GOVERNANCE

1. *Disclose the insurer's governance around climate-related risks and opportunities.*
In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:

- Identify and include any publicly stated goals on climate-related risks and opportunities.

AF Group does not have publicly stated goals on climate-related risks.

- Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.

The carriers encompassed within these disclosure are subsidiaries of Accident Fund Holdings, Inc. (dba AF Group) ("AF Group"), which, in turn, is a subsidiary of its ultimate controlling parent, Blue Cross Blue Shield of Michigan ("BCBSM").

Please note, BCBSM submitted a separate response from its subsidiary AF Group.

A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.
In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:

- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

AF Group's Capital Management Committee is responsible for the oversight and management of climate-related financial risks.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

Generally, climate-related risks for carriers within the AF Group fall into two primary categories.

The first focuses on underwriting exposure for insurance offerings where the risk of claim-related losses and the ability predict such losses with reasonable accuracy are impacted by climate change. These include property policies, where the increase in secondary perils, are small to mid-sized events (floods or fires, for example) that can follow a primary peril (such as hurricanes or earthquakes) and workers compensation insurance where changing temperatures can impact the risk of occupational injury. Management, particularly through the individual and collaborative efforts of the Business Development, Underwriting, Actuarial, Claims, Legal/Compliance, and Reinsurance areas, is responsible for monitoring and managing these exposures using a variety of information sources and tools, including quarterly risk reporting and catastrophe risk scorecards comprise of key risk indicators and estimates for natural catastrophe exposure, as well as summaries of capital model and stress test results reflect the anticipated impact of changing risks on capital requirements.

The second, which focuses on investment strategy and performance, is discussed in greater detail, below, with management bearing responsibility for overseeing performance of Bricktown Capital LLC, the registered investment advisor for AF Group.

STRATEGY

1. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*
In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:

• Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency. *

For carriers within AF Group, engaging key constituencies on the topic of climate risk and resiliency begins internally where, as noted above, a multi-departmental and multi-disciplinary approach, including Underwriting, Actuarial, Claims, Legal/Compliance, and Reinsurance, has been taken to evaluate and address the potential impacts of climate-related risks and opportunities. Information concerning these individual and collaborative efforts is provided to the Emerging Issues Task Force, a cross-functional team of senior leaders from across the company that meet regularly to discuss emerging issues and the company's approach to mitigating risk. Climate change is a consistent topic and area of focus for this Task Force.

This internal effort expands to engage with external constituencies, including

- Third-party reinsurance partners and providers that contribute information on broader trends and areas of potential concern while serving as a "check" on internal views and strategies
- Loss Control engagement with policyholders on observations and potential safety measures relevant to the changing risk landscape
- Legal/Compliance engagement with industry organizations, regulators, and legislators to stay current and to offer insights on developing areas of exposure and potential changes to regulatory and legal requirements relevant to the business

• Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations. *

We have taken the following steps to reduce and mitigate greenhouse gas emissions in our operations.

•Over 50% of AF Group employees have been working from home since April of 2020 which has reduced the amount of carbon emissions from transit and has significantly reduced paper product use

•AF Group participates in recycling paper, plastics, and soda cans.

•Travel was significantly reduced starting in April of 2020 as more on-line meetings and seminars were available.

A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.

In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:

• Define short, medium, and long-term, if different than 1-5 years as short term, 5-10 years as medium term, and 10-30 years as long term.

Climate change has the potential to increase frequency and/or severity of catastrophes caused by natural perils over all time horizons which increases claim costs.

Short term risks and opportunities

- Wildfire risk has increased significantly in western states. AF Group is utilizing wildfire risk assessment tools to drive consistency across our enterprise, while enabling deeper insights in an underwriter's evaluation of wildfire risk on a per-risk basis across our property portfolio.
- Provide property catastrophe insurance protection to our insureds at balanced terms and conditions.
- Increased risk to operations due to potential power outages, or facility maintenance because of storm activity.
- Slip and fall incidents and heat related injuries due to extreme climate related events may increase exposure.

Medium term risks and opportunities

- Increased storm activity could cause damage to AF Group offices in California, Florida, and Kansas.
- Climate change may continue to increase cost of capital to protect the balance sheet that impacts pricing and planning.
- Developing new coverages for changing exposures may be an opportunity

Long term risks and opportunities

- Long term strategy for terms, conditions, and offering of property insurance for catastrophe exposed areas may need to be adjusted depending on the impact of climate change.

B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.

In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:

• Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.

As part of our insurance operations, we offer Loss Control consulting and services including a suite of risk management materials called SafetySurance. We help our policyholders in the agricultural space mitigate worker's exposure to increased heat from climate change.

We also encourage wildfire mitigation actions by our customers and we provide a wildfire mitigation credit to those customers in certain states that significantly reduce their exposure to wildfire.

• Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

Investments are managed by Bricktown Capital LLC, the registered investment advisor for all carriers encompassed by this filing from AF Group. The investment portfolio is managed within the investment guidelines, as approved by the Finance Committee of the Board, which are also regulated by the Michigan Insurance Code. These regulations help ensure adequate diversification and limit risk so insurers remain solvent and able to pay policyholder claims. Statutory filings include an itemized list of all investments bought and sold during the reporting period to give regulators a comprehensive view of investment activity

C. Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

AF Group's headquarters is in Michigan which would be less impacted by a major shift in climate change. Our business continuity practices demonstrated resiliency during the Covid-19 pandemic showing the ability to pay claims and service policy holders as most of the company shifted to working from home within one month.

In terms of scenario planning, please refer to the information provided in the Risk Management section, below.

RISK MANAGEMENT

1. *Disclose how the insurer identifies, assesses, and manages climate-related risks.*
   In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:

AF Group uses a risk assessment process led by the Office of the General Auditor and Corporate Compliance (OGACC) and Enterprise Risk Management (ERM). The input is from multiple sources representing all organizational disciplines and external sources. The process includes surveys interviews, interactive workshops and incorporates risk data and intelligence from industry reports and ERM workgroups. AF Group uses a risk taxonomy appropriate for the company, its subsidiaries and stakeholders. Environmental risks are included in the risk taxonomy. The Strategic Risk and Capital Management team within AF Group provides additional enterprise risk management support to the organization including climate related risks. Risk owner interviews are performed quarterly, with key findings reported to management.

• Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk. *

Underwriting risks associated with climate change are managed by Corporate Underwriting, Reinsurance, and the Strategic Risk & Capital Management Team.

Corporate Underwriting oversees the underwriting operations for each AF Group segment. In this capacity, this department creates and enforces guidelines, in conjunction with leaders in the business, to ensure all underwriting activities adhere to specified regulations, guidelines, authority, and compliance within their respective niche. They also provide enterprise-wide underwriting policies and procedures to which each unit must adhere. Corporate Underwriting conducts annual underwriting quality reviews, regulatory compliance and standards and practices adherence audits of the business segment.

An Emerging Issues Taskforce meets quarterly to assess future risks to the organization, and topics for consideration include climate change. Risk mitigating factors are considered for all Emerging Issues discussed in this cross-functional taskforce.

Catastrophe modelling is used to monitor natural catastrophe exposures and aggregations are managed to limit the exposure.

Catastrophe risk is managed by modifying the premium writings, pricing, coverage, underwriting, or reinsurance structure. Reinsurance protects against large claim events and natural catastrophes to protect against balance sheet events.

To that end, certain perils are regularly excluded from coverage to help ensure appropriate management of climate change risks. For example, much of Century's book in Florida excludes windstorm and hail perils. Another example is that we are not a carrier for flood insurance, as this peril continues to grow in frequency and severity due to climate change.

Through regular discussions with our reinsurance partners, we obtain market data and trend insights to help drive changes within our Property portfolio to ensure its long-term profitability relating to a variety of risk factors including climate change.

• Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable. *

As part of our insurance operations, we offer Loss Control consulting and services including a free online suite of risk management materials called SafetySurance.

We also encourage wildfire mitigation actions by our customers, and we therefore provide a wildfire mitigation credit to those customers in certain states that significantly reduce their exposure to wildfire.

• Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered. *

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A. Describe the insurers' processes for identifying and assessing climate-related risks.
In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:

• Discuss whether the process includes an assessment of financial implications and how frequently the process is completed. *

B. Describe the insurer's processes for managing climate-related risks.

Climate risks are identified by monitoring news on climate change from publicly available sources, monitoring natural catastrophe key risk indicators, risk surveys, and conducting risk interviews with our risk owners.

Climate risks are assessed by use of our economic capital model and stress testing. The capital model includes extreme events for natural catastrophes and business interruption risks, estimates the amount of risk capital required to support the enterprise overall and the amount for catastrophe and operational risks. Our reinsurance intermediary prepares a formal risk assessment for natural catastrophe risk including climate change once a year that includes a risk score and catastrophe model adjustments.

On a nationwide basis, we monitor individual emerging weather and catastrophe events on a daily basis and take action as appropriate to suspend binding authority for agents and customers in areas of imminent risk of loss. This helps to ensure that we are not binding business short-term for customers that may not have originally wanted Property insurance, when wildfires and major storms are expected.

C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.

In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.

We have a comprehensive enterprise risk management (ERM) process with a control cycle that includes a continuous cycle that promotes transparency and discipline in management of risk taken through (1) Risk Identification, (2) Risk Assessments, Evaluations, and Analysis, (3) Risk Reporting and Mitigation actions, and (4) Risk Monitoring and Reporting. This ERM process is managed at the AF Group level, as well as the parent company, BCBSM, level. Communication among business units and departments and the continuous nature of this cycle, contribute to our ability to facilitate an enterprise-wide perspective on aggregate losses, an entity-level risk reporting process which provides early-warnings on key risk and decreases the frequency of surprises, enables management to adapt to the environment and optimize operational and financial resources.

Climate risks are identified, assessed, and managed by our general ERM framework that addresses key risks. Climate risks are monitored quarterly. A natural catastrophe risk assessment is completed once a year.

- Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.

A stress test of natural catastrophes, including climate change, was included in the 2023 ORSA. Natural catastrophes that are influenced by climate change include increased hurricane risk, wildfire risk, winter storms, and severe convective storms. The stress test evaluated the impact of a 25% increase in the severity of net cat losses, while reinsurance is kept constant over a one-year horizon.

- Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

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METRICS AND TARGETS

1. *Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.*
   In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:

• Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.

Catastrophe modelling is a tool that provides output of Probable Maximum Loss (PML) at various percentiles by peril and by geography and is run on a semi-annual basis. These models are frequently recalibrated and updated to recognize scientifically significant changes in peril behavior and the impact of COPE features on losses that is captured in underwriting property risks. Climate-related risks include hurricane, severe convective storms, winter storms, and wildfire. PMLs inform our risk management process including management of geographic aggregations and then utilization of reinsurance to manage our gross exposures to a net position in line our guidelines.

A. Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.
In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:

• In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions.

Property catastrophe events for claim changes sensitive perils are included in the Capital Model for AF Group. The frequency and severity assumptions for hurricane, severe convective storms, winter storms, and wildfire based on catastrophe model results are inputs into the capital model. The capital model is used for estimating the total required risk capital for AF Group, aiding reinsurance decisions, evaluating growth strategy, and setting profitability targets for underwriting segments.

The actuarial climate index is reviewed to understand more current changes in Climate Change. Changes in climate may impact our coastal wind production strategy and the placement of property risks in western states that have greater wildfire exposure.

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

AF Group has multiple locations within its operations. A number of these locations have Scope 1 emissions related to natural gas consumption to provide heat in the winter. All the locations have Scope 2 emissions due use of electricity for lights, AC, computers, communications, and other necessities for the offices. Under Scope 3, AF Group insure commercial risks that have various degrees of emission exposure. On the lower end of emission exposures are good and services accounts including food service, restaurants, and apartment buildings. On the heavier end of emission exposures are accounts with auto exposure, oil and gas liability, and some manufacturing. More of the accounts have a lower end of emissions exposure than the heavier end.

C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

AF Group has catastrophe risks guidelines to monitor climate-related risks and are listed below. Performance against targets is measured at least once a year.

Catastrophe Risk Guidelines

- Natural catastrophe net losses shall not exceed 15% of policyholder surplus (PHS) at the 1 in 500 event level.
- For each peril, the highest proportion of TIV concentrated in any one region shall not exceed 35%. Regions are groups of states defined by the reinsurance broker.
- AF Group's aggregate property risk, as measured by total insured value relative to total gross written premium, shall not exceed 50%