Task Force on Climate-Related Financial Disclosures Report

August 31, 2024

Amica

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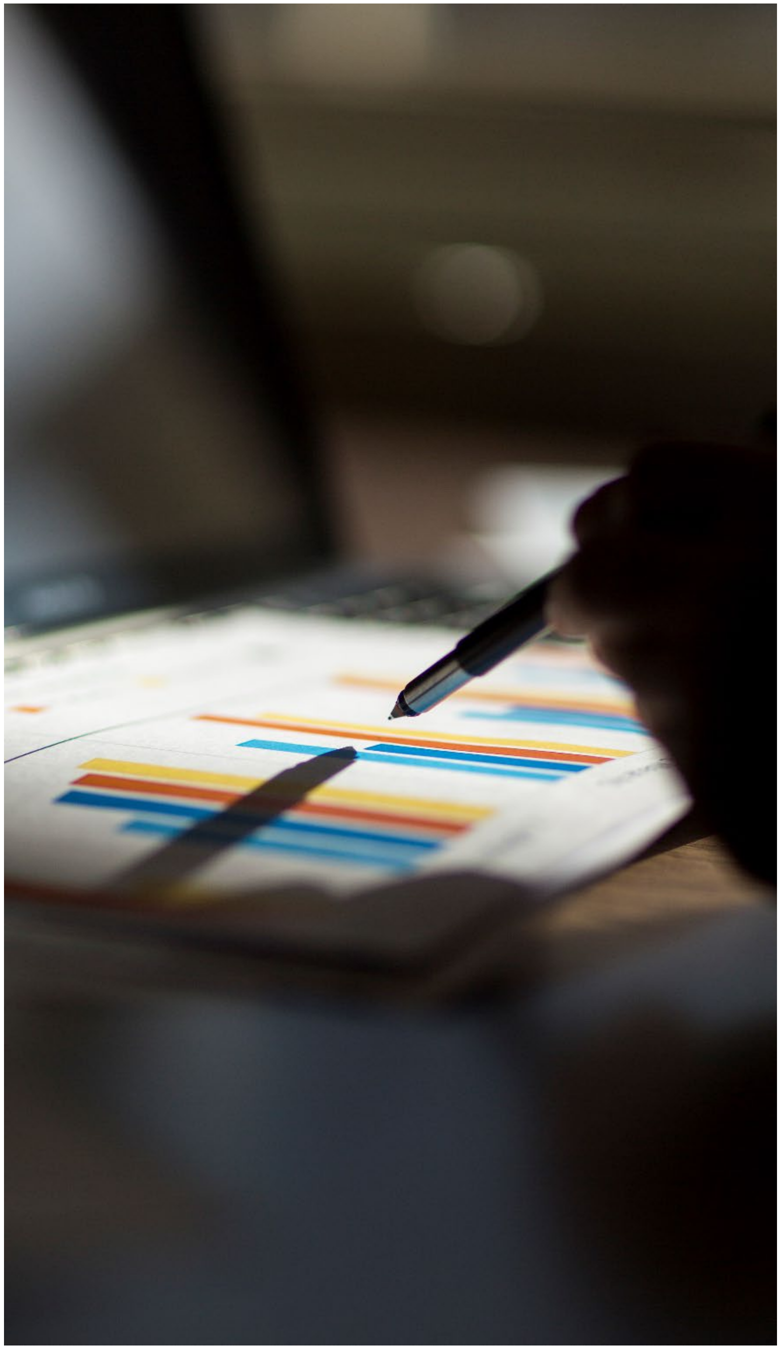


Introduction

Amica is pleased to present our 2024 Task Force on Climate-Related Financial Disclosures (TCFD) report. Supplementing our annual ESG report, it's structured around the TCFD-recommended four thematic areas: governance, strategy, risk management, and metrics and targets.

Helping policyholders recover from losses caused by weather-related events is what the insurance industry does every day. Amica knows firsthand that losses due to climate-related disasters are becoming more frequent, unpredictable and extreme.

In response, we're focusing on innovative solutions for our business, policyholders and communities that mitigate damage and limit adverse impacts to the environment. We believe it's our duty to be responsible stewards for our planet and its people.

To live up to our role as a trusted insurer, we maintain focus on our top priority – our policyholders. That means looking through the lens of environmental sustainability as we assess our services and operations across the country. As we delve more deeply into this space, our goal is to be transparent as we study Amica's impact on the communities where we live and work, and explore ways to improve and learn from the leading voices on these issues.

Governance

Board and management's role in monitoring and assessing climate-related risks and opportunities.

Board of Directors: From the top, the Board drives the company's efforts to operate in a more environmentally conscious manner, while also monitoring the impact of catastrophic losses on our policyholders. The Board is responsible for oversight of climate-related risks and opportunities.

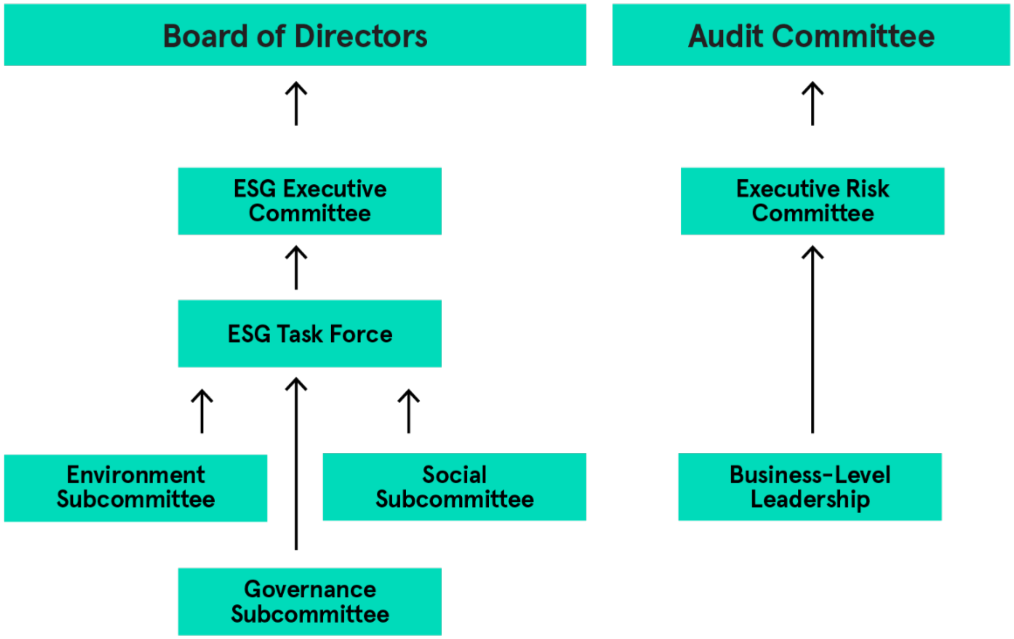
ESG Executive Committee: In 2020, Amica established an Environmental, Social and Governance Executive Committee. Led by Amica's Senior Vice President and General Counsel, its responsibilities include identifying opportunities around climate-related risks. The Executive Committee is composed of senior executives and oversees publication of Amica's ESG report. On a biannual basis, Amica's Senior Vice President and General Counsel reports to the Board of Directors on ESG strategy and goals.

ESG Task Force: A cross-functional group responsible for developing recommendations for ESG metrics and initiatives. The task force is broken into subcommittees for each of the ESG factors to facilitate focused discussions. The subcommittees report to the ESG task force every quarter. Recommendations of the task force are submitted to the Executive Committee for evaluation.

Executive Risk Committee: The Executive Risk Committee determines risk capacity, monitors adherence to the company's risk appetite, sets tolerances for key stressed risk events, and considers the potential impact of risk on strategic objectives. The committee reports quarterly on risks to the Audit Committee of the Board of Directors.

Business-Level Leadership: Responsible for identifying, managing, and monitoring risk, including climate risk, at the operational level.

Figure 1. ESG Governance Structure



Strategy

We continuously assess the impact of climate risk in our business strategies. This includes catastrophe modeling and stress testing to better understand changes in the drivers of risk by peril. These results assist in larger strategies to manage risk, including geographic policy growth strategies, improvement of pricing accuracy, enhancements in underwriting risk selection/retention, and the purchase of appropriate catastrophic reinsurance protection. Further, using various external products that aid individual risk assessment, we've incorporated wildfire-risk scoring and roof condition into our pricing and underwriting processes.

Sustainable Operations

Amica has developed business solutions and strategies to change the ways we communicate, work and help mitigate disasters. Below is a summary of the climate-related risks and opportunities Amica has identified.

Investment in Digital Technology: Amica continually invests in the functionality offered on our digital channels, as they provide more environmentally friendly ways to transact business.

- Virtual underwriting and claims inspections, digital insurance cards, the ability to upload photos and documents online, and direct deposit of payments are a few of the ways we're using technology to benefit the environment.
- Amica continues to incentivize the use of electronic billing and policy-delivery options to customers by passing along savings in the form of premium discounts.

Reinsurance: Through prudent underwriting and risk management, and with no claims filed against our reinsurance program in 30 years, we're able to carefully vet and choose our reinsurance partners.

Our thoughtful approach to reinsurance provides an extra layer of protection and additional peace of mind for our policyholders.

Business Recovery and Continuity: We've adopted business recovery plans for all of our critical functions. Overall, our business continuity plan enables us to maintain operations in the face of a crisis, natural disaster or other emergency. The strategies we've developed will minimize the effects of such events, helping us to quickly resume key operations. This allows us to protect the safety of our employees, our financial standing and longstanding reputation.

Reduce our Carbon Footprint: Since 2019, we've consolidated office locations and transferred some employees to fully remote work. These changes have reduced our direct and indirect value-chain emissions without lessening our ability to be there for our policyholders across the country.

- In Amica-owned buildings, we've incorporated environmentally friendly technology, including energy-efficient temperature controls, LED sensory lighting and smart-technology maintenance systems.
- At our corporate headquarters, we monitor water usage and recycle groundwater for irrigation purposes.
- We've reduced carbon monoxide emissions by approximately 70% through modifications to the generator exhaust system on our corporate campus.
- Amica continues to participate in a demand response program, designed to lower the overall load on the grid to prevent brownouts and help with power reliability in the local community. When we participate in a demand response, we keep other, larger-producing generators off the grid, resulting in a reduction in their carbon emissions.

Strategy

Investments Approach

We recognize that the evaluation of investments through the Environmental, Social and Governance (ESG) lens is an important component of the comprehensive evaluation of risk and return. We observe an increasing reflection of ESG factors in asset prices. We also acknowledge that not all ESG factors carry equal weight in terms of price impact or risk correlation, and so we aim to focus on the various aspects most relevant to specific sectors or industries and integrate that into our decision-making process.

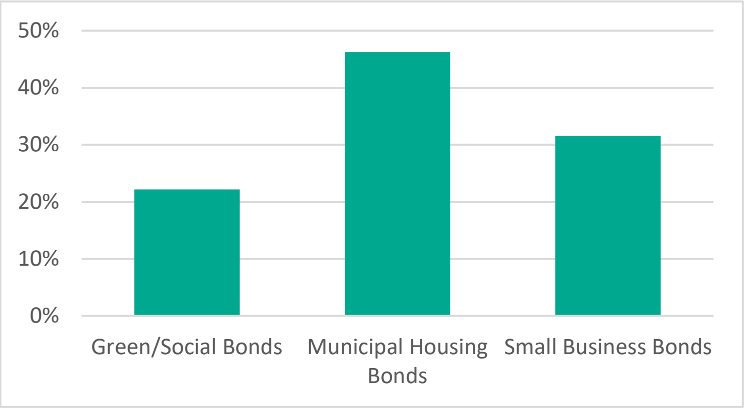
Fixed Income: ESG factors and climate change risks are taken into consideration for corporate bonds and mortgage-backed securities, but are most prominent in our evaluation of municipal bonds. Environmental considerations and the impact of climate change pose unique risks to municipal credits, and bonds issued for green projects offer distinctive rewards. When assessing the risk of a municipal creditor, we closely scrutinize locations situated in or near areas prone to adverse weather and climate-related events, and assess the mitigation measures taken by the municipalities. We also consider the perspectives of rating agencies and monitor any increase or change in focus on ESG factors in municipal credits.

Bonds issued for socially beneficial purposes also offer opportunities to Amica. We participate in bonds issued by state and local housing authorities to support low-income housing in their communities. Additionally, Amica holds substantial investments in bonds issued by the U.S. Small Business Administration (SBA) to benefit U.S. small businesses.

Proceeds from SBA bonds are used to provide long-term, fixed-rate financing that promotes business growth and job creation. A summary of Amica's ESG-related bonds by type is illustrated in Figure 2.

Another important step in our process is to evaluate and, if suitable, purchase specific securities that aim to reduce or mitigate an issuer's negative impact on the climate. Notably, our Green/Social bonds are backed by the commitment of their issuers to allocate the proceeds toward funding assets and projects that meet green or social criteria. Examples of such projects include alternative energy initiatives, energy-efficiency enhancements, sustainable construction, responsible water and wastewater management, and pollution prevention, among others.

Figure 2. ESG-Related Bonds by Type
As of Dec. 31, 2023



Note: Percentages reflect Amica's allocation to ESG-related bonds (excluding other investments)

Strategy

Equity: Evaluating corporations through an ESG lens is integral to our fundamental business analysis. By doing so, we can discern the strengths, weaknesses, threats and opportunities associated with our portfolio investments. We've consistently observed that businesses that prioritize value creation for all stakeholders tend to exhibit traits of durability and long-term focus. These characteristics underpin our investment strategy and guide us toward businesses that align with our targeted investment criteria and fundamental analysis.

Through this approach, our portfolio naturally veers away from companies facing structural decline or social risks. Our investment strategy focuses on selecting businesses that demonstrate sustainable growth potential. Recognizing the unique characteristics of each equity sector, we adopt an industry-specific approach to ESG analysis, and incorporate information differently and most appropriately.

As ESG issues evolve and shape the outlooks of industries and businesses, our fundamental analysis is dedicated to uncovering shifting landscapes and making portfolio adjustments. We observe a notable increase in the level of ESG-related disclosures from firms. We thoroughly incorporate this information in our monitoring process, and model its impact on cash flow projections and calibrate this into our risk outlook.

Ensuring strong corporate governance has always been a central aspect of our investment analysis, as we prioritize equitable treatment of minority owners within our portfolio. During annual shareholder meetings, we actively participate by voting for policies and board member representatives that will foster robust corporate governance and serve the best interests of long-term shareholders. To facilitate this process, we rely on the expertise of an external vendor, Institutional Shareholder Services (ISS), who align their voting decisions with Amica's guidelines.

Alternatives: As part of our routine management of Amica's alternative assets, we invest in and provide financing to entities and funds dedicated to ESG-friendly initiatives. As of Dec. 31, 2023, 10% of our alternative commitments were specifically allocated to timberland and conservation strategies involving the acquisition of land for permanent protection against development. Furthermore, we invest in mitigation banks, where properties are restored to their original ecological condition, serving to offset the impacts of nearby development and promote forest carbon sequestration. In addition, Amica supports various funds that facilitate loans to small businesses, as defined by the SBA, and actively participates in energy-efficiency projects through infrastructure enhancements.

Figure 3. Alternative Assets Supporting ESG Initiatives. As of Dec. 31, 2023.

Risk Management

Identify and Assess Climate-Related Risks

Amica's enterprise risk appetite statement is a foundational element of corporate strategy and risk management. Climate-related risks are identified and assessed as part of the company's integrated risk management process, which aligns with the COSO Enterprise Risk Management framework. The risk management process ensures that a systematic approach is used to assess the timing, likelihood, and magnitude of climate risks to which the company is exposed, and to prioritize these risks by severity in the context of risk appetite.

We monitor the guidance of the NAIC Climate and Resiliency (EX) Task Force, as well as that of climate-focused third parties. We continue to research climate modeling and assessment tools.

Managing Climate-Related Risks

Amica deploys a holistic approach to managing climate-related risks through the use of governance, risk and compliance technology to aggregate data points as part of our annual risk assessment process. This process includes climate assessment, identification of impacts and mitigations, and reporting metrics.

The company integrates risk management practices into day-to-day business operations utilizing the following tools.

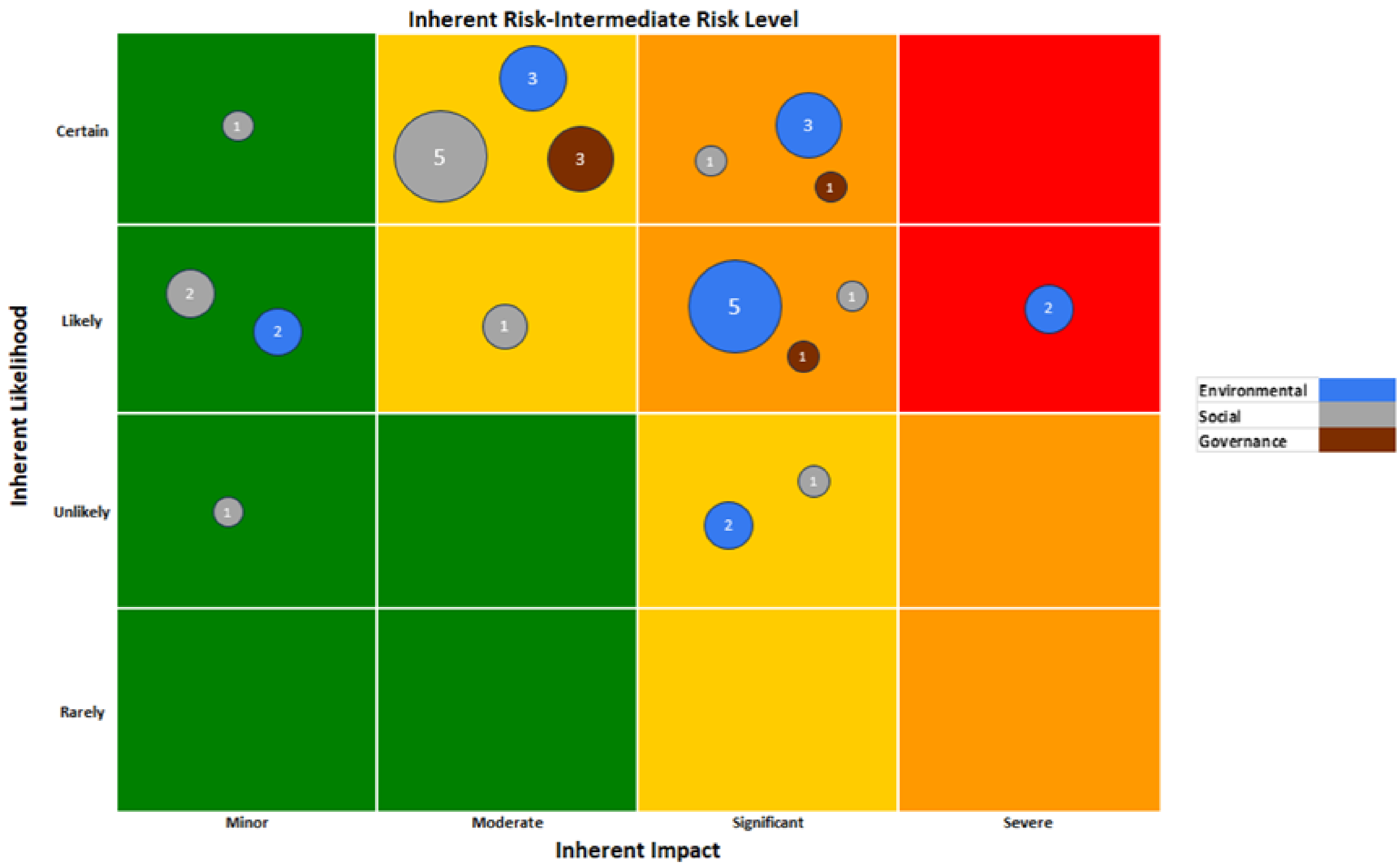
Figure 4.

Tool	Description
Real-World Scenario Generator	Stochastic asset models and calibration content that support realistic projections of asset returns and risk-factor distributions.
Hazard Maps	Map that highlights areas that are affected by or are vulnerable to a particular peril.
Horizon Scanning	Systematic outlook to detect early signs of potentially important developments.
Stress Test Modeling	Projects the impacts of select stresses on the company's financial results. These projected impacts are measured relative to projections for a baseline scenario. Baseline projections are based on the company's Financial Operating Plan.
Forecasting	Fiscal planning tool that presents estimated information based on past, current and projected financial conditions.
Sensitivity Analysis	Determines how target variables are affected based on changes in other variables.
Reverse Stress Test	Identifying the fault line and scenarios that would lead to these conditions.

Risk Management

As part of the risk assessment process, risks are categorized by various ESG factors. Within the environment category, risks are further categorized by climate change, carbon emissions, and resource and energy management. Attributes such as physical-acute, physical-chronic, and transitional are identified with detailed commentary by management as to impacts.

Figure 5.



Risk Management

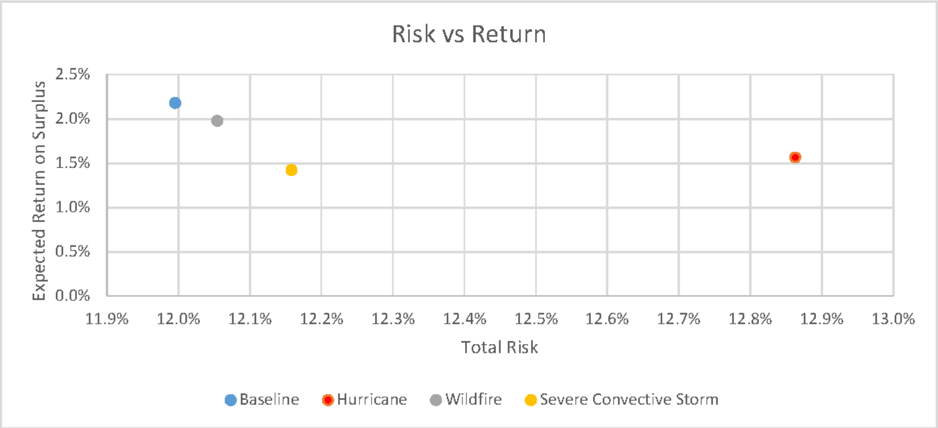
Identifying, assessing and managing climate-related risks are integrated into the insurer's overall risk management.

Climate change is incorporated into the company's risk hierarchy as detailed in Figure 5. Climate-related risks and impacts are specifically assessed in the following key risk areas:

- Catastrophe
- Products and Underwriting
- Asset
- Reinsurance
- Legal, Compliance and Regulatory

In addition to the use of governance risk and compliance technology, Amica uses third-party modeling tools to assist in the analysis of climate-related risks to evaluate exposures used in decision-making on pricing, underwriting and reinsurance. Additionally, other internal modeling tools are used to stress test scenarios and to evaluate capital adequacy.

Figure 6. **Weather Scenarios**



For example, modeling is used to indicate likely losses at certain return periods, allowing the identification of average annual losses and probable maximum losses. This information is reviewed to assess both short- and long-term implications for our business. The correlation between catastrophic losses and subsequent impacts on financial markets is also considered.

Catastrophe modeling and prior loss experience vary by line of business, geographic area and peril, and are used to set policy rates. The company uses a blend of two modeling tools to determine probable maximum losses, consistent with the approach used for regulatory reporting. On an aggregate level, rates will reflect the average annual loss (AAL) the company expects to incur from catastrophe losses in an average year. Reinsurance and other loss-mitigation efforts are in place to limit the financial impact of extreme events. Stress test results continue to demonstrate that Amica is well positioned to withstand CAT risk exposures.

Metrics and Targets

Amica will continue to make progress on building out our climate work and expanding our capabilities by:

- Continuing to assess climate-related physical risks by state and line of business for pricing, underwriting, reinsurance and reserving.
- Evaluating climate exposures by executing stress-testing scenarios, using both internal and external modeling tools. Amica will continue to develop specific climate-related scenarios to manage risk and identify opportunities.
- Developing climate-related recommendations for ESG metrics and initiatives, which will be tracked and monitored. The development of these metrics and targets will allow Amica to measure its progress on identified climate risk opportunities.
- Building data requirements and architecture to execute reporting and disclosure.
- Evaluating the U.S. Environmental Protection Agency's (EPA) Guidance on GHG Inventory Development Process for adoption.