Coal sector
UniCredit Global Policy - Summary

Approving Function	Group Risk & Internal Control Committee (GR&ICC)	**Date Aug 2020**
Proponent Function	ESG Strategies and Impact Banking/ Group Risk Management	

1 PURPOSE AND SCOPE OF APPLICATION

1.1 Purpose

This *Global Policy,* aims at defining principles and rules for the Environmental, Social and Reputational Risk assessment related to the coal sector. In particular, this Policy regulates the following topics:

- Definition of principles and rules to be considered when assessing Reputational Risks in the Coal-sector. Such sector includes coal fired power plants and thermal[1] coal mines;
- Involvement of the Local and Holding Company structures in the assessment activity.

1.2 Scope of application

This Global Policy applies to UniCredit SpA and the Group Legal Entities that might carry out activities related to Coal sector and must be applied, in compliance with legal requirements and regulations locally in force.

This Global Policy applies to:

- **coal sector projects** (including other infrastructures) - all lending and other form of financial assistance **with a known use of proceeds in supporting such projects (i.e. Coal Fired Power Plants - CFPPS - and thermal coal mines)[2]**

- general financing, advisory services, or other form of financial assistance to corporations/utility companies that own/operate CFPPs and thermal coal mining companies **where the associated purpose is not directly linked to a coal-fired power plant/project or to a thermal coal mine (corporate loan).**

For project finance transactions including project finance advisory, along with certain project-related corporate loans and bridge loans, the standards established by the Equator Principles also apply.

[1] Thermal coal is a grade of coal mainly used for power and heat generation.

[2] They include Coal Trade Finance transactions; which refer not only to a specific product "CTF line", but can also cover additional cross-sell that is connected to coal trading, shipment and storage. Among such products are:

A. FX operations and Daily settlement limits (DSL) - FX transactions TOD, TOM, SPOT (including FX TOD deals) on uncovered basis with daily settlement risk up to 3 days;
B. Documentary business (DocLine) – covered and uncovered letters of guarantee and letters of credit with/without postfinance that provide activities related with trading operations (all contracts as well as LC/LG issuance is subject to compliance authorization);
C. Short-term financing – CTF lines / overdrafts / money market / factoring (short-term financing up to 3 months);
D. Treasury lines (TCL)- Derivative deals; / FX options; / Forward transactions; / Options CAP/FLOOR; / Interest rate swap; /Cross currency swap / Hedges.

2 BASIC PRINCIPLES AND ASSESSMENT RULES

In the aftermath of the Paris Agreement of 2015, the attention of policy makers, regulators, investors and civil society on climate change, increased dramatically. In its latest 5th Assessment Report IPCC [3] made clear that "Human influence on the climate system is clear, and recent anthropogenic emissions of greenhouse gases are the highest in history." While the Paris Agreement puts a strong emphasis on the role of financial system and the Financial Stability Board issued Recommendations on Climate Related Financial Disclosure, the EU's Action Plan on Sustainable Finance is also paving the way for increased mandatory disclosure on climate related risks. UniCredit Group understands the increasing adverse effects that CFPPs, as well as the thermal coal mining sector have to the climate system and is aware of the responsibility towards society and future generations in terms of environmental preservation (resources/ecosystem quality), as well as human health and pollution.

This Global Policy aims therefore to assess the potential environmental and social impacts of the Group's involvement in Coal sector projects/transactions and, through the implementation of appropriate management and mitigation measures on the part of the Group's clients or counterparts, to limit associated risks for UniCredit Group. In fact, through this Global Policy, the Group wants to support and accelerate the sector's energy transition and the related improvement of environmental/social footprint. Any kind of expansion of CFPPs or thermal coal mines will not be supported by the Group.

This Coal sector policy invokes a number of guidelines, standards, international conventions, initiatives, recommendations and other practices widely accepted by the international community and affected stakeholders. Collectively, these are considered by the Group to represent the best practices with respect to avoidance of adverse environmental and social impacts.

The policy aims at defining what is allowed, what is forbidden and what needs a specific authorization for proceeding in the support of the coal sector.

The policy defines criteria for identifying:

- the customers that are subject to the present policy ("coal-related subjects");
- the activities for which a support from the bank is requested and that are subject to the policy ("coal-related projects");
- the financial products and services and all the other kind of support offered by the bank that are subject to the policy ("banking services")

The policy also defines the process, roles and responsibilities for performing the requested "Reputational and ESG Risk Assessment".

2.1 Coal-Related Subjects

The present Global Policy applies to the following categories of customers, that are considered **coal-related subjects**:

- All the companies/subjects who operate in the **Coal-Fired Power Generation area**, as owners, subsidiaries, operators, subcontractors, suppliers of essential components (e.g. suppliers of boilers, turbines, steam cycles, coal pre-drying facilities, coal storage facilities as well as suppliers involved in CCS - Carbon Capture and Storage or biomass co-firing retrofit, etc.) and distributors of the product;
- All the companies/subjects who operate in the **Thermal Coal Mining area**, as owners, subsidiaries, operators, subcontractors, major suppliers of essential components) and distributors of the product.

Local and Global Reputational Risk Functions can select subjects to be "labeled", managed and assessed as a coal-related subject, by a formal communication to the Business Relationship Manager.

The list of those select customers is maintained and updated by the Local Reputational Risk Function.

[3] The IPCC -Intergovernmental Panel on Climate Change - is the United Nations body for assessing the science related to climate change.

In case a subject, even if not strictly belonging to one of the above mentioned categories, should present characteristics (e.g. activity sector, recent public news, …) that could configure a link with the coal sector, it must be proposed for a dedicated reputational and ESG assessment in cooperation with the local function of Reputational Risk.

2.2 Coal-Related Projects

All the activities that are connected to the design, building, maintenance, ordinary operations and distributions of:

- **Coal-Fired Power Plants**
- **Thermal Coal Mines**

are considered **coal-related projects** (including other infrastructures) and are subject to the provision of this Global Policy.

As example, for clarification, thermal coal trade and all the related activities are considered coal-related project, as well as all the activity for set-up and maintenance of the infrastructure for the distribution (exclusive or largely predominant) of electric power generated by the coal-fired power plants.

2.3 Foundation Principles

UniCredit Group commits to progressively reduce to zero the Group's exposure to Coal and Coal Related sector by 2028.

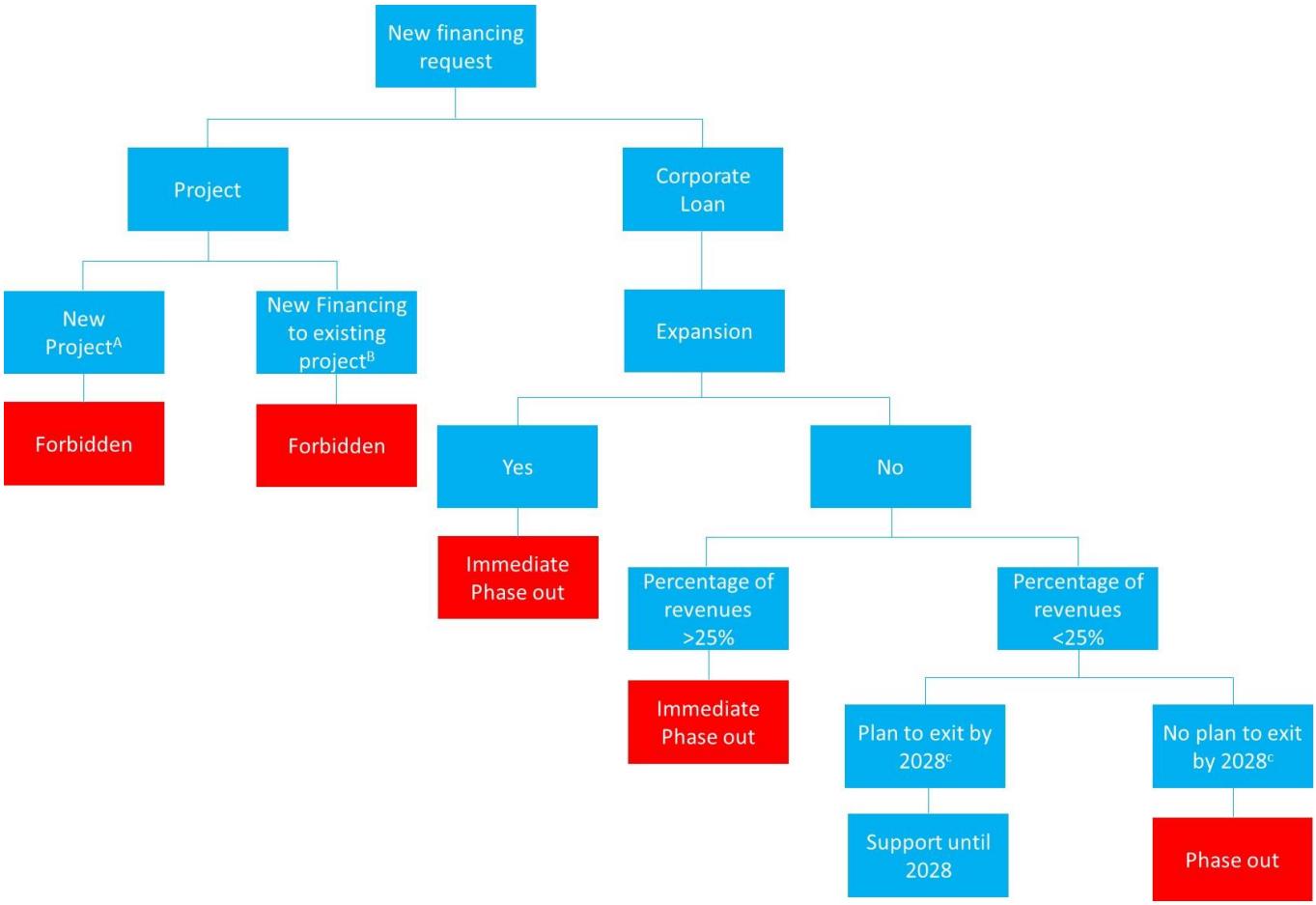
The policy is based on the following three **Foundation Principles**, better detailed in the following:

1) A pre-requisite for a coal-related subject to operate with UniCredit Group is to:
   - have a credible plan for phasing out from the coal business by 2028[4];
   - have a capped current involvement in the coal business (in terms of percentage of revenues < 25%);
   - avoid any increase in the coal business (e.g. by enlarging existing coal capacity or acquiring or building new production sites);
   - in case the subject is part of an economic group, have also the group in line with the provisions mentioned above[5].
2) UniCredit Group does not provide any "Banking Service" aimed at a coal-related project activity, regardless of any other consideration (e.g. including projects aimed at maintenance, improvement and even emission reduction of coal-related activities/sites/plants);
3) UniCredit Group does provide all the "Banking Services" not specifically aimed at a coal-related project activity, provided that no other impediment is present (e.g. reputational warning on the subject, AML alerts, …), only to the coal-related subjects in line with the pre-requisite stated at point 1).

[4] Companies that will not be able to comply with 2028, but have credible plans for exiting in 2029 or 2030 can submit their case which will be evaluated by Group RRC. Group RRC can exceptionally allow general financing in those cases, provided that in any case the Group will phase-out from exposure by 2028.

[5] For diversified Groups, that plan to have a very marginal weight of thermal-coal at 2028 the case shall be submitted to the Group RRC for evaluation

Feasibility evaluation for financial support



[A] New Project: Not registered in UniCredit's portfolio.
[B] Existing Project: Already within UniCredit's portfolio.
[C] A public credible statement/commitment/plan for phasing out from the coal business by end of 2028 must be available by end of 2021.

The **Group's relationship manager is in charge to verify the requested criteria** which will be matched with the best sources and data basis available in the market. The colleague will ensure to the best of his/her knowledge that all information provided are current, accurate, and complete, and he will start planning the phase out from the relationship, in case the assessment highlights a block condition.

2.4 Coal-related Projects

UniCredit Group does not provide any "Banking Service" aimed at a coal-related project activity, regardless of any other consideration (e.g. including projects aimed at maintenance, improvement and even emission reduction of coal-related activities/sites/plants);

2.5 Corporate loans in the coal sector

UniCredit Group does provide all the "Banking Services" not specifically aimed at a coal-related project activity, provided that no other impediment is present (e.g. reputational warning on the subject, AML alerts, …), only to the coal-related subjects in line with the pre-requisite stated at point 1 of the Foundation Principles.

2.5.1 Criteria applied to corporate loans

Reputational and ESG Risk Assessment for coal-related subjects

A Reputational and ESG Risk Assessment is requested for all the coal-related subjects, in order to verify that they are in line with the Foundation Principle 1 and that no other impediment or prejudicial (e.g. bad news on the customer) are present on the subject.

The assessment must be performed whenever a substantial change on the element that concurs to the Reputational and ESG profile of the customer occurs (e.g. change/delay in the plan of coal phase out, acquisition of a new production site, judicial bad news, …).

At least once a year the assessment must be renewed.

Assessment

The assessment must verify:

1) A public credible statement/commitment/plan for phasing out from the coal business by end of 2028 must be available by end of 2021.
   If a public credible statement/commitment/plan for phasing out from the coal business by end of 2028 is not available by end of 2021 the Group will not support the Customer (i.e. it will start the process for a complete phase out of the relationship).
   Companies that will not be able to comply with 2028 but have credible plans for exiting in 2029 or 2030 can submit their case which will be evaluated by Group RRC. Group RRC can exceptionally allow general financing in those cases, provided that in any case the Group will phase-out from exposure by 2028.

2) Current percentage of revenues of the customer related to the coal business has to be equal or lower than 25%.

3) There is no increase in the coal business since last review (empowerment of existing sites, acquisition/build of new sites).

4) No or nor relevant evidence of public bad news/rumors or judicial proceedings, sanctions, fines, bans or any other event that could be relevant from a Reputational or ESG perspective.

The assessment applies at both Group and Subsidiaries level. In case the customer is part of a Group, the same assessment must be conducted also at the Group level and the results must be considered together.