Generali Group

STRATEGY ON CLIMATE CHANGE

Technical Note

July 2023 update

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On 21 February 2018, the Board of Directors of Assicurazioni Generali S.p.A. approved the Group's Strategy on Climate Change, adopting significant actions on the core activities of the Company, i.e. investing and underwriting, but also on its operations. On that basis, this document, which is regularly updated, details the way the Group supports the transition towards a low-carbon future[1].

EXECUTIVE SUMMARY

1. RESPONSIBLE INVESTOR

- By 2025 € 8.5 to € 9.5 billion in new green and sustainable investments in addition to those already made by the end of 2020.
- Exclusion of new listed investments and gradual divestment from coal-related companies identified with progressively more restrictive criteria.
- Exclusion of new non-listed investments in infrastructures dedicated to coal transport.
- Phase-out of investments in the coal sector by 2030 for OECD countries and by 2040 for the rest of the world.
- Exclusion of new investments and progressive divestment from companies active in the exploration and production of unconventional fossil fuels: tar sands, oil and gas from fracking and upstream operations in the Arctic.
- Exclusion of new non-listed investments in infrastructures dedicated to unconventional fossil fuels (tar sands, oil and gas from fracking and from the Arctic) including *upstream*, *midstream* and *downstream*.
- By 2025, engagement with 20 carbon-intensive companies in the Group's investment portfolio.
- Gradual decarbonization of the investment portfolio to reach net-zero emissions by 2050.

2. RESPONSIBLE INSURER

- Development of premiums growth strategy from insurance solutions with ESG components with a CAGR (Compound Annual Growth Rate) of 5-7% over the period 2022-2024.
- Exclusion of new underwriting cover and gradual discontinuation of the existing cover for asset of clients insured for activities strictly related to the coal industry identified with progressively more restrictive criteria.
- Phase-out of underwriting exposure to the coal sector by 2030 for OECD countries and by 2038 for the rest of the world.
- Forging ahead with the commitment to no longer insure clients operating in upstream oil and gas, both conventional and unconventional.
- Gradual decarbonization of the insurance portfolio to reach net-zero emissions by 2050.

3. RESPONSIBLE EMPLOYER

- By the end of 2025, greenhouse gas emissions from offices, data centres and mobility will be reduced by 35% compared to the base year 2019. The scope of this target includes scope 1, scope 2 and scope 3 for operational activities.
- Achievement of net-zero emissions by 2040 through financing of removal projects that will take into account the evolution of sector-specific regulations.

[1] As regards companies joining the Generali Group as a result of M&A activities, the restrictions contained in this document are activated three years after the date of entry.

Introduction

The long-term goal adopted under the Paris Agreement of "limiting global warming to well below 2 °C and to pursue efforts to limit temperature increases to 1.5 °C above pre-industrial levels" requires the rapid decarbonization of the global economy. The Special Report "Global Warming of 1.5 °C" published in 2018 by the IPCC (Intergovernmental Panel on Climate Change) reiterated the urgency of action by all members of civil society.

That organization published its sixth climate report in April 2022, which strongly reaffirmed that, in order to remain within the scenarios assumed under the Paris Agreement, 2025 must be the deadline for reversing the currently incremental trend in global greenhouse gas emissions. The report also specifies that these emissions must be halved by 2030 by rapidly abandoning the use of fossil fuels.

In this context, Generali's strategy is aligned with the Paris Pledge for Action defined as part of the 21st Conference of the Parties (COP21), which the Group has supported since 2015.

Furthermore, Generali supports the Task Force on Climate-related Financial Disclosures (TCFD), committing to voluntarily disclose the risks and opportunities associated with climate change. The Group also supports the Investing in a Just Transition project, promoted by The Grantham Research Institute/London School of Economics and the Harvard University in partnership with PRI (Principles for Responsible Investment). The aim of this initiative is to support a 'just' transition towards a low-carbon economy, integrating the social dimension into the climate strategy to minimize the impact on affected workers and their communities through the adoption of protective measures.

The Just Transition

According to the UNFCCC-United Nations Framework Convention on Climate Change data, the transition to a low-carbon economy will affect nearly 1.5 billion workers across the world. These communities will need to restructure their economies, ensure energy security, retrain the workers affected by the transition and train people for future new jobs, all to maintain social cohesion.

For this reason, Generali supports the idea of the Just Transition for workers and communities, contributing to a healthy, resilient and sustainable society, where no one is left behind. This strategy is supported by open dialogue with key stakeholders such as policy makers, non-governmental organizations (NGOs) and companies.

The principles of Just Transition are more valid today than ever before. Indeed, at the international level, geopolitical tensions and energy crises could jeopardize access to energy and, more generally, the energy security of individuals or entire communities. Moreover, this crisis risks spreading to key sectors such as food. Indeed, through inflationary processes every segment of the population risks being impacted.

In this context, the fossil fuel exclusion policies to which Generali has committed may, in certain cases, tolerate fluctuations in the parameters considered if the short-term choices of the party will result in the mitigation of social risk, will be considered temporary and will maintain long-term climate objectives.

1. RESPONSIBLE INVESTOR (*asset owner)*

In order to reduce the environmental and climate impact of its investment portfolio, Generali has developed a strategy based on three approaches: *integrate*, i.e. increase the weight of thematic investments; *avoid*, i.e. reducing exposure to carbon-intensive issuers (exclusion criteria); *influence*, i.e. carrying out engagement activities with the issuers in the portfolio following the principles of the Just Transition. These three levers contribute to methodically reducing the portfolio carbon footprint, measured in line with the protocols developed by the Net-Zero Asset Owner Alliance.

1.1. Thematic investments

The Group promotes, for the various asset classes, specific investment strategies aimed at supporting economic activities with sustainability characteristics capable of creating long-term value not only for investors but also for society as a whole. Investments in green, social and sustainable bonds have the characteristic of financing projects and activities with a positive impact on the environment or society.

Strengthened by the achievement and surpassing of the target set between 2018 and 2021, the Group's commitment has been renewed in 2021 with a new target: € 8.5 - € 9.5 billion of new green, social and sustainable investments by 2025. The target has been defined in relation to net investments in green, social, sustainability-linked bonds, issued by corporates or governments, that meet the reference market standards, namely ICMA (International Capital Market Association) principles, selected according to an internal methodology (screening) defined by the Group with the support of Generali Insurance Asset Management (GIAM) and applied to insurance companies' assets managed by GIAM itself, whose main purpose is to assess the robustness of the sustainability framework of these bond issues and the level of transparency towards the market, as well as to monitor the activities that are financed through these investments.

1.2. Exclusion criteria on financing the coal sector

Generali has applied financing restrictions on thermal coal issuers since the launch of the Climate Change Strategy in 2018. From a long-term perspective and based on the real economy decarbonization scenarios consistent with keeping global warming within 1.5°C, Generali is committed to phasing out its investments in thermal coal companies by 2030 for OECD countries and by 2040 for the rest of the world.

1.2.1. Investment in listed companies

Starting from June 2021, Generali has introduced stricter exclusion thresholds for coal-related issuers as identified in the following table.

Investments in listed companies: identification of issuers operating in the thermal coal sector[2]	
All companies	- coal share of revenues > 20%
Mining companies	- coal production > 10 Mil ton/year - developers of new mines
Power generation companies	- coal share of power generation > 20% - coal-fired power capacity > 5 GW - developers of new coal power generation plants

Generali is therefore committed not to invest in issuers engaged in the construction of new coal mines or new coal-fired thermal

[2] Based on information available from the Group data providers.

power plants, regardless of the exclusion thresholds applied.

Restrictions are applied both to new investments and to existing investment exposure, with an approach of divestment for equity exposures and run-off for fixed income exposures. In the coming years, Generali will gradually lower the exclusion thresholds in order to fully phase out from the coal sector.

Issuers who marginally[3] exceed the current exclusion thresholds and have been in the portfolio since before their implementation are subject to assessment (updated annually). If it can be verified that these companies:

- have implemented coal phase-out plans in line with the timelines already established in Generali's strategy or
- are implementing decarbonization strategies with SBTi[4] 1.5°C commitment/validation

then they will not be excluded from the portfolio unless they are developing new projects to expand coal mining or power generating capacity.

1.2.2. Non-listed investments in the infrastructure asset class[5]

As of July 2023, Generali introduces exclusion rules concerning the financing of the thermal coal infrastructure asset class applied to projects as identified in the table below.

Non-listed investments in the infrastructure asset class through project financing (private debt)	
Projects dedicated to coal mining, coal transport and coal power generation	No new investment (CAPEX) in defined projects

Generali is committed not to make any new investments (CAPEX) either brownfield or greenfield as specified in the table above.

1.3. Exclusion criteria on financing the unconventional oil and gas sector

Generali is committed to progressively reducing its exposure to the unconventional oil and gas sector with respect to exploration and production activities (i.e. the upstream segment) in addition to some specific midstream and downstream activities, to support the goal of reaching net-zero emissions in the investment portfolio by 2050.

1.3.1. Investments in listed companies

Since November 2019, the Group has made no new investments in projects and issuers related to tar sands exploration and production, including operators of the related pipelines identified as controversial. At the same time, it is divesting assets already in the portfolio that fall under this scope.

Effective 1 January 2023, Generali is extending the exclusion policy both to issuers involved in exploration and production of oil and gas extracted by fracking (shale oil, shale gas, tight oil, tight gas) and to issuers with onshore and offshore exploration and production activities that fall within the Arctic Circle.

The specific criteria for identifying these companies are given in the table below.

[3] We use the term "marginally" to identify issuers impacted by the last tightening of coal exclusion thresholds, defined in the Technical Note update of June 2021.
[4] https://sciencebasedtargets.org/
[5] These rules apply to more than 98% of the Group's investments in the infrastructure asset class through private debt. Generali is working to gradually extend these rules to the entire business.

Investments in listed companies: identification of issuers operating in the unconventional oil and gas sector[6]	
Companies active in the tar sands – *upstream*	- Revenues from exploration and production > 5%
Companies active in the tar sands – *midstream*	- Controversial pipelines
Companies active in the oil & gas from fracking – *upstream*	- Revenues from exploration and production > 10%
Companies active in the Arctic Circle – *upstream*	- Revenues from exploration and production > 10%

1.3.2. Non-listed investments in the infrastructure asset class[7]

As of July 2023, Generali introduces exclusion rules concerning the financing of the asset class of unconventional oil and gas infrastructure applied to projects as identified in the following table.

Non-listed investments in the infrastructure asset class through project financing (private debt)	
Projects dedicated to *upstream*, *midstream* and *downstream* activities for unconventional oil and gas: tar sands; oil and gas extracted by fracking and from Arctic Circle	No new investment (CAPEX) in the defined projects

Generali is committed not to make any new investments (CAPEX) either brownfield or greenfield as specified in the table above.

1.4. Engagement activity

Generali advocates the principles of the Just Transition through engagement activities.

In 2021, in line with the requirements of the Net-Zero Asset Owner Alliance protocols, Generali set a target for 2025 to engage at least 20 new carbon-intensive companies in active shareholder engagement activities in order to incentivize their low-carbon transition strategy, and consequently also support the climate objectives of the Group's investment portfolio.

In particular, the engagement activity is based on three fundamental principles:

> contributing to the investment portfolio's transition to net-zero greenhouse gas emissions by 2050, consistent with a maximum temperature increase of 1.5°C over pre-industrial levels, taking into account the best available scientific knowledge, including IPCC findings, and regularly reporting on progress, including setting interim targets every five years, in line with Article 4.9 of the Paris Agreement.

> integrate engagement action into a holistic approach to managing sustainability considerations, including, but not limited to, climate change, and emphasizing GHG reduction results in the real economy.

> support corporate and industry actions, as well as public policies, for a low-carbon transition of economic sectors in line with science, taking into account the associated social impacts.

[6] Based on information available from the Group data providers.
[7] These rules apply to more than 98% of the Group's investments in the infrastructure asset class through private debt. Generali is working to gradually extend these rules to the entire business.

Generali is committed to providing regular updates on engagement activities in the context of the just transition through the Active Ownership Group Report.

1.5. Decarbonization of the investment portfolio

As a member of the Net-Zero Asset Owner Alliance, Generali is committed to gradually decarbonizing its investment portfolio in order to reach carbon neutrality by 2050.

Generali has therefore set specific intermediate targets by 2024 with respect to the 2019 baseline, detailed as follows:

- 25% reduction of the carbon footprint[8] of the direct investment portfolio for listed equities and corporate bonds;
- alignment of at least 30% of the real estate portfolio value with the global warming trajectory of 1.5°C[9].

Generali will achieve these targets through several implementation actions over the next few years and will provide ongoing updates in Group reporting.

[8] Defined as carbon intensity weighted by the value of the invested asset (EVIC).
[9] According to the CREEM (Carbon Real Estate Risk Monitor) methodology, which provides a science-based decarbonization model specifically for the real estate sector.

2. RESPONSIBLE INSURER

Insurance products, by their very nature, have a high social and environmental value as they are a concrete response to clients' need for protection and to society's growing need for stability. Generali constantly monitors risks that may have a social and environmental impact, identifying opportunities accordingly and creating long-term sustainable value.

In this context, the Group focuses its insurance business mainly on retail clients, for which it has set challenging growth targets. That said, although exposure to corporate clients is thus very limited, Generali has individually undertaken a stringent exclusion policy towards companies operating in the fossil fuel sector, as detailed in the following paragraphs. This strategy is in line with the Group's ambition to bring greenhouse gas emissions attributable to the insurance portfolio to net-zero by 2050.

2.1. Insurance solutions with ESG components

As a responsible insurer, with € 81.5 billion gross written premiums in 2022, the Group developed an internal framework to identify those existing insurance solutions that, more than others, have ESG components and contribute to create shared value with all the stakeholders. These insurance solutions offer coverage and services to clients with habits, behaviours or activities that respect the environment, as well as particular needs for support, protection and/or inclusion, also from a social perspective.

Over time, the Group has also developed investment insurance solutions with the ambition of contributing positively to environmental and social dimensions. In doing so, Generali favours addressing habits and behaviour towards healthier and more aware lifestyles, while favouring risk prevention and reduction rather than damage compensation.

The fight against **climate change** is one of Generali's main commitments in this context. The insurance solutions that contribute to this commitment are categorised as follows:

- Mobility: products designed to promote sustainable mobility with reduced environmental impact, including products for electric and hybrid vehicles, or products rewarding low annual mileage and responsible driving behaviour;
- Risk reduction: products specifically designed to cover catastrophe risks or specific environmental damage;
- Renewable energies: products covering risks connected with the production of renewable energies. These kinds of products are designed to cover equipment for the production of renewable energy, to guarantee reimbursement of damage caused by atmospheric events to solar and photovoltaic panels, or similar systems, which can be integrated with guarantees to protect against loss of profit deriving from the interruption or decrease of the production of electricity;
- Pollution liability/Own damages: anti-pollution products, such as third party liability policies for pollution, which provide reimbursement of expenses for urgent and temporary interventions aimed at preventing or limiting the recoverable damage;
- Energy efficiency: products that support the energy efficiency of buildings, for which we also provide consultancy to customers, to identify possible solutions for optimizing energy consumption in homes;
- Circular economy: products to support companies dealing with materials recovery/recycling, products for start-ups that manage shared services platforms, etc..

To provide transparency to stakeholders, Generali reports the amount of premiums deriving from insurance solutions with ESG components on its official channels; The Group will progressively adapt its internal definitions to those of national and supranational regulators.

Within the *Lifetime Partner 24: Driving Growth* strategy, the Group confirms its commitment to developing insurance solutions with ESG components, as defined by the internal framework, increasing its premiums by a 5-7% CAGR (Compound Annual Growth Rate) increase over the period 2022-2024.

2.2. Exclusion criteria on the insurance cover of the coal sector

The Group has been applying restrictions on the underwriting of coal-related activities since 2018 in order to support the commitment to remove the already minimal insurance exposure toward this sector; the phase-out will be reached by 2030 for clients located in OECD countries and by 2038 for clients in the rest of the world.

As of January 2022, Generali applies stringent criteria for not insuring[10] thermal coal assets related to clients as identified in the following table.

Underwriting: identification of clients operating in the thermal coal sector[11]	
All companies	- coal share of revenues > 20%
Mining companies	- coal production > 10 Mil ton/year - developers of new coal mines
Companies specialized in transport infrastructures	- developers of new coal-dedicated infrastructure
Power generation companies	- coal share of power generation > 20% - coal-fired power capacity > 5 GW - developers of new coal power generation plants

Therefore, Generali is committed to excluding insurance cover for the construction of new coal mines, new infrastructure and new coal-fired power plants, regardless of the applied exclusion thresholds.

Restrictions are applied on both new and existing clients. Clients who marginally[12] exceed the current exclusion thresholds and have been in the portfolio since before their implementation are subject to assessment (updated annually). If it can be verified that these companies:

> have implemented coal phase-out plans in line with the timelines already established in Generali's strategy or

> are implementing decarbonization strategies with SBTi[13] 1.5°C commitment/validation

then they will not be excluded from the portfolio, unless they are developing new projects to expand coal mining or power generating capacity.

In the coming years, Generali will gradually lower the exclusion thresholds in order to fully phase out from the coal sector.

[10] The restrictions apply cover facultative reinsurance as well as Parent Company treaty reinsurance contracts acceptances from the controlled Group Legal Entities. These restrictions do not cover cases of modernization or retrofitting of power plants/units owned or operated by existing clients that fall within the applied thresholds.
[11] Based on information available from the Group data providers.
[12] We use the term "marginally" to identify issuers impacted by the last tightening of coal exclusion thresholds, defined in the Technical Note update of June 2021.
[13] https://sciencebasedtargets.org/

2.3. Exclusion criteria on the insurance cover of the conventional and unconventional oil and gas sector

The Generali Group does not insure[10] the asset of clients related to both conventional and unconventional oil and gas exploration and extraction activities (upstream segment).

With regard the unconventional tar sands and fracking oil and gas sectors, the restrictions also apply to the midstream transport infrastructure. In fact, insurance coverage for operators of the relative pipelines is excluded.

The following table summarizes the criteria for identifying clients operating in the oil and gas sector.

Underwriting: identification of clients operating in the oil and gas sector[14]	
Upstream	
Conventional oil & gas companies[15]	No minimum materiality threshold applied for the exclusion policy, which is therefore extended to all customers in respect of their oil & gas activities.
Unconventional oil & gas (tar sands, fracking, coalbed methane, extra heavy oil, ultra deepwater, Arctic Circle) companies	
Midstream infrastructure	
Tar sands companies – dedicated pipeline	No minimum materiality threshold applied for the exclusion policy, which is therefore extended to all customers in respect of their oil & gas activities
Fracking oil & gas companies – dedicated pipeline	

[14] Based on information available from the Group data providers.
[15] Restrictions do not apply if the value of the insured asset is completely residual with respect to the insurance program in place with the client (it amounts to less than 10% of the value of the assets covered).

3. RESPONSIBLE EMPLOYER

To demonstrate consistency with what is required of companies insured and financed by the Group, Generali has been working for several years on measuring, reducing and reporting the carbon footprint of its own operations. The monitoring of emissions involves periodic verifications, subject to internal audits and certification by an independent third party.

In March 2023, the Group Board of Directors approved a new target based on climate science, increasing the ambition already declared in 2021. Specifically, the new target is to **reduce greenhouse gas emissions by 35% by 2025 compared to the 2019** baseline. The new strategy includes Scope 1, 2 and Scope 3 emissions related to operational activities (office, data centre, mobility). The reduction strategy is based on the World Resources Institute (WRI) GHG Protocol reporting standard, market-based method.

This reduction will be supported through workplace innovation and space optimisation projects, as well as by further improving energy efficiency and leveraging the purchase of electricity from renewable sources. The share of hybrid and electric vehicles in the company car fleet will also be increased.

In the long term, Generali will also focus on the reduction of residual emissions, with the aim of achieving **net-zero emissions by 2040** and then pursuing the ambition of becoming climate negative thereafter by financing removal projects that will take into account the evolution of sector-specific regulations.