LIBERTY INSURANCE BERHAD

Task Force on Climate-Related Financial Disclosures (TCFD) Report

31 December 2021

Contents

1.0 Introduction 3
2.0 Governance 4
2.1 Governance Structure 4
2.2 Governance Process 5
2.3 Meetings 6
3.0 Risk Management 7
3.1 Physical Risk 7
3.2 Transition Risk 8
3.3 Liability Risk 8
4.0 Strategy 10
4.1 Enterprise-Level Strategy 10
4.2 Functional-Level Strategy 11
4.2.1 Underwriting 11
4.2.2 Investment 11
4.2.3 Operations 12
4.2.4 Awareness and Capacity Building Program 12
5.0 Metrics and Targets 14

1.0 Introduction

Liberty Insurance Berhad ('LIB' or 'the Company'), as part of the Liberty Mutual Insurance Group (LMIG), exists to help people embrace today and confidently pursue tomorrow. As a responsible corporate citizen, LIB recognizes the significance of its role as a financial institution to assist and facilitate the efforts in climate risk mitigation and transitioning to a lower carbon-economy.

In conjunction with the commencement of LIB's sustainability and climate journey, LMIG has announced its decision to acquire AmGeneral Insurance Berhad ('AmG') on 19 July 2021. Subject to approval and completion of the transaction, LIB and AmG operations will be formally merged and the combined operation is expected to become one of the largest general / motor insurers in Malaysia. This results in an increased opportunity for the Company in considering climate related risks and opportunities in its business decisions, as well as being able to have a bigger impact in the market through its sustainability objectives and plans.

The focus on climate change has also been expedited by the unpredicted and unprecedented Covid-19 pandemic outbreak since early 2020. As such, LIB has adopted the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) in disclosing its processes in identifying and managing climate related risks and opportunities.

LIB is pleased to release its first TCFD report for the financial year end 2021.

2.0 Governance

2.1 Governance Structure

In May 2021, LIB established its Environmental, Social and Governance (ESG) governance structure at both the Board and Senior Management levels to allow for effective oversight, decision making and implementation of LIB's climate related initiatives. In general, LIB's ESG governance structure comprises of:

a) Risk Management Committee of the Board (RMC-B)
b) ESG Committee (Senior Management)
c) ESG Working Group

The role of each of the abovementioned committee / group is discussed below.

Refer to Figure 1 for LIB's governance structure for ESG.

<ins>Risk Management Committee of the Board (RMC-B)</ins>

The Risk Management Committee of the Board (RMC-B) has oversight of LIB's overall ESG approach, including climate related risks and opportunities. In general, the primary objective of the RMC-B is to assist the Board to discharge their oversight function effectively. It bears overall responsibility for effective risk identification, measurement, monitoring and control functions of LIB. In addition, the RMC-B oversees the Senior Management's activities in managing the key risk areas of LIB and ensures that the risk management process is in place and functioning effectively. The RMC-B Meeting is held on a bi-monthly basis to ensure that all significant risk matters, including climate risks are timely reported and managed.

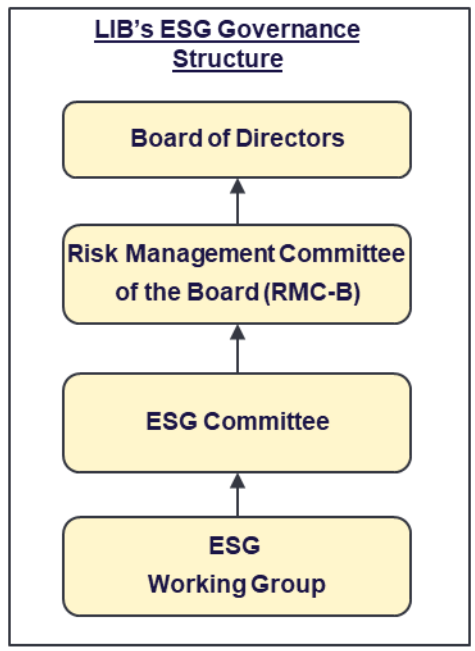

Figure 1: LIB's ESG Governance Structure

ESG Committee

The ESG Committee comprises of LIB's Senior Management Team. Its main objective is to ensure Management's responsibilities pertaining to ESG matters, guidelines and related policies are adhered to. In addition, the ESG Committee supports the Board of Directors (BOD) and RMC-B in discharging its ESG and climate related responsibility where possible, including business decision making, implementation of ESG related initiatives and timely reporting of all significant ESG matters to the BOD and RMC. The Committee further delegates its responsibilities to the ESG Working Group in driving ESG related initiatives within the Company.

ESG Working Group

A cross-functional ESG Working Group has been established to support the ESG Committee in driving and implementing ESG related initiatives within the Company. The working group consists of Head, Enterprise Risk Management & Compliance Assurance (advisor) and representatives from the key functions, including Finance & Investment, Talent Management, Underwriting & Enterprise Risk Management.

2.2 Governance Process

The ESG Committee is responsible for monitoring climate-related issues at enterprise level and informing the RMC-Board Committee on these issues.

The ESG Committee's main responsibilities are as follows:

a. To establish clear guidance regarding the ESG strategy and business integration, taking into considerations the Company's business plan and risk appetite.
b. To identify and understand ESG related emerging risks and develop appropriate mitigation and monitoring strategies.
c. To develop, coordinate and communicate various proposed ESG initiatives within the Company
d. To monitor and evaluate the performance of the implemented ESG initiatives

Climate issues are also addressed individually by all functions. The ESG Working Group coordinates among these functions to facilitate an enterprise-wide transition to a low-carbon economy.

2.3 Meetings

Subsequent to the establishment of LIB's ESG Governance Structure, both the Risk Management Committee and ESG Committee have met 4 times respectively in 2021 to discuss on ESG and climate risk related matters, covering the following areas:

a. Progress on LIB's sustainability and climate related initiatives
b. Regulatory development
c. Awareness and capacity building program
d. Engagement with LIB's main stakeholders, including Liberty Group, regulator, and external fund managers

	Frequency of Meeting	Number of Meetings conducted in 2021
Risk Management Committee of the Board	Bi-monthly	4
ESG Committee (Senior Management)	Bi-monthly	4
ESG Working Group	As and when required	5

3.0 Risk Management

LIB's process and methodology in climate related risk management is in line with LIB's overall Risk Management practices and guided by the Enterprise Risk Management Framework. The entire risk management process is supported and executed by LIB's Governance Structure highlighted in Section 2.

The Company is committed to achieving its objectives in managing its risks to be within its risk appetite, and will take appropriate action to mitigate risks that could derail the achievement of its objectives. The effective management of enterprise risks (including climate related risks) can create, protect and enhance shareholder value in the long term.

In 2021, climate change risk has been given more prominence and established as a new stand-alone risk to be incorporated into LIB's risk register. The impact of climate change has also been considered in the latest capital assessment exercise. LIB also recognizes that climate change may impact the company in various dimensions of risks, i.e. physical risks, transition risk and liability risk. Refer to the next section for more detailed breakdown of the climate related risks with the corresponding mitigation measures undertaken by the Company. To further enhance the management of climate related risks, the Company has also considered TCFD's recommendations on climate related disclosures and Bank Negara's (BNM) guidance document on Climate Change and Principle-Based Taxonomy (CCPT).

3.1 Physical Risk

In general, the physical risk, regardless of event driven (acute risk) or long-term shifts (chronic) in climate patterns, affects the Company mainly in the areas of underwriting and operations.

The greatest physical risk concerns posed to underwriting by climate change are the potential increased frequency and severity of extreme weather related events. The impact is worse if there is lack of understanding on these potential climate changes and absence of risk controls, e.g. inadequate reinsurance protection.

Apart from underwriting, climate change (e.g. a severe flood) may impact the operations in various aspects, including but not limited to property damages, business disruption, supply chain interruptions and increased in credit / liquidity risk of the relevant third party (e.g. reinsurers, investee companies, agents, policyholders).

As such, it would be vital to manage and mitigate physical risks associated with climate at its early stages. To manage this risk, LIB has engaged its Reinsurance Broker to assess the Company's exposure to the flood risk nationwide on a yearly basis to ensure adequate reinsurance protection.

In addition, the Company has considered and established the following mitigation measures:

a. Appropriate underwriting strategies

b. Appropriate investment strategies
c. Ongoing capacity building program to enhance employees' knowledge on climate change
d. Disaster Recovery (DR) Planning and annual DR testing
e. Effective Business Continuity Management for Head Office and Branches
f. Integrating climate risk into business decisions
g. Ongoing initiatives to reduce carbon footprint

3.2 Transition Risk

While the Company is adjusting to a lower carbon economy, it would likely encounter various transition risks arising from changes in public policy, strategy, legislative and regulatory framework, technological advancements and/or shift in consumer behavior. Failure to recognize or manage these risks will lead to potential financial or reputational impacts. Below is the list of major transition risks considered by LIB:

Source of Transition Risk	Transition Risk
Policy and Legal	• Compliance & Regulatory Risk • Reporting Risk • Risk of increasing cost
Technology	• Cyber Security Risk • Substitution of existing products, services, or system with lower emissions options • Risk of Increasing cost
Market	• Changing customer behavior • Products not meeting customers' needs
Reputation	• Increased stakeholder concern or negative stakeholder feedback

LIB takes cognizance of the significance of transition risks above while tackling the climate change risk. In the Company's current risk register, the transition risks have been considered and captured in both the enterprise risk and operational risk registers. The Company will continue to strengthen its risk management and assessment processes at both the enterprise and functional level to ensure the existing controls remain effective, whilst taking into accounts the increasing exposures arising from the transitioning efforts.

3.3 Liability Risk

Liability risk stems from legal risk and claims on damages and losses incurred from inaction or lack of action that results in the effects of physical and transition risks. The liability risk exposures would mainly consist of climate-related liabilities transferred / underwritten by the company. As such, LIB would focus on managing the physical and transition risk in order to prevent the liability risk from materializing and impacting the Company.

As part of the annual capital assessment exercise, the Company has incorporated the following scenarios respectively into its capital assessment:

a. Physical and liability risk (Flood)
b. Transition risk

The assessment results indicated that the Company's capital position remains strong and resilient for the next 3 years in the event that the above scenarios materialize. The Company will take into consideration the capital assessment results when developing its climate strategies and reviewing the climate risk mitigation measures.

4.0 Strategy

Whilst the Company is invariably exposed to various climate related risks (physical risks, transition risks and liability risks) as discussed in Section 3.0 - Risk Management, there are opportunities arising from the increased climate awareness and transitioning efforts in mitigating climate change risk. For the general insurance industry, the potential opportunities include climate product innovation, increased supply in greener and more sustainable investment assets as well as cost reduction through sustainable business practices.

When developing the strategies in managing climate change risk, LIB has also taken into consideration the rapid regulatory development on climate related areas. Since 2019, there has been an increase in regulatory involvement and initiatives in driving climate actions to mitigate climate risk and enhance climate change adaptation, including the establishment of Joint Committee on Climate Change (JC3) and BNM's participation as part of NGFS Steering Committee. In 2021, in partnership with subject matter experts, BNM and JC3 organized a series of events to enhance industry's knowledge and awareness. Additionally, specific briefings were also provided to certain groups such as the briefing by BNM to all general insurers via Persatuan Insurans Am Malaysia (PIAM) on the adoption of CCPT and related reporting.

LIB has developed its climate related strategy at enterprise and functional levels to ensure maximization of the climate related opportunities while mitigating the climate risks.

4.1 Enterprise-Level Strategy

In alignment with Liberty Mutual's sustainability strategy, LIB's enterprise-level climate strategy is comprised of the following:

1. Understanding the impacts of climate change on LIB's main stakeholders (i.e. customers & employees) and the society.
2. Promoting climate related awareness to LIB's main stakeholders
3. Developing innovative solutions to help our customers meet the challenges posed by climate change and supporting customers on their own transition journey.
4. Adapting LIB's business and operations to meet the challenges posed by climate change.
5. Seizing business and investment opportunities in the low-carbon economy.

In order to effectively adopt and implement these climate related strategies formulated at enterprise level, LIB has established its local ESG governance structure (refer to Section 2.1) as well as leveraged on the Group's resources on climate risk management. In addition, the Company is guided by the recommendations of the TCFD on climate related disclosures and Bank Negara's (BNM) guidance document on CCPT.

The enterprise-level strategy provides direction and guidance for the individual function / department to define and implement their own climate efforts. The next section (Section

4.2) provides an overview of the climate journeys / milestones and the measures taken to address climate risks and opportunities at the functional-unit level.

4.2 Functional-Level Strategy

LIB's climate strategy focuses on three main areas, i.e. Underwriting (both Personal Lines and Commercial Lines), Investment and Operations.

4.2.1 Underwriting

Sustainable Insurance Solutions

LIB is committed to support transitioning to a low-carbon economy by developing and introducing sustainable insurance solutions. The journey begins with reducing the Company's coal exposure by gradually phasing out coal intensive companies from its underwriting portfolio. Refer to Section 5.0 on the current progress.

The Company also took the opportunity to establish strong partnership to develop greener insurance solutions for better climate adaptation. In August 2021, LIB has collaborated with UOB Bank and launched a SolarPro scheme, covering the Solar Photovoltaic (PV) system.

Integrating ESG and Climate Related Factors in Underwriting

As a general insurer, integration of ESG and climate related factors in underwriting is vital to ensure effective management of climate risk. The Underwriting function has incorporated ESG and climate related consideration in its product development process and review of underwriting guidelines.

4.2.2 Investment

Sustainable Investment

Similar to underwriting, the Company is committed to support transitioning to a low-carbon economy and aims to increase the Company's investment in more sustainable alternatives. The journey begins with reducing the Company's coal related investment by gradually phasing out coal intensive companies from its investment portfolio. Refer to Section 5.0 on the current progress.

Integrating ESG and Climate Related Factors in Investment

The Investment function has incorporated ESG and climate related consideration in its investment review process. The Investment function is in the midst of developing its internal classification methodology, in line with BNM's guidance document on Climate Change and Principle-Based Taxonomy (CCPT).

In addition, the Investment function and the ESG Working Group have met LIB's external fund managers to brief them on the Company's expectations, taking into consideration of the ESG and climate related factors in order for the fund managers to align their investment strategies moving forward. The fund managers have shared some of their current practices on ESG as well as the classification framework of the investment portfolio in line with CCPT.

4.2.3 Operations

Apart from underwriting and investment activities, LIB is committed to create a lower carbon environment by incorporating sustainable business practices into its operations. The COVID-19 pandemic has changed the way we worked since 2020, where most of the employees worked remotely and this could lead to a significant reduction in carbon footprint from prior years. As such, LIB has taken this opportunity to accelerate eco-friendly changes and initiatives, to ensure a more sustainable workplace when offices reopen.

<u>Sustainable Business Practices</u>

Amidst the Covid-19 outbreak in 2020, LIB employees were required to work from home during the national lock down period. LIB has taken this opportunity to enhance the remote work capabilities and has offered work-from-home (WFH) option for the employees as an alternative post-pandemic working arrangement. By reducing the need of staff commuting to office premises, the carbon footprint would be eventually reduced in the long run.

In addition, LIB has implemented various paperless and digitalization initiatives across functions and processes to support the transition to a lower carbon economy, including automation of manual processes, promoting e-policy to reduce printing and virtual/digital solution to reduce physical activities / printing. For instance, LIB's Claims Department has implemented the virtual Video/Photo Appraisal Tools in claims processing to assess the reported loss remotely and this reduces paper consumption while improving claims efficiency.

Refer to Section 5.0 on the paper consumption data.

At this juncture, LIB is awaiting the official approval of the proposed merger and is committed to upscale the carbon reduction effort of the potentially merged entity in all relevant functions, i.e. Underwriting, Investment and Operations.

4.2.4 Awareness and Capacity Building Program

Awareness and capacity building programs are critical in succeeding the climate strategy. In 2021, LIB has focused its efforts in promoting climate awareness and capacity building to its internal stakeholders. The directors, senior management and the relevant employees of LIB have attended various internal and external events, including trainings, conferences and/or forums to enhance their climate knowledge and gain insights on how climate risk could be better managed moving forwards.

Below is the list of the external events that LIB's employees have attended in 2021:

a. JC3 Flagship Conference 2021 (23 to 25 June 2021)
b. Malaysia Low Carbon Cities Conference 2021 (MyL3C) (13 July 2021)
c. ERM Knowledge Sharing Forum (KSF) on Climate Change Risk (25 August 2021)
d. Webinar On Climate Emergency | The Science, Impact On Malaysia And Call To Action For GI Industry (4 October 2021)

Internally, the ERM team and the ESG Working Group have conducted virtual ESG briefings and climate risk trainings for all employees. In addition, the Working Group has also provided an introduction of ESG and climate emergence to LIB's agents during the year-end virtual events organized in November and December 2021.

As part of the awareness program, the ESG Working Group has also taken the following initiatives:

a. Rolled out a bi-weekly communication series to all employees beginning October 2021, covering various topics on ESG and Climate Change as well as the progress of the Company's initiatives
b. Participated in the regional or global sustainability team discussions and sharing sessions
c. Provided briefings and updates of the Company's ESG initiatives during the internal townhall sessions with all LIB employees

5.0 Metrics and Targets

Phasing out Coal related Investment and Underwriting

In December 2019, Liberty Mutual has announced its global policy on coal underwriting and investing, solidifying the commitment to:

- No longer accept underwriting risk for companies where more than 25% of their exposure arises from the extraction and/or production of energy from thermal coal.
- Not make new investments in debt or equity securities of companies that generate more than 25% of their revenues from thermal coal mining or utility companies that generate more than 25% of their electricity production from thermal coal.
- Phase out coverage and investments for existing risks that exceed this threshold by 2023.

Below is LIB's actual investment and underwriting exposures in companies exceeding the 25% threshold, as at 31 December 2021:

Actual Exposure in companies exceeding the 25% threshold (as a percentage of total exposures)	**Underwriting**	**Investment**
New *Newly invested/underwritten in 2021*	0%	0%
Existing	0%	0.6%[1]

Paper Consumption

Year	**Paper Consumed (in '000 pieces)[2]**
2019	2,900
2020	1,650
2021	1,100

LIB is in the process of quantifying and reviewing other relevant metrics prior to making any public disclosures, including emissions data for LIB's operations.

[1] As at 31 December 2021, LIB has investments in YTL Power International Berhad, which will be maturing on 10 Jun 2022.
[2] The data for paper consumption has been obtained from LIB's Administration and Procurement Department.