



Coal Sector

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1 INTRODUCTION

1.1 Purpose and content summary

This document aims at defining and implementing a responsible policy with the objectives to support the clients towards an energy transition model.

This Global Policy integrates the Group regulation for UniCredit S.p.A and for the Group Legal Entities.

1.2 Context of the policy

This Global Policy is issued in the broader context of reputational risk management, being an element of UniCredit Group's reputational risk management framework. Reputational risk is defined as the current or prospective risk brought to earnings and capital from an adverse perception of the image of the financial institution by clients, counterparties, shareholders, investors or regulators.

UniCredit Group is strongly committed to promote sustainable solutions in all its financing and investment decisions, with particular attention given to potential reputational implications. Any transaction/project supported by the Group must be conducted with an overall objective of preventing or minimizing environmental, social, and associated reputational risks.

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 IPCC¹ made clear that "Human influence on the climate system is clear, and recent anthropogenic emissions of greenhouse gases are the highest in history." Paris Agreement puts a strong emphasis on the role of the financial system and the Financial Stability Board issued Recommendations on Climate Related Financial Disclosure; in this context, the EU's Action Plan on Sustainable Finance is 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 on the climate system and is aware of its 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 at assessing the potential environmental, social and reputational impacts of the Group involvement in coal sector projects/transactions and - through the implementation of appropriate management and mitigation measures on Group clients or counterparts' side - to limit associated risks for UniCredit Group. In fact, through this Global Policy, the Group wants to support and accelerate the coal sector energy transition and the related improvement of its environmental/social footprint.

Based on the above-mentioned elements and facts, **key principle and pillar of this Global Policy is that any kind of expansion of CFPPs or thermal coal mining will not be supported by the Group.**

In addition, this coal sector policy invokes several 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.

1.3 Recipients

This Global Policy **applies to UniCredit S.p.A. and to the Group Legal Entities** that might carry out activities related to coal sector and/or to **customers** involved into the coal sector.

¹ The IPCC (Intergovernmental Panel on Climate Change) is the United Nations body for assessing the science related to climate change.

2 BASIC PRINCIPLES AND ASSESSMENT RULES

2.1 Scope of application

This Global Policy:

- **applies to the Sector of Thermal Coal**, also known as steam coal, that is used for power and heat generation (e.g., peat, lignite, sub-bituminous, bituminous, graphite)
- **does not apply to the Sector of Metallurgical Coal**, also known as coking coal, which is used in metallurgical processes such as smelting of iron to make steel.

This Global Policy defines:

- **Criteria** for identifying:
 - The activities that are ruled by the present policy (“Coal-related activities” in § 2.1.1).
 - The subjects that are ruled by the present policy (“Coal-related subjects” in § 2.1.2).
 - The banking financial products and services and all the other types of support offered by the bank that are ruled by the present policy (“banking financial products and services” in § 2.1.3).

2.1.1 Coal-related activities

Coal-related activities are those activities that, for the purposes of the present policy, are considered controversial and linked to the coal business and for which restrictions for financial support apply.

The present Global Policy applies to **Coal-related activities**, defined as:

- **Coal-Fired Power Plants (CFPPs)** for: design, building (as well as expansion and/or upgrading), maintenance, ordinary operations and distribution (if regarding electricity directly produced by CFPP).
- **Thermal Coal Mines** for: design, building (as well as expansion and/or upgrading), maintenance, ordinary operations and distribution (Thermal coal sale or trading of the commodity).
- **Key Infrastructures** (e.g.: distribution network directly connected to the plant, railway network connected to the mine...) for: design, building (as well as expansion and/or upgrading), maintenance, ordinary operations.

Additional key definitions and specifications:

- Thermal coal sale or trading of the physical commodity **is subject** to Policy provisions.
- Distribution, transmission, trading and sale of electricity done directly by utilities companies other than CFPP or other companies of the CFPP Group (i.e., utilities not belonging to a group producing by itself energy from coal) **are not subject** to Policy provision.

2.1.2 Coal-related subjects

Coal-related subjects are those subjects that, for the purposes of the present policy, are considered involved in the coal business.

Note: Being a Coal-Related subject does not mean that financial support is not allowed. What is allowed or not allowed is ruled by the class, defined in § 2.3, to which the customer is assigned during the Annual RepRisk Clearance process.

The present Global Policy applies to **Coal-related subjects**, defined as potential or active customers:

1. belonging to Medium and Large Corporate Customers Segment or to the CIB Division

AND

2. belonging to the following categories:

- All the companies/subjects who operate in the **Coal-Fired Power Generation area**, as **owners, operators, subcontractors, suppliers of “Key Components/Infrastructures”, coal traders and energy traders of coal-generated electricity produced inside the juridical group as defined in § 2.4.**
- All the companies/subjects who operate in the **Thermal Coal Mining area**, as **owners, operators, subcontractors, suppliers of “Key Components/Infrastructures”, coal traders and distributors of the product produced inside the juridical group as defined in § 2.4.**
- All the companies/subjects that belong to a juridical group that operates in the coal sector, as specified in the two points above.

Deals connected to Coal-related activities, as defined in § 2.1.1, are anyway always forbidden, regardless **the customer is a Coal-related subject or not.**

Additional key definitions and specifications

- **Key Components/Infrastructures** mean “components/infrastructures specifically designed for, and essential to the functioning of CFPPs or of Coal Mines or of the related infrastructure, and not otherwise suitable”.
- Thermal coal sale operators are subject to Policy provisions.
- **Energy Transmission System Operators** or **Distribution System Operators** or **Energy Traders** are not subject to Policy provisions if they do not sell coal generated electricity produced inside the juridical group.
- A Coal-related subject is classified as **Coal Developer** if, after September 2020 (date of introduction of the coal developer definition within our policy), it:
 - **Developed - or plans to develop** - new Coal-Fired Power Plants or new Thermal Coal Mines.OR
 - **Expanded - or plans to expand** - the installed capacity of existing Coal-Fired Power Plants or the production of existing Thermal Coal Mines.OR
 - **Bought - or plans to buy** - existing Coal-Fired Power Plants or Thermal Coal Mines.

2.1.3 Banking financial products and services

The present Global Policy applies to the following categories of products and services:

- **General financing** – all type of financing support non dedicated to specific purposes.
- **Sustainability-linked financing** – general financing and related services (including guarantees, letters of credit, advisory and M&A and capital market products, hedging/derivatives and other associated facilities) linked to the company’s ESG score, specific sector indicators or KPIs, with prevailing market standards at the relevant point in time included in the contract (authorized by the Local Sustainability function or, when not available, by Global Sustainability Function) to demonstrate and bind the customer commitment.
- **Green activities financing** - financing and related services (including guarantees, letters of credit, working capital solutions, advisory and M&A and capital market products, hedging/derivatives and other associated facilities) dedicated to specific purposes clearly earmarked to **green activities and projects** (i.e., in line with the provisions of the UniCredit internal Green Taxonomy or, in case this is not available, in line with the most updated draft of the EU Taxonomy).
- **Coal-related activities financing** – financing and related services (including guarantees, letters of credit, working capital solutions, advisory and M&A and capital market products, hedging/derivatives and other associated facilities) dedicated to specific purposes clearly earmarked to **Coal-related activities and projects** as described above in section § 2.1.1.

- **Other activities financing** – financing and related services (including guarantees, letters of credit, working capital solutions, advisory and M&A and capital market products, hedging/derivatives and other associated facilities) dedicated to specific purposes other than green or Coal-related activities and projects.
- **Basic banking services** – current account, cash receipt, payments, credit card, cash-pooling and direct debit internal limits.
- **Advanced banking services** – all type of banking products and services not included in the above categories (e.g.: advisory and M&A and capital market products and services, hedging/derivatives for general risk management purposes).

2.2 Foundation Principles

The policy is based on the following five **Foundation Principles**:

1. Pre-requisites for a Coal-related subject for operating with UniCredit Group without restrictions are:
 - a. not being a Coal Developer, as defined in § 2.1.2
 - b. having a capped current involvement in the coal business (percentage of current revenues from Coal-related activities not greater than 25%)
 - c. having a **plan for phasing out** from the coal business by end of 2028 (for Coal-related subjects owning CFPPs or Thermal Coal Mines - coal assets owners)
2. **UniCredit Group does not provide any “banking financial products and services” aimed at Coal-related activities**, regardless if the activity is performed by a Coal-related subject or by a not Coal-related subject and regardless of any other consideration, including activities aimed at the maintenance, improvement and even emissions reduction of Coal-related activities/sites/plants. The only exception is limited to the activities aimed at the conversion of CFPPs to sources other than coal or at the closure of CFPPs or Thermal Coal Mines and related decontamination of the site.
3. **UniCredit Group provides all “banking financial products and services”** not specifically aimed at Coal-related activities, **provided that no other impediment is present** (e.g., evidence of RepRisk issue, AML alerts), to all the Coal-related subjects which are fully in line with the pre-requisites stated under point 1) above.
4. Coal-related subjects **which are not in line** with the pre-requisites stated under point 1) above **but anyway committed in the phase out from coal are supported by UniCredit Group** in their transition and are subject to conditions, restrictions or exclusions as stated in § 2.3.
5. Coal-related subjects **which are not in line** with the pre-requisite stated under point 1) above **and not committed in the phase out from coal are not supported by UniCredit Group** and are subject to conditions, restrictions or exclusions as stated in § 2.3.

2.3 Customer classification, related allowed supports, conditions, restrictions and exclusions criteria

Customers are classified based on their alignment with the pre-requisites stated under point 1) in § 2.2 in **three classes**. Each class defines the banking financial products and services that can be granted and the related conditions, restrictions and exclusions that must be applied to each subject.

The classification of each Coal-related subject is to be done within the Annual RepRisk Clearance process, to be conducted at least once a year or whenever at least a parameter concurring to define the classification shows a change.

The following table provides a synthetic view of the definitions and conditions expressed hereafter.

Provisions		General Financing		Project Financing			Other	
		General Financing	Sustainability Linked RCF	Green Activities Financing	Coal-Related Activities	Other Activities	Basic Banking	Advanced Banking
Full Support	- No coal developer (no increase in coal business since Sep. 2020) AND - Current revenues from coal <= 25% AND - Phase out by 2028	✓	✓	✓	✗	✓	✓	✓
Green Financing	- No coal developer (no increase in coal business since Sep. 2020) AND - Phase out in line with National Energy & Climate Plan	✗	✓	✓	✗	✗	✓	✗
Phase Out	- Coal developer (increase in coal business since Sep. 2020) OR - Phase out plan missing OR - Phase out plan beyond the National Energy & Climate Plan target date	✗	✗	✗	✗	✗	✗	✗

✓ Allowed ✓ Allowed, to be evaluated and approved ✗ Not allowed

“Full Support” Class - Customers committed and in line with the foundation principle

Classification criteria

- a. Not being a Coal Developer
AND
- b. Having documented current revenues from Coal-related activities not higher than 25%
AND
- c. Having documented phase out plan from Coal-related activities by end of 2028 (only for those subjects that own CFPPs or Thermal Coal Mines)

Allowed Support

- All the products and services offered by the bank, excluding Coal-related activities support, provided that no other impediment exists (e.g., bad news on the customers, legal proceedings on going).

Conditions, Restrictions and Exclusion criteria

- General financing and Sustainability-linked financing cannot be transferred to subsidiaries classified as “Green Financing” or “Phase Out” (see below).

“Green Financing” Class - Customers committed but not in line with the Foundation Principles

Classification criteria²

- a. Not being a Coal Developer
AND
- b. Having a documented phase out plan from Coal-related activities (only for those subjects that own CFPPs or Thermal Coal Mines) at least in line with the Local National Energy and Climate Plan (Local definition is in this case referred to the place where CFPPs or Coal Mines are located)

² Selected exceptions could be considered by GNFRFC under very specific conditions, provided they are not aimed at supporting coal developers or forbidden activities

Allowed Support

- Basic banking services
- Green activities financing (conditioned)
- Sustainability-linked financing (conditioned)

Conditions, Restrictions and Exclusion criteria

- Any request for **Green Activities financing** must be evaluated and authorized by Local RepRisk Function, and in case of positive decision, provided that no other impediment exists (e.g., public bad news involving the customer), **Green Activities financing** can be granted under the following condition:
 - The activities must be strictly in line with the provisions of UniCredit internal Green Taxonomy or, in case this is not available, with the most updated draft of the EU Taxonomy. Eligibility is to be confirmed by the Local ESG function or, when not available, by the Global ESG Function.At the end of the local assessment process, a NBO by Group RepRisk Function must be obtained before proceeding.
- Any request for **Sustainability-linked financing** must be evaluated and authorized by Local RepRisk Function, and in case of positive decision, provided that no other impediment exists (e.g., public bad news involving the customer, ...), **Sustainability-linked financing** can be granted under the following conditions:
 - The customer is strongly engaged in a significant and accelerated reduction of its Coal-related activities.
 - Sustainability KPIs are sound, challenging and related to the Environmental sector.
 - Penalties for not matching the targets are adequate to demonstrate a clear and binding commitment and are at least in line with the market practice.
 - The customer did not fail, at least in the previous three years, in matching targets in any other Sustainability-linked financing (done with UniCredit or with other banks).
 - Initial clear clauses concerning the non-transferability of the proceeds to any Coal-related activity (including subsidiaries and other Group companies) and rights to disclose the clauses for external communications - to safeguard the reputation of the Bank - must be inserted in the credit agreement.

At the end of the local assessment process, a NBO by Group RepRisk Function must be obtained before proceeding.

“Phase Out” Class - Customers not committed

Classification criteria³:

- a. Being a Coal Developer
OR
- b. Not having documented phase out plan from Coal-related activities or having a plan beyond the deadline of the National Energy and Climate Plan (for those subjects that own CFPPs or Thermal Coal Mines).

Allowed Support

- None of the products and services offered by the Bank.

³ Selected exceptions could be considered by GNFRG under very specific conditions, provided they are not aimed at supporting coal developers or forbidden activities

2.4 Glossary and Acronyms

Key word	Definition
Holding Company	UniCredit S.p.A. (hereafter also “UniCredit”)
Group Legal Entity	Legal Entity directly or indirectly controlled by UniCredit S.p.A. (hereafter also “Legal Entity”)
Group	UniCredit Group, composed of UniCredit S.p.A. and of the Group Legal Entities (hereafter also “Group”)
Thermal coal	Also known as steam coal, that is used for power and heat generation. (e.g., peat, lignite, sub-bituminous, bituminous, graphite)
Metallurgical coal	Also known as coking coal, which is used in metallurgical processes such as smelting of iron to make steel.
Key components/infrastructures	Components/infrastructures specifically designed for and essential to the functioning of CFPPs, Coal Mines or of the related infrastructure, and not otherwise suitable
Coal-related subjects	<p>Subjects that, for the purposes of the present policy, are considered involved in the coal business and for which a RepRisk Annual Clearance is requested.</p> <p>Note: being a Coal-Related subject does not mean that financial support is not allowed. What is allowed or not allowed is ruled by the class, defined in § 2.3, to which the customer is assigned during the Annual RepRisk Clearance process.</p>
Coal-related activities	<p>Activities that, for the purposes of the present policy, are considered controversial and linked to the coal business and for which restrictions for financial support apply.</p> <p>Note: deals connected to Coal-related activities, as defined in § 2.1.1, are anyway always forbidden, regardless the customer is a Coal-related subject or not.</p>
Coal Developer	<p>A Coal-related subject that, after September 2020 (date of introduction of the coal developer definition within our policy):</p> <ul style="list-style-type: none"> • developed - or plans to develop - new Coal-Fired Power Plants or new Thermal Coal Mines <p>OR</p> <ul style="list-style-type: none"> • expanded - or plans to expand - the installed capacity of existing Coal-Fired Power Plants or the production of existing Thermal Coal Mines <p>OR</p> <ul style="list-style-type: none"> • bought - or plans to buy - existing Coal-Fired Power Plants or Thermal Coal Mines

Acronym	Definition
GORR	Group Operational & Reputational Risks Department
Local (Group) RepRisk Function	Local (Group) Function in charge of the Reputational Risk Management. If not present, Local Function in charge of Non-Financial Risks
NFRCO NFR Committee	Non-Financial Risks Committee
CFPP	Coal Fired Power Plant
NECP	National Energy & Climate Plan
RepRisk	Reputational Risk
AML/CTF	Anti Money Laundering / Countering of Terrorist Financing
Annual RepRisk Clearance	Annual evaluation on RepRisk
NBO	Non Binding Opinion