HEALTHIER, LONGER, BETTER LIVES

AIA ESG REPORT 2023 SUBSECTION REPORT

TCFD Report

Contents

Introduction

Climate change and AIA's role

Climate change is affecting economies and communities globally, and timely and decisive interventions are required to drive a swift, effective and just energy transition in Asia.[1,2] Asian economies are expected to be amongst the fastest growing, and yet at the frontline of the climate crisis.[3] The cost of inaction is large, and there is increasing urgency to act.[4] Rapid and effective climate transition is critical if Asia is to meet its growth and developmental goals without amplifying negative climate impacts.[1]

AIA embraces its role to address climate change as an insurer, asset owner, and responsible business. This commitment is evident in our formulation and implementation of our ESG Strategy and Climate Transition Plan[5] (CTP) launched in 2023. Our emission reduction levers enable us to effectively identify, assess and manage climate-related risks and opportunities across our Operations, Investments and Life and Health insurance portfolio. Our goal is to achieve net-zero greenhouse gas (GHG) emissions by 2050.

AIA is dedicated to setting credible targets to address climate risks and opportunities, reinforcing our support for global efforts towards a net-zero economy. In 2023, we achieved a significant milestone by becoming the first pan-Asian Life and Health insurer to have our near-term emissions reduction targets validated by the Science Based Targets initiative (SBTi). AIA provided input on developing the Science-Based Targets methodologies for the financial sector as part of the Financial Net-Zero Expert Advisory Group for SBTi.

The history and future of AIA's climate reports

AIA's support for TCFD and move to ISSB

Since 2018, AIA has supported the voluntary adoption of the TCFD recommendations and continues to respond to and participate in regulatory consultations in numerous markets to align with the TCFD recommendations. These efforts have extended to markets such as Australia, Malaysia, Singapore, Hong Kong and New Zealand. This report's climate-related disclosures adhere to the TCFD's "Guidance for All Sectors" and the "Supplemental Guidance for the Financial Sector."

In 2023, the Financial Stability Board assigned the IFRS® Foundation to monitor the progress on companies' disclosures from the TCFD and transferred the TCFD monitoring activities to the International Sustainability Standards Board (ISSB™).[6] The ISSB is a body established by the IFRS Foundation focused on the development of sustainability disclosure standards.[7] The Hong Kong Stock Exchange, where AIA is listed on the Main Board, proposed that all listed companies fully disclose information about their climate risks and opportunities and comply with the ISSB Standards by 2025.[8]

AIA responded in general support of the proposed ISSB standards and is committed to demonstrating progress towards adhering to the ISSB's IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures). This commitment is reflected in our detailed presentation of AIA's climate risk and opportunity management processes in this report. The global adoption of ISSB Standards by regulatory reporting bodies underscores its importance in guiding companies towards transparent and comprehensive sustainability performance disclosures.

1 Intergovernmental Panel on Climate Change (IPCC). (2023). *Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* (Report No. 6). IPCC. **https://doi.org/10.59327/IPCC/AR6-9789291691647**
2 International Labour Organisation (ILO). (2019). (rep.). *Green Jobs and a Just Transition for Climate Action in Asia and the Pacific.* Retrieved from **https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms_734147.pdf**
3 OECD. (2023). (rep.). *Economic Outlook for Southeast Asia, China and India 2023.* Retrieved from **https://www.oecd.org/dev/asia-pacific/economic-outlook/Overview-Economic-Outlook-Southeast-Asia-China-India.pdf**
4 Sanderson, B.M., O'Neill, B.C. *Assessing the costs of historical inaction on climate change.* Sci Rep10, 9173 (2020). **https://doi.org/10.1038/s41598-020-66275-4**
5 AIA Group Limited. (2023). *AIA Climate Transition Plan 2023.* **https://www.aia.com/content/dam/group-wise/en/docs/ESG/AIA_Climate_Transition_Plan_2023.pdf**
6 IFRS Foundation. (2023, July). *IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024.* **https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024/**
7 IFRS Foundation. (2023). *ISSB: Frequently Asked Questions.* **https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/**
8 Hong Kong Exchanges and Clearing Limited. (2023, November). *Update on Consultation on Enhancement of Climate Disclosures under ESG Framework.* HKEX. **https://www.hkex.com.hk/News/Regulatory-Announcements/2023/231103news?sc_lang=en)**

Governance

Oversight of climate-related risks and opportunities

Importance of Board and management structures

Robust governance is essential for driving our actions forward as a Group and facilitating the transition towards a low-carbon, climate-resilient global economy.

We have established clear structures, processes and roles to ensure that our climate commitments are relevant.

Our governance structures leverage cross-functional expertise, and ensure robust oversight from senior management and the Board. This structure guarantees clarity, transparency and accountability in decision-making across our business.

OVERVIEW OF MANAGEMENT OVERSIGHT AND FUNCTIONAL BODIES

Board-level governance

Board oversight and accountability of climate-related risks

The Board of Directors has ultimate oversight over Group ESG matters, including climate-related risks and opportunities. The Board sets our risk appetite and the implementation of an effective Enterprise Risk Management (ERM) framework, including addressing ESG matters, considering climate-related risks and topics and ensuring progress towards credible climate commitments.

Overview of committee reporting processes and frequency

There are established direct reporting lines and regular meeting cadences for each functional body, ensuring the Board maintains clear oversight of climate matters at all management levels.

Board skills and competencies

Board members receive training on climate-related matters including ESG issues and engage with climate thought-leaders. Certain Board members, including the Group Chief Executive and President, have completed certificate-oriented training on the 'Governance of climate risks and opportunities' that focused on the potential impacts of climate change on business, governance disclosure requirements of the TCFD recommendations and actions to be an effective Board in relation to climate change.

One Independent Director served on the board of trustees of the World Wildlife Fund Philippines, De La Salle University. He is also an Asia Fellow at the Milken Institute, a global, non-profit, non-partisan think tank that focuses on climate change and the ESG agenda. Another Independent Director also served on the Hong Kong Stock Exchange's ESG Committee.

Overview of incentives and remuneration

Our climate goals are supported by ongoing check-ins and guidance from our leaders to ensure we deliver effectively against expectations. Senior management have initiatives to deliver the ESG Strategy, which are based on their functional portfolios. These goals are cascaded to the relevant teams and individuals, backed by senior management oversight to ensure we deliver against expectations.

Employee rewards are aligned with strategic objectives, factoring in the Group's capital position and long-term performance while avoiding excessive risk-taking behaviours or violations of applicable laws, guidelines or regulations. A component of the compensation of the Group Head of Sustainability is linked to the organisation's performance on the ESG and climate targets. More information on incentives and remuneration is available in our 2023 ESG Report.

The table on the following page summarises the Board committees' responsibilities on ESG, including climate-related topics.

Governance

Board committees' responsibilities on ESG

GOVERNANCE BODY	ROLES AND RESPONSIBILITIES	MANAGEMENT STRUCTURE AND REPORTING LINE	REPORTING FREQUENCY
Board of Directors	• Oversees AIA's risk-management activities including ESG and climate-related risks and opportunities. • Implements an effective Group ERM framework. • Monitors overall progress of AIA's climate commitments.	• Supported by BRC • Group's BRC and Group Executive committees report to Board of Directors	At least four times a year, with biannual updates on material issues.
Group Board Risk Committee (BRC)	• Determines the Group's risk appetite and ensures that the Company establishes and maintains an appropriate and effective risk management framework, including considerations for ESG-related risks. • Ensures that the material risks, including ESG-related risks, are identified with mitigation actions in place. • Where material, ESG-related risks and opportunities are assessed and escalated to the Group Board.	• Operational Risk Committee and Financial Risk Committee report to Group BRC • Group BRC reports to Board of Directors	At least four times a year.

Management-level governance

Alongside Board-level oversight, climate-related responsibilities have been assigned to management-level positions and/or committees. AIA's Group General Counsel is a member of the Group Executive Committee and is the highest-ranking management position responsible for climate-related issues, directly reports to the Group Chief Executive and President and provides regular updates to the Board.

The Group General Counsel chairs the ESG Committee, as well as the Climate and Net-Zero Steering Committee established in 2022 by the Board. The Climate and Net-Zero Steering Committee is responsible for overseeing our transition to net-zero and has specific focus on overseeing AIA's SBTi commitment, including the development and approval of specific targets, implementation strategies and ongoing monitoring of progress towards our validated near-term SBTs.

AIA's Group Head of Sustainability, who reports to the Group General Counsel, is tasked with embedding the company's ESG Strategy across AIA's operations and driving the organisation's overall sustainability efforts. The Group Head of Sustainability is responsible for meeting ESG key performance indicators (KPIs) (including climate-related) as part of the overall sustainability strategic plan.

ESG KPIs are linked to select material topics including those that are climate-specific and those that are linked to the achievement of the Group's SBTs. The Group Head of Sustainability is responsible for the oversight and governance of SBTs in AIA's operations, with each market being responsible for how its decarbonisation strategy is locally implemented and operationalised (for example, by the Regional Chief Executive, ESG lead, and facility managers).

AIA's Group Chief Investment Officer, the highest-ranking management position responsible for climate-related issues in AIA's investment portfolios, directly reports to the Group Chief Executive and President. The role oversees the Sustainable Investment pillar of AIA's ESG Strategy, the management of investment portfolios and supervises and supports Investment professionals in the Group.

The Group Chief Investment Officer is a member of the Group Executive Committee, ESG Committee and Climate and Net-Zero Steering Committee and chairs the Group Investment Committee, which oversees progress towards the Investment SBTs, the operationalisation of the targets within the investment portfolio and reviews and approves ESG Investment requirements in the Investment Standards under the Investment Governance Framework (IGF) in AIA's general account investment portfolio.

AIA's four functional bodies have taken on the role of assessing and managing the climate-related issues identified. The table on the following page summarises the Management Committees' responsibilities on ESG, including climate-related topics.

Governance

Management committees' responsibilities on ESG

GOVERNANCE BODY	ROLES AND RESPONSIBILITIES	MANAGEMENT STRUCTURE AND REPORTING LINE	REPORTING FREQUENCY
ESG Committee	• Acts as AIA's overarching body for ESG-related matters, including climate-related matters. • Develops, monitors, and supports the implementation of the ESG Strategy (including providing progress updates on the Group's ESG Strategy). • Endorses targets and KPIs. • Monitors and reviews the Group's ESG and climate performance against ambitions and targets. • Discusses and escalates ESG risks to the Board through Risk Committee, when needed. • Oversees ESG reporting and disclosure. • Provides updates to the Board and senior management on ESG matters. • Addresses ESG issues related to climate risk within the business. • Shares and reports on pertinent issues around ESG amongst other management-level committees.	• Chaired by Group General Counsel • Membership includes two INEDs	At least on a quarterly basis. Bi-annual reporting to Board to update on material issues.
Climate and Net-Zero Steering Committee	• Provides regular updates on climate and net-zero matters to the Group Chief Executive and President and the Board to ensure they have all information necessary to fulfil their duties and responsibilities. • Collaborates with committees, such as the ESG Committee and the Investment Committee, to provide inputs on the above. • Oversees the SBTi baseline (with respect to, in the case of our Investment assets, our general account investment portfolio) and decarbonisation target setting. • Oversees strategy and governance to reduce Group-wide GHG emissions in compliance with the SBT pathway (with respect to, in the case of our Investment assets, our general account investment portfolio). • Oversees climate-related strategies and a long-term integrated CTP, building on the SBTi pathway, to achieve overall climate objectives of the Group, including periodic review of the Company's climate targets in compliance with SBTi (with respect to, in the case of our Investment assets, our general account investment portfolio).	• Chaired by Group General Counsel • Group Chief Financial Officer • Group Chief Investment Officer • Group Chief Technology and Life Operations Officer • Group Head of Sustainability • Regional Chief Executive • Group Head of Internal Audit	As often as needed to undertake its role effectively for the duration of the initiative.
Operational Risk Committee and Financial Risk Committee	• Ensures that the material risks facing the Group, including ESG-related risks, have been identified, monitored, and mitigated. • Reviews the adequacy and effectiveness of the risk management framework that relates to the Group's management of material risks, including ESG-related risks.	• Reports to Group Board Risk Committee	At least four times annually.
Group Investment Committee	• Reviews and approves ESG Investment requirements set out in the Investment Standards under the IGF relating to AIA's general account investment portfolio. • Approves and oversees progress towards Investment SBTs. • Receives input from the Climate and Net-Zero Steering Committee and the ESG Committee.	• Chaired by Group Chief Investment Officer • Reports to Group Chief Executive • Group Chief Financial Officer • Group Chief Risk Officer • Group Chief Actuary	At least four times annually.

Strategy

AIA's climate change strategy

Our ESG Strategy, developed in 2021, sets a long-term programme that focuses on the identification, assessment and management of physical, transition and liability risks and opportunities caused by climate change. The ESG Strategy supports our commitment to achieve net-zero GHG emissions by 2050. In 2023, we became the first pan-Asian Life and Health insurer to have our near-term targets validated by the SBTi. We also published our first CTP in 2023 to underpin these near-term targets with concrete actions.

Climate risks and opportunities

Climate risks are an important topic for our internal and external stakeholders, and are classified into three categories: 1) Physical risks from climate change, such as acute events like storms and floods (event-driven), and chronic events like increased temperatures and sea levels (driven by longer-term shifts in climate patterns); 2) Risks from the transition to a low-carbon economy, driven by policy action, technology or market changes; and 3) Liability risks resulting from the potential litigation or regulatory exposure against companies that are deemed to contribute to climate change or inadequately respond to its impacts.

The graphic provides an overview of the risks in our taxonomy. Our journey in climate risk management will mature as we collect more granular data and robust methodology.

Physical, transition and liability risks embedded into AIA's risk taxonomy

TYPICAL CLIMATE-RELATED RISKS FOR LIFE AND HEALTH INSURERS		COMMON MANIFESTATIONS OF RISKS	PRIMARY EXPOSURE TO INSURERS	EXPOSURE TO INSURANCE LIABILITIES	EXPOSURE TO INVESTMENT ASSETS
Physical	Acute	Increased severity of extreme weather events such as cyclones and floods	• Operational Risk	• Mortality • Morbidity • Lapse • Expenses • Pandemic and Catastrophe	• Equity Risk • Property Risk • Foreign Exchange Risk • Credit Risk
	Chronic	Changes in precipitation patterns and extreme variability in weather patterns	• Insurance Risk		
		Rising mean temperatures			
		Rising sea levels			
Transition	Policy and Legal	Increased carbon pricing	• Investment Risk • Structural Risk • Business Risk • Operational Risk	• Lapse • Expenses	• Interest Rate Risk • Equity Risk • Property Risk • Foreign Exchange Risk • Credit Risk
		Enhanced emissions reporting obligations			
	Market and Technology	Substitution of existing products and services with lower emissions options			
		Unsuccessful investment in new technologies			
		Costs of transition to lower emissions technology			
		Changing customer behaviour			
		Uncertain market signals			
	Reputation	Shifts in consumer preferences			
		The stigmatisation of industry sector			
		Increased stakeholders' concerns or negative stakeholder feedback			
Liability	Litigation	Exposure to litigation	• Operational Risk	• Lapse • Expenses	• N/A
	Regulatory Enforcement	Mandatory regulation of existing products and services			
		Mandatory disclosure of climate-related information			

Strategy

AIA's climate resilience and scenario analysis

Climate scenario analysis is important in identifying and assessing climate-related risks under different conditions. In 2022, AIA conducted an initial climate scenario analysis to better understand the effects of climate-related risks on the business.

In 2023, we enhanced our scenario analyses and tested the resilience of our Investment, Operations, and Life and Health (Liabilities) portfolios against three diverse Group-wide scenarios[1] to determine AIA's resilience to climate-related risks and impacts over various time horizons. Climate-related opportunities vary across the scenarios.

AIA continued to rely on the scenarios used in 2022, which were developed by the Network for Greening the Financial System (NGFS).[2] NGFS is our main data source to identify and understand transition risks. In 2023, we incorporated additional data from the Intergovernmental Panel on Climate Change (IPCC) scenarios with similar temperature rise pathways (SSP1[3]+RCP2.6[4] and SSP5+RCP8.5) to leverage the greater granularity of climate peril data for physical risk assessments. Our scenario analysis at present assumes no correlation between hazards. The temperature rise pathway SSP1+RCP1.9 is recognised as unlikely as global average temperatures have exceeded 1.5°C above pre-industrial levels.[5,6] We will evolve our approach for scenario analysis for both risks and opportunities going forward.

See the graphic on the following page for the NGFS and IPCC scenarios.

Physical and transition risks were assessed across three different time horizons, updated this year to better align with our business strategy and global best practice:

- Short-term (0-3 years): Aligned with our strategic planning cycle.
- Medium-term (3-10 years): Aligned with our near-term SBTs, with a sufficient time horizon for various climate-related pathways to eventuate.
- Long-term (10-30 years): Aligned with our long-term net-zero commitments, with a sufficient horizon for long-term climate impacts to be observed.

Three NGFS scenarios selected were informed by AIA's view of the possible future:

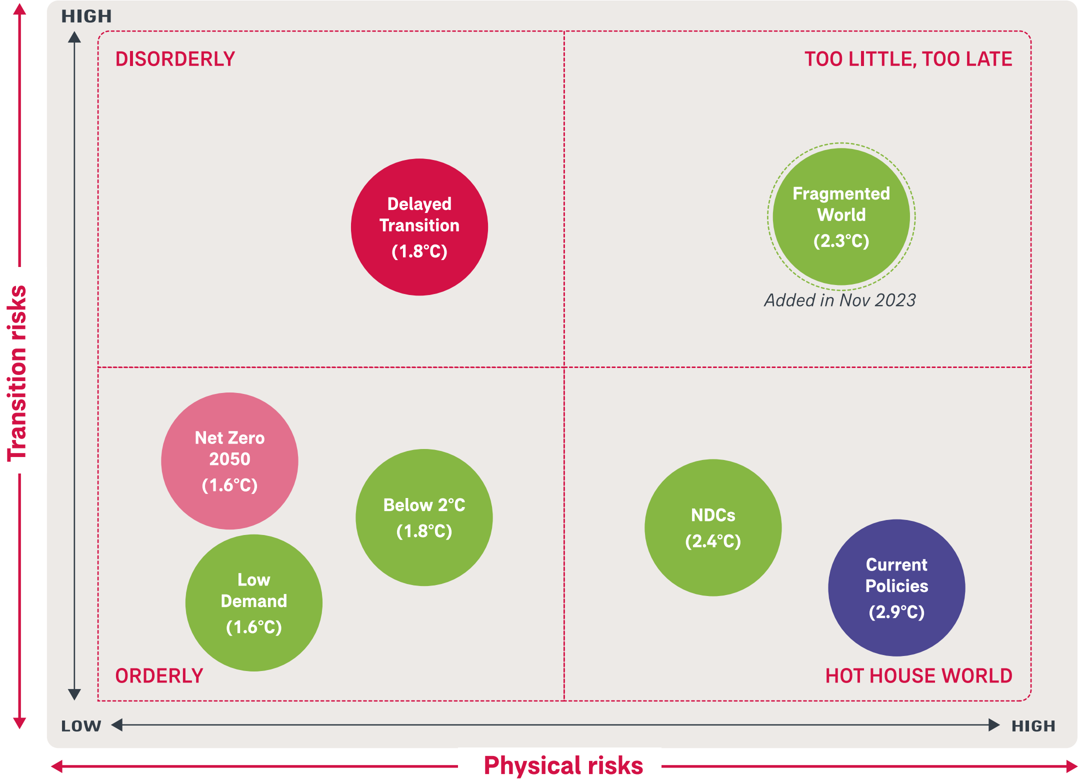
1. **Net-Zero 2050,** which assumes there is immediate stringent policy action and innovation to limit global warming to 1.6°C. CO_2 removal is used to accelerate decarbonisation but is kept in line with sustainable levels of bioenergy production. Global net-zero CO_2 emissions are reached by 2050. Some markets (US, EU and Japan) are to reach net-zero for all greenhouse gases.
2. **Delayed Transition,** which assumes that annual emissions do not decrease until 2030 and strong policies are introduced to limit warming to below 1.8°C. Climate policies and the level of actions vary widely across markets and regions, with limited CO_2 removal. As a result, emissions exceed the carbon budget temporarily and subsequently decline faster than in other scenarios. For some markets, this leads to both higher transition and physical risks than the Net-Zero 2050 scenario.
3. **Current Policies,** which assumes the continuation of currently implemented climate policies and no further action. Emissions grow until 2080 leading to 2.9°C of warming and severe physical risks.

1 Group-wide scenarios refer to those that are applicable to entities under AIA Group based on a standardised methodology and/or assumption.
2 NGFS is a group of central banks and supervisors who share best practices, contribute to developing climate and environment risk management in the financial sector, and mobilise mainstream finance to support the transition to a sustainable economy.
3 Shared Socioeconomic Pathway.
4 Representative Concentration Pathway.
5 Chen, D., Rojas, M., Samset, B. H., Cobb, K., Diongue Niang, A., Edwards, P., Emori, S., Faria, S. H., Hawkins, E., Hope, P., Huybrechts, P., Meinshausen, M., Mustafa, S. K., Plattner, G. K., & Treguier, A. M. (2021). *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* (Report No. 6). Cambridge University Press. **https://doi.org/10.1017/9781009157896.003**
6 Copernicus Climate Change Service. (2023, August 8). July 2023: *Global air and ocean temperatures reach new record highs.* **https://climate.copernicus.eu/july-2023-global-air-and-ocean-temperatures-reach-new-record-highs**

Strategy

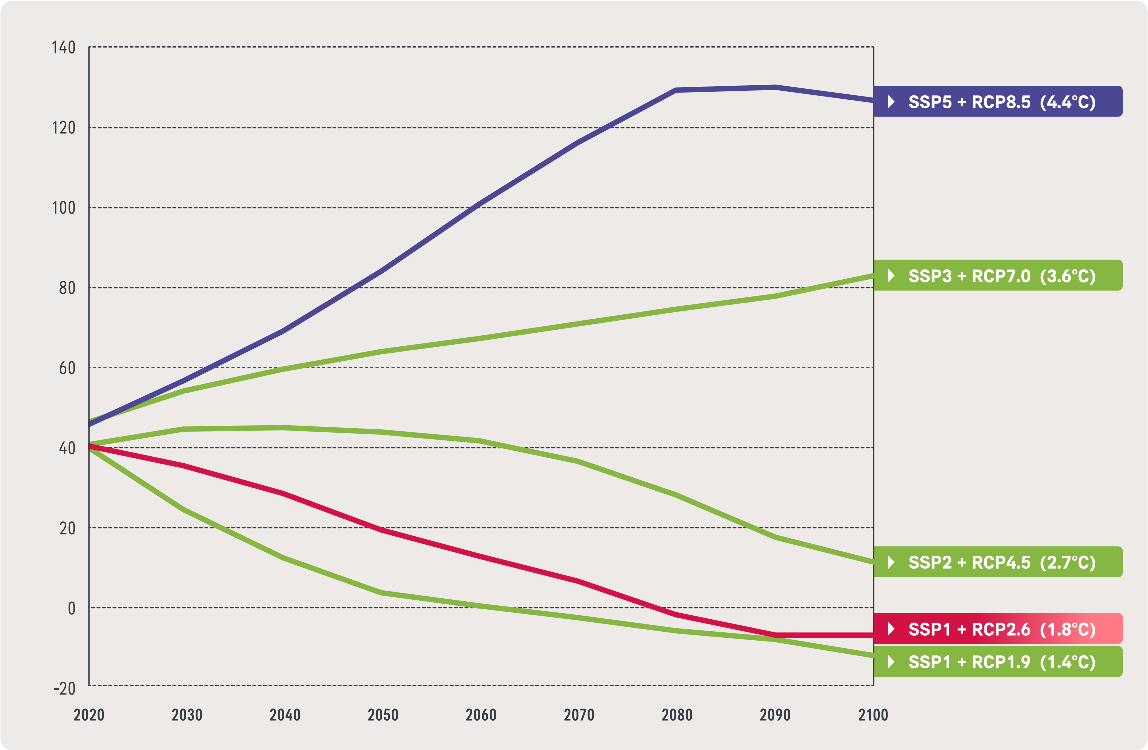
NGFS[1] and IPCC scenarios[2]

NGFS SCENARIOS



IPCC SCENARIOS

Global carbon dioxide emissions ($GtCO_2$/year)



1 NGFS (Network for Greening the Financial System). (2023). *Climate Scenarios for Central Banks and Supervisors: Phase IV*. Retrieved from **https://www.ngfs.net/sites/default/files/medias/documents/ngfs_climate_scenarios_for_central_banks_and_supervisors_phase_iv.pdf**

2 Chen, D., Rojas, M., Samset, B. H., Cobb, K., Diongue Niang, A., Edwards, P., Emori, S., Faria, S. H., Hawkins, E., Hope, P., Huybrechts, P., Meinshausen, M., Mustafa, S. K., Plattner, G. K., & Treguier, A. M. (2021). *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* (Report No. 6). Cambridge University Press. **https://doi.org/10.1017/9781009157896.003**

Strategy

Methodology summary

AIA adopted a combination of approaches (including both quantitative and qualitative elements) in performing scenario analysis across different portfolios. These included the materiality of climate risks to each portfolio, availability of reliable data, measurement (un)certainty and resource requirements. A summary of the assessment across our Investment, Operations, and Life and Health (Liabilities) portfolios is in the graphic.

Overview of 2023 scenario analysis and scope[1,2,3,4,5]

		INVESTMENTS	OPERATIONS	LIFE & HEALTH (LIABILITIES)
Transition risk	Methodology	• **Bottom-up** assessment at **issuer level**	*Immaterial*	*Immaterial*
Transition risk	Portfolio Scope	• **Listed Equities** & **Corporate Bonds holdings** • **6 CPRS[1] sectors**	*Immaterial*	*Immaterial*
Transition risk	Risk types	• **Regulatory**, **technology**, and **market risks** • Unique risk drivers for each subsector	*Immaterial*	*Immaterial*
Transition risk	Data sources	• NGFS, MSCI[2], expert inputs, etc	*Immaterial*	*Immaterial*
Physical risk	Methodology	• **Bottom-up** assessment at **issuer level**	• **Bottom-up** assessment across **AIA occupied buildings**	• **Top-down** qualitative assessment
Physical risk	Portfolio Scope	• **Listed Equities**, **Corporate Bonds**, **Direct Real Estate** holdings • **6 CPRS[1] sectors**	• Both **employee** and **agent** footprint	• **5 largest BUs** by Embedded Value
Physical risk	Risk types	• **5 physical risks** (Flood, Wind, Wildfire, Heat, Cold)	• **5 physical risks** (Flood, Wind, Wildfire, Heat, Cold)	• Transmission of 5 physical risks into **7 types of Life & Health risks**
Physical risk	Data sources	• OS Climate, IPCC[3], S&P[4], proprietary asset location mining tool, expert inputs, etc	• OS Climate, IPCC, expert inputs, etc	• OS Climate, IPCC, WHO[5], expert inputs, etc

1 Climate Policies Relevant Sectors. CPRS is a classification of economic activities to assess climate transition risks. https://www.ngfs.net/ngfs-scenarios-portal/data-resources/
2 Morgan Stanley Capital International.
3 Intergovernmental Panel on Climate Change.
4 Standard & Poor's.
5 World Health Organization.

Strategy

Climate risks and opportunities in AIA Investments

Portfolio boundaries and methodology

AIA assessed both the physical and transition risks of its directly managed Investments and those managed by external managers in segregated mandates. These included Listed Equities, Corporate Bonds[1], and Direct Real Estate holdings within the general account portfolio. For resilience testing, our scenario analysis focused on six material CPRS – Fossil Fuels, Electricity / Utility, Energy-intensive, Buildings, Transportation and Agriculture. This aligns with practices adopted by peers and key authorities, such as the NGFS[2] and the Monetary Authority of Singapore (MAS).[3]

Climate exposure and vulnerability were measured to determine the risk level of each asset across transition and physical risk drivers. We used a wide range of current data sources to analyse risk exposure and vulnerability, including quantitative metrics (for example, flood depths, carbon price, emissions intensities) and qualitative assessments (for example, companies' ease of mitigating financial impact), to determine the overall risk of each asset in the portfolio.

Transition risks

Methodology

In 2023, AIA enhanced our transition risk assessment methodology to develop our view of risks impacting each issuer. Transition risks were assessed bottom-up across our Listed Equities and Corporate Bonds[1] holdings in our investment portfolio by identifying and assessing unique drivers for each subsector across regulatory, technology and market risks. Our data sources included NGFS, MSCI (Morgan Stanley Capital International) and expert inputs. Within each risk driver, both the exposure and vulnerability of the issuer were assessed, where:

- Exposure was measured based on the forecasted magnitude of each risk driver (such as carbon price and low-carbon fuel adoption) across different time horizons and climate scenarios.
- Vulnerability was measured based on the susceptibility of the issuer towards financial loss because of the risk driver, factoring in its ease of mitigation and own planned mitigation actions.

Results and impact on strategy

Transition risks were assessed for issuers across all six CPRS sectors, with the highest risks for the fossil fuels and electric utilities sector, especially in the Net-Zero 2050 scenario. The fossil fuel sector is expected to face mounting technology risks from the pressure to decarbonise through the adoption of low-carbon energy and Carbon Capture Utilisation and Sequestration (CCUS), as well as market risks from potential demand in fossil fuel products as the world shifts towards renewable energy and sustainable aviation fuels.[4] The electric utility sector also faces growing regulatory risks as markets increase carbon pricing and utilities transition their assets away from fossil fuels to renewable energy assets.[5]

In the short term, the impact of transition risks on the investment portfolio is relatively insignificant. However, it is expected to become more material in the long term with transition risks increasing towards 2050, especially under the Net Zero 2050 and Delayed Transition scenarios.

Our near-term emissions reduction targets validated by the SBTi are one way to mitigate transition risks in the investment portfolio, especially for sectors with higher transition risks such as electric utilities, where Sectoral Decarbonisation Approach (SDA) targets are set to track the average emissions intensity across issuers. The resilience of investment portfolios will be reinforced through our efforts to achieve this target.

AIA has also integrated the consideration of various ESG factors in bottom-up investment processes, which are applicable to general account assets on a mandatory basis. We have developed a proprietary ESG Rating Scorecard, as well as a distinct scorecard to assess external asset managers on their ESG frameworks and processes. This gives us the ability to engage with investee companies to understand their position on various climate risks.

AIA will continue to update its assessment of transition risk drivers that impact various sectors and issuers' vulnerability towards them. Our assessment methodology will evolve to quantitatively assess transition risks at a portfolio level. There is also potential to integrate transition risk assessments into bottom-up investment processes when there are improvements in data availability and impact quantification methods.

1 Including Power Generation Project Finance.
2 NGFS. (2023, November). Data & Resources. NGFS Scenarios Portal. **https://www.ngfs.net/ngfs-scenarios-portal/data-resources/**
3 Monetary Authority of Singapore. (2022). *Financial Stability Review 2022.* **https://www.mas.gov.sg/-/media/MAS-Media-Library/publications/financial-stability-review/2022/Financial-Stability-Review-2022.pdf**
4 International Energy Agency. (2021). *Net Zero by 2050: A Roadmap for the Global Energy Sector.* **https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf.**
5 Asian Development Bank. (2022). *Carbon Pricing for Energy Transition and Decarbonization.* **https://www.adb.org/sites/default/files/publication/839391/carbon-pricing-energy-transition-decarbonization.pdf**

Strategy

Physical risks

Methodology

Physical risks were assessed bottom-up across the Listed Equities, Corporate Bonds, as well as Direct Real Estate holdings in the general account portfolio. Five material physical hazards – flood, wind, wildfire, heat and cold – were assessed across individual asset locations of each issuer. Our data sources included IPCC, OS Climate, S&P, a proprietary asset location mining tool, and expert inputs. The severity of each hazard was measured based on exposure and vulnerability:

- Exposure was measured as the probabilistic magnitude of each physical hazard event at a particular location.
- Vulnerability was measured as the predisposition of a company's assets or business being adversely affected by the physical hazard.

A bottom-up physical risk assessment (location-by-location) was conducted for the largest 170 positions within our CPRS holdings.

Results and impact on strategy

Flood, wildfire and heat were observed to be the most material long-term physical hazards for the Listed Equities and Corporate Bonds holdings over the long term, especially in the Current Policies scenario where mean surface temperatures could rise by above 3°C by 2100. Nonetheless, geographically diversified portfolios provide some hedging against adverse climate effects. AIA will continue to build capabilities to monitor physical risks at the issuer level, with the goal of integrating physical risk assessments into bottom-up investment processes when there are improvements in data availability and impact quantification methods.

In the Direct Real Estate portfolio, floods and heat were assessed as the most material long-term physical climate hazards. AIA continues to enhance the resilience of the portfolio by ensuring key building certification standards such as LEED (Leadership in Energy and Environmental Design) and WELL Certification for all new constructed or acquired commercial property investments. These standards help to demonstrate energy conservation and environmental protection excellence and may alleviate the impacts of severe weather events. The standards position AIA competitively in a market favouring greener, climate-resilient properties, enabling tenants to mitigate their operational emissions.

Investment opportunities

AIA will continue to explore climate-related opportunities in its investment portfolio, such as low-carbon assets and investees that align with climate transition objectives. Impact investing, which combines the prospect of financial returns with environmental (or social) goals, is one major climate-related opportunity. For more on our climate-related Investment opportunities, see our 2023 CTP (3.2 Portfolio Coverage Approach, 3.3 Sectoral Decarbonisation Approach: Power Generation, and 3.4 Sectoral Decarbonisation Approach: Real Estate).[1]

In 2023, we announced plans to invest into impact funds in partnership with LeapFrog Investments, a global specialist impact fund manager.

Our strategic partnership will focus on developing new products and services in mutual areas of interest – such as financial services, healthcare and climate solutions.

1 AIA Group Limited. (2023). *AIA Climate Transition Plan 2023*. https://www.aia.com/content/dam/group-wise/en/docs/ESG/AIA_Climate_Transition_Plan_2023.pdf

Strategy

Climate risks and opportunities in AIA Operations

Portfolio boundaries and methodology

AIA assessed the physical risks in its operations (real estate and vehicles owned or leased) across all locations, used by employees and agents.

Operations risks

Methodology

To assess physical risks in our operations, we assessed the same five material physical hazards (flood, wind, wildfire, heat, and cold) across our operational footprint in 18 markets. Our data sources included IPCC, OS Climate and expert inputs. The severity of each hazard was assessed for each operating location, where:

- Exposure was measured as the probabilistic magnitude of each physical hazard event.
- Vulnerability was measured as the predisposition of the building's investment value to be adversely affected by the hazard.

Transition risks are immaterial for operations because the impact of the increasing transmission driver is minimal. For example, an increase in carbon pricing could impact utility bills, but in the long term we expect our SBTs to mitigate this impact as we move towards greater energy efficiency and the consumption of renewable energy.[1]

Results and impact on strategy

Across our operations, floods were the most material physical hazard, driven by potential business interruptions. We will use the measurement of the impacts from these physical hazards as more data becomes available and verifiable. As most leases are short-term, this provides AIA with the flexibility to continue monitoring physical hazard data and relocate if needed, with the option to optimise property insurance coverage.

Operations opportunities

Operations opportunities include cost savings from energy efficiency improvements and transitioning to renewable energy, especially if carbon pricing increases across the markets that we operate in. AIA will consider engaging Energy Service Companies (ESCOs) across key markets to identify, evaluate and execute a range of opportunities at a building level, including retrofits and demand management initiatives. For more on climate-related opportunities in our operations, see our 2023 CTP.[2]

Climate risks and opportunities in AIA's Life & Health products

Portfolio boundaries and methodology

AIA assessed the physical risks in its life protection and health products to key health risks against physical hazard drivers.

Life & Health product risks

Methodology

To assess the physical risks in AIA's life protection and health products, the exposure to seven key life and health risks – extreme events, vector-borne diseases, water-borne diseases, malnutrition, heat-related illnesses, reduced air quality and cold-related illnesses – were mapped against physical hazard drivers (flood, wildfire, wind, heat and cold). Our data sources included IPCC, OS Climate, World Health Organization, and expert inputs amongst others.

The assessment focused on AIA's largest markets (Hong Kong, Mainland China, Singapore, Malaysia, Thailand) with a focus on medium-to-long term effects. The impacts of transition risks on our life protection and health products are less established and assessed to be immaterial.

To assess vulnerability, we considered how each market's mortality and morbidity rates were affected by each health risk, relying on public health research, population data and actuarial studies.

Results and impact on strategy

The impact of physical risks on life and health risks was relatively insignificant across our largest markets. We recognise that there is limited literature and data to quantify the impact of climate on life and health risks with high levels of certainty. We expect this to improve as more research emerges in this field, providing us with an understanding of risks and opportunities across products.

Climate-related Risks and Opportunities

Two climate-related risks and two climate-related opportunities are outlined on the following page.

1 National Climate Change Secretariat. (2023, December). *Carbon Tax.* **https://www.nccs.gov.sg/singapores-climate-action/mitigation-efforts/carbontax/**
2 AIA Group Limited. (2023). *AIA Climate Transition Plan 2023.* **https://www.aia.com/content/dam/group-wise/en/docs/ESG/AIA_Climate_Transition_Plan_2023.pdf**

Strategy

RISK ONE	REPUTATIONAL RISK
Description	AIA has a long-standing reputation for our responsible business practices, and this has enabled us to deliver sustainable, long term value creation to our stakeholders. Any threats to AIA's reputation and goodwill must be identified, minimised and/or managed, as appropriate. We regularly monitor potential reputational risks faced by AIA. Potential reputational risks include failure to meet publicly committed ESG strategies (including those that address climate change risk) and stakeholder expectations, resulting in adverse reputational impact.
Action Taken & Results	AIA enacts a number of actions to reduce the likelihood and severity of significant adverse reputation risk events. These include: 1. Establishing multiple channels to capture feedback and opinions from a variety of stakeholders. This helps us align our actions in line with stakeholder expectations. Our ESG Committee briefs the Board and senior management on the communication outcomes of our stakeholder engagement and appraises them on the adequacy of our response. 2. AIA actively participates in ESG evaluations by independent reputable third-party rating agencies (including CSA, CDP, Sustainalytics, MSCI). This helps in identifying possible controversies and ensures stewardship on ESG and climate action.
RISK TWO	**MARKET RISK**
Description	Insurance companies make large investments in diversified assets and portfolios of companies. The impact of climate change on various asset classes (such as commercial real estate, listed equity and corporate bonds and project finance) can be substantial if the changes in asset values are not sufficiently understood and managed. There is a distinct possibility that stranded assets in carbon intensive industries may rise due to a systemic shift towards a low-carbon future. Inadequate valuation of these assets and lack of integration in investment decisions may impact the performance of our investment portfolio.
Action Taken & Results	We have taken a proactive approach to address this risk by integrating, on a mandatory basis, the consideration of various ESG factors in our bottom-up investment process applicable to general account assets. We have developed our proprietary ESG Rating Scorecard which applies to our directly managed general account assets. We have also developed a distinct scorecard in relation to our general account assets to assess external asset managers on their ESG frameworks and processes. We also engage with our investee companies to understand their position on various climate risks.

OPPORTUNITY ONE	TRANSITION TOWARDS GREENER BUILDINGS
Description	Energy efficient buildings help in improving operational eco-efficiency while reducing energy costs. We aim to be efficient in our operations, and as part of this agenda, our new or redeveloped offices are expected to meet accredited green standards. Adhering to green standards criteria helps us become energy efficient and contributes to our ambition of meeting SBTi targets in line with our Net-Zero Transition.
Action Taken & Results	The Group aims to transition its real estate buildings towards sustainable buildings. We plan to establish ways to integrate energy efficiency into our operations and portfolio. Further details are set out in the Sustainable Operations section as part of our ESG Report 2022. For example, Project Enercon implemented at AIA Philippines replaced office lighting with LED systems and sensors and upgraded the air conditioning system, which has helped us achieve cost and energy savings.
OPPORTUNITY TWO	**INCREASED DEMAND FOR FUNDS THAT INVEST IN COMPANIES THAT HAVE POSITIVE ENVIRONMENTAL CREDENTIALS**
Description	Investing in companies which demonstrate sound ESG practices, as assessed by us as part of our bottom-up investment process, is a strategy for us to seek and earn financial returns by driving sustainable outcomes and behaviour in a way that is consistent with the values outlined in the Sustainable Investment pillar. Studies increasingly show that employing ESG criteria in investment decision-making improves financial performance. ESG considerations must be managed and mitigated to create long-term stakeholder value.
Action Taken & Results	AIA has embedded the consideration of ESG factors in our bottom-up investment process, as reflected in the assessment by our research analysts of investee companies in the general account investment portfolio using our ESG Rating Scorecard, which has resulted in continued investment in instruments such as renewable energy and green bonds. In 2022, AIA launched a Sustainable Multi-Thematic Fund.

Risk Management

Climate Risk Management Overview

AIA's climate risk management strategy is core to articulating the capabilities and processes to identify, assess and manage climate risks. It is embedded within our broader Enterprise Risk Management Framework (RMF).

The RMF outlines the way AIA ensures resilience to monitor and respond to principal risks such as operational risks, business risks, structural risks, investment risks and insurance risks. The RMF is built on a "Three Lines of Defence" model. The RMF is made up of five components, including Risk Governance, Risk Culture, Risk Strategy and Appetite, Risk Management Process and Risk Reporting, Systems and Tools.

Risk identification

Climate-related risks are covered by our risk taxonomy (refer to ***Strategy section*** of this Report) and outlined in our risk landscape. We have identified and documented where climate-related risks are present across all financial and operational risks, demonstrating their transverse nature.

For example, acute physical risks such as floods and heatwaves could have First Order Effects on human health and well-being, thereby causing Second Order Effects such as increased frequency of insurance claims, escalating the insurance risk. AIA will continue to evolve its identification and assessment of Second Order Effects from physical risks.

AIA factors climate considerations into key business activities. Some examples include:

- The probability of climate events into our Business Continuity Plans, as we manage the availability of premises, systems and people.
- Implemented initiatives to reduce AIA's carbon footprint in our internal operations (for example, utilising green certified buildings) to mitigate potential rises in energy prices because of carbon pricing.
- Evaluated changes to morbidity and mortality risks affected by climate change in our Life and Health product offers.

We regularly review our climate risk taxonomy, enabling us to have a comprehensive view of our risk exposure and identify key controls in a timely manner.

AIA's Three Lines of Defence

Climate-related risks are covered by AIA's RMF, where they are regularly identified, assessed, managed and monitored with a robust set of controls and procedures alongside other risks. We monitor all relevant regulatory climate risk management developments in the jurisdictions where we operate (for example, from the Hong Kong Stock Exchange, Monetary Authority of Singapore, Bank Negara Malaysia) to ensure that our climate risk management practices are compliant with regulatory expectations.

THREE LINES OF DEFENCE

	FIRST LINE	SECOND LINE	THIRD LINE
ROLE (BUSINESS UNITS AND LEADERSHIP)	Business Management	Risk and Compliance	Internal Audit
RESPONSIBILITIES	Work together to ensure ESG-related risks are anticipated and managed, regardless of the ownership over any specific ESG issue.		Internal review of risk management

Risk Management

Assessment and measurement

In 2023, AIA enhanced its climate risk assessment capabilities by performing climate scenario analyses across all parts of the business: Investments, Operations and Life and Health Insurance liabilities. We use a bottom-up approach to assess climate, evaluating transition and physical risks impacting issuers in our investment portfolio, and physical risks relevant to our operational and product footprint. Refer to the ***Strategy section*** for more details on our climate scenario analyses and results.

We will continue to assess climate risks as part of our RMF process and seek ways to enhance our risk assessment methodology in line with ISSB guidance.

Management and monitoring

Climate risks are managed and monitored through our RMF, which sets out the controls and procedures to manage any material risks that arise.

Opportunities

Climate opportunities are embedded into our decision making and action plans. As part of our plan to achieve our PCA SBT, we will engage with our investees to accelerate their adoption of decarbonisation targets. PCA (Portfolio Coverage Approach) provides valuable insights into the proportion of our holdings committed to, and having targets validated by SBTi. It allows us to set our general account investment portfolio coverage targets and communicate these targets to our investees and the public. Including PCA may improve our visibility on their climate-related risk profiles, allowing us to be more informed of climate risks across our investment portfolio.

Additional information about our climate-related opportunities is articulated in our ***2023 Climate Transition Plan*** (Section 2: Our Operations, and Section 3: Our Investments).

Metrics and Targets

Carbon emissions metrics and targets

SBTi setting and validation

In 2023, AIA became the first pan-Asian Life and Health insurer with SBTi-validated near-term targets, reflecting our commitment to achieve net-zero GHG emissions by 2050.[1] Our targets cover both Investment and Operations portfolios and are summarised in the graphics below. Additional information about how we calculate, assure and review our SBTs are outlined in our 2023 CTP.[2]

Our Operations:
Setting targets for our own emissions and driving actions across our business

OUR OPERATIONS

NEAR-TERM TARGET[1]

LONG-TERM COMMITMENT[1]

OUR SBTi & CLIMATE COMMITMENTS

2030 **-46.2% reduction of Scope 1 & 2 emissions**

2050 **Net-Zero Scope 1 & 2 emissions**

LEVERS FOR OUR NEAR-TERM TARGET

- Explore opportunities to improve energy efficiency of buildings
- Explore opportunities to lease greener buildings
- Transition Company fleet to EVs, based on market feasibility
- Procure renewable energy based on regional availability

1 Target applied to real estate and vehicles owned or leased by AIA and used by AIA employees and agents. Reduction targets measured against a 2019 baseline.

Our Investments:
Setting targets across our general account investments and driving climate-related actions

PORTFOLIO COVERAGE APPROACH[1]

NEAR-TERM TARGET[2]

LONG-TERM COMMITMENT[2]

OUR SBTi & CLIMATE COMMITMENTS

2025 **31% of in-scope portfolio setting SBTi validated targets**

2040 **100% of in-scope portfolio setting SBTi validated targets**

LEVERS FOR OUR NEAR-TERM TARGET

- Engage investees to accelerate adoption of SBTi
- Explore reinvestment of corporate bonds into issuers with SBTi targets
- Explore new Investment in investees aligned to the SBTi

1 AIA's in-scope portfolio covers 55 per cent of its total Investment and lending activities by general account assets under management, as of 2019.

2 Target applied to SBTi defined in-scope listed equities and corporate bonds within AIA's general account portfolio assets that are not in the power generation & real estate sectors. Targets measured against a 2019 baseline.

1 The GHG included in our targets are CO_2, CH_4, N_2O; fluorinated gases from refrigerants are excluded due to low materiality (<5% of Scope 1 and Scope 2 emissions) and data unavailability.

2 AIA Group Limited. (2023). *AIA Climate Transition Plan 2023.* **https://www.aia.com/content/dam/group-wise/en/docs/ESG/AIA_Climate_Transition_Plan_2023.pdf**

Metrics and Targets

Our Investments:
Setting targets across our general account investments and driving climate-related actions (continued)

SECTORAL DECARBONISATION APPROACH FOR POWER GENERATION[1]

NEAR-TERM TARGET[2]

LONG-TERM COMMITMENT[2]

OUR SBTi & CLIMATE COMMITMENTS

2030 **-49.3% per MWh reduction of emissions from in-scope power generation sector portfolio**

2050 **Net-Zero emissions from in-scope power generation investments**

LEVERS FOR OUR NEAR-TERM TARGET

- Engage investees to accelerate emission reduction
- Explore reinvestment of corporate bonds into issuers with low emission intensity
- Explore new Investments in companies with low emission intensity
- Continue to apply coal exclusion on investment portfolios

1 AIA's in-scope portfolio covers 55 per cent of its total Investment and lending activities by general account assets under management, as of 2019.

2 Target applied to SBTi defined in-scope listed equities and corporate bonds and project finance within AIA's general account portfolio that are within the power generation sector. Reduction targets measured against a 2019 baseline.

SECTORAL DECARBONISATION APPROACH FOR REAL ESTATE[1]

NEAR-TERM TARGET[2]

LONG-TERM COMMITMENT[2]

OUR SBTi & CLIMATE COMMITMENTS

2030 **-58.5% per sqm reduction of emissions from in-scope real estate portfolio**

2050 **Net-Zero emissions from in-scope real estate investments**

LEVERS FOR OUR NEAR-TERM TARGET

- Explore opportunities to improve energy efficiency of buildings
- Ensure new buildings meet Green Building Standards
- Explore procuring renewable energy instruments based on regional availability

1 AIA's in-scope portfolio covers 55 per cent of its total Investment and lending activities by general account assets under management, as of 2019.

2 Target applied to real estate owned by AIA and not occupied by AIA. Reduction targets measured against a 2019 baseline.

Metrics and Targets

Other Investment and Operations metrics

Investment metrics

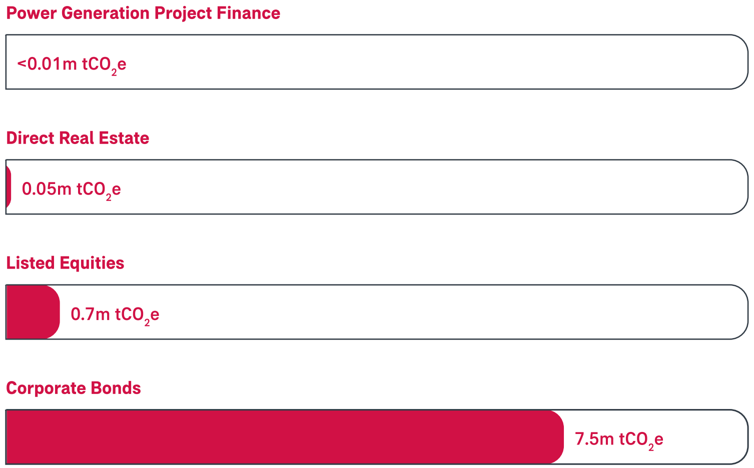
In 2022, we began measuring our Total Financed Emissions (TFE) across our Listed Equity, Corporate Bonds and Direct Real Estate holdings in our general account investment portfolio. TFE is a metric that is recognised by TCFD and the SBTi. TFE indicates alignment between the two standards and is measured using the same boundary as SBTi.

In 2023, TFE were measured across our general account listed equity, corporate bonds of listed issuers, real estate and power generation project finance investments using the Partnership for Carbon Accounting Financials (PCAF) methodology. As of 31 December 2023, the total financed emissions of our in-scope general account investment portfolio was 8.3 mtCO_2e, which consists of 0.7 mtCO_2e for Listed Equity, 7.5 mtCO_2e for Corporate Bonds, 0.05 mtCO_2e for Real Estate, and <0.01 mtCO_2e for Power Generation Project Finance (see graphic).

Total Financed Emissions of AIA's in-scope general account investment portfolio

AIA will continue to measure the Weighted Average Carbon Intensity (WACI) for Listed Equities to maintain consistency with reporting in previous years, as recommended by the TCFD. We do not set targets or manage WACI performance on a regular basis. More details on the methodology and application for TFE and WACI are outlined in our ***2023 Sustainable Investment Subsection Report***.

TOTAL FINANCED EMISSIONS
(AIA's in-scope general account investment portfolio)



Operations metrics

As a responsible business, we measure emissions from our business operations annually. This year's TCFD report discloses our operational Scope 1 and 2 emissions, along with Scope 3 Category 6: Business travel (refer to our ***ESG Report 2023*** for more details on metrics covered and the calculation approach.).

1. Total energy consumption across the Group was 72,209,787 kWh, amounting to 2,785.1 kWh per employee.
2. The largest contributor to our operational footprint is the Scope 2 electricity use in our buildings, which contributes to 43,770.94 tonnes of CO_2e.
3. Other sources of emissions include those from our rented and owned corporate vehicle fleet, and business travel.

This year, the Group accounted for 55,217 tonnes of CO_2e or 2.13 tonnes of CO_2e per employee, which was an increase of 0.13 of CO_2e from the previous year. The increase was driven by the natural abatement of measures in place to response to the pandemic, including a return to pre-pandemic levels of business travel.

In 2023, we began socialising our Group's net-zero ambitions across business units and formulating action plans to achieve decarbonisation targets at the business unit level. With our decarbonisation roadmap in place, we expect emissions will decrease and reach our targets over time.

Metrics and Targets

Opportunities metrics

The table below outlines AIA's climate-related investment opportunity metrics.

Climate-related investment opportunity metrics

CATEGORY	METRIC	UNIT	2023
Investment opportunities related metrics	Investment in renewable energy	USD invested value	1.3 billion
	Investment in ESG (Green, Social & Sustainability bonds)	USD invested value	6.3 billion

Data calculation methodology

AIA calculates its Investment emissions according to the PCAF guidelines, and Operational emissions according to the guidelines provided by the Environmental Protection Department of the Hong Kong SAR Government. We identify emission factors on electricity consumption for each operating region via the sustainability reports of utility companies or the Greenhouse Gas Protocol database, and the List of Emission Factors published by the Institute for Global Environmental Strategies.

AIA relies on third-party data where this is available, with business travel emissions data for Group Office and AIA Hong Kong provided directly by our travel agent. At our other markets where this data is not available, we refer to the Carbon Neutral Calculator for Short – Medium Haul Flights by the United Kingdom's Department for Environment, Food and Rural Affairs (DEFRA) emission factors.

For further details, refer to the ESG Data Book Supplement in our ***ESG Report 2023.***

HEALTHIER, LONGER, BETTER LIVES

Feedback from our diverse set of stakeholders is crucial for us to continue improving on our ESG performance and disclosure practices.

If you have any questions, comments or feedback please contact our ESG team at esg@aia.com or write us at the address below:

Environmental, Social and Governance (ESG) Team
Suites 3206-3209, 32/F AIA Central
1 Connaught Road Central, Central, Hong Kong