

CLIMATE CHANGE STRATEGY OF ALLIANZ GROUP

SEPTEMBER 2019

We encourage solutions for tomorrow's climate. We **anticipate** the risks of climate change, work to protect and **care** for our customers, and **enable** the transition to a low-carbon economy.



"CLIMATE CHANGE GENERATES ENORMOUS ECONOMIC AND SOCIAL RISKS. IT IS ALREADY HARMING MILLIONS OF PEOPLE TODAY. AS A LEADING INSURER AND INVESTOR, WE WANT TO PROMOTE AND FINANCE THE TRANSITION TO A CLIMATE-FRIENDLY ECONOMY"

Oliver Bäte, Chairman of the Board of Management, Allianz SE

Global warming threatens to radically change our planet

For Allianz, limiting global warming and countering climate change is a crucial priority. Since 2005, the Allianz Group Climate Change Strategy has focused our efforts on encouraging solutions for tomorrow's climate.

Global warming and resulting climate change pose major risks to the livelihoods of millions of people worldwide. It affects the wealth and health of societies, biodiversity as well as the value of companies.

Arising risks and opportunities can be seen already today and will grow over the mid- and long-term. Risks can, for instance, be acute and chronic physical impacts on human health or property like warming temperatures, extreme weather events, rising sea levels, intensifying heatwaves and droughts or changes in vector-borne diseases.

Risks but also opportunities arise from the cross-sectoral structural change stemming from the transition towards a low-carbon economy. Drivers of this include changes in policy, technology, or market sentiment, and impacts thereof on the market value of financial assets, as well as risks resulting from climate change liability.

Climate change impacts us

We believe that climate change will materially affect economies and thus our lines of business. Climate change and related trends are in the top ranks of our regular materiality assessment.

Climate change impacts our business mainly in two ways: through insurance policies, for instance covering health impacts, property damage and other losses, as well as changes in sectors and business models we underwrite and, furthermore, as a large-scale institutional investor with significant stakes in economies, companies,

infrastructure and real estate. These are or will be affected by the physical impacts from climate change and by the transition to a low-carbon economy. This can have direct impacts on an asset's value and ability to generate long-term returns.

The fact that climate change will also affect public health and increase the risk of pandemic outbreaks is relevant for us not only as an insurer but also as an employer of over 140,000 people globally.

At the same time, this unprecedented challenge creates opportunities and incentives for the development of new products and services that can drive economic development, support the transition and generate social benefits.

We integrate climate protection into our core business

As a leading global corporation and corporate citizen, Allianz is both capable of and responsible for developing and offering solutions for a changing climate and enabling the low-carbon transition. Therefore, we are integrating climate protection firmly into our core business.

We are fully committed to the 2015 Paris Agreement's goal to limit global warming and we believe that reaching this goal will require a rapid decarbonization of the global economy to net-zero levels by 2050. As one of the world's largest insurers and institutional investors, we have the opportunity and responsibility to use our leverage to shape a fair transition to a low-carbon future.

We are engaged in leading industry initiatives to share knowledge with peers, convey messages to decision makers and jointly develop innovative solutions.

WE ANTICIPATE THE RISKS OF A CHANGING CLIMATE

We identify and manage climate-related risks and opportunities as part of our business strategy and through our financial products and services. Recognizing that climate change can severely impact our business activities, we systematically consider climate and sustainability criteria in our insurance and investment business.

On the investment side, we apply comprehensive environmental, social and governance (ESG) and climate guidelines for non-listed assets, such as infrastructure and real estate. These are based on international best-practice and jointly developed with NGOs. For listed assets, like equities and bonds, we systematically take ESG criteria into account, including criteria like carbon emissions, climate transition and management, energy efficiency, and environmental footprint.

Phasing out coal to tackle long-term risks

Allianz has stopped financing coal-based business models since 2015 – no new investments have been allowed, equity stakes have been divested and fixed income investments made before 2015 are in run-off. In May 2018, we announced a further commitment to expand the scope of coal exclusions by including additional forward-looking criteria to the definition of coal-based businesses. Furthermore, we will be lowering the threshold for coal-based business models to eventually reach zero in 2040 at the latest. In 2018, we have also decided to no longer provide insurance for the construction and/or operation of single coal-fired power plants or coal mines.

In announcing our criteria and phase-out pathway publicly, we want to support the change and work with our clients to find suitable ways that enable a joint path towards a low-carbon economy. We also report publicly on our divestment status in our annual Sustainability Report.

Working towards greater transparency on climate change

We are improving transparency around climate-related disclosures and are working to further align our strategy and reporting with the recommendations developed by the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). This includes working together with the UN Principles for Sustainable Insurance (UN PSI) to develop new approaches on risk assessment tools for the insurance industry. This shall enable a better understanding of the impacts of climate change scenarios on the different lines of insurance business.

For customers and investors to be able to make informed decisions, we strongly believe that companies must report comprehensively on their climate-related risks and their actions to tackle them.

We have advocated for greater transparency and reporting on these risks by companies for a number of years and we strongly support the 2017 recommendations of the TCFD. We are encouraging other companies within our sector and beyond to improve their disclosure. We do this

through our work with the G7 [Investor Leadership Network](#), the [UN Environment Programme Finance Initiative](#) (UNEP FI) and the [Principles for Sustainable Insurance](#) (PSI) initiative, as well as through our memberships in [The B Team](#), the World Economic Forum (WEF) Alliance of CEO Climate Leaders and others.

Engaging with policymakers and investee companies

In line with our commitment to the Principles for Responsible Investment (PRI), we help to increase ESG integration and transparency by working with our peers, regulators and other market participants. Allianz is represented in current efforts by the European Commission's Technical Expert Group on Sustainable Finance and is actively providing input to the Commission's work. As a partner of the G7 Investor Leadership Network, we support speeding up the implementation of uniform and comparable climate-related disclosures under the TCFD framework.

Furthermore, we are calling for regulatory measures – such as more stringent carbon pricing and the phase-out of subsidies for fossil fuels – to drive sustainable finance and enable the achievement of the Paris Agreement, as well as the Sustainable Development Goals.

To create an impact in the real economy and encourage companies to define and implement climate strategies in line with science, we have set up an engagement approach and a dedicated engagement function at Allianz Investment Management besides the Group ESG Office. By actively engaging with companies to have them set measurable climate targets that are transparently pursued, we aim to not only reduce carbon emissions in our portfolio but also in the real world.

In addition to our own engagements, our two asset managers, AllianzGI and PIMCO, also conduct ongoing ESG-specific engagements with investee companies. AllianzGI exercises our voting rights on our behalf, with details on voting policy and records published [online](#).

Additionally, we are joining forces with other asset owners in supporting companies in their low-carbon transition. Our participation in the [United Nations-convened Net-Zero Asset Owner Alliance](#) (AOA), the [Transition Pathway Initiative](#), as well as the engagement platform of [Climate Action 100+](#) and the [PRI](#), connects us with like-minded investors and offers platforms for collaborative engagement.

WE CARE FOR THE CLIMATE-VULNERABLE

As well as working to combat climate change, we reduce the impacts of climate risks, incentivize preventive measures to increase customers' resilience and compensate for climate-related damages by providing insurance.

We build on our experience as a leading microinsurer and reinsurer in agriculture to bring climate risk insurance mechanisms, including weather index insurance and yield loss or animal mortality covers, to vulnerable regions. We also explore how remote sensing technologies can be utilized to minimize risk and reduce the time taken to assess losses and pay out to farmers.

Working together to close the protection gap

The higher the level of insurance coverage of a country, the more resilient it is to extreme natural events. We aim to help provide climate risk insurance for up to 400 million people in the most vulnerable developing countries by 2020 through our active support of the InsuResilience Global Partnership.

We also share our expertise to help countries manage climate risks. In 2017, we formed a three-year strategic alliance with the German Corporation for International Cooperation (GIZ) with the goal of 'Closing the Protection Gap'. Through our partnership, we are setting up programs to reduce flood risk and provide insurance for municipalities in Ghana's capital, Accra, as well as for small and medium-sized enterprises in an important industrial zone in Morocco.

Through the Insurance Development Forum (IDF) we are joining forces with our peers to provide insurance solutions that allow governments in countries vulnerable to climate change to better protect their populations against natural disasters. Our work includes researching the actual and future impacts of climate change to provide the best possible risk advice to society and our customers as well as develop prevention and resilience approaches in response.

Allianz is signatory to the UNEP FI Principles for Sustainable Insurance (PSI) and leads global efforts on the creation of ESG standards for underwriting.

Supporting scientific innovation on climate risks

Allianz annually conducts the Allianz Climate Risk Research Award to support scientific research that improves society's understanding of climate change-related risks. The award aims at researchers focusing on reducing the risk of extreme weather events that are intensified by climate change, as well as fostering resilience by applying technological solutions.

WE ENABLE THE LOW-CARBON TRANSITION

Our business strategy aims to systematically enable a low-carbon and climate-resilient future.

We strategically invest in low-carbon assets since more than a decade and are continuously increasing our exposure. This includes renewable energy, certified green buildings, co-financing low-carbon technology in emerging markets with development banks, and seeking opportunities in green and sustainable bond investing.

Allianz is also a pioneer in insuring low-carbon technologies. We provide standardized and tailor-made insurance products as part of our Sustainable Solutions approach. Furthermore, we are insuring renewables in more than 70 countries and aim to reach significant market share in renewable energy markets.

Our science-based approach to decarbonization

As a landmark outcome of the incorporation of climate-related risk and opportunity assessments into our business strategy, we committed in 2018 to set ourselves long-term emissions reduction targets for our proprietary investment portfolio and for our business operations. To this end, we joined the Science Based Targets initiative in May 2018 and plan to structure all tradable proprietary investments climate-neutral by 2050. Our participation in the AOA helps us to further this goal and opens a platform for collaborative engagement among asset owners. This is one of the main ways we can leverage our influence to tackle climate change.

Measures will be steered through our ESG integration approach. Companies that do not succeed in adjusting their greenhouse gas emissions to the Paris Agreement target will be gradually removed from our portfolio.

Operating carbon-neutral, aiming for 100% renewables

Allianz is operating carbon-neutral since 2012. Since 2006 we have been measuring and reporting on our environmental performance. We are firmly committed to minimizing our environmental impact in line with our published [Group Environmental Guidelines](#) and are planning to source 100% renewable power for our group-wide operations by 2023 as part of the RE100 initiative.

We have already set reduction targets for greenhouse gas emissions in the past. Our new targets for the next period will be in line with climate science to support the Paris Agreement's goals.

As one important element of our operational decarbonization strategy we have directly invested in certificate generating carbon reduction projects in Kenya, the Democratic Republic of Congo and Indonesia, which also help protect biodiversity and support local communities.

Supported by our network of more than 60 Local Environment Officers in our entities worldwide, we will continue to drive lighthouse initiatives to inspire others and to continuously improve our environmental performance.