2018–19 SUNCORP CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

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SUNCORP

7 AUGUST 2019

These disclosures should be read in conjunction with Suncorp's 2018–19 Annual Report, 2018–19 Responsible Business Report and 2018–20 Climate Change Action Plan

About Suncorp

Suncorp Group Limited is a leading financial services provider in Australia and New Zealand, enabling more than nine million customers to better protect and enhance their financial wellbeing. With a heritage dating back to 1902, we have grown to become a top-20 ASX-listed company with more than 13,000 people and $96 billion in total assets. We offer banking, wealth management and insurance products and services through our well-recognised brands including Suncorp, AAMI, GIO, Apia, Shannons and Vero, as well as those from our partners.

To read Suncorp's most recent Annual Report, please visit: suncorpgroup.com.au/investors. To learn more about our approach to Corporate Responsibility, please visit suncorpgroup.com.au/corporate-responsibility.

Our changing climate: the science and the Paris agreement

Climate change is a shared global challenge that needs to be addressed by governments, businesses, and individuals. Suncorp is committed to playing its part in reducing emissions and preparing for the physical and economic impacts of climate change on our business, community, and across our value chain.

We accept the international scientific consensus presented by the Intergovernmental Panel on Climate Change:

> *The earth's mean surface temperature is increasing, and it is extremely likely the dominant cause of the observed warming is the effect of human activity on the climate system. In recent decades, changes in climate have caused impacts on natural and human systems on all continents and across the oceans.*[1]

We support the ratification of the United Nations Framework Convention on Climate Change Paris Agreement by the governments of Australia and New Zealand, including their commitments to significantly reduce emissions below 2005 levels before the year 2030.

The Paris Agreement commits almost every country in the world to keeping global temperature rise well below 2 degrees Celsius, and to pursue efforts to limit temperature rise further to 1.5 degrees Celsius relative to pre-industrial levels.

The risks for our community of not achieving this target are significant. The scientific consensus is that a global temperature rise of 2 degrees Celsius will see extreme weather and irreversible changes to our climate, resulting in wide-ranging impacts on our economy and communities.

Aligning to the Paris Agreement

The Paris Agreement within the United Nations Framework Convention on Climate Change was signed in 2016 by 175 nation states and sets out a goal to limit global warming to well-below a rise of 2 degrees Celsius to minimise the risks that come with changing weather patterns.

Under a warming climate, the CSIRO and Bureau of Meteorology project that Australia will experience over the coming decades:[2]

- further increase in temperatures, with more extremely hot days and fewer extremely cool days
- ongoing sea level rise
- more intense heavy rainfall throughout Australia, particularly for short-duration extreme rainfall events
- more high fire weather danger days and longer fire seasons
- fewer tropical cyclones, but a greater proportion of high-intensity storms, with ongoing large variations from year to year.

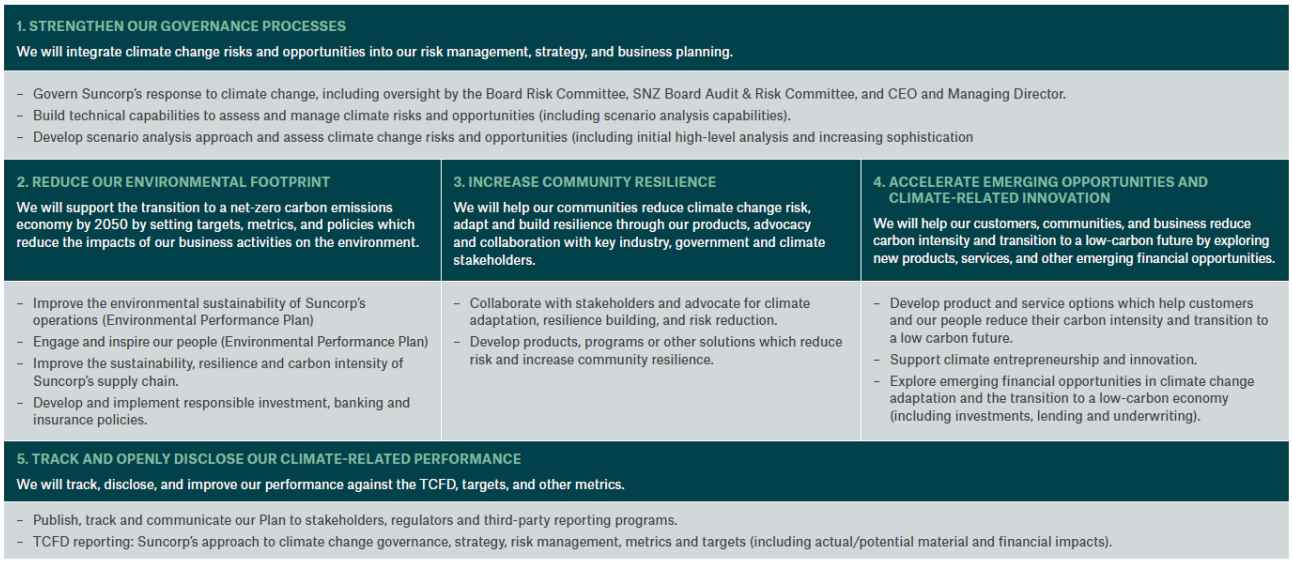
These physical risks present strategic and financial risks to our business and community over the medium and long term. While we are working to understand these longer-term impacts through scenario analysis, we know we have a part to play today in helping limit global warming.

This includes reducing our own emissions, making decisions which support an orderly transition to a net-zero emissions economy, and supporting growth through new and emerging opportunities which have a positive environmental impact for our business and communities.

[1] IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland.

[2] Climate Change in Australia. https://www.climatechangeinaustralia.gov.au

Suncorp's Climate Change Action Plan



Suncorp's Climate Change Action Plan (CCAP) was approved by the Suncorp Board and Senior Leadership Team in March 2018. It forms the basis for maturing Suncorp's assessment, management and disclosure of climate change risks and opportunities using the framework published by the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD).

It demonstrates how Suncorp will work with its customers and communities to support a transition to a net-zero emissions economy by 2050. In 2018–19 we have made significant progress on fulfilling our commitments under our CCAP to:

1. Strengthen our governance processes including assessment of climate risk
2. Reduce our environmental footprint
3. Increase community resilience
4. Accelerate emerging opportunities and climate-related innovation
5. Track and openly disclose our climate-related performance.

Strengthen governance

The implementation of our Responsible Investment Policy is included in the CCAP. The Policy was launched in August 2017 and includes commitments to increase climate-related investment, as well as apply a shadow carbon price to the analysis of investment opportunities to manage risk in the transition to a net-zero emissions economy.

Also included is our commitment to implement a Responsible Banking and Insurance Policy, which was approved in July 2019. The Policy establishes an organisation-wide approach for managing environmental and social outcomes from our products and portfolios. Additionally, our Procurement Policy and Supplier Code of Practice covers ethical procurement practices and impacts on the environment of the supply chain of our Australian business.

This year Suncorp conducted its first Climate Change High-level Risk and Opportunity Assessment which provides the basis for climate scenario analysis to be conducted in 2019-20.

Reduce our environmental footprint

Suncorp will track and reduce its operational greenhouse gas (GHG) emissions footprint through our new carbon budget and science-based emissions reduction target of 51% by 2030. We will refresh our Environmental Performance Plan in the coming year out to 2022. The Plan will include environmentally-focused commercial opportunities which reduce emissions and waste, and engage employees.

Increase community resilience

Through our Natural Hazard Resilience Strategy, we will explore the expansion of Suncorp's Protecting the North program to include other peril risks in Australia and New Zealand. We will develop new solutions to engage with stakeholders in different communities and advocate for greater investment in climate adaptation and resilience building by both the private and public sectors.

Accelerate emerging opportunities

The transition to a net-zero emissions economy offers increased opportunity for low carbon investment. During 2018–19 Suncorp's low carbon investments increased to $310 million. This includes an additional $128 million allocation to green bonds and a $15 million commitment to renewable energy infrastructure investment. Suncorp is exploring climate adaptation financing solutions with the environmental innovation organisation, Climate-KIC.

We are also developing insights into environmental customer segments and exploring business benefits and product opportunities.

Track and openly disclose our climate-related performance

Suncorp will continue to meet the recommendations of the TCFD through this document, our 2018–19 Annual Reporting Suite and the Carbon Disclosure Project.

We continue to proactively engage on climate change with a range of stakeholders including regulators, investors, ratings agencies, industry peers, government agencies, non-government organisations, and climate advocates. Suncorp participates in a number of industry forums that bring together scientific agencies, banks, insurers, regulators and industry bodies.

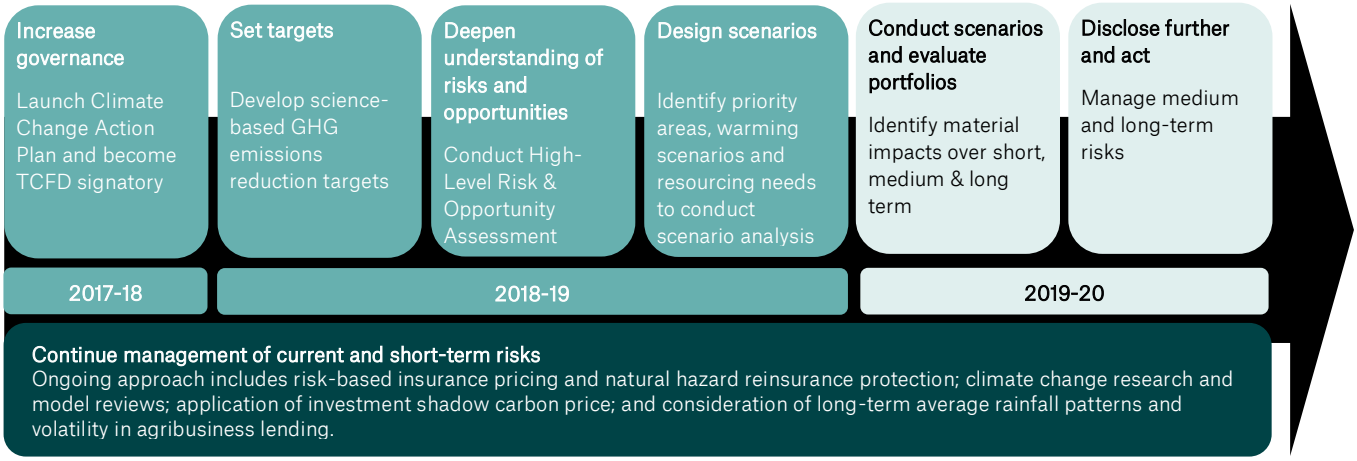
Suncorp's CCAP is available at suncorpgroup.com.au/corporate-responsibility

Introduction

Managing risk is what Suncorp does every day

Suncorp employs an established risk management framework that governs the identification, management, control and monitoring of risks, including risks presented by climate change. This means any change in risk that occurs due to climate change or other factors can be addressed dynamically, through a range of mechanisms including risk selection and underwriting practices, premiums that adjust for risk and associated capital and reinsurance costs, and geographic and product diversification.

Increasing the sophistication of our response as we learn more



While Suncorp continues to manage climate change risks and opportunities over the short term, medium to long-term risks are associated with higher levels of uncertainty.

In 2018–19, Suncorp brought together a strong multidisciplinary working group from across its Australian and New Zealand operations, charged with deepening our understanding of the impacts of climate change today and into the future. Their skills and expertise span risk, finance, capital management, natural peril pricing, actuarial, reinsurance, investment, strategy, and corporate responsibility.

Suncorp conducted a high-level assessment of climate-related risks and opportunities, considering how climate change may act as an amplifier of existing risks it is managing. The findings of the assessment are included in these disclosures and form the basis for Suncorp's climate scenario analysis to be conducted in 2019–20. Climate scenario analysis will include assessments of the physical impacts of a changing climate and the transition to an economy that achieves net-zero emissions by 2050.

Suncorp's assessment of climate-related risks and opportunities has been undertaken on a best endeavours basis, acknowledging that any outcomes that are considered have high levels of uncertainty and there are limitations to understanding the full extent of the impact climate change may have.

Suncorp action and the TCFD

In launching its CCAP in 2018, Suncorp became one of the first 250 companies globally to be a signatory to the TCFD.

The TCFD offers a valuable framework for Suncorp to assess and disclose the emerging risks, opportunities and financial implications of climate change under four main areas: governance, strategy, risk management, and metrics and targets.

Addressing climate change risks makes good business sense, and enables Suncorp to protect its customers and community, and maintain a sustainable business for shareholders for years to come.

The table below provides progress against the TCFD and page references to disclosures within this report. The disclosures in this report build on those made in 2018.

Progress against the TCFD	
Governance *Disclose the organisation's governance around climate-related risks and opportunities.*	
Board oversight	Governance of climate change at Suncorp continues to be exercised by the Suncorp Group Limited Board and Suncorp New Zealand Boards and their Board Risk Committees, with activity driven by Suncorp's Senior Leadership Team, Corporate Responsibility Council and Climate Change Leadership Group. See p. 7.
Management's role	
Strategy *Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.*	
Climate-related risks and opportunities	Potential impacts were assessed in our Climate Change High-level Risk and Opportunity Assessment. Scenario analysis will be undertaken in 2019-20 to further assess material impacts, as well as inform strategy and financial planning. See pp. 8 – 11.
Impact of climate-related risks and opportunities	
Resilience of Suncorp's strategy (climate scenario analysis)	
Risk Management *Disclose how the organisation identifies, assesses, and manages climate-related risks.*	
Processes for identifying and assessing climate-related risks	Suncorp integrates consideration of climate-related risks into a number of existing risk and management practices such as insurance modelling and pricing, reinsurance, lending assessments, and investment evaluation. Further processes to identify, assess and manage climate-related risks have been identified through our Climate Change High-level Risk and Opportunity Assessment. Scenario analysis will be undertaken in 2019-20 to increase the sophistication of Suncorp's processes to identify, assess, and manage climate-related risks under more specific scenarios. See pp. 12 – 13.
Processes for managing climate-related risks	
Integration of processes into overall risk management	
Metrics & Targets *Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.*	
Metrics to assess material climate-related risks and opportunities	Suncorp has set science-based targets for the reduction of Scope 1 and Scope 2 GHG emissions. Future work will be undertaken to explore other emissions sources, metrics and targets. See pp. 14 – 15.
Scope 1, 2 and 3 GHG emissions	
Targets	

Governance

a) Board oversight

Governance of climate change at Suncorp is the responsibility of the Suncorp Group Limited Board and Suncorp New Zealand Boards, which oversee the response to climate change risks and opportunities through their Board Risk Committees. Key strategic and financial risks are identified during the annual business planning process and mitigation activity is considered at least on a quarterly basis through reporting to Board Committees.

Suncorp's central framework to manage its response to climate change is the Board-approved Climate Change Action Plan (CCAP), which was published in April 2018. The CCAP aligns with the framework published by the TCFD and forms the basis for the maturing of Suncorp's assessment, management, and disclosure of climate change risks and opportunities.

b) Management's role

Suncorp's CEO and Senior Leadership Team is accountable for Suncorp's actions and commitments to embed climate change into risk management, business strategy, business planning and budgeting processes and frameworks, as outlined in the CCAP. Emerging risks, including those related to climate change are monitored regularly by management committees, with material changes escalated to the Board as required.

Suncorp's Climate Change Leadership Group and functional teams are responsible for delivering Suncorp's commitments under the CCAP and report into Suncorp's Corporate Responsibility Council and Senior Leadership Team. Numerous other subject matter experts from across Suncorp are engaged through specialist Working Groups that feed into the Climate Change Leadership Group.

Suncorp's Responsible Investment Committee governs the application of the Responsible Investment Policy, which includes the application of a shadow carbon price to the analysis of investment opportunities to manage risk as we transition to a net-zero emissions economy.

Suncorp's Banking and Wealth Risk Committees and Insurance Risk Committees govern the implementation of our new Responsible Banking and Insurance Policy in Australia, which establishes an organisation-wide approach for managing environmental and social outcomes from our products and portfolios.

Suncorp also ensures strong governance of procurement activities and is committed to actively managing the environmental and social risks and opportunities in our supply chain through our Procurement Policy and Supplier Code of Practice for our Australian operations.

Strategy

a) Climate-related risks and opportunities identified

Our 2020–22 Group Business Plan identifies *Climate Change and Resilience* in as one of seven strategic risks faced by Suncorp. The Plan outlines the CCAP as the strategic framework for the identification and management of climate risks and opportunities, and the Natural Hazard Resilience Strategy to reduce risk and increase community resilience to extreme weather and changing climate.

Climate Change High-level Risk and Opportunity Assessment

To understand the impact of climate change across multiple portfolios and business operations, in 2018–19 Suncorp undertook a qualitative high-level assessment of climate-related risks and opportunities, the first major milestone in the delivery of Suncorp's CCAP. The findings of the assessment form the basis for Suncorp's climate scenario analysis to be conducted in 2019–20 (see Strategy c).

Seven high-level risk categories were identified during the assessment and have been organised into three broad themes:

- current business is impeded or influenced by shifting political or legal sentiment
- business operations become costlier and potential pricing uncertainty puts pressure on sustainable income over the medium to long term
- financial markets, consumer markets and the economy become more volatile during climate-related economic transition.

Further details regarding the process used in the assessment are included in the Risk Management section of this report.

High-level Risk Assessment

Seven high-level risk categories identified during the assessment process

Risk theme: current business is impeded or influenced by shifting political or legal sentiment.

Risk theme: Business operations become costlier and potential pricing uncertainty puts pressure on sustainable income over the medium to long term.

Risk theme: Financial markets, consumer markets and the economy become more volatile during climate-related economic transition.

Opportunities identified through the assessment can be categorised into four broad themes:

- product or service offerings for customers and Suncorp's employees to reduce their carbon intensity
- community resilience building
- improving Suncorp's environmental sustainability
- developing competitive advantage by understanding climate change impacts and emerging opportunities (i.e. investing in resources, systems and tools).

b) Impact of climate-related risks and opportunities

Impact of climate-related risks and opportunities		
TCFD Category	Overall Risk or Opportunity Rating[1]	
Transition Risks		
Technology Risk	Low – Moderate	Explicit impacts from climate change on technology risk are considered to be within the Group's appetite. Annual business planning processes at Suncorp consider technology developments including the development and use of emerging technologies such as renewable energy, battery storage and energy efficiency.
Market Risk	Low – Moderate	Market risks (i.e. shifts in supply and demand for commodities, products and services due to climate change) are considered to be within the Group's appetite. Pricing uncertainty may impact Suncorp's ability to generate stable income over medium and long-term horizons without mitigation – this includes investment market uncertainty, complexity with implementing product price changes, retaining risks at a low cost of capital, and market pressures. Impacts on Suncorp's operational expenses due to the transition to a low emissions economy are not considered material but will be managed in the course of normal operations.
Policy and Legal Risk	Moderate	Policy and legal risks are considered to be the risk category that Suncorp has the least ability to control, specifically with respect to ongoing policy uncertainty at a global, national and state level.
Reputation Risk	Low-Moderate	Our risk assessment methodology considers reputation risk as a consequence of other risks. Suncorp has a robust control environment for responsive reputation management, and monitors reputation risk when managing technology risk, market risk, and policy and legal risk.
Physical Risks		
Acute Risk	Moderate	Acute physical risks are actively managed by Suncorp through risk-based pricing, risk accumulation monitoring, annual pricing reviews, and capital and risk transfer solutions (e.g. reinsurance, lenders' mortgage insurance). Further work will need to be undertaken to understand the influence of climate change. Some risks are routinely addressed through existing business processes, primarily in the Insurance business.
Chronic Risk	Moderate	Given the long timeframe associated with chronic physical risks, the risks in this category present the most uncertainty. Most risks identified in this category need further work to better understand potential impacts. Risks that require action are integrated with the transition risks in the policy and legal risk category.
Opportunities		
Resource Efficiency + Resilience	Low	Resource efficiency and resilience through continued real estate, supply chain and operational efficiency actions represent an opportunity to reduce overall operational costs.
Energy Source	Low – Moderate	Exploration of lower-emissions sources of energy and use of new technology represents an opportunity to reduce operational costs and exposure to potential future energy disruption. Renewable energy and power purchasing agreements are becoming more accessible.
Products/ Services	Moderate	Exploration of low-emission products and services in line with consumer preferences offers an opportunity to differentiate customer and employee propositions, strengthen relationships with customers and employees, and provide potential new sources of revenue. Further exploration is needed ahead of investment.
Markets	Moderate	Opportunities to invest in new markets, including green bonds and renewable energy infrastructure financing are increasing, providing Suncorp with the opportunity to increase diversification of financial assets in line with the global transition to a net-zero emissions economy.

[1] Overall Risk Rating looks across all identified risks, their impact, likelihood and velocity, and takes an average consequence. This may differ to traditional aggregation methodologies, where the most extreme impact tends to drive up the risk rating but does not account for the velocity of a risk under different scenarios/external influences.

c) Resilience of Suncorp's strategy (climate scenario analysis approach)

Our approach to scenario analysis

Suncorp's approach to scenario analysis will begin implementation in 2019–20 and will be based on the risks identified in our high-level assessment of climate-related risks and opportunities. The findings of our scenario analysis will be disclosed at the end of 2019–20.

Results from the scenario analysis are not intended to reflect Suncorp's views of future outcomes, but to assess potential consequences from physical and transition risks and help Suncorp better understand its strategic resilience to climate change. Scenario analysis outcomes will be considered material findings if they indicate impact which may require market disclosure and/or require change to Suncorp's strategic approach in the short (0–3 years), medium (3–10 years) or long term (10+years).

Suncorp's scenario design principles

Suncorp will ensure our scenario analysis is:

- plausible and distinctive and assesses areas of material business or strategic importance which can lead to greater understanding of uncertain risks and impacts
- technically credible and consistent with clear assumptions, science-based methodologies and articulated limitations
- relevant and challenging to provide strategic insight and potential competitive advantage
- useful for stakeholder engagement and understanding of climate-related risk and potential actions to address risk.

Priority area: physical impacts of extreme weather on underwriting, lending and investment portfolios (including insurance affordability)

This analysis will seek to assess potential changes in the frequency and severity of a number of natural perils under different climate change scenarios, and the actual or potential implications for Suncorp's underwriting, lending and investment portfolios and its customers. The work is planned to examine scenarios against a current baseline, including a 2 degrees Celsius scenario and a greater than 4 degrees Celsius scenario.

Priority area: transition risk and strategic portfolio exposures

This analysis will seek to assess Suncorp's group-wide exposures to industries that are expected to benefit from or be disadvantaged by a transition to a low carbon and climate-resilient future. The work is planned to examine scenarios against a current baseline, including a 1.5 degrees Celsius scenario and a 3 degrees Celsius scenario. Transition risk scenarios take a view of the short term and medium term, recognising that transition risks are more likely to materialise over this timeframe.

Industry considerations in scenario analysis

Suncorp is participating in a number of local and international industry collaborations with other organisations seeking to increase the sophistication of their understanding and quantification of climate change risks and opportunities, with a focus on developing more granular and local level insight as technology, research and modelling capabilities increase in sophistication. Key focus areas include:

- isolating changes to localised weather under different climate change scenarios due to climate change model uncertainty
- understanding economic impacts resulting from the physical impacts of climate change
- understanding the potential amplification of risk from multiple concurrent or compound events or an ongoing succession of events
- understanding economic impacts and policy implications of the transition to a net-zero emissions economy, at both a global and national level.

What is climate scenario analysis?

Global warming scenarios help organisations to better understand how the physical and transition risks and opportunities of climate change might impact the business over time.

The International Energy Agency (IEA) and United Nations Intergovernmental Panel on Climate Change's (IPCC) meta-scenarios provide an overall context and set of macro trends to assist in the development of company or sector-specific scenarios.

Global warming scenarios are not intended to represent a full description of the future, but rather to highlight central elements of a possible future and to draw attention to the key factors that will drive future developments. Scenarios are hypothetical constructs; they are not forecasts or predictions nor are they sensitivity analyses, which apply targeted scenarios to assess the impact of an extreme weather event on a given location.

Scenarios can include various assumptions about future economic, social, technological, and environmental conditions. Key considerations in scenario design are the usability and application of scenarios for organisational decision-making, including the assumptions applied and levels of confidence in outcomes.

Risk management

a & b) Processes for identifying, assessing and managing climate-related risks

Enterprise Risk Management Framework and Business Plan

Suncorp's Enterprise Risk Management Framework governs the identification, management, control and monitoring of risks, including risks presented by climate change. This is further addressed at a more granular level in Suncorp's Insurance Risk Standard, which focusses on insurance product design, pricing, underwriting, claims management and reinsurance within the Insurance business. Suncorp's Bank Credit Risk Management Policy focusses on governing, assessing and approving credit risk exposures. While Suncorp Bank does not currently integrate climate change considerations into residential lending risk assessments, the application of lenders' mortgage insurance provides some protection from potential falls in collateral values that could occur from climate change risks. Long-term average rainfall patterns and volatility are key risk characteristics used in the assessment of agribusiness lending.

Suncorp addresses strategic risks, insurance risks and credit risks in our annual Business Planning process, and risk monitoring and mitigation activity is undertaken regularly with reporting to the Insurance Risk Committees, Bank and Wealth Risk Committees, and Board Risk Committees occurring on a regular basis. These Suncorp Group policies, procedures and guidelines are reviewed at least every two years. Further detail on our Enterprise Risk Management Framework can be found in our 2018–19 Annual Report.

Our 2020–22 Group Business Plan identifies *Climate Change and Resilience* as one of seven strategic risks faced by Suncorp and incorporates it into our Enterprise Risk Management Framework. Suncorp management reports to the Group Board Risk Committee each quarter on the risk of climate change and every six months on the ongoing implementation of Suncorp's CCAP as the overarching framework for the monitoring and mitigation of climate change as a strategic risk.

Insurance risks associated with climate change and natural perils are also considered in the 2019–21 Insurance Australia and New Zealand Business Plans and the Insurance Risk Appetite Statement, as a fundamental part of pricing our portfolios. Suncorp addresses insurance risk dynamically and monitors it through day-to-day management and the Insurance Risk Committees on an ongoing basis.

Similarly, Bank credit risks are addressed in the 2019–21 Banking and Wealth Business Plan, managed within the parameters of the Risk Appetite Statement and monitored by the Banking and Wealth Risk Committees on an ongoing basis.

Climate Change High-level Risk and Opportunity Assessment

To understand the impacts of climate change across multiple portfolios and business operations, in 2018–19 Suncorp undertook a qualitative high-level assessment of climate-related risks and opportunities, the first major milestone in the delivery of Suncorp's CCAP. The findings of the assessment form the basis of Suncorp's climate scenario analysis to be conducted in 2019–20.

Through the High-level Risk and Opportunity Assessment, Suncorp developed processes to:
- consider how climate change may act as an amplifier of existing risks we are already managing
- explicitly articulate climate change causes associated with these existing risks and
- identify risks that might not have been considered as part of current risk assessments.

Through this process Suncorp developed a variable climate change velocity factor to prioritise those identified risks. By considering the velocity of climate change (which may vary under different global warming scenarios) Suncorp will be able to assess the outcomes of climate change scenarios and develop appropriate management actions to respond to potential operational and strategic risks. See the Strategy section of this Report for details of the impacts of the risks and opportunities identified by Suncorp's High-level Risk and Opportunity Assessment and scenario analysis approach to increase the sophistication of our understanding.

Suncorp is building technical capability to understand climate risk exposures

A key part of climate risk exposure analysis is the ability to combine and visualise multiple data points and the impacts of hypothetical extreme weather scenarios. Geospatial Information System technology enables this type of analysis and is already used in Suncorp's Insurance Natural Perils Pricing team. Suncorp has already begun to explore ways to expand use of this technology more broadly across the Group.

c) Integration of processes into overall risk management

Integration of climate change research into insurance modelling and pricing

Suncorp incorporates climate change research into normal practice for insurance model reviews. Further research is continuing regarding future increases to costs associated with natural hazards under a changing climate.

Suncorp's specialist Insurance Natural Perils Pricing team continues to conduct research into the consequences of a changing climate on the frequency and intensity of natural perils. This research includes consideration of two factors: whether a changing climate over the past 50 years contributed to any increase or decrease to natural peril risk today; and the effect of a future warming climate on future natural peril risk.

It is important to make a distinction between calculating today's natural peril risk versus changes in risk over the medium and long term. The effect of non-climate factors, such as population changes and building resilience, should also be considered.

Insurance premiums charged today are a function of the probability that a customer is affected by a natural peril, the features of their property and the estimated damage done by the peril – resilience to extreme weather is therefore an important consideration and is factored into the calculation of insurance premiums.

The prices Suncorp establishes now are for a short period into the future. Any change to the risk that occurs due to climate change or other factors over the short term can be addressed dynamically through a range of mechanisms including risk selection and underwriting practices, premiums that adjust for risk and associated capital and reinsurance costs, and geographical and product diversification.

Suncorp also works with experts including universities, reinsurers and natural peril specialists on an ongoing basis to take a long-term view of pricing sufficiency. Suncorp aims to use scenario analysis to help identify any potential systemic affordability risks over the medium to long term.

Reinsurance and natural hazard aggregate protection

In addition to the Natural Perils Pricing team, Suncorp's Actuarial Modelling team use Suncorp's historical dataset of natural hazard events, as well as external vendor models, to estimate the cost of natural hazards in the year ahead given the planned portfolio.

Suncorp retains some exposure to natural hazard risk. For 2019–20 Suncorp estimates the retained cost of natural hazards at an allowance of $820 million and has purchased a new Aggregate Stop Loss to provide a further $200 million limit of protection in excess of $820 million. As outlined in the 2018–19 Annual Report, a range of other reinsurance treaties also provide natural hazard protection including the 30 percent Queensland Quota Share, the Main Catastrophe programme and the Natural Hazard Aggregate Protection.

Retail and agribusiness bank lending

While Suncorp Bank does not currently integrate climate change considerations into residential lending risk assessments, the application of lenders' mortgage insurance provides some protection from potential falls in collateral values that could occur from climate change risks. Suncorp Bank incorporates long-term average rainfall patterns and volatility as key risk characteristics in agribusiness lending. Overall, more than 95% of Suncorp's agribusiness lending exposure is in high to medium rainfall belt areas.

Suncorp aims to use scenario analysis to help identify any potential future systemic impact of climate change on Suncorp's residential and business lending portfolios and the outcomes of the analysis will be evaluated as part of wider enhancements to Suncorp's response to climate change.

Responsible investment and shadow carbon price

Suncorp's Responsible Investment team manages the environmental, social and governance (ESG) risks and opportunities in Suncorp's investment portfolios. It ensures ESG considerations are factored into investment manager selection and the evaluation of investment risks and opportunities.

A shadow carbon price is applied to manage the risk of stranded assets in the transition to a net-zero carbon emissions economy. The shadow carbon price is reviewed every year with reference to the objectives of the Paris Agreement. The criteria for screening potential and existing investments is outlined in Suncorp's Responsible Investment Policy.

Investment carbon intensity and exposure to fossil fuels is included in the Metrics and Targets section.

Metrics and Targets

a) Metrics to assess material climate-related risks and opportunities

Suncorp uses several metrics and targets to assess and manage relevant climate-related risks and opportunities across insurance, banking and investments. Metrics and targets will be reviewed as part of the scenario analysis process in 2019–20.

Natural hazard costs

Annual natural hazard costs relative to long-run allowances is a key indicator to assess average short-term extreme weather-related risk exposure, noting that the influence and management of climate change risk is implicit in this approach. It's important to note that while changes in natural hazard costs offer insight into weather risk exposure, they are also affected by other external variables such as economic, technology, asset value or population changes.

Natural hazard costs are updated on an annual basis. Natural hazard costs for 2018–19 were $849 million, which was $129 million above the allowance of $720 million for the year; compared to $625 million in 2017–18 which was $36 million below the annual allowance. For further details about Suncorp's insurance business performance see the Operating and Financial Review in the 2018–19 Annual Report at suncorpgroup.com.au/investors/reports

Investment carbon intensity

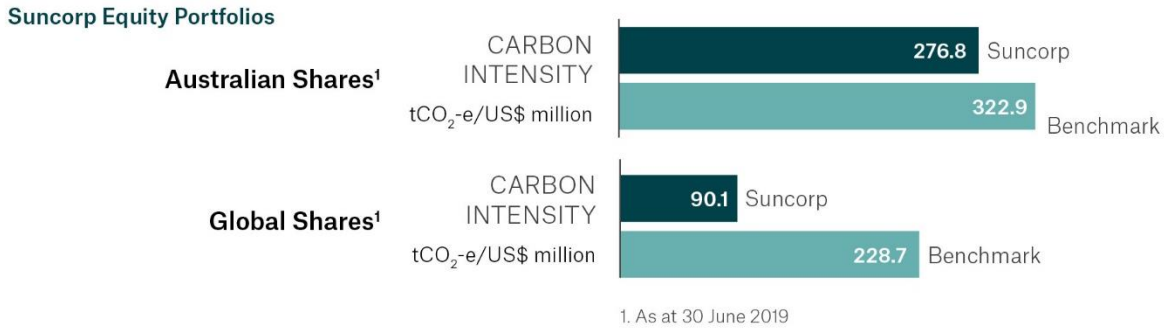
Suncorp measures and monitors its investment in low carbon solutions, with the total amount invested in low carbon assets[1] reported in the 2018-19 Responsible Business Report at suncorpgroup.com.au/cr/reports

As at 30 June 2019 low-carbon investment totalled $310 million, including:

- Green bonds ($256 million, up from $0 million in 2017–18). Green bonds are used to finance environmentally sustainable projects which facilitate the transition to a low carbon economy.
- Other low-carbon assets ($54 million, up from $36 million in 2017–18). This includes renewable energy infrastructure, renewable energy credit and equity securities, and energy efficient real estate.

Suncorp has also measured the degree to which its equity and credit portfolios are aligned with a less than 2 degrees Celsius global warming objective, in association with the 2-degree investing initiative (2dii). We aim to use this analysis to further minimise our exposure to stranded asset risk and those industries highly impacted by a climate-related economic transition.

On an ongoing basis, in association with ESG research firm Sustainalytics, Suncorp measures and monitors the carbon intensity of individual securities as well as aggregate portfolios based on relative investment share. Overall, Suncorp's portfolios are less carbon intensive than the benchmark.



Overall, Suncorp's Australian shares portfolio is 14.26% less carbon intensive than the benchmark. For global shares, Suncorp's portfolio is 60.59% less carbon intensive than the benchmark.

Suncorp is also contributing to a global working group with the Science Based Targets Initiative to develop standards for the reporting of Scope 3 GHG emissions from investment, lending and insurance exposures when setting emission reduction targets.

[1] Based on Global Investor Coalition definition. See section 2.4 for full definition: https://globalinvestorcoalition.org/wp-content/uploads/2012/11/LowCarbonInvestmentRegistry_Final.pdf

Exposure to fossil fuels

As at 30 June 2019 fossil fuel activities made up less than 0.5% of the insurance business. Fossil fuel exposure is less than 0.5% of insurance and shareholder investment assets, and less than 1.5% of total investment assets under management (i.e. inclusive of wealth and investment assets managed on behalf of third-parties).

Fossil fuels are a negligible proportion of Suncorp's commercial lending portfolio. Suncorp doesn't finance fossil fuel projects as it doesn't have an institutional bank.

Suncorp's Australian businesses do not directly invest in, finance or underwrite new thermal coal mining projects, or new thermal coal electricity generation. Suncorp has a target to phase out of these existing activities by 2025.

b) Scope 1, 2 and 3 GHG emissions

Reducing our environmental footprint is one of five core commitments of Suncorp's CCAP. Emissions reduction is driven through Suncorp's Environmental Performance Plan, our science-based targets for GHG emissions reduction and an internal carbon budget.

Suncorp will continue to review and improve Scope 3 GHG emissions reporting boundaries and is exploring opportunities to improve environmental performance and reduce carbon emissions.

2018-19 Suncorp Environmental Performance Summary

GREENHOUSE GAS EMISSIONS[18]		2019	2018	2017	2016	2015
Scope 1 greenhouse gas emissions	(CO_2-e tonnes)					
- Australia		3,741	4,211	4,519	5,306	5,926
- New Zealand		510	566	-	-	-
- Suncorp Insurance Ventures		3,836	3,870	-	-	-
Scope 2 greenhouse gas emissions	(CO_2-e tonnes)					
- Australia		22,160	23,741	25,480	28,378	43,343
- New Zealand		145	214	-	-	-
- Suncorp Insurance Ventures		8,747	9,181	-	-	-
Scope 3 greenhouse gas emissions[19]	(CO_2-e tonnes)					
- Australia		10,767	12,358	-	-	-
- New Zealand		541	602	-	-	-
Total greenhouse gas emissions	(CO_2-e tonnes)					
- Australia		36,668	40,310	-	-	-
- New Zealand		1,196	1,382	-	-	-
- Suncorp Insurance Ventures		12,583	13,051	-	-	-

18. 2018 numbers restated to reflect transition to improved methodology or updated data. 19. Based on emissions from paper consumption, waste generated in operations, business air travel, and fuel and energy related activities.

c) Targets

In June 2019, Suncorp set science-based targets for Scope 1 and Scope 2 GHG emissions reduction. Targets are based on a 2017-18 baseline.

Science-based targets		
Corporate operations (Australia & New Zealand operations)	51% reduction in absolute emissions by 2030	Net-zero by 2050
Industrial operations (Suncorp Insurance Ventures)	59% reduction in emissions intensity by 2030 (reduction per m^2 of Net Lettable Area)	

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