

# GENERALI GROUP STRATEGY ON CLIMATE CHANGE

JUNE 2022 UPDATE

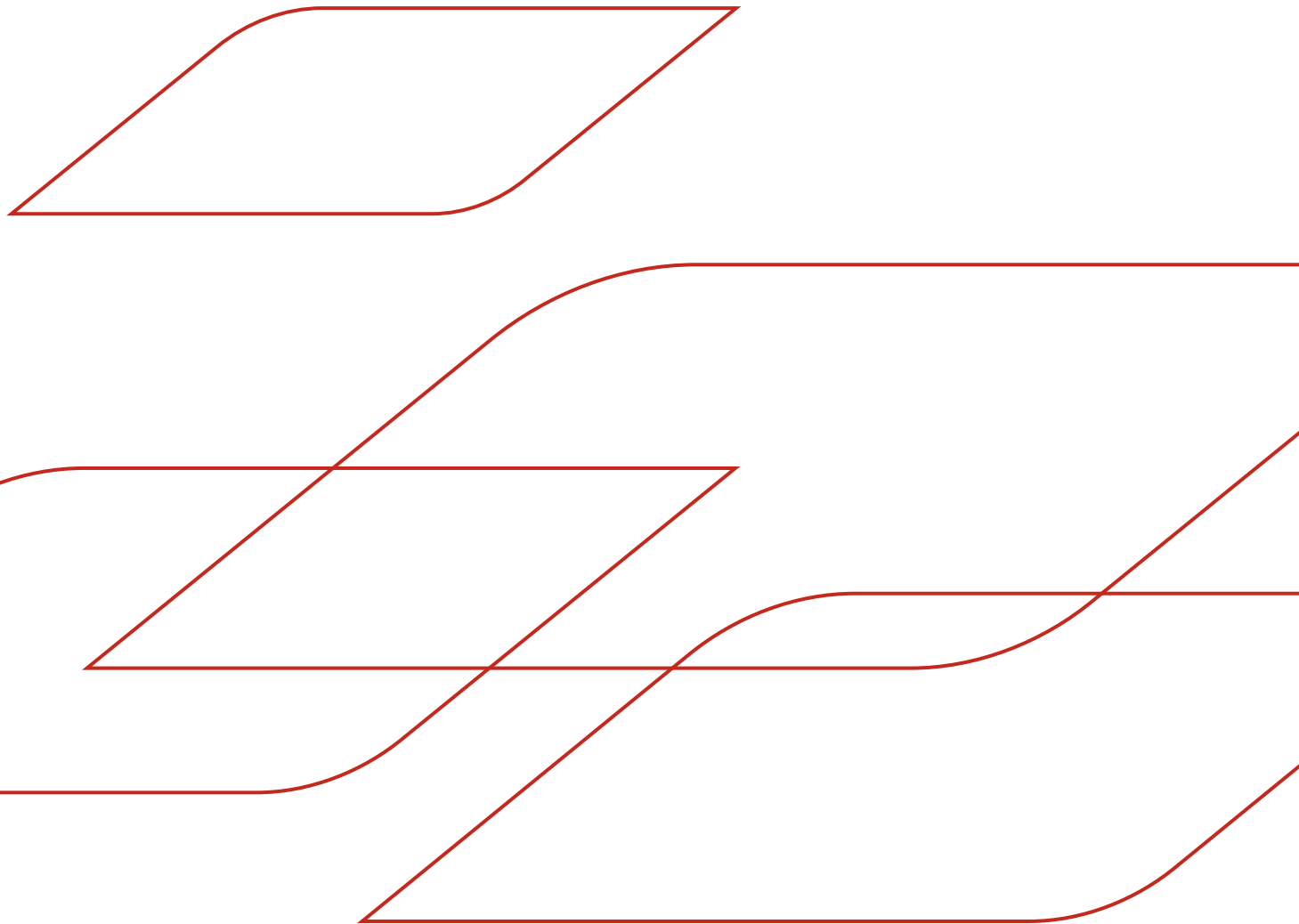
# TECHNICAL NOTE

## JUNE 2022 UPDATE

### Insuring, investing and innovating for a low-carbon 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 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<sup>1</sup>.



<sup>1</sup> 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.

# EXECUTIVE SUMMARY

## 1. Investments

- 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 investments and gradual divestment from coal-related companies identified with progressively more restrictive criteria.
- 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 extracted through fracking and upstream operations in the Arctic.
- Gradual decarbonization of the investment portfolio to reach carbon neutrality by 2050.

## 2. Underwriting

- As part of the growth strategy for sustainable insurance solutions (CAGR from +5% to +7% over the 2022-2024 period), creation of a center of competence for the development and sharing of best practices for underwriting renewable energy risks.
- Exclusion of new underwriting cover and gradual discontinuation of the existing cover for 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.
- Progressive decarbonization of the insurance portfolio to make it climate neutral by 2050.

## 3. Advocacy for the Just Transition and engagement activity

- Application of Just Transition principles to protect workers and local communities from social risks such as employment and energy security.
- By 2025, engagement with 20 carbon-intensive companies in the Group's investment portfolio.
- Public reporting on the progress of engagement activities through the Group Annual Integrated Report.

## 4. Operations

- By the end of 2025, in line with climate science, reduction of greenhouse gas emissions from offices, data centers and company vehicle fleets by at least 25% compared to base year 2019.
- Purchasing energy from 100% renewable sources whenever possible and further commitment to improving energy efficiency.
- Ambition to reach net-zero GHG emissions by 2040 and subsequently to become climate negative.
- Development of an internal carbon price based on the voluntary offsetting of greenhouse gas emissions as of 2023.

## 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 21<sup>st</sup> Conference of the Parties (COP21), which the Group has supported since 2015. In January 2020, in order to align the Group 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.

Similarly, in July 2021, Generali joined, as a founding member, the Net-Zero Insurance Alliance which, under the auspices of the UNEP Finance Initiative’s Principles for Sustainable Insurance, involves global leaders in the insurance and reinsurance industry with the primary goal of reducing to net-zero the greenhouse gas emissions attributable to insurance portfolios by 2050.

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.

# 1. INVESTMENTS AS ASSET OWNER

In order to reduce the environmental and climate impact of its investment portfolio, Generali has developed an integrated strategy based on three elements: increasing the weight of thematic investments (green assets); reducing exposure to carbon-intensive issuers (exclusion criteria); and methodically measuring and reducing its own carbon footprint (portfolio decarbonization) in line with the protocols developed by the Net-Zero Asset Owner Alliance.

## 1.1. Thematic investments

Generali is committed to supporting the transition to a net-zero society. To this end, the Group has set a target to make new green and sustainable investments of € 8.5 - € 9.5 billion by 2025 in addition to those already in its portfolio at the end of 2020.

The target has been defined with reference to green, social, sustainability and sustainability-linked bonds, issued by corporates or governments, that meet the ICMA (International Capital Market Association) Principles, selected according to an internal methodology (screening) whose main purpose is to assess the robustness of the sustainability framework of these bond issues and their level of transparency towards the market, as well as to monitor the activities that are financed through these investments.

This approach enables a greater degree of awareness in these investments and seeks to exclude bonds that might lead to potential problems as regards the ESG profile of the framework, as well as of the issuer in question. These investments contribute mainly to projects and initiatives funding renewable energies and energy efficiency, as well as low environmental impact transport solutions and green buildings.

## 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.

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

### Investments: identification of issuers operating in the thermal coal sector<sup>2</sup>

<b>All companies</b>	<ul style="list-style-type: none"> <li>· Coal share of revenues &gt; 20%</li> </ul>
<b>Mining companies</b>	<ul style="list-style-type: none"> <li>· Coal production &gt; 10 Mil ton/year</li> <li>· Developers of new mines</li> </ul>
<b>Power generation companies</b>	<ul style="list-style-type: none"> <li>· Coal share of power generation &gt; 20%</li> <li>· Coal-fired power capacity &gt; 5 GW</li> <li>· Developers of new coal power generation plants</li> </ul>

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.

<sup>2</sup> Based on information available from our data providers.

Issuers who marginally<sup>3</sup> 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<sup>4</sup> 1.5D 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.

### 1.3. 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 activities, to support the goal of reaching a carbon-neutral investment portfolio by 2050.

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.

#### Investments: identification of issuers operating in the unconventional oil and gas sector<sup>5</sup>

Fossil fuels from tar sands	
Companies active in the upstream segment	· Revenues from exploration and production > 5%
Companies active in the midstream segment (pipeline)	· Controversial pipelines
Oil and gas extracted by fracking	
Companies active in the upstream segment	· Revenues from exploration and production > 10%
Oil and gas from the Arctic Circle	
Companies active in the upstream segment	· Revenues from exploration and production > 10%

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.

### 1.4. 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<sup>6</sup> 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<sup>7</sup>.

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

<sup>3</sup> 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.

<sup>4</sup> <https://sciencebasedtargets.org/>

<sup>5</sup> Based on information available from our data providers.

<sup>6</sup> Defined as carbon intensity weighted by the value of the invested asset (EVIC).

<sup>7</sup> According to the CREEM (Carbon Real Estate Risk Monitor) methodology, which provides a science-based decarbonization model specifically for the real estate sector.

## 2. UNDERWRITING

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 undertaken a stringent exclusion policy towards companies operating in the fossil fuel sector, as detailed in the following paragraphs.

This strategy was further strengthened in July 2021 when it joined the Net-Zero Insurance Alliance, whose primary objective is to reduce greenhouse gas emissions attributable to the insurance portfolio to net-zero by 2050.

### 2.1. Sustainable Solutions

As part of its insurance offering, the Group is committed to supporting and promoting solutions with high added value in social and environmental terms.

Embracing technology and innovation, Generali strives to steer clients' habits and behavior towards more aware and sustainable lifestyles, favoring risk prevention over damage compensation.

To support the development of climate-friendly activities, Generali has created insurance solutions (products and services) with a focus on environmental protection. These include:

- products designed to promote **sustainable transport** with reduced environmental impact, including policies for electric and hybrid vehicles and policies that reward low annual mileage and responsible driving;
- products that support the **energy efficiency of buildings**, for which we also provide client consulting to identify opportunities for optimizing domestic energy consumption;
- products for covering the risks connected with the production of **renewable energies**: the insurance policies covering equipment for the production of renewable energy guarantee compensation for damage caused to solar thermal or photovoltaic panels or similar equipment by the weather. These policies may be expanded to include cover for loss of profits following the interruption or reduction of electricity production;
- products specifically designed to cover **catastrophe risks** or specific environmental damage.

The Group has defined a commitment within its strategy to develop its Sustainable Solutions, increasing their premiums by 5-7% CAGR in the 2022-2024 period.

Specifically with regard to products related to renewable energies, Generali has set up a center of competence to develop and share best practices for the underwriting of risks inherent in this sector, as well as to provide greater support to its clients by offering additional risk prevention services, with the aim of mitigating the impact as much as possible, thus optimizing the cost of coverage.

### 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 1 January 2022, the Group is applying stringent criteria with respect to clients<sup>8</sup> in the thermal coal sector as identified in the table below.

### Underwriting: identification of clients operating in the thermal coal sector<sup>9</sup>

<b>All companies</b>	· Coal share of revenues > 20%
<b>Mining companies</b>	· Coal production > 10 Mil ton/year · Developers of new mines
<b>Power generation companies</b>	· Coal share of power generation > 20% · Coal-fired power capacity > 5 GW · Developers of new coal power generation plants

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

Restrictions are applied on both new and existing clients. Clients who marginally<sup>10</sup> 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<sup>11</sup> 1.5D 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.

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

The Generali Group does not insure clients<sup>12</sup> involved in both conventional and unconventional oil and gas exploration and extraction activities (upstream segment). With regards the unconventional tar sands and fracking oil and gas sectors, the restrictions also apply to the midstream segment. 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<sup>13</sup>

Upstream	
<b>Conventional oil &amp; gas companies<sup>14</sup></b>	No minimum materiality threshold applied for the exclusion policy, which is thus extended to all clients
<b>Unconventional oil &amp; gas</b> (Tar Sands, Fracking, Coalbed Methane, Extra Heavy Oil, Ultra Deepwater, Arctic Circle) <b>companies</b>	
Midstream	
<b>Tar Sands companies - dedicated pipeline</b>	No minimum materiality threshold applied for the exclusion policy, which is thus extended to all clients
<b>Fracking oil &amp; gas companies - dedicated pipeline</b>	

<sup>8</sup> The restrictions apply to coal assets only and also cover facultative reinsurance as well as Parent Company treaty reinsurance contract 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.

<sup>9</sup> Based on information available from our data providers.

<sup>10</sup> 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.

<sup>11</sup> <https://sciencebasedtargets.org/>

<sup>12</sup> The restrictions apply to oil & gas assets only and also cover facultative reinsurance as well as the Parent Company's reinsurance treaties for the controlled Group Legal Entities.

<sup>13</sup> Based on information available from our data providers.

<sup>14</sup> 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. ADVOCACY FOR THE JUST TRANSITION AND ENGAGEMENT ACTIVITY

### 3.1. 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 concerned:

- will result in the mitigation of social risk;
- will be considered temporary;
- will maintain long-term climate objectives.

### 3.2. Engagement activity

Generali advocates the principles of Just Transition through engagement activities. This activity has historically targeted energy companies in countries heavily dependent on coal as a primary energy resource. The aim is to accelerate their energy transition, combining climate protection with measures to protect communities and workers.

The main engagement process was launched in July 2018 and initially concerned 8 coal companies based in Eastern European countries, where the Group has a primary presence as an investor and/or insurer. This engagement process enabled Generali to make informed decisions on whether or not to renew the relevant insurance subscriptions and their inclusion in direct investments. In 2022, in agreement with the clients still in the portfolio, all remaining insurance cover relating to coal assets will be terminated.

In 2021, in line with the requirements of the Net-Zero Asset Owner Alliance protocols, Generali has further expanded the scope of engagement and 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.

Generali undertakes to provide regular updates on engagement activities in the context of the Just Transition through the Group's Integrated Annual Report.

## 4. OPERATIONS

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.

Indeed, looking at the best science-based practices, the Group is committed to reducing by the end of 2025 the scope 1 and scope 2 GHG emissions of the Group offices, data centers and car fleet by at least 25% compared to the levels measured in 2019 using the GHG Protocol market-based method.

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

The Group will also work on the abatement of residual emissions, setting the ambitious goal of achieving net-zero status by 2040 and subsequently becoming climate negative through the financing of removal projects that are quantifiable, real, permanent and have a positive social impact.

In preparation for this, Generali will develop an internal carbon price system based on the voluntary offsetting of greenhouse gas emissions by 2023, thereby achieving the intermediate goal of climate neutrality. Offsetting activities will be progressively focused on carbon removal projects in the 2025-2040 period, also in view of the availability of recognized protocols that will set minimum requirements for nature-based and technology-based solutions.

