



**Arctic and Non-Conventional Oil & Gas Industry  
Sector  
Reputational Risk Global Policy – - Summary**

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<b>Approving Function</b>	Group Risk & Internal Control Committee (GR&ICC)	<b>Date Nov 2019</b>
<b>Proponent Function</b>	Group Risk Management	

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# 1 PURPOSE AND SCOPE OF APPLICATION

## 1.1 Purpose

This *Global Policy* integrates the Group regulation for UniCredit S.p.A and for the Group Legal Entities in compliance with current laws and regulations<sup>1</sup>.

This *Global Policy*, aims at defining principles and rules for the Reputational Risk assessment related to the Arctic and Non-Conventional Oil & Gas industry. In particular, this Policy regulates the following topics:

- Definition of principles and rules to be considered when assessing Reputational Risks in the Arctic and Non-Conventional Oil & Gas industry;
- 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 Arctic and Non-Conventional Oil & Gas industry and must be applied, in compliance with legal requirements and regulations locally in force.

**This Global Policy applies to:**

- **General Financing, Advisory services, or other forms of financial support to companies involved into the Arctic and Non-Conventional Oil & Gas Industry**
- **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 are considered.

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<sup>1</sup> In particular, the Article 61 of the Legislative Decree n. 385 of 1° September 1993 (“Italian Banking Act”) and the “Supervisory Instructions” issued by the Bank of Italy.

## **2 BASIC PRINCIPLES AND ASSESSMENT RULES**

The Group acknowledges that the Oil & Gas Industry will continue to play an important role in the overall global energy mix, but the exploration and production of Oil & Gas reserves can have adverse impacts on the environment and host communities if not adequately managed, especially if referred to Arctic and Non-Conventional Oil & Gas industry sector.

Therefore the Group considers it as a legitimate business, embedding anyway reputational risks and requiring a reputational risk assessment.

As a consequence, this Global Policy:

- identifies the Arctic and Non-Conventional Oil & Gas industry sector;
- defines the rules for the reputational risk assessment and defines the cases in which a mandatory reputational risk assessment for the business in scope is required
- defines roles and responsibilities for the reputational risk assessment;
- defines the monitoring and reporting requirements ;
- defines the split of roles and responsibilities between Holding Company and Legal Entities

### **3 ARCTIC AND NON-CONVENTIONAL OIL & GAS INDUSTRY SECTOR DEFINITIONS**

The Non-Conventional Oil & Gas activities are defined as the extraction of Oil and / or Gas performed through:

- Tar sands;
- Ultra-Deep Water Oil & Gas extraction (more than 1500 metres / 5000 feet);
- Shale Oil & Gas (and also fracking, only when in combination with shale Oil & Gas).

Financing to all the above extraction activities is strongly limited based on current Policy provisions, as detailed in the following paragraphs. In addition, Liquefied Natural Gas (LNG) production is also considered a non-conventional treatment if the gas treated is derived from the above reported Non-Conventional extractions.

The Arctic Oil & Gas activities are defined as the extraction of Oil and / or Gas performed in the Arctic region, where the Arctic region is defined as the region inside the Arctic Circle (66.5 degrees north of the Equator).

Financing to extraction activities in the Arctic region is strongly limited based on current Policy provisions; in particular, the Group considers On-shore and Off-shore extraction of oil and Off-shore extraction of gas as environmentally “critical Arctic” activities. In light of this definition, also Liquefied Natural Gas production, related pipelines and other infrastructure derived from “critical Arctic” activities are considered as Non-Conventional.

## **4 RULES AND PRINCIPLES FOR THE REPUTATIONAL RISK ASSESSMENT**

The reputational risk assessment for the business in scope (see § 3) shall be performed in the following cases:

- **Annual review / Clearance:** evaluation of the **risks connected to customer characteristics** (AML profile, sanctions or other reputational events) and activities (e.g.: % of turnover related to the “critical Arctic” activities and Non-Conventional Oil & Gas sector vs total turnover). The clearance must be requested at least once a year, within the customer standard annual review, or each time a relevant reputational event raises concerns connected to the customer (e.g. legal news on the client, relevant changes in the stakeholders composition,...)
- **General Financing:** evaluation of the risks related to general purpose financing support to customers operating in the “critical Arctic” activities and Non-Conventional Oil & Gas sector, but without any specific reference to a specific project.
- **Projects (new and extension of already existing projects in portfolio)** will be assessed taking into account the type of Arctic and Non-Conventional Oil & Gas related activities, together with the type of infrastructures involved.

The Group allows business in the Arctic region and in the Non-Conventional Oil & Gas sector according to the guidelines below reported.

With reference to **General Purpose Financing, Advisory services, or other forms of financial support** to companies involved into the Arctic region and Non-Conventional Oil & Gas sector, the Group supports

- **New Clients** if:

the above defined Non-Conventional Oil & Gas related activities provide up to a maximum of 25% of the total revenues recorded in the year by the company,

and

the above defined “critical Arctic” activities provide up to a maximum of 25% of the total revenues recorded in the year by the company.

- **Existing Clients** if:

Case 1

the above defined Non-Conventional Oil & Gas related activities provide up to a maximum of 25% of the total revenues recorded in the year by the company,

and

the above defined “critical Arctic” activities provide up to a maximum of 25% of the total revenues recorded in the year by the company

or

Case 2

The customer has developed a sound plan to reduce its share of the above defined Non-Conventional Oil & Gas related activities in future years (to be evaluated and approved by Reputational Risk Committee) below the threshold of 25% (with update and progression of the plan to be re-evaluated yearly),

and / or, as the case might be,

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The customer has developed a sound plan to reduce its share of the above defined “critical Arctic” activities in future years (to be evaluated and approved by Reputational Risk Committee) below the threshold of 25% each (update and progression of the plan to be re-evaluated yearly).

With reference to **Projects** related to Arctic region and Non-Conventional Oil & Gas, as defined above, the Group **does not support**

- projects related to the extraction of Oil & Gas as per the above defined “critical Arctic” activities and Non-Conventional Oil & Gas extraction activities,
- projects related to pipelines and other infrastructure SOLELY related to such “critical Arctic” activities and Non-Conventional Oil & Gas sector,
- projects related to production of Liquefied Natural Gas when SOLELY related to the above mentioned “critical Arctic” activities and Non-Conventional Oil & Gas sector.

The Group will not support any activity related to the above mentioned projects, including financing aimed at supplying parts and components to such projects.

On the contrary, are allowed for financing:

- projects related to Liquefied Natural Gas production, related pipelines and other infrastructures derived from Conventional Gas extraction procedures;
- projects related to Liquefied Natural Gas production, related pipelines and other infrastructures derived from Onshore extraction of Gas located in the Arctic region.

Such projects will anyway need a dedicated reputational risk assessment, since the Group is aware that Liquefied Natural Gas related projects might entail potential environmental issues, to be carefully assessed and evaluated in relation to the set-up of the necessary support infrastructures.

The rules to be applied with reference to projects financing are summarized as follows:

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Oil&Gas/Projects	Extraction	Pipelines SOLELY related to non-conventional extraction sites	Other Infrastructure SOLELY related to Non-Conventional Oil & Gas	Pipelines and Other Infrastructure not SOLELY related to non-conventional extraction sites	
Tar sands Oil&Gas		<b>Forbidden</b>		<b>Allowed</b>	
Ultra-deep water Oil&Gas					
Shale Oil&Gas (and fracking only when in combination with Shale Oil & Gas					
Critical Arctic Zone On-shore/Off-shore Oil					
Critical Arctic Zone Off-shore Gas					
Arctic Zone On-shore Gas					<b>Allowed</b>
Liquefied Natural Gas derived by non-conventional extractions					<b>Forbidden</b>
Liquefied Natural Gas derived by conventional extractions					<b>Allowed</b>
Liquefied Natural Gas derived by Critical Arctic zone extractions					<b>Forbidden</b>
Liquefied Natural Gas derived by On-shore Gas extractions in Arctic zone					<b>Allowed</b>

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