189th year

Climate-related Financial Disclosure 2020

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Introduction

With the Climate-related Financial Disclosure we aim to provide investors and other stakeholders with relevant information to assess the adequacy of our approach to climate change and our ability to manage the risks and opportunities it brings.

Since 2017, we have supported the efforts of the Task Force on Climate-related Financial Disclosures - TCFD initiated by the Financial Stability Board and we have voluntarily committed to the disclosure of information about the impacts of climate change on our activities. We also chose transparent and proactive communication on the actions we have taken in support of 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". A tangible expression of this commitment is our joining the Net-Zero Asset Owner Alliance and the Net-Zero Insurance Alliance, two coalitions of many of the world's leading asset owners and insurers, convened by the United Nations, delivering on a bold commitment to make their portfolios climate-neutral by 2050.

The assessment of the climate-related impacts on the business is a complex activity and the methodologies for the effective reporting on these aspects are still evolving. This exercise is a starting point of a journey to the progressive refinement and sophistication of our analysis and disclosure.

The data and information included in this Disclosure are largely derived from the Generali Group's 2020 Annual Integrated Report and Consolidated Financial Statements and they are organized so as to illustrate how we are implementing the recommendations of the TCFD, whose structure is here reflected: Governance, Strategy, Risk Management, and Metrics and Objectives.

Governance
The organization's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks.

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

This Disclosure is an integral part of our commitment to promote active leadership within the insurance industry in addressing climate challenges and fostering systemic responses for a just transition to a low-carbon society. In this spirit, we participate in a number of climate-related working groups, including: UNEP FI PSI - TCFD Pilot Group, Net-Zero Asset Owner Alliance, Net-Zero Insurance Alliance, Climate Action 100+, Investor Leadership Network, CRO Forum, Geneva Association and CDP.

Governance

The Group governance is structured in such a way as to favour effective management of the risks and opportunities tied to climate change, which is considered one of the ESG factors most material for the Group, our value chain and the stakeholders.

Board of Directors' role

The Board of Directors ensures that the Group organisation and management system is complete, functional and effective in monitoring climate change-related impacts. In 2018, it therefore approved the Group Strategy on Climate Change, which was updated in March 2020, outlining a plan for investment, underwriting and stakeholder engagement activities to mitigate climate risks and facilitate the just transition to a low-carbon economy. The Board of Directors is then informed through the Governance and Sustainability Committee about the implementation of this strategy and the results achieved. In 2020, these topics were presented during four meetings of the Committee.

Management's role

Climate change may have pervasive impacts across the entire organization. For this reason, the decisions on how to integrate the assessment and effective management of climate change impacts into the different business processes are guided by the Sustainability Committee at top management level, which can rely on adequate powers and a cross-functional vision across multiple Groups' functions and geographies. This Committee, sponsored and chaired by the Group CEO, consists of the heads of both the GHO functions and business units. The decisions set forth by the Committee are implemented by the competent management, each for its area of responsibility. A component of the variable remuneration of the Group CEO and top management depends on the results achieved in the implementation of the Strategy on Climate Change.

This cross-functional approach is also reflected in the Climate Strategy Task Force, which pools together the functions of Group Sustainable Investment and Governance, Group P&C Retail, Group P&C Corporate & Commercial, Group Life & Health, Group Integrated Reporting and Group Risk Management, coordinated by Group Sustainability & Social Responsibility. The goal of this work group is to guarantee the management of the risks and opportunities tied to climate change in compliance with the strategy defined by the Board and to ensure the reporting on these aspects both to internal competent bodies and to external stakeholders, in line with the TCFD recommendations. Within this Task Force is active a coal companies engagement committee, which analyses the just transition plans of the engaged coal companies, monitors their implementation and encourages further progress.

Strategy

Climate change poses a material risk, with more limited impacts in the short term, but potentially more catastrophic impacts in the long term. These risks are associated with a high degree of uncertainty in determining precisely the timing and magnitude of their impacts, especially at the local level. The identified impacts can be classified as physical risks, transition risks and opportunities. Building on this, we have initiated a process to assess the sustainability and resilience of our business model to the impacts of climate change, with particular focus on the activities of investment, insurance underwriting, and customer and stakeholder engagement. In particular, in 2020 we conducted activities relating to the identification and measurement phases of physical and transition risk, with the aim of continuing the management and reporting phases throughout 2021. The main activities included:

The identification of 3 climatic scenarios, characterised by different temperatures and time horizons, in order to grasp the impacts of physical and transition risk:

- <2°C scenario, corresponding to an increase in temperature from 1900-2100, in line with the Paris agreement, with a strong reduction in emissions and an increase of the transition risk (impacts are expected to occur in the short and medium term, 2030-2050);
- 3-4°C scenario, corresponding to an increase in temperature from 1900-2100 with the absence of particular decarbonization activities and with impacts generated by both physical and transition risk (impacts are expected to occur in 2030-2050-2100);
- 5.4°C scenario, corresponding to an increase in temperature from 1900-2100 with a strong increase in CO_2 emissions and consequent impact deriving exclusively from physical risk (impacts are expected to occur in 2030-2050-2100);

An initial qualitative and quantitative analysis on:

- Investments in the equity and bond sector, in order to identify the most vulnerable sectors and geographic areas;
- P&C underwriting in order to identify the most vulnerable business lines and geographic areas.

Physical risks

Physical risks are determined by the change or intensification due to climate change of weather phenomena and extreme events, including floods, storms, cyclones, wildfire, sea level rise and heat waves. For the insurance sector, namely in the Non-Life segment, these phenomena mainly affect pricing and catastrophic risks. All other things being equal, the number and cost of claims and the related management costs, as well as reinsurance costs can increase.

The Life segment might also be impacted: the intensification of heat waves and the expansion of habitats suitable for hosting vectors of tropical diseases might worsen expected mortality and morbidity rates.

Furthermore, climate-related physical risks, worsening the living conditions of the population and increasing the damage not covered by insurance, might lead to a deterioration of socio-political stability and the macroeconomic conditions and geopolitical, with a cascade effect on the overall economy and on the financial system.

Transition risks

This category of risks is associated with the decarbonisation of the economy: changes in national or international public policies, in technologies and in consumer preferences might affect the value of assets linked to activities, sectors or countries with a high carbon footprint, leading to their early depreciation.

Much of the impact of these risks depends on the speed required for compliance with more stringent environmental standards and on the public support that will be provided for the reconversion. The transition risks are therefore influenced by highly uncertain factors, such as political, social and market dynamics and the technological innovations that will become available.
Even though the speed of transition and the related risks are hard to determine today, they will probably have far-reaching consequences in some sectors, including the energy industry.

Among the transition risks we also identify the reputational risks of having business relations with coal-related companies, with companies operating in the unconventional fossil fuels and in general in the oil & gas, which are subject to increasing stigmatization by the international public opinion. At the local level, in communities strongly dependent on coal as a source of energy and employment, the decision to terminate business relationships with coal companies might also lead to reputational risks.

Opportunities

The implementation of climate mitigation and adaptation strategies also offers investment opportunities as well as opportunities for the development of the insurance market. As weather phenomena and extreme events evolve and intensify, a related increase in the demand for protection through specific insurance solutions and risk management is plausible.

New regulations and public plans launched in Europe to stimulate the transition to a green economy, together with changes in consumer preferences, are supporting the demand for insurance coverages in the renewables,energy efficiency and sustainable mobility sectors. This increases also the retail demand for green insurance products related to sustainable lifestyles and it strengthens the demand for green finance investment products, both from institutional investors and in the retail segment.

Finally, the transition to a low carbon economy, in particular the construction of large-scale renewable energy production plants, requires substantial investments, which are only partly covered by public funds, thus increasing investment opportunities for private investors.

Risk and Opportunity management

We defined processes and tools to mitigate the climate-related risks and to seize the opportunities arising from the green transition. These include monitoring of the adequacy of actuarial models for assessing and pricing risks, recourse to risk transfer mechanisms, regular analysis of investments, product and service innovation processes, dialogue with stakeholders and development of partnerships to share knowledge and identify effective solutions. Throughout the course of 2020 we participated in groups such as, the Net-Zero Asset Owner Alliance, the Net-Zero Insurance Alliance, the UNEP-PSI TCFD group, the PRI Climate Action 100+ network, the PRI and London School of Economics and Political Science "Investing in a Just Transition", and the Investors Leadership Network.

Physical risks

We manage physical risks in the short term by monitoring and carefully selecting them in order to optimize the underwriting strategy. To this end, we also use regularly updated actuarial models with which we estimate potential losses, including those related to climate change.

We turn to reinsurance contracts and to alternative risk transfer instruments, including the issue of catastrophe risk insurance linked securities - cat bonds -, such as Lion II Re.

In order to reduce exposure to physical risks in the P&C corporate segment, we provide clients with technical-organizational advisory services to improve the protection of insured assets from extreme events by defining loss prevention programs and periodically monitoring their implementation.

Lastly, we have set up special procedures to speed up damage appraisal and the claims settlement in the event of extreme events so as to strengthen the resilience of the affected areas, facilitating the post-emergency assistance phase and the return to normal.

Transition risks

We are reducing the already limited exposure of the investment portfolio to issuers in the coal and tar sands sectors, identified according to the following criteria valid as of 2020: more than 30% of revenue or power generation from coal, extraction of more than 20 million tons of coal per year, construction of new coal-fired power plants, 5% and more of revenue generation from tar sands, operators of controversial pipelines dedicated to the transport of tar sands. We also set the objective of making the general account investment portfolio climate-neutral by 2050, in line with the Paris Agreement's goal of limiting global warming to 1.5°C compared to pre-industrial levels.

Since 2018, we no longer offer insurance coverage for the construction of new coal-fired power plants, for the construction of new coal mines or for the coverage of existing coal-fired power plants if they belong to new customers, so as not to increase our minimal underwriting exposure to this sector. We also continue not to underwrite risks of companies operating in the tar sands sector.

In countries where coal accounts for over 45% of the domestic electricity mix, to limit the negative social impacts deriving from the decision to quit this sector, we are engaging with client companies to promote a just transition, that combines the need for climate protection with minimizing the consequences for local employment and energy supply. The engagement activity focuses on monitoring the plans to reduce emissions, protect and reskill workers, as well as to support local communities, analysing expenses and investments for these objectives.

To demonstrate consistency with the commitments required of our customers, issuers and business partners, we are reducing greenhouse gas emissions from our sites and business trips by purchasing green energy and promoting the use of more sustainable means of transport.

Opportunities

To seize the opportunities arising from climate mitigation and adaptation, we offer insurance solutions for catastrophic damage protection, including those related to climate change, coverages for industrial power generation plants from renewables, and insurance solutions to support customers in adopting sustainable lifestyles. This range of our products includes, for example, covers for electric and hybrid vehicles, for construction work to improve energy efficiency, for damage to photovoltaic systems and interruptions of energy production, or for agricultural businesses in the event of catastrophic damage or crop losses due to adverse weather conditions.

We are also expanding our range of thematic investment products related to green finance for the retail segment, including the Genera Sviluppo Sostenibile investment insurance solution and the possibility of developing investment portfolios that contribute to Goals 7 and 13 of UN Agenda 2030 related to the fight against climate change and the promotion of clean and accessible energy.

We are increasing our green and sustainable investments with the aim of achieving €4.5 billion in new investments over the three years 2018-2021.

Finally, in 2020 we allocated a second green bond worth a €600 million to finance or refinance projects related to improving the energy efficiency of our real estate assets and for the development of green infrastructure.

From 2019 we have outlined a model for the issuance of Green Insurance Linked Securities, characterized by the investment of collateral in assets with a positive environmental impact and the allocation of capital transferred to green initiatives.

Metrics, targets and results to 2020

We have defined metrics and targets to monitor the implementation of our strategy to manage climate change impacts and to support the just transition to a low carbon economy.

Physical risks

Maintenance of excellent technical results as regards operating result and combined ratio in the P&C segment.

P&C segment operating result of € 2,456 mln *(+19.4% compared to 2019).*
P&C segment combined ratio of 89.1%

Transition risks

Decarbonisation of the general account investment portfolio to make it climate neutral by 2050.

Measurement of the carbon footprint Group's portfolio for shares and corporate bonds: **Absolute Emissions[1]:** 17.65 million t CO_2; **Carbon footprint:** 176 t CO_2 per million € invested; **Weighted average carbon intensity:** 230 t CO_2 per million € in revenues.

Exclusion of P&C coverage for risks related to the exploration and extraction of both conventional and unconventional coal, gas and oil, to the construction of coal-fired thermoelectric plants and plants for new customers if are already in operation.

No new customers and no new coverage for the construction of new coal mines and coal-fired thermoelectric plants.

Direct P&C premiums for the coverage of thermoelectric plants and coal mining companies and coverage for the risks associated with the exploration/extraction of gas and oil must be below the threshold of 0.1% of total P&C premiums.

Lower insurance exposure, below the 0.1% threshold of P&C premiums.

Engagement for a just transition six clients operating in heavily coal-dependent countries, where the Group has a primary presence as investors and/or insurers.

Engagement is in progress with four companies. At the beginning of 2021 it was decided to interrupt the investment and P&C coverage for two of these companies as they lacked proactive communications of their transition plans.

20% reduction in GHG emissions related to the Group's operations (2013-2020).

The Group's operational scope 1, 2 and 3 emissions equate to 77,456 t CO_2e.[2] *(-36.1% compared to 2013).*

Increase in purchases of electricity from renewable sources.

99% of total purchases of electricity from renewable sources.

Opportunities

€ 4.5 billion of new green and sustainable investments (2018-2021).

€ 5,973 million in new green and sustainable investments[3].

Increase in premium from green products.

€ 1,577 million in premiums from green products *(+14.5% compared to 2019).*

Green innovation in financial management.

Placement of a € 600 mln green bond.

1 Measurement as of 31.12.2019. The absolute emissions, carbon footprint and weighted average carbon intensity indicators correspond respectively to the following metrics as recommended by the TCFD (Task force on Climate-related Financial Disclosure) and indicated in the Guidelines on the communication of non-financial information: integration concerning the communication of related information to the climate: absolute emissions, carbon footprint and weighted average carbon intensity (WACI). The published indicators cover the Scope 1 and Scope 2 emissions of the companies in the portfolio and cover 73% of the assets under management of the reference portfolio (general account investments in shares and corporate bonds).

2 The greenhouse gas emissions (location-based methodology) and purchases of electricity from renewable sources comprise the impacts generated by the employees working in offices managed by the Group in Austria, France, Germany, Italy, Czech Republic, Spain and Switzerland, equal to 45% of the total of our people.

3 Data refer to the 2018-2019 cumulative data of Generali Insurance Asset Management and Generali Global Infrastructure. About 55.3% of these investments were made in 2020.

Significant events after 31/12/2020

In June 2021, the Generali Group Strategy on Climate Change was revised and updated through the Technical Note; these new commitments will be reported in the 2021 edition of this TCFD report. Here below are the main changes introduced.

Investments

- € 8.5 - € 9.5 bln of new further green and sustainable investments by 2025, with year-end 2020 as the baseline.
- 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

- 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.

Group direct operations

- Ambition to be climate negative in 2040.
- 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.

For more information, please visit:
www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate