive, and affordability is challenging in certain demographics.

This is a fractured world with global conflicts over water and food shortages, and energy security. By 2050, climate change is a significant driver of migration, and a large number of people see New Zealand's (comparably) pleasant climate as an ideal destination. The influx of immigrants leads to vibrant communities in some areas and unrest in others. For insurers, the main focus becomes working together to get the government support they need to provide coverage to the increasingly at-risk communities across the country.

Technological	Economic	Social
Technology improves but is generally focused on extraction and adaptation.	Governments invest in education and health, but physical impacts severely damage many sectors and supply chains.	Communities fracture and geopolitical tensions rise. People focus on access to basic needs.

EV Uptake	Carbon Price	Warming	Sea Level Rise
85% uptake of electric light passenger vehicles by 2050. *Source: Climate Change Commission Reference Scenario*	**$119** NZD2024/ tonne shadow price of carbon in 2030 and **$214** by 2050. 168% increase in cost from 2025. *Source: Treasury shadow emissions values Low price pathway*	**3.6°C** temperature increase by 2100 relative to 1850-1900 baseline. *Source: IPCC SSP3-7.0*	**73cm** rise in sea level by 2100, relative to 1995-2014 baseline, not including vertical land movement. *Source: NIWA SSP3-7.0*

Appendix 2: CCSA modelling methods, assumptions and limitations

Physical modelling

We used the third-party modelling expertise of both Finity (storm and coastal inundation modelling) and Aon (river and surface water flood modelling, as used in 2023). In scope portfolios were our home, contents, motor and small business insurance portfolios, as at 30 June 2024, assumed to be an appropriate proxy for present day.

The modelling included matching address level portfolio data to third-party proprietary databases and applying a series of climate layers corresponding to the three chosen scenarios and time horizons. The AAL outputs were compared to our present day AAL to understand how these expected losses may change under different future climate scenarios. Results were summarised at a postcode level, but modelling was conducted at address level.

The climate models used have significant assumptions and limitations, noting that different climate models can produce very different outcomes. The results are subject to high uncertainty and it is possible that the actual physical impacts of climate change will be materially different to those modelled. Nevertheless, the analysis provides useful insights into how risks could reasonably be expected to change in the future. The models used in this analysis are deemed appropriate as they are widely used in the insurance sector for understanding physical risks. We will continue to explore a range of models whilst in the exploratory phase of physical climate modelling. Some significant assumptions and limitations include:

- The modelling projects the average of the range of possible losses each year, rather than losses associated with extreme tail events only. This means that individual extreme events are averaged within the AALs used;
- The analysis excluded perils such as coastal erosion, wildfire, drought and rain induced landslip that could increase the expected losses from climate impacts due to quality model availability;
- The analysis does not take into account any changes to our portfolio or strategy in the future in response to the anticipated physical impacts of climate change.

Transition modelling

The transition modelling performed by Finity used a Computable General Equilibrium (CGE) model created by Victoria University (Melbourne) to capture regional and national changes in response to potential economic shocks under each of the chosen scenarios. These were translated into an assessment of affordability (expected regional financial margins) and investments portfolio vulnerability (industry revenue growth by sector).

Financial margins (household disposable income minus non-discretionary expenditure) were based on historical data from Stats NZ projected forwards using assumptions for inflation, wage growth and cost growth. The assessment was not based on any data specific to our business, rather the impacts were projected for New Zealand as a whole. For the investment portfolio analysis, our portfolio data was provided as at 30 June 2024, as a proxy for present day. Each counterparty was mapped to an industry sector and the projected revenue growth of each sector was compared to New Zealand GDP growth under each of the modelled scenarios. This gives an idea of how different industries may perform in relation to each other and identify whether our portfolio could be vulnerable.

Economic models are highly uncertain as the dynamics of complex systems are extremely difficult to model, therefore results should be interpreted with caution. Due to this, the actual impacts of the climate transition could be materially different to those presented. Nevertheless, this analysis provides insights into how transition risks could affect our business. The models used in this analysis are deemed appropriate as they are widely used in the insurance sector for understanding transition risks. We will continue to explore a range of models whilst in the exploratory phase of transition risk modelling. Some significant assumptions and limitations include:

- The model is based on simplified assumptions, including extrapolated historical data. These inputs may not change in a predictable or linear way into the future;
- The model assumes households and businesses will act in an economically rationale way;
- The model is limited in that it does not take into account the possibility of emerging industries in New Zealand, meaning the results are likely to be negatively biased.

Appendix 3: GHG emissions methods, assumptions and estimation uncertainty

The methods and assumptions used when calculating GHG emissions are shown in table 10. When we choose between different methods, we have used the method that gives us the most accurate and specific calculation based on data that is available and reliable.

There is an inherent uncertainty in the emissions factors (EFs) and global warming potential rates that we use. These are sourced from the New Zealand Ministry for the Environment's (MfE) 2025 Emissions Factors Workbook, unless otherwise stated below.

Table 10: Methods, assumptions and estimation uncertainty

Emissions type	Source	Method	Assumptions and estimation uncertainty
Scope 1	Fuel used mostly in our fleet vehicles, with a small portion used in customer rental vehicles.	**Fuel based**	**Minimal uncertainty.** Calculations are based on actual litres and types of fuel purchased. We assume this is consistent with the amount we use.
Scope 2	Electricity used to power our two offices, four CSCs, and fleet of EV vehicles.	**Average data** Both location-based and market-based methods, reported separately. For market-based calculations, the EFs used are the average 2024 Ecotricity Toitū climate positive certified product list[5] and the 2024/25 BraveTrace Residual Supply Mix factor.	**Minimal uncertainty.** Calculations are based on actual kilowatt hours (kWhs) used, as provided through meter readings.
Scope 3 category 1	Paper	**Average data** EFs used are sourced from the Department for Energy Security and Net Zero (DESNZ) United Kingdom Government GHG Conversion Factors 2025.	**Slight uncertainty.** Calculations are based on the actual number or weight of units we buy, however some EFs used are from overseas and are not specific to New Zealand.
Scope 3 category 3	T&D losses	**Average data** Both location-based and market-based, reported separately. For market-based calculations, no T&D losses are calculated for Ecotricity as the scope 2 EF used is a lifecycle factor.	**Minimal uncertainty.** Calculations are based on actual kWhs used (as per scope 2).
	Upstream emissions of purchased electricity	**Average data** Both location-based and market-based, reported separately. The EF used is the New Zealand factor sourced from the 2025 Country Electricity Factors from the Carbon Database Initiative (CaDI). For market-based calculations, no upstream electricity emissions are calculated for Ecotricity as the scope 2 EF used is a lifecycle factor.	**Minimal uncertainty in FY25.** Calculations are based on actual kWhs used (as per scope 2). In FY24, uncertainty was higher as we used an EF from the DESNZ United Kingdom Government GHG Conversion Factors 2024, as a New Zealand factor was not available.
	Upstream emissions of purchased fuels	**Average data** EFs used are sourced from DESNZ United Kingdom Government GHG Conversion Factors 2025.	**Slight uncertainty.** Calculations are based on actual litres of fuel consumed (as per scope 1), however the EFs used are from overseas and are not specific to New Zealand.
Scope 3 category 5	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.
Scope 3 category 6	Flights	**Distance based** EFs used include radiative forcing for international flights and exclude radiative forcing for domestic flights.	**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 spend.
	Accommodation	**Average data**	**Slight uncertainty.** Calculations are based on the the country and number of nights that a person stays in accommodation away from their usual working location.
Scope 3 category 7	Employee commute	**Distance based**	**Moderate uncertainty.** Calculations are based on average distances travelled and modes of transport used by our employees commuting to the workplace[6], extrapolated over our total number of employees at 30 June 2025. We assume that the results of the survey and subsequent extrapolation materially portray the actual emissions of our employees commuting.
	Employee WFH	**Average data**	**Moderate uncertainty**. Calculations are based on the number of days worked from home by our employees in an average week, extrapolated over our total number of employees at 30 June 2025. This data was gathered through the same survey as noted above. We assume that the results of the survey and subsequent extrapolation materially portray the actual emissions of our employees working from home.

[5] 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.

[6] We gathered this information by surveying our employees in March 2025, based on their average week, which 77% of our employees responded to.

Appendix 4: 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 2025 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. 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 climate-related 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.

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