TCFD Reporting

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We are committed to transparent climate reporting so as to ensure good corporate governance focused on sustainable value creation.

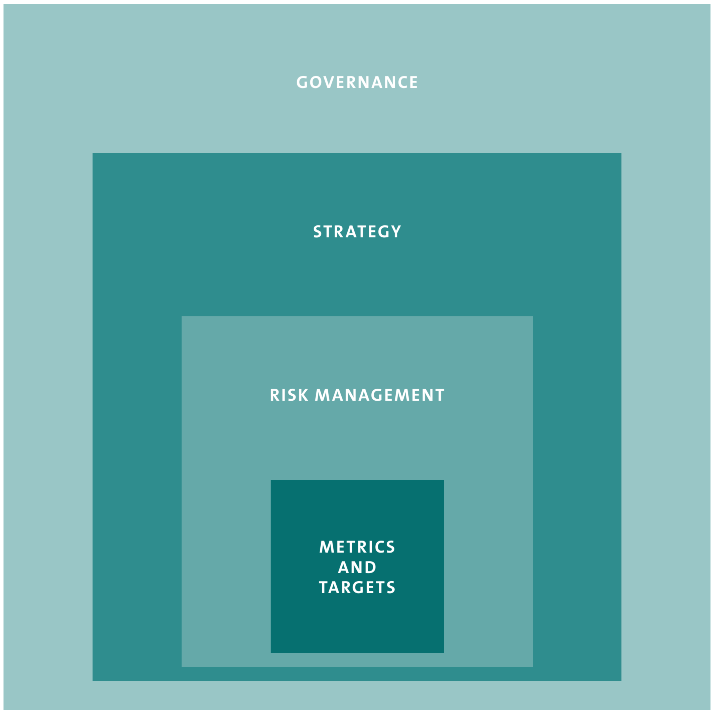
For us as a global insurance group, climate change is a material sustainability aspect that impacts our business activities directly. The average temperature on Earth is rising as emissions of greenhouse gases increase. Scientific studies prove that this is producing more extreme weather events, leading to significantly higher losses from natural disasters and to the expectation for us, as insurers, of a growing need for insurance solutions to protect against natural catastrophes (natcat risks). This affects both our Primary Insurance and our Reinsurance operations.

Efficient environmental protection is therefore crucially important to our business strategy. We are committed to supporting the Paris Agreement and to transitioning to a low-carbon economy. We aim to contribute to this using three elements – asset management, underwriting and environmental management – and to steadily expand our contribution going forward.

The Task Force on Climate-related Financial Disclosures (TCFD), which the Talanx Group has supported since the spring of 2020, published dedicated recommendations for transparent, effective corporate climate reporting in 2017. For example, the TCFD calls on companies to transparently disclose their strategy for dealing with the opportunities and risks associated with climate change to their shareholders and other stakeholders.

The TCFD breaks down its recommendations into four thematic areas that represent core elements of how organisations operate (see the figure below).

CORE ELEMENTS OF THE TCFD



GOVERNANCE
Disclose the organization's governance around climate-related risks and opportunities.

STRATEGY
Disclose the strategy for managing the impacts of actual and potential climate-related risks and opportunities.

RISK MANAGEMENT
Disclose how the organisation identifies, assesses and manages climate-related risks.

METRICS AND TARGETS
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

This 2020 Sustainability Report is also our first TCFD Report. It serves as the baseline and starting point for our reporting of climate-related risks. We consider the continuous expansion of our TCFD reporting on climate-related opportunities and risks in the coming years to be an important development process for the Talanx Group that we shall implement step by step. We shall inform our stakeholders transparently of key milestones and the progress we make, e.g. in implementing our climate scenario analysis.

Governance

Talanx AG's Board of Management has underscored the importance of sustainability to the Group in its Sustainability Commitment as follows: "The Talanx Group is integrating environmental, social and governance aspects with its business activities. As an international insurance group and a long-term investor, we are committed to responsible corporate governance based on sustainable value creation. Equally, our customers generally enter into long-term relationships with us. We therefore take a forward-looking approach so as to ensure that we can deliver on the promises we make to our customers in the future, too." This explicit inclusion of long-term developments clearly shows that climate change is highly relevant to Talanx's core business.

Talanx's sustainability management is designed at the enterprise level and is being rolled out successively across its core markets. The topic owners are the full Board of Management of Talanx AG. Climate change is a material topic in our sustainability management (see the materiality matrix on page 29) and the Board of Management is directly responsible for this (see the sustainability governance graphic). The full Board of Management oversees and resolve enhancements to the sustainability strategy, the sustainability goals and the implementation of measures.

At an organisational level, Group Communications is responsible for sustainability, and organises and coordinates sustainability management activities for the Talanx Group. This includes developing sustainability goals, maintaining the ESG data repository and preparing the sustainability report, among other things. The head of Group Communications reports directly to the Chairman of the Board of Management.

The Board of Management examines the current implementation status of the sustainability strategy and the strategic action areas at least twice a year, and generally several times a year. The agenda covers not only ESG-related opportunities and risks but also the environmental and social impacts of Talanx's business activities. Climate-change aspects are addressed firstly as part of risk management and secondly during strategic enhancements to the sustainability strategy.

Topics addressed by Talanx's Board of Management in the past financial year included the following:

- Sustainability Strategy
- ESG risks
- Group underwriting policy for dealing with coal risks and oil sands
- Climate strategy for investments

External presenters and experts also provided input on the sustainability strategy and climate change as part of a Board of Management meeting.

Strategy

The Talanx Group's sustainability strategy is derived from the Group strategy and aligned with the Group's mission statement and values. This integration with the Group's strategy supplements the latter to include ESG (environment, social and governance) aspects. The sustainability strategy comprises concrete action areas, goals and measures, and serves to ensure that the Company's operations are aligned with environmental and social challenges.

In addition to the social framework of which the Talanx Group is a part, our sustainability strategy focuses primarily on our three core areas: asset management, underwriting and operations (see also the figure illustrating our sustainability strategy on page 20).

A long-term approach and sustainability are also cornerstones of our new remuneration system for the Board of Management: we explicitly include non-financial performance targets designed to promote the Company's sustainable development in our measurement of variable remuneration, in the form of the "leadership/commitment (OHC)" and "contribution to our sustainability strategy" criteria.

In its operations, the Talanx Group is working towards its goal of making its business carbon-neutral throughout the world by 2030 and of continuing to substantially reduce the carbon emissions produced as part of its own operating procedures. The first step towards achieving this goal has been for the Group to offset the carbon emissions generated by its operations in Germany; as a result, its German business has been completely carbon-neutral since 2019. Talanx adopts the principle here of avoiding, reducing and offsetting emissions. A key element is also to consistently procure certified green electricity.

In its underwriting, the Group is continuously enhancing its underwriting policy and increasingly focusing on ESG aspects in the process. For example, in 2019 Talanx resolved to withdraw completely from coal-based business models by 2038. The Responsible Underwriting Committee – the newly formed ESG body at Board of Management level – ensures transparency about the Group-wide underwriting policy and discusses its ongoing development.

In the asset management area, the Responsible Investment Committee helps operationalise our sustainability strategy. Talanx no longer invests in companies that derive more than 25% of their revenue or generate more than 25% of their power from coal. Above and beyond this, we are limiting the duration of our investments to 2038. This is in line with the Group's sustainability strategy, in which we have set ourselves the goal of exiting coal entirely by that year. We also extended our list of screening criteria in 2019 to include oil sands. The new screen excludes companies that generate more than 25% of revenues from this source. In addition, we check whether issuers meet our ESG criteria before making new securities purchases.

Apart from successively raising the bar for our ESG approach in asset management, we are enhancing the transparency of our investment portfolio by signing up to the Principles for Responsible Investment (PRI). In a further move, we are stepping up investments in climate-friendly infrastructure projects that promote economic development. In April 2020, we also set up an overarching working group to develop a climate strategy for investments with the aim of helping achieve the goals of the Paris Agreement on climate change (page 65).

In terms of its social commitment, the Group focuses on seven of the 17 SDGs. Talanx takes appropriate measures to support these in the short, medium and long term. This is one way in which we want as a company to help make the world a more sustainable, fairer place by 2030. For concrete examples, please see page 34.

When revising our sustainability strategy in 2019, Talanx AG's Board of Management defined climate change as an additional material aspect. For us as a global insurance group, climate change is a material sustainability aspect that has a significant impact on all our business activities.

We see opportunity and risk management as one of our major strengths. Monitoring and managing our risk positions are part of the Talanx Group's core business. Our objective is to avoid developments that pose existential risks while at the same time taking advantage of opportunities that arise.

This is the backdrop to the work by an interdisciplinary project group in the current financial year on a comprehensive climate scenario analysis. We shall inform readers about the results in future TCFD reports.

Talanx monitors emerging risks such as climate change and environmental and social aspects whose risk content cannot yet be reliably assessed as part of its Group-wide risk management process. The Talanx Group captures and assesses these risks in a group-wide process that integrates experts from a number of different units. In addition, the Company makes use of external expertise and material for this.

Details of how we identify , quantify and manage risks and determine risk capital requirements are provided on page 61 onwards.

Risk management

We consider climate risks as being part of an overarching framework for qualitative and quantitative risk reporting and management. Monthly risk updates are used to report climate aspects, among other things, to the Group's Board of Management.

One key tool here is the internal risk capital model, which is used among other things to assess natural disaster events both at Group level and at the level of the individual subsidiaries.

Another tool is the annual emerging risks survey, which aims to identify significant future risks for Talanx. This looks at new risk types for the Company that can result from technological developments, environmental risks and social, geopolitical and economic changes. Climate-related factors are included in this emerging risk survey for the entire Group.

The Talanx Group uses a Group-wide risk management framework that is also used to assess natural disasters. Each unit is responsible for monitoring its exposure to individual natural disaster risks and for the structure of its local reinsurance, based on its local risk appetite and capitalisation. At Group level, the full Board of Management reviews and approves the risk tolerance level. Each year, the divisions report their limit and threshold system risk budgets for natural disasters in the following year to the Talanx Group. Where the assumption is that climate change risks will only increase slowly from year to year, this annual increase is reflected in the reported risk budget for the following year.

The insurance cover for the approved risk tolerance level is then purchased each year by Talanx AG or by its subsidiary directly. In future, a large proportion of non-facultative reinsurance will be pooled at Talanx AG in its role as internal Group reinsurer. This cover aims to protect the Group against excessive losses from natural disasters. The Talanx Group uses special techniques for modelling natural disasters. Catastrophes combining portfolio data (geographical location, and the features and values of the property insured) are calculated using simulated natural disaster scenarios to assess the extent and frequency of potential losses. Where such stochastic models do not exist, we use deterministic, scenario-based approaches to estimate potential losses.

Further details about our risk management process can be found in the risk report on page 108 – 124 of the Group Annual Report 2020.

Our overarching qualitative and quantitative risk reporting addresses climate change and also promotes discussion of climate risks and opportunities within Risk Management. Our ESG approach uses our Responsible Underwriting Committee and Responsible Investment Committee to integrate climate and sustainability considerations with our underwriting and asset management decisions. Another key element in this process is the climate scenario analysis mentioned earlier.

Metrics and targets

Talanx's Board of Management formulated the overarching strategic goal of operating carbon-neutrally at its German locations from financial year 2019 onwards. After determining its corporate carbon footprint in Germany for the first time in 2019, the Group again offset unavoidable carbon emissions in 2020 using two high-quality offset projects in Indonesia and Brazil (reforestation: REDD+; Verified Carbon Standard (VCS) & Climate, Community and Biodiversity (CCBS) project). Talanx's approach is firstly to avoid and secondly to reduce greenhouse gases, and only in a third step to offset them.

We worked together with an external partner to determine the carbon footprint for our German locations and hence measure our carbon emissions. Scope 1, 2 and in some cases also Scope 3 emissions were included in this process. Talanx is successively expanding its climate footprinting activities throughout the Group: this applies both to the Scope limits and to the locations covered. The goal is to have completed this expansion in 2030 and for the entire Talanx Group to be operating climate-neutrally by then. This applies both to the successive augmentation of the carbon footprint (Scopes 1–3) and to the coverage/inclusion of Talanx's major companies abroad.

Emissions are mainly calculated using the Greenhouse Gas Protocol. The emission factors used are from reliable sources. The emissions caused by the Company are calculated on the basis of the activities performed in corporate processes. The relevant metrics, measures and results are published in the sustainability report and are also documented in a separate emissions report. The more exactly these are captured, the more precisely the emissions calculated correspond to the Company's actual emissions. The data can essentially be broken down into primary and secondary data. Primary data are captured directly by the reporting entity or service providers that are directly involved in the process. By contrast, secondary data are sourced from studies, databases or other external sources and often only represent average values. Therefore, as a matter of principle, calculations that are based on primary data can reflect corporate emissions more realistically.

The data used for the carbon footprint can also be broken down into two types: firstly activity data, i.e. company-specific data on e.g. vehicle fleets, electricity consumption or purchased goods. The second type are emission factors that are used to calculate the emissions by multiplying them with the prepared activity data.

We work continuously to enhance the quality of the data used to calculate emissions. Within Germany, a large volume of very high quality primary data are already available for carbon footprinting – e.g. in the categories of energy consumption, the vehicle fleet, waste generation and business trips. However, there is room for improvement when determining employees' journeys to and from work and our paper consumption. Going forward, the effects of more mobile working will also have to be taken into account.

In keeping with the requirements set out in the Greenhouse Gas Protocol, the Talanx Group's domestic carbon footprint includes all domestic activities that give rise to greenhouse gas emissions allocable to Scope 1 and Scope 2. In addition, Scope 3 is used to capture other activities that are considered relevant (operating systems boundaries):

Scope 1

- Fuel consumed in heating systems
- Fuel consumed by the vehicle fleet

Scope 2

- Purchased electricity
- Purchased district heating

Scope 3

- Purchased goods and services (drinking water and paper)
- Upstream fuel purchases
- Waste produced
- Employee travel to and from work
- Business trips

Scope 3 category no. 15 – emissions caused by investments – is particularly relevant for the Talanx Group as a financial services provider.

This is why an overarching working group was set up in April 2020 to develop a climate strategy for investments, with the aim of helping to achieve the goals of the Paris Agreement on climate change. The strategy is currently focused on decarbonising the internally managed bond and equities portfolios, i.e. on reducing these investments' carbon footprint (Scope 1+2). Our goal is to reduce this figure by 30% compared to the beginning of 2020 by 2025; this corresponds to an annual reduction in carbon intensity of roughly 7%. This current target is an important step towards developing a sustainable, long-term path towards carbon neutrality by 2050. In addition, the Group is examining how a climate strategy can be extended to cover additional asset classes, and how climate-friendly investments and engagement activities can be included in the strategy (page 65).

In the long term, the Talanx Group aims to increase the inclusion of sustainability criteria in insurance products and services. This is why it defined an underwriting policy for coal risks in the spring of 2019. It is withdrawing in the long term from insuring coal risks and is no longer underwriting risks for newly planned coal-fired power stations and coal mines. In those countries in which coal plays a particularly large role in the energy mix and where access to alternative energy sources is insufficient, Talanx will permit a limited number of exceptions for insurance cover in individual cases, after reviewing the technical standards. Since coal can only be phased out responsibly in the medium to long term, the aim is no longer to have any coal-fired power stations or coal mines in the portfolio by 2038. In 2020, the underwriting policy for coal risks was extended to include oil sands.