



**Coal sector
UniCredit Global Policy - Summary**

Approving Function	Group Risk & Internal Control Committee (GR&ICC)	Date Nov 2019
Proponent Function	Group Sustainability & Foundation/ 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 thermal¹ 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** - 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:

- 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;
- 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);
- Short-term financing – CTF lines / overdrafts / money market / factoring (short-term financing up to 3 months);
- 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 IPCC³ 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 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 Group acknowledges that this sector requires a **reputational risk assessment** to be performed accordingly to the following rules / procedures

The reputational risk assessment process is managed by the local reputational risk functions on the basis of the principles defined by this Global Policy analyzing:

- the **project** in case of any form of asset-specific financing where the proceeds are used for a coal-fired power plant or thermal coal mine and all the advisory and financing services supporting projects;
- and
- the **corporate loan** when is not directly linked to a coal-fired power plant/project or thermal coal mine.

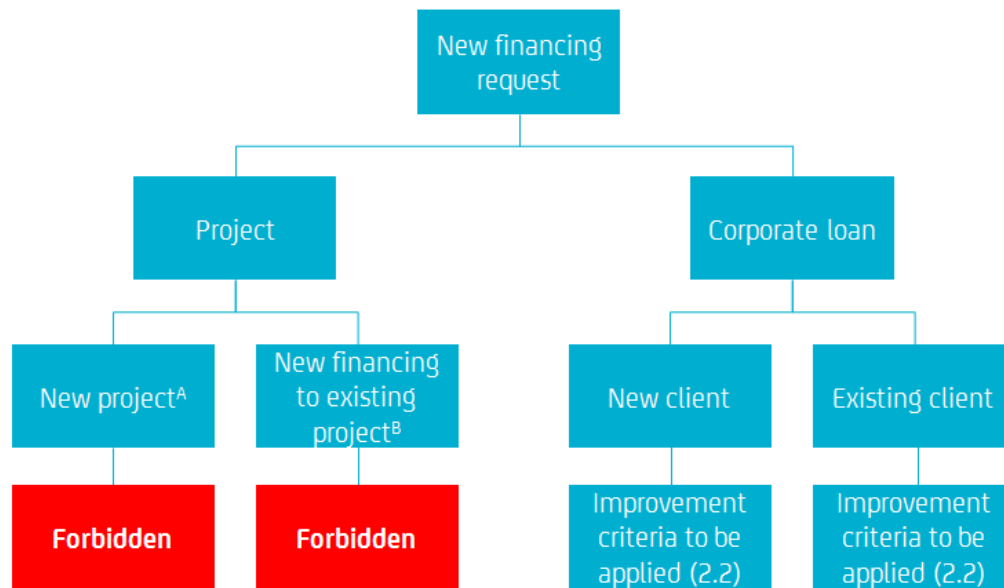
All the advisory and financing services and operations related to the projects as well as the transactions with **suppliers connected to the projects** are subject to the criteria specifically established for the projects.

Suppliers to be considered are the following ones:

- coal-fired power generation major suppliers of certain 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.);
- subsidiaries, subcontractors, and major suppliers of certain essential components, materials or services to thermal coal mining projects.

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

Feasibility evaluation for financial support



A. New Project: Not registered in UniCredit's portfolio.

B. Existing Project: Already within UniCredit's portfolio.

The **Group's relationship manager is in charge to verify the requested criteria**. The colleague will ensure to the best of his/her knowledge that all information provided are current, accurate, and complete. The Relationship Manger will check the info provided by the client as well as the available public sources.

2.1 New financing requests for projects

In the case of projects not already registered in our portfolio, the transactions will be rejected.

The new financing or the provision of new financial services to projects already existing in our portfolio **are also forbidden**.

2.1.1 Phase out of existing projects

All existing contractual commitments will be honored until maturity, i.e. UniCredit Group will gradually let existing projects phase out on the base of the existing contractual obligations by 2023.

2.2 Corporate loans in the coal sector

As far as corporate loans to clients in the coal sector are concerned, this Policy is applicable to:⁴

- coal fired power generation companies, **based on their installed coal power capacity**⁵;
- coal mining companies, **based on their share of revenues from thermal coal mining**.

The general financial support provided by the bank refers to general purpose that is not directly related to single and clearly identified transaction on the coal fired power generation or on thermal coal mining.

2.2.1 Criteria applied to corporate loans to coal fired power generation (CFPG) companies

Financing or financial services are provided to coal fired power generation companies only if they meet the following criteria:

- **New clients:**
 - current installed coal power capacity $\leq 30\%$;
 - and
 - clear strategy to reduce reliance on CFPG to $\leq 5\%$ by 2025.
- **Existing clients:**
 - if current installed power capacity $> 30\%$, clear commitment to reduce their share of installed coal power capacity at least in line with Nationally Determined Contributions (NDC)⁶ of the countries where their operations are located; **UniCredit will orderly exit the business relationship by year 2025 if the criteria is not met;**
 - if current installed power capacity $\leq 30\%$, annual review on commitments to reduce their share in future years.

The Group continues to finance and provides financial services to investments that support existing CFPG clients' energy transition as well as substantial improvements of their environmental and/or social footprint.

⁴ Percentages take into account known future short-term developments. Also in cases where a borrower holds a share smaller than 100% in a coal-fired power generation or thermal coal mining company, the affiliate's/subsidiary's exposure to coal is taken into account at 100% when calculating the threshold percentages.

⁵ While the criteria 'installed coal power capacity' is crucial, for diversified existing utility clients which provide a range of products or services aside from the generation of power from the firing of thermal coal, these additional business areas need to be taken into account for the decision on providing financing or financial services.

⁶ The Paris Agreement requires all Parties to put forward their best efforts through nationally determined contributions (NDCs) and to strengthen these efforts in the years ahead. Countries' NDCs are available at <https://www4.unfccc.int/sites/NDCStaging/Pages/All.aspx>

2.2.2 Criteria applied to corporate loans to thermal coal mining companies

The first screening will be done by applying the criteria established by the Mining Industry Global Operational Instructions. After that, financing or financial services are provided to thermal coal mining companies only if they meet the following criteria

- **New clients:**

- revenues from thermal coal mining \leq 25%;

and

- even if revenues from thermal coal mining \leq 25%, a critical case-by-case assessment is performed and general financial support can be granted **only if** they have in place a reasonable strategy to diversify their profile.

- **Existing clients:**

Business relationships with existing thermal coal mining clients will be regularly reviewed and the relationship can only continue if:

- revenues from thermal coal mining are \leq 25%;

- and

- the client has in place a reasonable strategy to diversify; **UniCredit will gradually exit the business relationship, if the criteria are not met.**

The Group continues to finance and provides financial services to investments that substantially improve the environmental and/or social footprint of existing thermal coal mining clients.

The Reputational risk assessment must be reviewed every year in order to guarantee a recurring check of the customer risk profile.

The Client's reputational risk assessment for the general financial support does not substitute the assessment on single transactions.

2.2.3 Other actors involved in the sector

Other companies involved in the coal sector will be also evaluated.

In particular, if more than 30% of the revenues of these companies (e.g. suppliers) are connected to the coal fired power generation / thermal coal mines, the Group will verify if the client has in place a reasonable strategy to diversify.

UniCredit will gradually exit the business relationship, if the criteria are not met.