mcis LIFE

member of Sanlam group

ENVIRONMENT

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT 2024

SOCIAL

GOVERNANCE

# CONTENT

SECTION 1

# INTRODUCTION

The insurance industry, particularly life insurers like MCIS Life, faces unique challenges and opportunities due to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) framework provides a valuable tool for MCIS Life to assess and communicate its climate-related risks and opportunities.

MCIS Life demonstrates its commitment to a sustainable future by adopting the TCFD recommendations. This will also ensure that the stakeholders gain a deeper understanding of the potential impacts of climate change which will facilitate well-informed decision-making aligned with its strategy.

This TCFD is prepared in accordance with BNM's recommendations in Task Force on Climate-Related Financial Disclosures Application Guide for Malaysian Financial Institutions. Below is the TCFD content index mapping to BNM's recommendations.

| Governance | Strategy | Risk Management | Metrics & Targets |
|---|---|---|---|
| Disclose the organization's governance around climate- related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage climate-related risks and opportunities where such information is material. |
| Disclose the Board oversight and accountability with respect to sustainability and climate-related matters. Refer to Pages 5-7 | Disclose climate-related risks and opportunities over short, medium, and long-term. Refer to Pages 11-13 | Disclose the organization's process to identify and assess climate-related risks. Refer to Pages 17-23 | Disclose the metrics used by the organization to assess climate-related risks and opportunities. Refer to Pages 24-27 |
| Disclose management sustainability governance structure at the management level. Refer to Pages 5-7 | Disclose the impact of climate-related risks and opportunities on the organization's business, strategy, and financial planning. Refer to Pages 14-15 | Disclose the organization's process to manage climate-related risks. Refer to Pages 17-23 | Disclose the targets used by the organization to manage climate-related risks and opportunities. Refer to Pages 24-27 |
| Disclose sustainability and climate-related board credentials. Refer to Page 8 | Disclose the strategy and appetite with regards to climate-related risks and opportunities. Refer to Pages 10-11 | Disclose the integration of identifying, assessing, and managing climate-related risks into the overall risk management. Refer to Pages 17-23 | |
| Disclose initiatives & training programmes to build capacity of Board members and management on climate-related matters. Refer to Page 8 | Describe the climate-related scenario analysis to assess business implications of climate-related risks and opportunities. Refer to Pages 15-16 | | |
| Disclose frequency of Board meetings with sustainability and climate-related issues. Refer to Page 8 | | | |
| Describe how Board and top management remuneration are linked to performance on climate-related targets. Refer to Pages 8-9 | | | |
| Describe how separate committee oversee climate-related matters Refer to Pages 5-7 | | | |

SECTION 2

# GOVERNANCE

This section provides an overview of MCIS Life's governance framework and the roles of various departments in addressing climate-related risks and opportunities. MCIS Life upholds the importance of robust and effective governance of climate-related risks to safeguard the Company's resilience against the adverse impact of climate change.

## 2.1. Board & Management Oversight

MCIS Life Board of Directors ("Board") and senior management shall oversight the process to identify, assess, and integrate climate-related risks and opportunities for the Company, with the governance reporting structure below.


*Figure 2.1.1: Climate Risk Governance Reporting Structure*

**The Board shall have the following responsibilities:**

- Safeguard MCIS Life's resilience against the adverse impacts of climate change.
- Evaluate climate-related risks and opportunities on a periodic basis.
- Take into consideration climate-related risks and opportunities when assessing/approving MCIS Life's strategies and business plans.
- Assign clear roles and responsibilities to the senior management to manage climate-related risks.
- Actively discuss and remain up to date on climate-related developments.
- Ensure sufficient resources and capabilities in managing climate related risks and implementing strategies to build climate resilience.

The Board has delegated its responsibilities to the Strategic Capability Committee ("SCC") to advise and assist the Board in fulfilling its oversight responsibilities to other sustainability activities of the Company, over and above technology, including but not limited to monitoring and measurement of the Company's impact and its sustainability activities.

SCC was renamed to Transformation and Innovation Committee ("TIC") on 27 November 2024. Its primary objective is to assist the Board in fulfilling its oversight responsibilities with respect to the Company strategic initiatives in the areas including but not limited to Sustainability and Climate Change. It will ensure that the company's activities align with the overall business strategy, comply with regulatory requirements, support sustainability objectives, and position the Company for long-term growth and financial and operational resilience, and will monitor the outcomes of these. In fulfilling this role, the Committee shall evaluate the risks and opportunities arising from climate change on a periodic basis and consider these risks and opportunities in assessing and approving the strategies and business plan.

The Social, Ethics & Sustainability ("SES") Committee which comprises of senior management, was established to assist the Board, SCC and EMC in articulating and developing sustainability strategy while providing oversight on sustainability initiatives across the Company. This includes monitoring of contents and covmpleteness of the Company's disclosures as well as Environmental, Social and Governance ("ESG") reporting matters that also includes climate actions.

**SES shall have the following responsibilities:**

- Implement policies and procedures to build and support climate resilience.
- Day-to-day management of climate-related risks and opportunities.
- Review the effectiveness of MCIS Life's organizational structure and appropriately define the roles and responsibilities of key business and risk functions in supporting the Company's strategies to build climate resilience and manage climate-related risks.
- Provide regular and timely updates to the Board with material information on climate-related risks and opportunities.
- Develop appropriate capacity building and training plans for the board, senior management, and all relevant staff.

A dedicated Sustainability Department ("SD") which is under the Chief Strategy Officer ("CSO") , has been established to drive and collaborate with respective stakeholders in managing climate-related risks.

## Three Line Of Defense


*Figure 2.1.2: Three Line of Defense*

To ensure the responsibilities of climate risk management are across the Company, MCIS Life implements three lines of defense so that the ownership and accountability are clear and coordinated.

As defined under the MCIS Life Enterprise Risk Management ("ERM") Policy and Plan document, each business / operational / support department including Sustainability Department is the first line of defense. The Risk Champion in each department is to drive climate risk management and compliance activities including establishing climate risk frameworks and policies.

The Company's Risk Management Department ("RMD") is the second line of defense providing risk oversight of the climate risk frameworks and policies.

The Internal Audit Department ("IAD") shall play the role of third line of defense, providing independent reasonable assurance.

## 2.2. Climate Expertise and Experience

MCIS Life recognizes that the strength and effectiveness of our Board play a pivotal role in shaping the direction and ensuring the success of the Company. The Company is dedicated to maintaining a diverse and accomplished group of individuals who bring a wide range of skills, expertise, and experience.

MCIS Life Board are carefully selected based on their unique areas of proficiency, ensuring that we have a comprehensive skill set that aligns with our strategic objectives and the challenges of the industry.

As part of the Company's dedication to transparency and sustainable business practices, MCIS Life has included climate-related expertise and experience as an integral skill set within its Board. One of the Company's Board, namely Datin Seri Sunita Mei-Lin Rajakumar, has extensive climate-related expertise and experience in leading initiatives to increase sustainability and climate resilience.

Datin Seri Sunita Mei-Lin Rajakumar is an independent, non-executive director of the Company, and also the chairperson of the Company's Nominations and Remuneration Committees and a member of the Company's Strategic Capability Committee. In addition to this, she is also a:

- **Founder and Chairperson of Climate Governance Malaysia**
- **Adjunct Professor in Climate Governance and Sustainability at Unitar International University**
- **External Advisory Committee for Sunway University's Master in Sustainable Development Management**

## 2.3. Climate-Related Training

In line with MCIS Life's commitment to addressing climate-related risks and opportunities, the Board understands the importance of continuous training and is encouraged to keep abreast of the latest developments, trends, insights, and regulatory requirements on climate-related matters. The Company encourages the Board to engage in ongoing climate-related training programs to ensure they are well-prepared to make informed decisions and contribute effectively to the Company's climate strategy. As of 31 December 2024, some of the Board members attended the programme "Climate Risk Management-What Insurance Company Directors Need to Know" as part of their continuous training.

## 2.4. Stakeholder Engagement

The SCC Board Meeting serves as a key platform for climate-related discussions which will be held four times a year in matters such as:

- **Endorse of frameworks, strategy, etc.**
- **Update on progress of BNM compliance in relation to climate change.**
- **Notification of Sustainability Report.**
- **Update on progress of MCIS Life Net Zero pathway.**
- **Summary of key-climate-related issues and initiatives deliberated.**
- **Update on sustainability or climate initiatives.**

This will enable the Company to address climate risks and opportunities on an ongoing basis, ensuring effective communication, collaboration, and well-preparedness to navigate on the evolving landscape.

## 2.5. Remuneration and Performance Incentives

As part of our dedication to integrating sustainability into the Company, MCIS Life has taken a proactive step by linking remuneration of the employees to sustainability and climate-related targets and key performance indicators (KPIs). By aligning the executives and employees' remuneration to sustainability goals, the Company will ensure that the leadership is incentivized to drive positive change and make strategic decisions that contribute to the goal. The sustainability targets and KPIs include but are not limited to achieving milestones on the Company's sustainability roadmap, involvement in sustainability initiatives, as well as reduction of energy consumptions.

SECTION 3

# STRATEGY

This section provides an overview of MCIS Life's strategy and approach to identify and address climate-related risks and opportunities. It is important for MCIS Life to align its business strategy to ensure economic resilience against climate vulnerabilities.

## 3.1. Strategy and Plan

MCIS Life aims to reduce carbon emissions over time and achieve net-zero carbon emissions by 2050 by integrating climate risk considerations into our overall business strategy and core business operations to protect the long-term interests of our policyholders and shareholders. Further details of this are under Section 5 Metrics & Target for GHG Emissions.

Our comprehensive roadmap/framework aligns our climate risk strategy with sustainability goals and is supported by climate risk targets and actions plans. It identifies potential climate-related risks and opportunities that impact our business strategy, product innovation, underwriting and investment decisions.

We aim to lead the practice for sustainable insurance products, by maintaining a resilient and sustainable life insurance portfolio via active management and mitigation of climate-related risks through informed risk assessments and scenario planning.

Sustainability considerations will be embedded into each respective department's policy and strategy through four pillars as shown in the diagram below.

The Company's departmental policies will be updated to reflect the current strategy and will be reviewed periodically to reflect the ever-changing environment.

### Aligning Sustainability with Overall Company Business Strategy

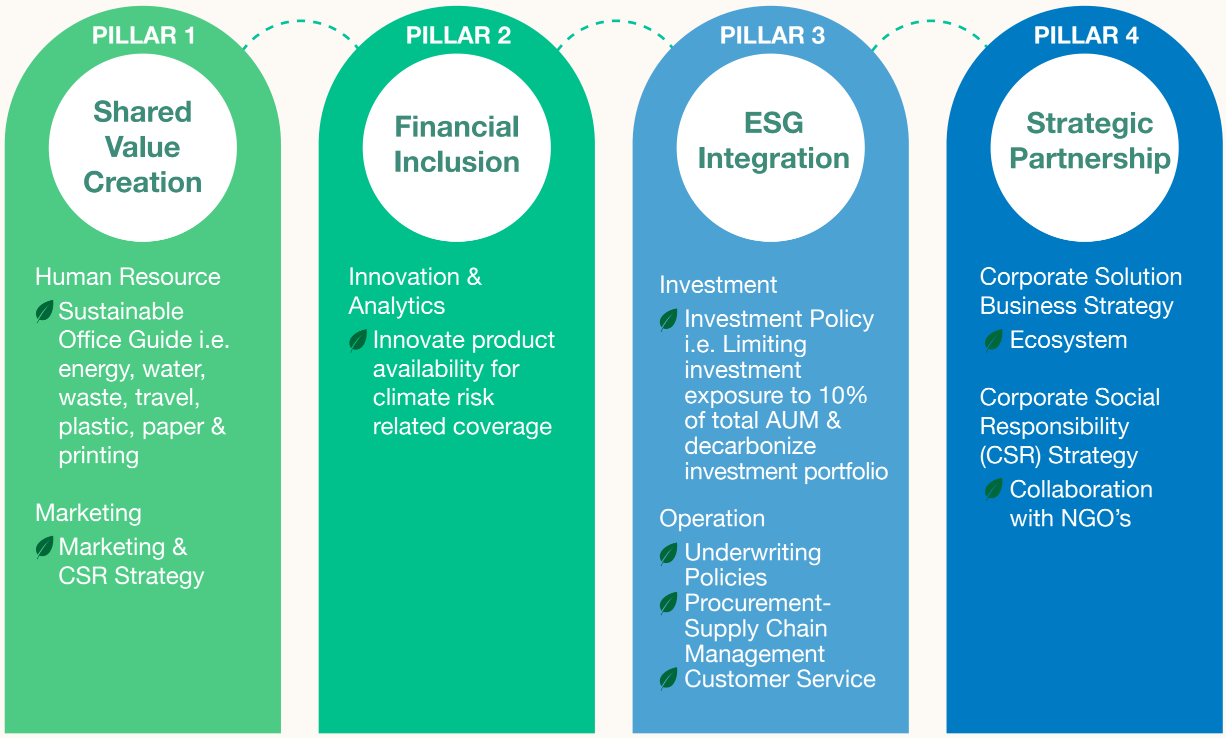


*Figure 3.1.1: Strategy Pillars*

Climate-related risks is captured as one of the Company's Top Key Risk ("TKR") and MCIS Life shall clearly address climate-related risks within its risk appetite statement ("RAS") as shown below.

| No | Risk Appetite Statement | Measurement Indicator |
|---|---|---|
| 1 | MCIS Life target to achieve net zero carbon by 2050 | Tonnes of $CO_2$ equivalent |
| 2 | MCIS Life to limit its investment exposure to industry sectors with high levels of climate risk and decrease this exposure over time | Maximum 10% on non-ESG business activities from the total AUM. |
| 3 | MCIS Life to decarbonise its investment portfolio by<br>a) Reviewing current portfolios with high carbon emissions<br>b) Evaluating the carbon emissions of any new investment | % of investment portfolio carbon emission |
| 4 | MCIS aims to reduce the carbon emissions from its own operations | % of carbon emissions |

*Table 3.1.1: Climate-related Risk Appetite Statement*

To support and monitor the climate-related RAS, MCIS Life shall develop appropriate risk metrics to manage climate-related risks, including risk limits and thresholds for management action, which shall be discussed in later sections of this TCFD report.

## 3.2. Climate-Related Risks and Opportunities

To develop a comprehensive understanding of climate change risk, regular assessment and monitoring of climate-related risks and opportunities should be conducted. This includes mapping of physical, transitional and liability risks to financial and non-financial risks to assess materiality, likelihood as well as concentration of risks and their transmission and impact on other existing risk types.

A list of climate-related risks has been identified. The list is non-exhaustive and will be subjected to periodic review.

| Risk Categories | Climate Risk Type | Risk Description | Time Frame |
|---|---|---|---|
| **Capital & Solvency** | Physical/ Transition | Exposure to financial risks from climate-related stress tests and capital requirements. | Medium to Long-Term |
| **Market** | Physical/ Transition | Impact on investment portfolios from climate-related financial market volatility. | Medium to Long-Term |
| **Strategic** | Transition | Transition risks from the shift to a low-carbon economy impacting business models. | Medium to Long-Term |
| | | Exposure to investment risks from stranded fossil fuel assets. | Medium to Long-Term |
| | Liability | Failure to design policies and guidelines to control financing to companies whose activities have negative environmental effects. | Medium to Long-Term |
| **Life Insurance** | Physical/ Transition | Pricing risks from uncertainty and volatility associated with climate-related risks. | Medium to Long-Term |
| | | Challenges in accurately modelling and assessing complex climate-related risks. | Medium to Long-Term |
| | | Risks associated with underwriting long-term policies in uncertain climate scenarios. | Medium to Long-Term |
| | | Reserving risks | Medium to Long-Term |
| | Physical | Climate-induced economic recessions or downturns impacting insurance demand and profitability. | Long-Term |
| | | Increasing mortality and morbidity rates from climate risk related events. | Long-Term |
| | | Increased costs of reinsurance due to climate-related risks and volatility, or reinsurance market hardening impacting reinsurers participation, causing reduced underwriting capacity for the company. | Medium to Long-Term |

| Risk Categories | Climate Risk Type | Risk Description | Time Frame |
|---|---|---|---|
| **Operational** | Physical/ Transition | Exposure to cyber risks from climate-related disruptions impacting digital infrastructure. | Medium to Long-Term |
| | | Reputational risks from inadequate response to climate-related challenges. | Medium to Long-Term |
| | | Regulatory risks from evolving climate-related policies and regulations. | Short to Long-Term |
| | Transition | Loss of new business due to the products are not considered as green/sustainable investment. | Medium to Long-Term |
| | Physical | Increased operational risks due to disruptions from climate-related events. | Short to Long-Term |
| | | Disruption in supply chains and increased costs due to climate-related events. | Short to Long-Term |
| | Liability | Failure to disclose climate-related vulnerabilities, causing economic loss to customer. | Short to Long-Term |
| | | Increase environmental liability claims. | Medium to Long-Term |
| **Credit** | Physical/ Transition | Economic loss from the default of counterparties. | Medium to Long-Term |
| **Liquidity** | Physical/ Transition | Risk of not being able to timely meet payment obligations due in full as a result of risks arising from business activities, investment activities or (re)-financing activities. | Medium to Long-Term |
| **Regulatory Compliance** | Transition | Regulatory risks from evolving climate-related policies and regulations. | Short to Long-Term |

*Table 3.2.1: Climate-Related Risks*

All the risk identified will be assessed with control measures, mitigation action plan with targeted timeline and captured in the risk register for continuous monitoring and update.

| Opportunity Type | Climate Opportunities |
| --- | --- |
| Physical | Creating parametric insurance coverage/rider for climate-related perils.<br>Collaboration with reinsurers to manage and transfer climate-related risks. |
| Transition | Promotion of climate-friendly behaviour to the policyholders through rewards or incentive programs tied to carbon footprint reduction.<br>Investing in green and sustainable initiatives, such as renewable energy projects, energy-efficient infrastructure, or climate resilience initiatives, so that MCIS Life can be net zero in terms of carbon emission.<br>Development of green bonds or sustainable investment-linked insurance products. |
| Physical / Transition | Integration of climate risk assessment into life insurance underwriting for policyholders in high-risk areas, actuarial models and pricing strategies, reinsurance strategies and partnerships, insurance company supply chain management, and investment decision-making process.<br>Collaboration with climate-related societies to help contribute to prevent the climate from getting worse, increasing reputation. |

*Table 3: Climate-related Opportunities*

## 3.3. Impact of Climate-Related Risks and Opportunities

The impact of the climate risks, grouped by risk type, are as follows.

| Climate Risks | Transmission Channels | Impact |
|---|---|---|
| **Physical Risk**<br>• Acute (flood, storm)<br>• Chronic (sea level, temperature)<br><br>**Transition Risk**<br>• Policy (public policy & strategy, legislative or regulatory framework)<br>• Technological advancement<br>• Shift in market & consumer sentiment | • Uncertainties in mortality rates, longevity patterns, and disease prevalence.<br>• Increased volatility in financial markets.<br>• Shifts in regulations and consumer preferences.<br>• Revaluation of asset prices at fair value.<br>• Supply chain disruption. | **Capital and Solvency Risk**<br>Increased capital requirements due to insufficient resilience to climate risks.<br><br>**Market Risk**<br>Direct impact on investment portfolio, affecting the company's overall financial health and investment returns.<br><br>**Strategic Risk**<br>Customer dissatisfaction, policy cancellations, and a decline in new business.<br><br>**Life Insurance Risk**<br>Underpricing or overpricing leading to low sales volume or reduced profitability.<br><br>**Operational Risk**<br>Potential delays in processing claims and policyholder services, obtaining critical supplies and services, increasing costs and expenses.<br><br>**Credit Risk**<br>Counterparty default can result in economic losses impacting the company's financial position.<br><br>**Liquidity Risk**<br>Reduced cash flows or increased expenses, affecting the ability to meet policyholder obligations in time and in full. May lead to reputational damage and regulatory penalties.<br><br>**Regulatory Risk**<br>Reputational damage, financial penalties, and potential legal liabilities. |

*Figure 3.3.1: Impact of Climate-Related Risks*

MCIS Life shall manage its climate-related risks in a manner that is proportionate to the materiality of climate-related risks, taking into consideration the size, nature and complexity of its business model.

Asset portfolio and liabilities materiality assessment are performed to understand the geographical exposure and risk levels in relation to climate risk evolution over different scenarios will be carried out.

For hazards applicable to the Company, MCIS Life will utilize available data on climate change perils, severity and frequency to develop heatmap and qualitative assessment of materiality for its portfolio.

## 3.4. Scenario Analysis

MCIS Life is enhancing its climate scenario analysis using the climate scenarios prescribed by the Network for Greening the Financial System (NGFS). The Company has considered the following climate scenarios:

1. Net Zero 2050 (NZ2050) & Divergent Net Zero 2050 (DNZ2050): Immediate and stringent climate policies and innovation from the government to reach net zero carbon emissions by 2050, limiting global warming to 1.5 °C.

2. Nationally Determined Contributions (NDCs): Each individual country sets their commitment to reducing GHG emissions based on its circumstances, capabilities, and national priorities. An immediate implementation of stringent climate policies by the Malaysia government is not anticipated.

Each scenario presents different challenges and opportunities, requiring MCIS Life to adapt its approach and strategy. The table below summarizes the expected transition and physical risks from the climate scenarios:

| Scenario | Transition Risk | Physical Risk |
|---|---|---|
| **NZ2050 & DNZ2050** | High due to regulatory and policy changes to reduce GHG emissions and shifts in asset values for carbon-intensive industries. Compliance costs and inflationary pressures expected. | Low as efforts to reduce GHG emissions will improve air quality, thus reducing sickness and morbidity risks. Stringent policies may limit extreme weather impacts on life insurance business. |
| **NDCs** | Low as gradual implementation allows the Company to adapt the strategies and operations. Inflationary impact is expected to be minimal. | High as Malaysia is vulnerable to increasing climate-related hazards (floods, landslides, heatwaves) that may impact mortality and morbidity risks. |

*Table 3.4.1: Expected Physical and Transition Risks from Climate Scenarios*

The ongoing scenario analysis is conducted to quantify financial impacts. MCIS Life is evaluating adjustments to ensure resilience across all scenarios, including managing investment exposure, developing new insurance solutions, and adapting pricing and underwriting strategy to reflect the changing risk landscapes. By integrating climate considerations, MCIS Life aims to enhance long-term sustainability and strategic resilience.

SECTION 4

# RISK MANAGEMENT

This section provides an overview of MCIS Life's approach in identifying, assessing, and managing climate-related risks. MCIS Life is fully committed to the transition to a low carbon economy and fully supports the regulatory initiatives and requirements to achieve this sustainable and climate-resilient economy. It is also in MCIS Life's best interest to mitigate potential disruptions from climate-related risks and to protect its policyholders and stakeholders.

The climate risk management process as integrated in the Company's ERM Policy and Plan are as shown in the diagram below.

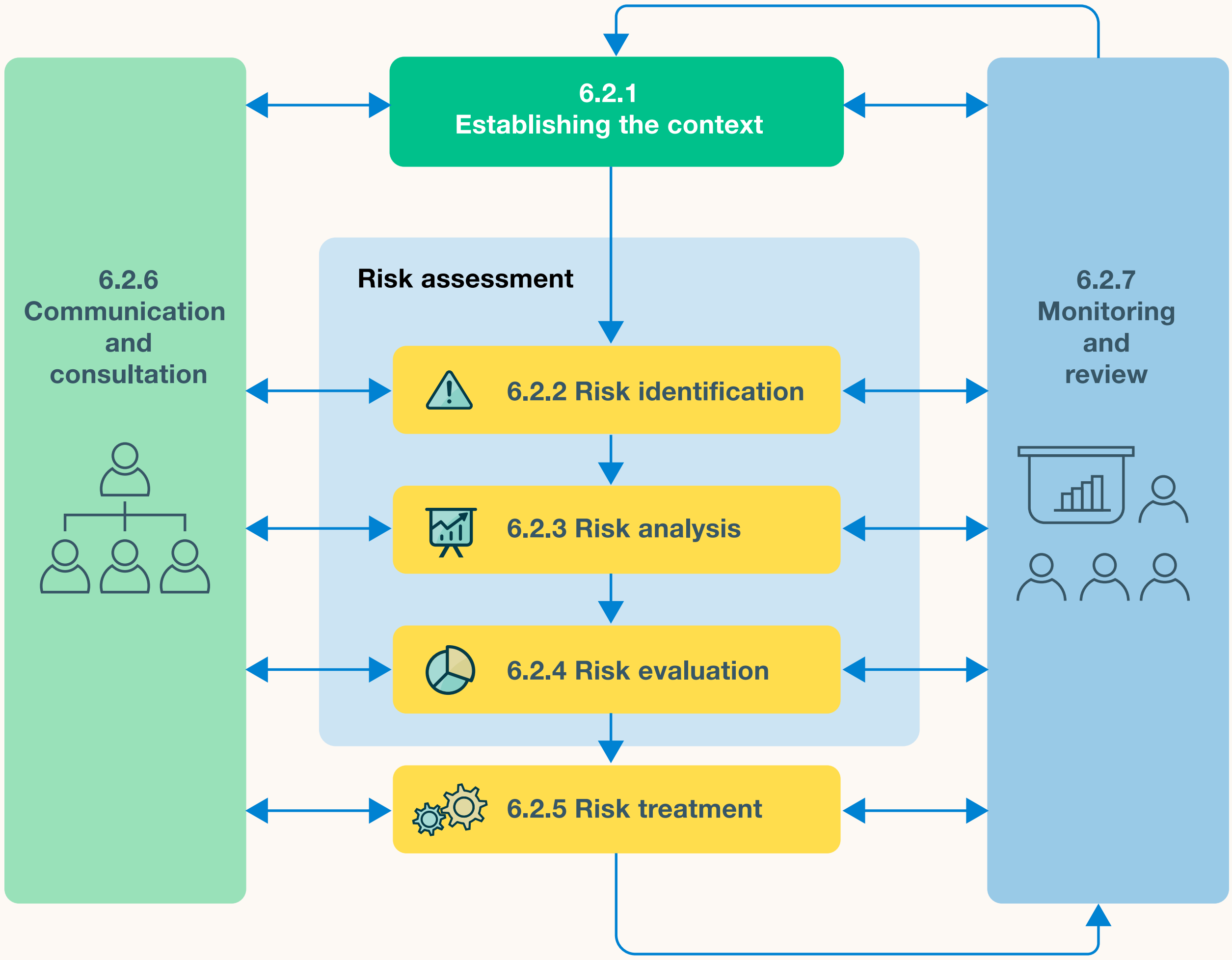


*Figure 4.0: Risk Management Process*

MCIS Life has also taken steps to enhance climate risk management awareness and preparedness through the following:

- Employee Training & Capacity Building. The Company has worked with a consultant that has conducted training sessions for the actuarial, operations, product, and investment teams to strengthen internal climate risk expertise.
- Customer Engagement on Climate Risks. The Company plans to engage customers in strategies through social media initiatives.

## 4.1. Integration

Climate risk management is integrated into the Company's ERM Policy and Plan i.e., Risk Management Process and Risk Escalation Process. It forms part of the existing risk management cycle of risk identification, risk measurement, risk monitoring and risk controls.

In addition to that, the climate risks identified has been capture in the Company's Risk Register, in which the Risk team will review with each department every quarter.

Continuous review and improvement to risk management policies and procedures, functions and capabilities will be undertaken to ensure compliance with regulatory requirements and relevance in line with latest developments on climate change.

## 4.2. Risk Identification

Once MCIS Life established a clear and well-defined risk management context, the next risk management process is risk identification. The TCFD categorizes climate-related risks into two emerging risks: (i) physical risks, which refers to the risks relating to direct impact of climate change, and (ii) transition risks, which refers to the risks during the transition to a low-carbon economy.

The Company's risk identification process includes defining a logical and practical framework or policies that ensures significant climate-related risks are not overlooked. Each business, operational, or support department or unit needs to put in place demonstrable processes and procedures to ensure that risks are timeously identified and to also incorporate methodologies to access and/or anticipate the emerging risks.

## 4.3. Risk Analysis

Where possible, all identified risks are to be quantified by its qualitative impact. Risks identified shall be analyzed which involves the consideration of the sources of risk, their consequences, and the likelihood of these consequences occurring. The climate-related emerging risks may overlap and can be categorized into MCIS Life's existing key risk categories, as tabulated under Table 3.2.1: Climate-Related Risks. The level of risk found during the risk analysis process needs to be compared with previously established risk criteria of the department or unit.

Below is the identified climate-related risk impact on existing categories of risk.

| Risk Categories | Climate Risk Type | Impact | Controls |
|---|---|---|---|
| **Capital & Solvency** | **Physical / Transition** | Physical risks may lead to shifts in mortality and morbidity patterns, making it difficult to forecast future claim payouts accurately. This also leads to transition risks relating to regulators and central banks that are increasingly conducting stress tests to assess the resilience of financial institutions, including insurers, to climate- related risks.<br><br>Companies found to be insufficiently resilient to climate risks may face increased capital requirements or other regulatory actions. Inadequate reserving can result in financial instability leading to potential shortfalls in covering policyholder benefits. Conversely, overly conservative reserving may tie up excessive capital, affecting profitability and competitiveness. | Conduct internal climate stress tests and integrate climate risk metrics into their risk models.<br><br>Assess and address exposure to climate-related financial risks to better align with regulatory expectations and ensure capital adequacy.<br><br>Incorporate climate-related data and scenario analysis into actuarial models to better assess the potential impacts on policyholder liabilities and establish appropriate financial reserves. |
| **Market / ALM** | **Physical / Transition** | Chronic physical events, regulatory changes, and shifts in market sentiment related to climate-change, may lead to financial markets experiencing increased volatility, potential shifts in asset valuations and investment performance, as well as increased likelihood of defaults among counterparties.<br><br>The company's overall financial health and investment returns, as well as ability to fulfill policyholder claims and obligations on time and in full can be impacted. Failure to meet payment obligations could erode policyholder confidence, lead to reputational damage, and result in regulatory penalties. | Develop climate-sensitive investment strategies which include:<br>• Diversifying investments to consider climate resilience.<br>• Incorporate climate risk assessments into investment decision-making process.<br>• Engaging with climate experts to understand the implications of climate-related financial market volatility.<br><br>Adopt climate risk management practices.<br><br>Conduct thorough due diligence on their counterparties and assess their climate risk exposure. |

| Risk Categories | Climate Risk Type | Impact | Controls |
|---|---|---|---|
| **Market / ALM** | **Transition** | As the world moves towards renewable energy sources and governments implement climate policies aimed at reducing GHG emissions, fossil fuel assets may lose value or become stranded as they are no longer economically viable or face regulatory restrictions.<br><br>Companies with significant investments in fossil fuel-related assets may face financial losses and a decrease in investment returns. | Assess investment portfolios and consider divesting from high-risk fossil fuel assets.<br><br>Diversifying investments to include more climate-resilient and sustainable options to help reduce exposure to stranded asset risks and improve long-term investment performance. |
| **Strategic** | **Physical** | As physical events become more prevalent and severe, MCIS Life may adjust their pricing to account for the heightened exposure to climate-related losses. This can lead to higher reinsurance costs, affecting overall underwriting capacity and profitability. | Carefully assess reinsurance needs and negotiate favorable terms with reinsurers. |
| | **Transition** | As climate change becomes a pressing global issue, regulators may implement stricter requirements on insurers to assess, disclose, and manage climate-related risks in their operations and investments. Failure to comply with these regulations can result in reputational damage, financial penalties, and potential legal liabilities.<br><br>Aside from that, as awareness of climate change and environmental issues grows, consumers and businesses increasingly seek products that are considered green or sustainable. Companies that do not offer such products may face reduced market share and miss opportunities to attract environmentally conscious customers. | Embrace sustainable business practices, develop innovative products that align with the low-carbon economy and integrate climate risk considerations into investment strategies.<br><br>Develop and market products that align with sustainability and ESG (Environmental, Social, and Governance) criteria. By offering green and sustainable options, the Company can appeal to a broader customer base and position itself as a responsible and forward-thinking provider in the industry.<br><br>Closely monitor and adapt to changing regulatory landscapes. |

| Risk Categories | Climate Risk Type | Impact | Controls |
|---|---|---|---|
| **Operational** | **Physical / Transition** | Physical risks introduce uncertainties in mortality and morbidity patterns, which can make it difficult to accurately assess and price policies, potentially leading to financial strain and exposure to unexpected risks.<br><br>Aside from that, physical events can damage or compromise digital infrastructure, including data centers, communication networks and cloud services, as well as cause damage to physical infrastructure and logistical challenges in servicing policyholders. Such disruptions can lead to data breaches, service interruptions, cyber-attacks, increase expenses, and potential delays in processing claims and policyholder services.<br><br>Which can have severe consequences for insurers, policyholders and stakeholders.<br><br>As climate change becomes a growing concern for consumers, investors, and other stakeholders, there is an increasing expectation for companies to demonstrate their commitment to sustainability and climate action.<br><br>Failure to proactively address climate-related risks, implement environmentally responsible practices or disclose climate-related efforts can lead to reputational damage and loss of trust from customers and investors. | Develop comprehensive business continuity plans and invest in climate resilience measures.<br><br>Strengthen digital infrastructure, diversify operational centers and adopt remote work arrangements to ensure continuity during climate- related disruptions.<br><br>To prioritize climate resilience in cybersecurity strategies.<br><br>Incorporate climate risk assessments and climate disclosure practices to demonstrate commitment to sustainability and build and maintain a positive reputation among stakeholders. |
| **Market / ALM & Strategic** | **Physical** | Economic instability, reduced consumer spending, and changes in market dynamics will affect insurance demand and sales. In times of economic stress, consumers may prioritize essential expenses over insurance premiums, leading to potential declines in new policies and policy renewals. | Diversify product offerings to meet changing customer needs during economic fluctuations. |

| Risk Categories | Climate Risk Type | Impact | Controls |
|---|---|---|---|
| **Operational & Strategic** | **Physical** | Extreme weather events and environmental changes disrupt supply chains and increase operating costs. Supply chain disruptions can lead to delays in obtaining critical supplies and services, causing operational challenges. Additionally, increased costs due to climate-related events can strain the Company's financial resources and affect profitability. | Diversify supply chains, work with climate-resilient vendors and implement risk management strategies to buffer against the impacts of climate-related disruptions. |
| **Life Insurance & Strategic** | **Physical / Transition** | Climate-related risks can be unpredictable, multifaceted, and interconnected, making it challenging to accurately quantify and price the potential financial consequences of climate-related events, as well as difficult to capture using traditional assessment models.<br><br>Underpricing or overpricing of insurance products affecting the Company's profitability and financial stability. | Invest in advanced risk modeling and scenario analysis to better understand the potential impacts of climate- related risks.<br><br>Collaborate with climate scientists and researchers who can provide valuable insights to improve risk assessment practices to ensure a more comprehensive understanding of complex climate-related risks.<br><br>Implement dynamic pricing models that account for climate uncertainties to help adapt to changing conditions. |
| | **Physical** | Extreme weather events and environmental changes influenced by climate change such as heatwaves, hurricanes, floods, wildfires, and other natural disasters.<br><br>Increased life insurance claims and liabilities for insurers, affecting their financial stability and profitability. | Assess and quantify exposure to climate-related mortality and morbidity risks.<br><br>Adopt climate-sensitive underwriting practices and incorporating climate projections into risk modeling to help price policies more accurately and manage potential increases in claims. |

*Table 4.3.1: identified climate-related risks impact and controls on existing risk categories.*

SECTION 5

# METRICS & TARGETS

This section provides an overview of MCIS Life's climate risk metrics and targets. The metrics and targets are set to follow MCIS Life's governance, strategy, and risk management processes on climate risk management. These metrics and targets are selected in such a way that they would help in scoping priorities and providing a more holistic view of MCIS Life's long term, strategic action plan.

## 1. GHG (Greenhouse Gas) Emissions

GHG emissions are measured by Metric Tons of $CO_2$ equivalent (MT of $CO_2e$). This metric shall be assessed by historical and current emission by financial year. The emission calculation method and results for each scope for 2024 is as follows.

| Scope | Category | Data Collection Source | Methodology | Source of Emission Factors | Carbon Emission (MT of $CO_2e$) |
|---|---|---|---|---|---|
| 1 | Company Vehicles | Internal records | Based on distance travelled in km depending on type/size of car | DEFRA | 22.58 |
| 2 | Purchased Electricity | Tenaga Nasional Berhad (TNB) monthly bills | Based on electricity usage in kWh | Suruhanjaya Tenaga Malaysia | 763.89 |
| 3 | Business Travel | Internal records | Based on distance travelled in km depending on type/ method of travel | DEFRA | 56.41 |
| | Employee Commuting | Internal records (from survey) | Based on distance travelled in km depending on mode of transport | DEFRA | 359.13 |

*Table 5.1: GHG Emissions Calculation Methodology*

MCIS Life targets to achieve net zero by 2050 as illustrated in the figure below.

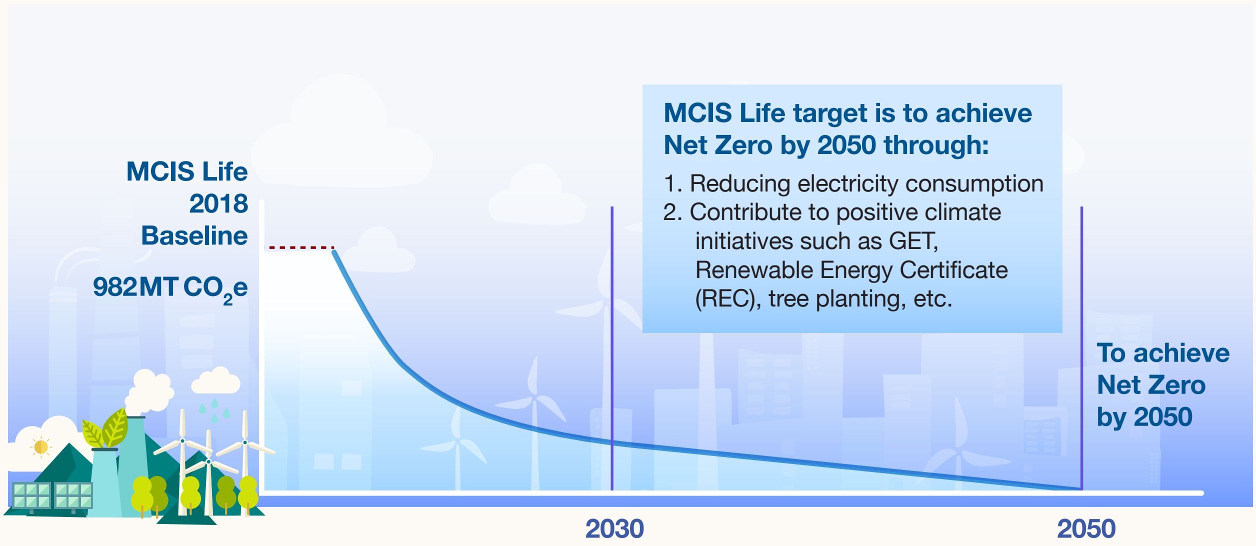


*Figure 5.1: MCIS Life Net Zero Pathway*

## 2. Transition Risks

The selected metric to represent the transition risk of MCIS Life is the proportion of the portfolio with exposure to assets or business activities vulnerable to transition risks. In this case, the assets vulnerable to transition risks refer to the carbon-related assets, such as energy, agriculture, construction, transportation, mining and quarrying, waste, food, and forest products. To better capture this metric, the investment assets shall be listed by fixed income and equity per business sector, both in percentage and amount.

As mandated in Investment Policy, Section 5.8 “Environmental, Social and Governance (“ESG”), MCIS Life has limited the investment exposure into all non-ESG business activities up to a maximum of 10% of the total AUM (Assets Under Management) under the Company. Such investment exposures include all the investment assets, predominantly in Fixed Income, Equity and Money Market segments. The non-ESG business activities as defined by MCIS Life is listed below:

- Power plant, which is not generated by renewable energy.
- Oil & Gas industry.
- Mining and quarrying industry.
- Weapon and arms industry.
- Gaming business, including lottery and gambling-related gambling related.
- Tobacco business, including vape and e-cigarette related.

- Alcohol business, including liquor and beer-related beer related.
- Cement manufacturing.
- Metal processing business, including steel, aluminium, iron, silver, gold, etc.
- Plantation upstream industry without sustainability certification
  (e.g., Roundtable on Sustainable Palm Oil (RSPO) for more than 70% of its production.)
- Forestry and logging industry without sustainability certification for more than 70% of its production.

Based on the listing above, the non-ESG business activities coincide with the carbon-related business activities with potentially high transition risk. MCIS Life plans to maintain the non-ESG investment at maximum 10% of the total AUM for the foreseeable future.

## 3. Physical Risks

The selected metric to represent MCIS Life's physical risks is the proportion of the MCIS Life's physical assets that are vulnerable to physical risks. In this case, it shall be the proportion of MCIS Life's branch offices that are vulnerable to flood.

MCIS Life is committed to managing the physical risk of flooding in its branch office locations. MCIS Life will perform flood risk analysis to track the proportion of branches in high-risk areas. This analysis will consider factors like rising sea levels, historical occurrences of floods, and projected precipitation changes to assess the risk of inundation. Additionally, the Risk Man agement team has developed a flood emergency plan to ensure business continuity in case of flooding.

## 4. Climate-Related Opportunities

With regards to climate-related opportunities, MCIS Life will have climate-related meeting 4 times a year in the SCC Board Meeting, as disclosed in Section 2 Governance, on the sub-section of Stakeholder Engagement. This meeting will allow the Company to address climate-related opportunities and risks on an ongoing basis.

## 5. Client Engagement

MCIS Life shall disclose the number of total engagement meetings on climate risk or opportunity, broken down by topic or theme. In this case, engagement meetings can be defined as any meetings or campaigns that MCIS Life has held to promote climate-risk related causes.

Since 2019, MCIS Life has launched pilot projects to plant endemic rainforest trees within the locality of its pioneer sustainability site known as MCIS Life Legacy Forest in Sireh Park, Iskandar Puteri, Johor. By 2023, MCIS Life has successfully planted 6,280 trees as part of this initiative, which has been documented in our sustainability report and communicated to the clients via the MCIS Life website.

### 6. Capital Deployment

On capital deployment, there are two metrics that MCIS Life shall disclose, proportion of investment portfolio with good disclosure practice and proportion of investment portfolio based on classification by green taxonomy.

- MCIS Life has limited the non-ESG investment to a maximum of 10% of AUM. For 2024, MCIS Life is proud to see a very ESG-driven investment portfolio, a merely 1.86% non-ESG exposures. These non-ESG exposures are largely related to the Power Plant Sector and Utility Sector, which are typically energy intensive industries.

- For 2024, MCIS Life holds 72.4% of green investment from overall investment portfolio based on classification by green taxonomy as defined by BNM CCPT (Climate Change an Principle-Based Taxonomy). These are those classified under CCPT C1, C2, C3 and C5b.

### 7. Remuneration

On the remuneration side, MCIS Life shall disclose the proportion of the management's remuneration linked to climate and sustainability KPIs.

For all other employees up to senior management, there are two general KPIs which will affect their remuneration:

- RAM Rating improvement and reduction of carbon emission.

These KPIs will affect the level of remuneration that the employees will receive (in terms of bonus and increment). The proportion of the KPI is 5% for the other employees.

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