



# Statement on natural capital and biodiversity

May 2024



# 1. Our position on Natural Capital

Natural capital is the stock of renewable and non-renewable natural resources that combine to yield a flow of benefits to people. The world is in a critical decade for climate and nature actions.

As a pan-European bank, we have a key role to play, providing the financing and economic evolution required to **tackle climate change and biodiversity loss**. We should see it as an exciting challenge to help our clients and our communities take on this enormous - but not insurmountable - task.

At UniCredit, we recognise that our activities can have both positive and negative impacts on natural resources and the environment. By taking this into account, we are able to prevent negative ones that can harm the planet and communities while also influencing the market towards the necessary transition to more sustainable practices.

This is also demonstrated by our **sustainability governance** which has been significantly strengthened in recent years at both steering and execution levels, underpinning the drive to further integrate ESG criteria into the Group's overall business strategy.

We are committed to **protecting natural capital** by delivering sustainable financing solutions to clients and reducing the environmental impacts of our direct operations.

**Avoid operations in areas protected for biodiversity conservation** purpose as well as **combat deforestation and forest degradation** are fundamental principles for the Group.



Environmental and social risk assessments are guided by [our sustainability policies](#) and by our [Human Rights Commitment](#). In particular, the Group does not support any of the following activities as also highlighted in our [Commitment on rainforests](#):

1. Operations with adverse violations on human rights;
2. Operations in or immediately adjacent to UNESCO World Heritage Sites unless the activities predate the UNESCO designation;
3. Operations in or directly affecting areas officially protected for conservation purposes (i.e., IUCN I-IV protected areas) or those proposed for such designation;
4. Operations in or directly affecting wetlands on the Ramsar List.

Specific transactions are subject to the Equator Principles (EP). UniCredit was one of the first adopters of the ten principles that constitute the EP.

The framework provides a minimum standard for due diligence to support responsible risk-related decisions and are based on the **International Finance Corporation (IFC) Performance Standards** on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety (EHS) Guidelines. We continue to manage the EP and to expand its efforts to various divisions and workstreams.

Within our adhesion to Net Zero Banking Alliance, we are committed to reach the **Net Zero goal** on financed emissions by 2050. In January 2023, we published our interim 2030 targets on 3 of the most carbon intensive sectors, as Oil & Gas, Power Generation and Automotive, calculated to be aligned to the International Energy Agency (IEA) Net Zero 2050 pathway as the benchmark scenario. In January 2024 we also disclosed the target on Steel sector.

To support the achievement of these goals, we are now publishing our inaugural Transition Plan which explains how we are turning our commitment into actions. It includes dedicated initiatives which have been developed focusing on:

1. Strengthening of advisory services for corporates in high emitting sectors;
2. Significantly boosting our sustainable lending (green loans and sustainability linked loans) to support our clients in their journey to decarbonise their operations and diversify away from carbon intensive sectors;
3. Support to clients in the development and scaling up of innovative climate solutions;
4. Targeted partnerships with companies specialised in sustainability for specific sectors.





UniCredit's Natural Capital Framework also includes **Circular Economy**, which is seen as enabler to reach the Net Zero targets. Also our engagement on Circular Economy can strongly contribute to the just and fair transition of our clients in tangible ways: our bank is actively contributing to the circular transition, including through finance / lending, advisory, synergies and partnerships and internal initiatives on resource efficiency and recycling. The circular economy tackles the **five key direct drivers of biodiversity loss** identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES):

1. It reduces the amount of land needed to provide resources to the economy (addressing changes in land and sea use);
2. It manages renewable resources such as fish stocks for the long term (addressing direct exploitation of organisms and natural resources);
3. It reduces greenhouse gas emissions across the economy (addressing climate change);
4. It designs out pollution at every stage of a product's life cycle (addressing pollution);
5. It designs out the waste on which invasive alien species can be transported to new ecosystems (addressing invasive alien species)<sup>1</sup>.

UniCredit has become a Member of the **Ellen McArthur Foundation international charity** network in support of our efforts to accelerate the circular economy transition across our countries. The Foundation is committed to creating a global circular economy driven by design to eliminate waste and pollution, circulate products and materials and regenerate nature.

The Foundation works with businesses, policymakers, innovators, universities, cities, philanthropic organisations and thought leaders worldwide to facilitate collaboration opportunities and develop and scale circular economy solutions.

In line with our strategic approach, we aspire to be at the forefront of **Natural Capital preservation by integrating biodiversity considerations into our business operations**, in addition to climate-related initiatives.

<sup>1</sup> Source: Ellen MacArthur Foundation, The Nature Imperative: How the circular economy tackles biodiversity loss (2021).



## 2. Our position on biodiversity

Beyond the climate emergency, the world is facing another equally important crisis requiring urgent action: **the collapse of biodiversity and nature loss.**

Biodiversity is all the different kinds of life you'll find in one area — the variety of animals, plants, fungi, and even microorganisms like bacteria that make up our natural world. Each of these species and organisms work together in ecosystems, like an intricate web, to maintain balance and support life. Biodiversity supports everything in nature that we need to survive.

At the fifteenth meeting of the Conference of the Parties (COP 15), representatives adopted the **Kunming-Montreal Global Biodiversity Framework**. It is a major milestone in the international effort to halt and reverse the loss of biodiversity and contribute to nature-based solutions. This historic framework sets out an ambitious pathway **to achieve the global vision of a world in harmony with nature by 2050**. Finance is at the heart of these international strategies to combat climate change and biodiversity loss. Mitigation, adaptation, loss and damage, climate technology - all of this requires sufficient funds to yield the results our society needs.

Protecting biodiversity requires strong collaboration between financial and non-financial institutions to achieve tangible results. **UniCredit is the first Italian bank to have signed up to the Finance for Biodiversity Pledge (FfBP)**. The FfBP members jointly call for and commit to taking ambitious action on biodiversity to reverse nature loss in this decade. This will be achieved through collaboration, engagement with relevant counterparts and the assessment of our own biodiversity impact.

Membership has therefore given us access to a deeper pool of information - including scientific reports and frameworks, as well as guides and academic papers, which have raised our awareness as a bank and informed our own approach.

Finally, as part of our membership, we contributed to the first **climate and nature nexus paper** titled "[Unlocking the biodiversity-climate nexus](#)". This paper lays out the key pillars, linking the issues of climate change with those of the impacts on nature.

It is the first time that financial institutions have collaborated to formulate a comprehensive analysis that not only identifies best practices and approaches, but also highlights the trade-offs and difficulties to be faced on the path to **Natural Capital preservation**. As signatories of the FfBP we are targeting an initial disclosure of our level of action by 2025.

Furthermore, we are actively engaged in the **Principles for Responsible Banking (PRB) Biodiversity community**, a capacity-building programme aimed at fostering awareness of the importance of biodiversity and its impact on ecosystem services, as well as recognising biodiversity loss as a risk to both businesses and the financial sector. In particular **we contributed to the issuance of the [PRB Nature Target Setting Guidance](#)**.

Such guidance is designed for banks to set nature ambitions, particularly for PRB signatories who have identified nature as one of their most significant impact areas to fulfill their commitments towards setting PRB targets. It provides a set of model targets especially at the practice level which will be fine-tuned and improved over time as more banks gain experience with this topic. It reflects the goals and targets of the GBF, which demonstrates the global commitment by governments to take urgent and meaningful action **to address nature and biodiversity loss**.



## 3. Our first steps

As a preliminary step, the Group **is evaluating sources, methodologies and frameworks to effectively address the key challenges related to biodiversity and nature**, for instance the Global Biodiversity Framework (GBF). We are also analysing all the disclosure requirements connected to biodiversity and ecosystems, including the ones related to the European Sustainability Reporting Standard E4 (ESRS E4) on biodiversity and ecosystems, as per the Corporate Sustainability Reporting Directive (CSRD).

Following the recent publication of the Commission Delegated Regulation (EU 2023/2486), containing, among others, the economic activities contributing to the achievement of the objective n. 6 **“Protection and restoration of biodiversity and ecosystems”**, we are working to implement them within our [ESG Product Guidelines](#).

Furthermore the Group will start a specific assessment on the agricultural sector soon.

The Bank developed, with the support of an external provider, a sector-level heatmap of the loan portfolio, aiming at assessing which sectors are most exposed to **nature-related risks** looking at their **impact on nature**. The assessment is based on a synthetic score assigned to single counterparties, with the perspective of inside-out evidence, i.e. a summary of the impact that the single company can cause to the ecosystem in which it is located and carries out its activities.



The environmental factors, evaluated within the synthetic score attribution through granular KPIs both at industry level and company-specific, are listed below:

**1. Biodiversity loss and ecosystem degradation.**

Land use practices are a key driver of biodiversity loss as agricultural value chains have the most direct (and often largest) impact on ecosystems and biodiversity through land use and management. Granular KPIs that have been analysed covered four of five direct pressures on biodiversity loss identified by IPBES;

**2. Pollution.**

Air, soil and water pollution and their effects are closely linked to biodiversity and ecosystem services, for example via acidification, ecotoxicity, photochemical oxidant formation, freshwater and marine water eutrophication and ozone depleting emissions;

**3. Water usage.**

Mismanagement or underdevelopment may mean that accessible water is polluted or unsanitary for human consumption. Economic water scarcity can also result from unregulated water use for agriculture or industry, often at the expense of the general population;

**4. Waste management.**

Solid and hazardous waste and wastewater are all different categories of the total quantity of waste produced by a business;

**5. Energy efficiency.**

The efficient use of energy to produce goods and services, reducing energy consumption and associated pollution.



It is worth mentioning that, looking at environmental factors listed above, waste management and water usage are already considered as drivers within Climate & Environmental Internal questionnaire, designed to determine our clients' position on the transition pathway.<sup>2</sup>

We are working to enhance our understanding of biodiversity and nature. In order to **raise awareness** on the topic, in fact we are setting up a specific training programme to be available to all employees by the end of 2024.

We are following and **participating in discussions at European level on regulatory frameworks** (e.g. on deforestation, agriculture). For example, we recently joined the IIF Sustainable Finance Nature Expert, a platform to address evolving nature related issues and to support advocacy efforts related to nature initiatives.

Following our strengthened engagement with NGOs and civil society at large, we have dedicated initiatives with the most significant organisations in order to assess any gaps identified by them in our ESG strategic positioning and to highlight the Group's improvements in areas of sustainability, focusing on material topics such as **Biodiversity**, Net Zero and policy updates.

This document will be regularly reviewed and updated.

<sup>2</sup> More info are available in our 2022 Integrated Report.

