Interinsurance Exchange of the Automobile Club

2021 Task Force on Climate-Related Financial Disclosures Report

GOVERNANCE

The Interinsurance Exchange of the Automobile Club (IEAC), NAIC # 15598 – is a California reciprocal insurer and part of the Auto Club Enterprise organization (ACE). The Company provides insurance products and services primarily to the members of Automobile Club of Southern California (the "Auto Club"). The Auto Club and the Exchange are affiliates with management services for the Exchange's insurance operations provided by subsidiaries or affiliates of the Auto Club. The responses included in this report incorporate activities of both the Exchange and the Auto Club, which may also be referred to as 'the Company", "we" or "us", unless otherwise indicated.

Climate change is occurring and largely due to anthropogenic sources of greenhouse gas (GHG) emissions, including fossil fuel-based electricity production and the use of internal combustion engines. Climate change represents global concerns for all, from shifting weather patterns that threaten food production to rising sea levels that increase the risk of catastrophic flooding.

Everyone is experiencing the impacts of climate change. Over the past 18 months, there have been storms, extreme heat, wildfires, droughts, and floods around the globe. The impacts of climate change are global in scope and unprecedented in scale.

Climate change poses significant risks to The Company and the communities we serve. The Company's process for identifying all risks is through our annual Significant Risk Analysis which is presented to the Finance Committee of the board. In this analysis we consider the broad spectrum of risks that our company faces, including those related to climate change.

Climate change could potentially have implications on capital needs and the cost of catastrophe reinsurance. The Exchange purchases reinsurance to protect against catastrophe risk (primarily hurricanes, tornadoes, earthquakes and wildfires) to ensure that we can meet our obligations to policyholders and maintain our solvency.

The Company acknowledges the business imperative of climate change and understands that climate change can have long-term impacts to our policyholders, members, and business operations. We have created an internal working group focused on ensuring that sustainability efforts are monitored and tracked for forward progress. The working group is led by a Senior Vice President as the executive sponsor and includes multiple executive and senior-level managers. One of the objectives of the group is not only to review existing efforts but also to understand potential emerging risks and opportunities and adapt initiatives accordingly. The working group meets bi-monthly with an annual update to the organization's senior leadership team.

The Board of Directors is updated annually on the Company's sustainability efforts. This includes employee focused efforts, community focused efforts and environmental efforts.

The following are our continuing sustainability principles, responsibilities, and focus areas. These are guiding us to sustain and grow the organization for the long-term as we continue to improve lives, communities, and the environment.

ACE Sustainability Principles

1. **Goal** – For ACE to remain successful and a going concern, our markets, communities and members must prosper. We are committed to doing our part to help achieve this outcome.
2. **Focus** – We concentrate efforts on issues directly related to our business, our operations, and our roles as a member service provider and motorist and traffic safety advocate. We take actions that allow us to contribute to real, results-driven, positive impacts. We are prepared to adapt our business to meet the changing needs of our members, policyholders and employees resulting from efforts to mitigate climate change.
3. **Acknowledgement** – We do not have all the answers, but we continue learning and strive for ongoing improvement in these endeavors.

ACE Sustainability Responsibilities

1. **Employees** – ACE helps our employees take care of themselves. (**Us**)
2. **Communities** – ACE supports and helps improve the communities where our members and employees live and work. (**We**)
3. **Environment** – ACE operates in an environmentally responsible manner and supports effective ways to sustain the environment. (**World**)

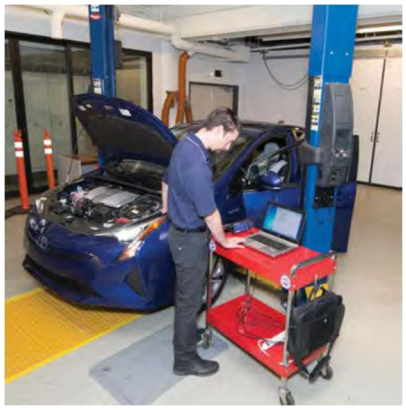
ACE Sustainability Focus Areas

The following are key focus areas, which fit within the above framework.

STRATEGY

The Company has implemented a variety of initiatives and polices designed to reduce negative impacts on the environment. These initiatives include:

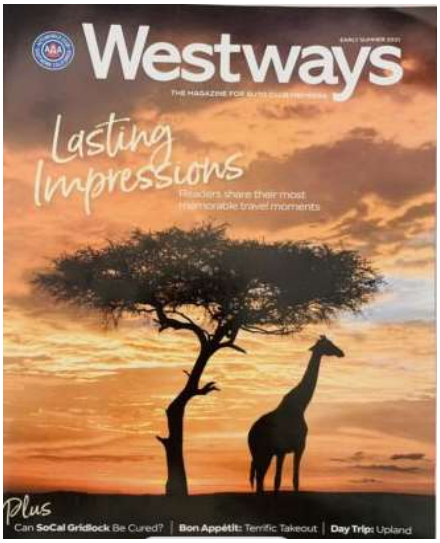
1. Education of our members:
   a. Our Automotive Research Center (ARC) is committed to exploring technologies that help to improve the fuel economy of gasoline-powered vehicles, as well as evaluating the benefits of electric vehicles. The ARC continually completes research projects on topics such as fuel economy and emissions, fuel types (regular versus premium), electric vehicle (EV) range, and the effects of extreme hot and cold temperatures on EV range.



The ARC produces the annual AAA Car Guide, which includes reviews of over 60 vehicles including hybris, plug-in hybrids, and EVs; the guide also includes the latest info on automotive technologies, including fuel efficiency and EV charging capabilities and infrastructure. AAA Car Guide can be found at www.aaa.com/carguide. Since 2020, the ARC has evaluated various mobile EV charging solutions for possible use by our Emergency Roadside Service (ERS) provider network. The Car Guide distributed throughout our 285 branches, Car Buying Service dealers, Approved Auto Repair facilities and to the media. The Club

also partners with AAA National to make a digital version of the Guide available to all AAA members.

b. The Club Publications distribute *Westways* magazine to about half of all households in our Southern California service area. It includes regular articles on topics that are intended to increase our members' awareness of climate change, climate-related risk, ridesharing, fire preparedness, national parks (walking/hiking tours) and transportation. In 2021, the following articles provide some examples:



- Peak Experiences – Summer 2021
- Wired for Outdoors – Summer 2021
- Smart Coverage – Prepare home against fire – Summer 2021
- Slow Train to LA (versus driving a vehicle) – Winter 2021

2. New Facility Construction:

The Company employs a standard that requires all new construction and renovation projects be designed and built as if they will be LEED certified, without going through the expense of actual certification. LEED certification for building design and construction provides a holistic framework for developing sustainable facilities and guidance to improve building elements that positively impact human health and well-being. LEED is an internationally recognized facility certification system developed by the US Green Building Council, providing third-party verification that a building is constructed or renovated using strategies to improve performance across specific sustainability metrics. The benefits of using this standard include preservation of outdoor and indoor environmental quality and reduction of energy and maintenance costs. This standard is also directly tied to energy efficiency and includes the following sustainability strategies:

- Construction and Demolition – We adopted the Los Angeles County Board of Supervisors standards for construction and demolition, requiring at least 50% of all debris generated by a project to be recycled or reused, which can include using renewable and recyclable resources and repurposing existing material.

- Lighting - New projects feature daylight harvesting around window facing perimeters. Photocells are incorporated that sense the amount of light entering the office environment and dim lighting levels up to 50% throughout the day. Occupancy sensors are installed in areas to detect activity. If there is no one occupying a zone or room, lighting is turned off until motion is detected. LED and energy efficient lighting is installed throughout new construction. Lighting specifications are reviewed annually to ensure we are meeting current standards.

- Finishes and Furniture - Finishes, including paint, ceiling tiles, carpet, and furniture are significant opportunities for sustainable development. We now build interiors with products that consist of low emission and recycled materials. Our standard chairs and desks are made of 15% to 46% recycled content. Similarly, we use LEED certified carpet products in all installations. Much of this is 100% recyclable and is manufactured using renewable energy sources.

We also use low volatile organic compound (VOC) paint, which reduces negative impact on the air quality. Ceiling tiles currently used in new construction contain up to 41% recycled content, with 80% light reflectance, which saves energy and reduces material diverted to landfills.

3. Electric Charging Stations:

To encourage and serve EVs, we installed six dual-port, fixed EV charging stations. One of the charging stations is located at our headquarters in Los Angeles and another at our Costa Mesa Branch Office. These stations are

available for public use. Two charging stations are installed at our Administrative Offices in Costa Mesa for employee and limited fleet use only. The use of these electric charging stations is free, encouraging our employees to personally drive plugin hybrids or 100% electric vehicles to and from work. Since the installation of these stations, we have seen a rapid rise in employees driving electrified vehicles to work, thus reducing emissions. We are developing a protocol where EV charging stations will be evaluated in any other future parking lot or structure construction projects.

4. Recycling

   ACE has a well-established paper recycling program. Aside from general recycling, which occurs with our waste management service providers, we have centralized the management of the destruction of our vital data. In the last year, more than 2.2 million pounds of paper was recycled. This recycling effort equates to saving more than 20,000 trees, 8.3 million gallons of water, and 4.7 million kilowatts of energy. In the second half of 2020, we established a centralized electronics recycling program across all markets. Over three-thousand pieces, weighing more than 67,000 pounds, were resold or down-cycled. This resulted in a reduction of more than 36,000 pounds of landfill waste.

5. Air Quality: In addition to path-breaking work by the Automotive Research Center (ARC) and continuing efforts around employee commuting options, we also support policies and programs that address vehicle emissions and other air quality issues. On the public policy front, we support legislation that encourages the use of clean vehicles. In California, we successfully supported laws in recent years to increase EV charging stations and add highway signs directing motorists to charging stations.

We also support Clean Air Day across ACE. Clean Air Day encourages employers and individuals to pledge to try out new emissions reduction actions for at least one day. We provide a sponsorship for the event and distribute information in employee communications and *Westways* about the issue. These include steps members and employees can take to make a difference,

CALIFORNIA CLEAN AIR DAY
A PROJECT OF THE COALITION FOR CLEAN AIR

along with related AAA resources, like driving cost and fuel efficiency information, safe bicycling tips, and the AAA Car Guide. This year we are also launching workshops, for employees and the public, to learn about clean vehicles using research and information from the Automotive Research Center (ARC).

6. Employee Water Bottle Dispensers:

   Bottle filling stations reduce the amount of waste being sent to landfills, are more hygienic, more energy efficient, and require less maintenance and repair than traditional water fountains.

   Bottle filling stations have been installed at seventeen locations throughout ACE, including the Costa Mesa Administrative Offices, Los Angeles Headquarters, and the Texas Regional Headquarters facilities. We have a policy of replacing drinking fountains with bottle filling stations whenever adjacent space is remodeled and when a unit is at the end of life or requires significant repair. The filling stations have tracked diversion of more than 422,500 bottles since January 2017.

From a business risk and financial solvency perspective, the primary impact from climate change would be any potential increase in the frequency or intensity of thunderstorms, hailstorms, hurricanes, or brushfires. This exposure is primarily concentrated in our homeowners insurance product. More severe or more frequent

climate events would increase the number and cost of claims and have an impact on the financial health of the company. If the impact were large enough, it could affect our ability to write new policies or renew business in some catastrophe exposed areas.

The Exchange manages climate related risks through strict underwriting requirements addressing the catastrophe hazards in each state, including requiring inspections to certify building quality, conditions, construction features, and replacement cost. Products are designed considering the potential for catastrophic events, including providing suitable coverage options to the policyholder. Earthquake, hurricane, tornado/hail, and wildfire modeling is used extensively to quantify and manage the risk. Furthermore, to provide protection to our policyholders the Exchange is actively managing growth in exposure to these risks by maintaining a strong surplus position, purchasing appropriate levels of reinsurance, and encouraging risk mitigations by our policyholders.

RISK MANAGEMENT

The Auto Club Enterprises Enterprise Risk Management (ERM) Committee is comprised of a number of key executives throughout the organization, including several Senior Vice Presidents. The Committee Chair is the Vice President and Chief Actuary.

The ERM Committee's primary objective is to ensure that the daily operational risks of the organization are being appropriately managed. The ERM Committee meets periodically to address the top organizational risks identified through several means, including the Corporate Risk Assessment Review process. Furthermore, the ERM Committee is responsible for the development and review of risk appetite and tolerances based upon the strategic objectives of the Exchange Boards.

In support of the ERM program, several teams in the organization are involved in the identification of risks facing the organization and individual business units in all markets. Enterprise Risk Management, Office of the General Counsel (OGC), Compliance Manager, and Internal Audit are central to the facilitation of risk identification, evaluation, and cataloging and compliance oversight. The identification process includes several components, including but not limited to, the annual Significant Risk Analysis (from which the Significant Corporate Risk Assessment report is derived), contract review, individual or scenario specific referrals, and review of trade publications.

The Enterprise Risk Management department serves as a facilitator of risk identification and evaluation. This department conducts significant risk interviews of all executives and other key ley leaders annually. The Significant Risk Analysis report is prepared based upon information compiled in connection with these interviews. Risks are categorized by type within this report as follows: Brand and Reputational Risk, Catastrophe Risks, Liability Risks, Financial/Internal Control Risks, Regulatory Risks, and General Corporate Risks.

The Company considers climate-related risks and weather-related perils in our annual Significant Risk Analysis and Climate report. Insurance is purchased as needed

to protect the assets of the company against damage from such perils, including flood, hurricanes, tornados, and wind. These are considered in our underwriting guidelines and in the amount and terms of our reinsurance program, as well as in evaluating our risk management program.

The Underwriting department has implemented a variety of initiatives and policies designed to help control costs and reduce the environmental impact of our operations. These initiatives include the use of virtual inspection technology, the elimination of the inspection vehicle fleet, a move to a paperless work environment and email and SMS communications with the insureds. Our catastrophe mitigation strategy includes disciplined underwriting guidelines to reduce exposure to catastrophic events, such as wildfires and hurricanes. The Underwriting focus is on risk selection, providing adequate coverage levels and establishing accurate replacement cost for new and in-force homeowners insurance policies. We deployed a robust inspection strategy for new and renewal homeowners policies and use a virtual inspection tool to obtain vehicle and home inspections for new and renewal policies. Usage of advanced analytics and mapping solutions helps us identify areas with high-risk concentration and catastrophe exposure and drives our re-underwriting strategy.

The Exchange believes that one of the most effective ways to encourage risk reduction to our policyholders is to provide them with the real costs associated with their risk exposure through accurate pricing. Examples of this include rating by roof type, age of roof, home construction type, and the deductible selected. Once our policyholders understand the true cost differentials associated with the choices that they make, they can then decide for themselves what steps to take to mitigate possible losses from future events. Our products are designed considering the potential for catastrophic events, including providing suitable coverage options to the policyholder.

Our Catastrophe modeling is completed on a semi-annual basis. Modeling is used to develop pricing segmentation, develop plans to optimize growth while minimizing catastrophe exposure, make reinsurance decisions, and monitor probable maximum loss and spread of risk levels. Catastrophe modeling estimates for individual perils are updated semi-annually and utilize the models of all the major catastrophe modeling

vendors. The results of the modeling help us to determine if changes need to be made to our reinsurance coverage or to our underwriting criteria. The goal is to limit capital at risk so that a single large catastrophic loss (after applicable offsets for reinsurance proceeds, tax implications, reinsurance reinstatement premium, etc.) would reduce surplus by no more than 10%. The loss would be equivalent to an event that would occur approximately once in 250 years.

The Exchange purchases reinsurance to ensure that we will continue to operate effectively and meet the needs of our policyholders following a climate related event. Reinsurance needs are calculated by using data from outside catastrophe modeling firms. Included in the reinsurance program are a large number of well-capitalized reinsurers, and we limit the amount of risk any one reinsurer can assume. There is also a financial security review of the reinsurers, including their financial strength and exposure management.

The Exchange informs our policyholders of any issues found during inspections of homes. This helps the policyholder by informing them of ways that they can improve their home's resistance to losses, including those caused by climate change-influenced events. We inspect about half of all homes when they are first insured with us and re-inspect a portion of renewing policies each year as they come up for renewal. To further encourage the reduction of losses caused by climate related events, the Exchange educates about homeowner losses through our member publications. In these publications, we provide tips and guides to reduce losses caused by brush fire and water or weather-related perils.

Surplus protection and investment returns are key obligations we have to our policyholders. As a membership organization, ESG is an important factor we consider in investment decisions. For example, our investment in municipal bond portfolios demonstrates our commitment to the common good of society. Rather than utilize "ESG Pure" portfolios that do not have a demonstrated long-term track record, we have utilized investment managers that have implemented ESG integration in actively managed portfolios. They consider financially material ESG factors as a part of overall risk assessment to generate enhanced risk-adjusted returns. A product of this assessment is

evaluation of the sustainability of business models, which can lead to future financial performance. Some of the key risks they are reviewing associated with ESG are transition risk, stranded assets, regulatory risk, and litigation risk.

METRICS AND TARGET

ACE's carbon footprint is comprised of three components: Scope 1–direct emissions from onsite combustion and mobile sources like boilers, furnaces, and vehicles; Scope 2–indirect emissions from purchased electricity, steam, and heating; Scope 3–indirect emissions from business activities not owned or controlled by ACE, including business travel, Emergency Roadside Contactor's vehicles, and purchased goods and services (i.e., paper goods and printed materials).

In 2021, ACE contracted with a sustainability consultant to help us calculate our carbon footprint, also known as emissions inventory, to establish our ACE greenhouse gas (GHG) emissions reductions targets and to develop a climate action plan with strategies to reduce emissions.

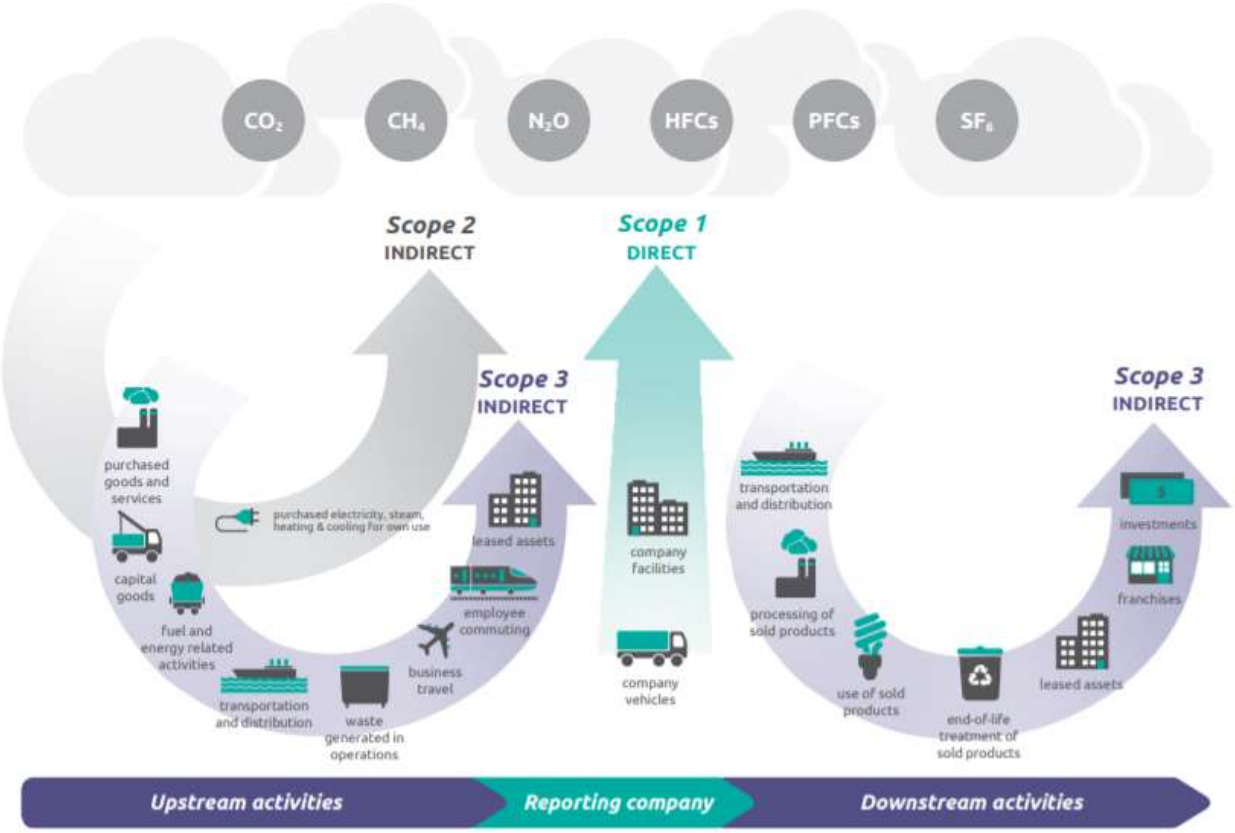
The preliminary study results were completed in June 2021, resulting in an initial carbon footprint calculation for scope 1-3, using 2019 as a baseline year. A carbon footprint calculation is not a determination of the Company's performance in terms of environmental sustainability. It is a starting point used to establish GHG emission reduction targets and to measure results of reduction efforts. This is the basis by which companies are scored or assessed by the global environmental sustainability community and the point at which ACE may begin its journey to reduce GHG emissions.

Our carbon footprint includes emissions of carbon dioxide (CO2), methane (CH4), and nitrous oxide (N2O), expressed as metric tons of carbon dioxide equivalents (MTCO2e). ACE has identified the following activities to be included in our carbon footprint calculations:

- Scope 1 (Direct Emissions): ACE owned fleet vehicles, including both Emergency Roadside Services fleet and our passenger vehicle fleet.
- Scope 2 (Indirect/Purchased Emissions): Purchased electricity and natural gas used for heating and operation of our owned and leased facilities.

- Scope 3 (Indirect Emissions from business activity): Paper consumption, contracted Emergency Roadside Services fleet, and employee business travel.

This data will help us target areas of focus for our reduction efforts. Scope	Emission Source
Scope 1	Vehicle Fleet
Scope 2	Purchased Electricity
	Purchased Natural Gas
Scope 3	ERS - Tow Vehicles
	ERS - Light Service Vehicles
	Business Travel - Personal Vehicles
	Business Travel - Rental Cars
	Business Travel - Rideshare
	Business Travel - Hotel Stays
	Paper Consumption - Production
	Paper Consumption - Transport



Next steps include setting emissions reduction goals, developing a climate action plan, and the establishment of new protocols for areas of operations which significantly contribute to our greenhouse gas emissions.