

Generali Group Strategy on Climate Change

Technical note

Update June 2021

Insuring, investing and innovating for a net-zero society

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 to decarbonize the investments and underwriting activities, which represent the Group's core businesses. Since then, the present document – regularly updated to keep fostering our climate action – details the way the strategy is implemented to facilitate the transition towards a net-zero future.

> Investments as asset owner

- In 2021 Generali set the target of €8.5-€9.5 bln new green and sustainable investments by 2025, with year-end 2020 as the baseline. This target is in line with the previous target of €4.5 bln between 2019 and 2021, which was overachieved in advance.
- Exclusion of any new investments and progressive divestment from coal-related businesses in Generali's portfolio. This will be achieved by applying increasingly restrictive exclusion criteria, which are further reduced with this release of the Technical Note. The ultimate aim is to fully phase out issuers which operate in the thermal coal sector in OECD countries by 2030 and 2040 in the rest of the world.
- Exclusion of investments in issuers producing unconventional fossil fuels from tar sands.
- Gradual decarbonization of the investment portfolio to reach carbon neutrality by 2050. This commitment is consistent with the Paris Agreement's goal to limit the global warming to 1.5°C above pre-industrial levels. According to the 2025 intermediate target, Generali will decrease in 5 years the carbon emissions for the corporate portfolio (corporate bonds, listed equity) by 25% and will align the real estate portfolio to 1.5° C pathway. The reference period for the calculation of this target will cover year end 2019 to year end 2024.

> Underwriting

- Creation of a competence center to develop and share the best practices for underwriting the specific risks of the renewable energy sector.
- Commitment to no longer insure any new construction of coal mines or coal-fired power plants and to no longer insure any existing coal mines or coal-fired power plants of new clients.
- Reduction of the minimal current exposure to the thermal coal sector in order to reach zero exposure by 2030 in OECD countries and by 2038 in the rest of the world.
- Forging ahead with the commitment to no longer insure upstream oil and gas activities. This includes the commitment to no longer underwrite risks associated with the exploration and production of fossil fuels from tar sands, from shale deposits (oil and gas) or extracted in the Arctic zone, both onshore and offshore.

> Stakeholder engagement and advocacy for the 'Just Transition'

- Engagement of 20 carbon-intensive investees by 2025 to drive real world impact.
- Advocacy for the Just Transition: in countries in which the economy and employment depend heavily on the coal sector, Generali will engage the clients and the investees impacted by the Group's restrictions on coal in line with the 'Just Transition' principles.
- Disclosure on the progress of these engagement activities and update on this process through the Group Annual Integrated Report.

> A science-based decarbonization of the Group operations leading Generali to be climate-negative

- Ambition to be climate negative in 2040 with the intermediate goal of achieving climate neutrality by 2023.
- By year end 2025 a science-based reduction of the greenhouse gas emissions related to offices, data centers, and company car fleet by at least 25% against the 2019 baseline.
- Purchase power from 100% renewable sources wherever possible and further commitment to improving energy efficiency.

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 on Global Warming of 1.5°C published in 2018 by the Intergovernmental Panel on Climate Change (IPCC) has reiterated the urgency of action by all civil society.

In this context, Generali’s strategy is in line with the Paris Pledge for Action defined as part of the 21st Conference of the Parties (COP21), for which the Group has supported since 2015. In January 2020, in order to align the Group direct investment portfolio with the Paris long-term commitments, Generali joined the Net-Zero Asset Owner Alliance, a coalition of some of the leading institutional investors, convened by the United Nations, delivering on a bold commitment to transition their investment portfolios to carbon neutrality.

Furthermore, Generali supports the Task force on Climate-related Financial Disclosure (TCFD), committing itself to voluntarily disclose the risks and opportunities associated with climate change. The Group also supports the project Investing in a Just Transition, promoted by The Grantham Research Institute/London School of Economics and the Harvard University in partnership with PRI (Principles for Responsible Investments). 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.

1. Investments as asset owner

1.1. Green and sustainable investments

Generali is strongly committed to supporting the transition to a net-zero society. With this aim, Generali has launched a new target of €8.5 - €9.5 bln new green and sustainable investments by 2025 (with year-end 2020 as a baseline).

The investment plan has also the objective to ensure through a filter the environmental sustainability of the new investment opportunities, taking also into account the ongoing regulatory developments in the European Union on sustainable activities and the green bond standard. Generali will monitor the implementation of the investment plan and provide annual updates on its status.

This new target follows a previous target that was overachieved in 2020: from 2018 to 2020, the Group invested more than €6 bln in new green and sustainable activities, mostly through green bonds and green infrastructure debt, achieving in advance the target of €4.5 bln new investments by 2021.

1.2. Phasing out coal from the investment portfolio

Generali has been applying restrictions to the financing of coal issuers since the launch of our Climate Change Strategy in 2018. With a long term view, and according to

decarbonization pathways of the real economy compatible with limiting global warming to within 1.5°C, Generali is committed to reaching the complete exclusion of investments in coal. We will be excluding all utilities and mining companies which – even marginally – generate revenues from coal, produce power from coal or extract coal by 2030 for issuers located in the OECD area and by 2040 for issuers in the rest of the world.

Additionally, starting from June 2021, Generali will introduce stricter exclusion thresholds for the coal sector:

- companies for which more than 20% of revenues derive from coal;
- companies for which more than 20% of energy produced derives from coal;
- companies with an installed coal power capacity of more than 5 GW;
- mining companies extracting more than 10 million tons per year of coal;
- companies actively involved in building new coal capacity of more than 0.3 GW.

In the coming years, Generali will gradually lower the exclusion thresholds for the coal sector in order to reach a complete phase out. In line with the current exclusion policy, the new restrictions will apply both to new investments and to existing investment exposure, with an approach of divestment for equity exposures and run-off for fixed income exposures.

Companies with decarbonization or coal phase out strategies aligned with the pathways to limit the increase in the temperature to 1.5°C will not be excluded by the new thresholds, unless they are developing new coal capacity. In the event that more information is required to assess the decarbonization and coal phase out strategy, the companies will be engaged. If the engagement efforts do not lead to positive results, the companies will be excluded from the investment portfolio.

In line with the ‘Just Transition’ principles (see the section “Stakeholder engagement and advocacy for the ‘Just Transition’”) for issuers operating in countries heavily dependent on coal, when there is no evidence of a clear decarbonization strategy or of a gradual coal phase out, a dedicated engagement is implemented. This will ensure that these companies can take the necessary action to phase out coal and adopt just transition plans. In these areas, the current exposure is minimal, and it amounts to 0.01% of the direct investment portfolio.

1.3. Taking action on tar sands

Since November 2019 Generali is committed to no longer make new investments in tar sands projects and companies², including issuers that operate the related pipelines.

Consistently, Generali is divesting its residual exposure to this sector of less than €15 million, an amount equivalent to the 0.003 % of the general account investment portfolio.

1.4. Decarbonization targets to 2025 for the equity, corporate bond and real estate portfolios

As a member of the Net-Zero Asset Owner Alliance, Generali is committed to gradually decarbonizing its investment portfolio in order to reach its carbon neutrality by 2050. Generali has set these intermediate* decarbonization targets for the direct investments:

- for the corporate bond and equity portfolios: reduction by 25% of the carbon intensity;
- for the real estate portfolio: on average the selected assets will be aligned with a science-based pathway for the Real Estate** to limit global warming to 1.5° C.

Generali will achieve this target through several implementation actions in the next years and will provide ongoing updates.

2. Underwriting

2.1. Green insurances

With specific regard to the P&C capabilities, Generali set up a competence center to develop and share the best practices for underwriting the specific risks of the renewable energy sector.

Generali will keep increasing the range of products with environmental value for the retail and SME market, for example those aimed at supporting the energy efficiency of the buildings or those aimed at promoting a sustainable mobility.

2.2. Taking action on coal

Assicurazioni Generali and all the Legal Entities controlled have been applying restrictions to the underwriting of coal-related activities since 2018 and they are committed to reducing the Group's insurance exposure (currently below 0.1% of the total P&C premiums) to zero by 2030 for the clients located in OECD countries and by 2038 for the clients in the rest of the world.

To this end, as of 1st January 2022, the Group will no longer provide property coverage for existing coal mines and coal power plants of potential new clients identified according to criteria made even stricter with this release of the Technical Note¹.

Furthermore, Generali will no longer offer insurance coverage for the construction of new coalmines and new coal-fired power plants even if requested by clients in the portfolio.

* The reference period for the calculation of these targets will cover year end 2019 to year end 2024.

** According to the CREEM methodology (Carbon Real Estate Risk Monitor), a science-based decarbonization model for Real Estate. Generali target on real estate will be progressively extended to cover the full direct investment portfolio of the assets owned by the Group.

This restriction does not refer to modernization or retrofitting of existing power plants/units owned or operated by existing clients.

These restrictions apply also to facultative reinsurance as well as to Parent Company treaty reinsurance contracts acceptances from the controlled Group Legal Entities.

2.3. Taking action on unconventional oil and gas (tar sands, shale oil and gas) and on the Arctic oil and gas

Assicurazioni Generali and all the Legal Entities controlled continue their commitment to no longer insure the upstream oil and gas activities. The underwriting of these activities is allowed only if they are 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).

In this regard, the Group does not underwrite risks associated with the exploration and production of fossil fuels from tar sands² and shale deposits, including the operators of the related pipelines.

Generali also continues its commitment to no longer underwrite risks associated with the exploration and production of oil and gas in the Arctic, both onshore and offshore.

These restrictions apply also to facultative reinsurance as well as to Parent Company treaty reinsurance contracts acceptances from the controlled Group Legal Entities.

3. Stakeholder engagement

3.1. Engaging for real economy impact

Pursuant to the objective of enabling a positive change in the real economy, Generali has set the target of engaging 20 carbon-intensive investees by 2025 to drive their transition towards net-zero decarbonization pathways.

This effort will also contribute to the decarbonization of Generali investment portfolio. Generali will provide regular updates on the engagement activities.

3.2. Stakeholder engagement and advocacy for 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 the future new jobs, all in order to maintain social cohesion. For this reason, Generali supports the idea of a ‘Just Transition’ for workers and communities contributing to a healthy, resilient, and sustainable society, where no one is ‘left behind’.

This is why Generali's strategy not only includes actions in investments and underwriting, but it also relies on the engagement with key stakeholders including policy-makers, nongovernmental organizations (NGO) and companies.

In particular, in countries where the economy and employment depend heavily on the coal, Generali is engaging with the companies of this sector that were in the clients or investments portfolio in 2018 when the restrictions were introduced. The aim of this engagement is to accelerate their efforts towards the Just Transition with decarbonization plans that combine climate action with the adoption of protective measures for workers and the local communities.

In these situations, the renewal of property coverages and the financing are subject to the engaged company's commitment to present and implement effective science-based 'Just Transition' plans consistent with the Paris Agreement to keep global warming below 1.5°C according to trusted methodologies such as the Science Based Target Initiative.

The engagement process, started in July 2018, has involved coal-related companies in countries where the coal's share in the national power mix exceeds 45% (according to the International Energy Agency data) and where the Generali Group is a primary investor and/or insurer. Updates on this process are regularly disclosed through the Group's reporting.

This engagement enables Generali to decide whether to continue insuring the coal-related activities of these companies, and including them in the direct investment portfolio. In this case, Generali will monitor the level of implementation of these plans every two years.

To date, the engagement has resulted in the termination of the business relationship with 4 companies, while Generali continues to engage with 4 others. The interruption of the engagement process and the consequent termination of the business relationship represents the last and most critical option. The Group and the stakeholders involved recognize that dialogue is the most effective solution to accelerate the transition towards a net-zero society, ensuring its 'just' deployment through the inclusion of the workers and the communities most directly affected.

4. A science-based decarbonization of the Group operations leading Generali to be climate-negative

To demonstrate consistency with the commitments expected from the businesses insured and financed by the Group, Generali has been working for several years now to measure, reduce and report the carbon footprint resulting from its own operations.

The implementation of a strategy focused on the decarbonization of the Group main offices, data centers and business travel made it possible to achieve in 2020 the objective of a 20% cut in greenhouse gas emissions against the 2013 baseline.

This ambition is being renewed with a new science-based target of reducing by year end 2025 the carbon footprint related to scope 1 and scope 2 emissions of the Group offices, data centers and car fleet of at least 25% compared to the levels measured in 2019 using the GHG Protocol market-based method.

This reduction will be supported through the workplace innovation and the space optimization, by further improving the energy efficiency and leveraging on the purchase of 100% renewable energy where possible. The share of hybrid and electric vehicles in the company car fleet will also be increased.

The Group will take action to neutralize any remaining emissions and has set the ambitious goal to be climate negative by 2040, by reducing to zero its net carbon emissions through the financing of quantifiable, real, permanent and socially beneficial carbon removal projects. Generali will reach the intermediate goal of the climate neutrality by 2023 thanks to voluntary offsetting.

1. Definition of coal-related businesses

Generali uses the following stringent criteria to identify the thermal coal-related businesses:

- companies for which more than 20% of revenues* derive from coal;
- companies for which more than 20% of energy produced* derives from coal;
- companies with an installed coal power capacity of more than 5 GW*;
- mining companies that produce more than 10 million tons per year* of coal;
- companies actively involved in building new coal capacity of more than 0.3 GW*.

2. Definition of tar sands-related businesses

Generali uses the following stringent criteria to identify the tar sands-related businesses:

- companies for which more than 5% of revenues* derive from tar sands extraction;
- companies operating* controversial pipeline dedicated to the transport of tar sands.

* Based on data available by independent providers