



ESG-Strategy of UniCredit Bank AG in Structured Investment Products



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1. Sustainability is part of our DNA

Our goal as UniCredit Bank AG is fair development, which takes equal account of economic success as well as ecological and social requirements. For us, profitability and sustainability are not mutually exclusive. Rather, they go hand in hand for long-term success. We value execution, discipline, and transparency, preferring long-term sustainable results to short-term solutions.

We align the corporate activities within the framework of our Group sustainability strategy with the 17 global sustainability goals of the United Nations (SDGs) on an economic, social, and ecological level. Sustainability is a crucial component of our success.

Sustainability is also playing an increasingly important role in the selection of investments. From August 2022, customers will have to state their sustainability preferences when receiving investment advice, and more and more investors want to invest their money sustainably. But what constitutes a sustainable structured product from UniCredit Bank AG and on which criteria is the rating as a “sustainable product” based? We would like to present this to you in the following.



2. The German Derivatives Association's (DDV) Sustainability Code

SUSTAINABLE FINANCE
DDV  Code of Conduct

The German Derivatives Association (DDV), representing the leading issuers in Germany, has defined uniform product and transparency standards in the DDV Sustainability Code. The code is based on the currently valid version of the “Typology for Sustainable Financial Instruments” (ESG target market) of German Banking Industry Committee (DK), the Federal Association of Investment and Asset Management (BVI) and the DDV and supplements them.

The DDV Sustainability Code introduces the product group of structured investment with sustainable properties and distinguishes them positively from other structured securities according to the DDV product classification¹. As a member of the DDV, we undertake to comply with this code when we publicly offer sustainable structured securities to private individuals in Germany.

Products may only be labeled as sustainable if the following criteria are met:

- **Issuer:** The issuer or the group to which it belongs achieves the status of a sustainable company from at least one recognised rating agency and takes into account the UN Principles for Responsible Banking and / or the UN Global Compact and / or equivalent principles².



This criterion is met for UniCredit Group and its affiliated companies, in particular for UniCredit Bank AG.

- **Product type:** The focus is on investment products according to the DDV product classification¹. “Leverage products” and products that benefit from a downward movement of the underlying cannot be labeled as sustainable.



UniCredit Bank AG does not classify leverage products or so-called Reverse products that rely on a (partial) downward movement of the underlying as sustainable.

¹<https://www.derivateverband.de/MediaLibrary/Document/20%2008%2012%20Derivate-Liga.pdf>

²Information on the UN Principles for Responsible Banking at: <https://www.unepfi.org/banking/bankingprinciples>, on the UN Principles for Responsible Investment: <https://www.unpri.org> and the UN Global Compact at: <https://www.globalcompact.de/>

- **Underlying:** The issuer follows a clear ESG strategy when selecting the underlying. That means, in particular, that the companies eligible as an underlying differentiate themselves from other companies in a clearly defined way with regard to ESG factors. In addition, certain companies are **excluded** as underlyings or reference entities for sustainable products:
 - Companies that exceed certain thresholds in the manufacture and / or sale of armaments (>10%³) or coal (>30%³)
 - Companies that produce or distribute banned weapons⁴
 - Companies whose tobacco production is >5%
 - Companies that commit serious violations of the UN Global Compact (without a positive perspective):
 - Protection of international human rights
 - No complicity in human rights violations
 - Upholding freedom of association and the right to collective bargaining
 - Elimination of forced labour
 - Abolition of child labour
 - Elimination of discrimination in employment and gainful employment
 - Precautionary principle in dealing with environmental problems

- Promoting greater environmental awareness
- Development and dissemination of environmentally friendly technologies
- Advocate against all forms of corruption
- Sovereign issuers as reference entities are excluded if they have insufficient scoring according to the Freedom House Index⁵
- Agricultural commodities are also excluded as an underlying



As an issuer of structured securities, UniCredit Bank AG complies with these exclusions and also expands them in its ESG strategy. This consists of a combination of exclusions, minimum rating requirements and a best-in-class approach (see following chapter) .

³Turnover from production or distribution

⁴Weapons according to the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (“Ottawa Convention”), the Convention on the Ban of Cluster Munitions (“Oslo Convention”) as well as B and Chemical weapons according to the respective UN conventions (UN BWC and UN CWC).

⁵<https://freedomhouse.org/report/freedom-world/freedom-world-2018>



3. The ESG strategy of UniCredit Bank AG as issuer

3.1 WHAT IS A SUSTAINABLE PRODUCT?

Our sustainable structured investment products must meet the criteria below, which go beyond the DDV standard, both in terms of their legal form and their underlying assets. In addition, the products must belong to a specific product type.

3.2 THE LEGAL FORM / THE ISSUER

Structured products only classify as sustainable if

- the issuer is a company of the UniCredit Group or
- the issuer is an investment vehicle (SPV) controlled by a UniCredit Group company or
- the issuer is an external manufacturer who meets the requirements of the DDV Sustainability Code.

3.3 THE UNDERLYING

In order to qualify as a sustainable structured investment product, we meet the criteria of the DDV sustainability code described above and expand them in accordance with our ESG strategy. For indices that fall under benchmark regulation and expanded ESG disclosure requirements, we apply less stringent criteria than for individual stocks. Since investment funds are highly regulated by the Disclosure Regulation and the UCITS Directive, we base our criteria here only on the Disclosure Regulation and the sustainability preferences as described in MIFID II.

Depending on the type of underlying, we apply the following criteria for a sustainable underlying.

3.3.1 SINGLE SHARE

In order to qualify as a sustainable underlying, companies must comply with the following **exclusion** criteria:

- Serious violations of the UN Global Compact and serious misdemeanors in the payment of taxes
- Outlaw weapons⁶: >0% of turnover
- Manufacture or sale of armaments: ≥5% of turnover
- Production of coal or production of energy from coal: ≥5% of turnover
- Tobacco production or services: ≥5% of turnover
- Production of controversial fossil fuels, e.g. companies producing hydrocarbons using controversial techniques or in areas of high environmental stress: ≥5% of turnover (>0% for arctic drilling)
- Nuclear energy, manufacture or distribution: >0% or ≥5% of turnover
- Alcohol production: ≥5% of turnover
- Gambling, manufacturing and sales: >0% or ≥5% of turnover
- Pornography, manufacture and sale: >0% and ≥5% of turnover respectively
- Genetic engineering: >0% of turnover
- Animal experiments (excluded are legally required): >0% of turnover

In addition, companies must have a **minimum rating** (at least C-) from the independent rating agency ISS ESG (see Chapter 5).

⁶Controversial weapons according to the definition of the UniCredit position paper on the defense and weapons industry: nuclear, biological and chemical weapons of mass destruction, cluster bombs, mines and uranium.

In addition, we follow a **best-in-class approach** for individual stocks: the company must achieve at least a “Prime -1” status within its sector on ISS ESG.



Companies can only qualify as a sustainable underlying if they do not violate the exclusion criteria and meet both the minimum rating and the “best-in-class approach”!

3.3.2 SHARE BASKET

Each individual underlying in the share basket must meet the conditions for the individual share (3.3.1) in order to be classified as a sustainable underlying.

3.3.3 INDICIES

Indices for which the index sponsor clearly describes in its index concept that the index pursues sustainability goals can be classified as sustainable. In addition, the following companies / government issuers must be excluded from the index concept:

- Companies involved in serious violations of the UN Global Compact
- Companies that manufacture, maintain or trade in controversial and / or morally unacceptable weapons: >0% of turnover
- Companies involved in the production of coal or the production of energy from coal: >25% of turnover
- Companies involved in weapons production or distribution: >10% of turnover
- Companies involved in tobacco production: >5% of turnover
- Sovereign issuers are excluded if they are under-scored on the Freedom House Index⁷

3.3.4 FUNDS AND FUND INDICES

Irrespective of the legal form, funds established under Article 8 of the Disclosure Ordinance⁸ and which take into account adverse sustainability effects and / or for which a minimum is invested in sustainable investments according to Article 2 Item 17 of the Disclosure Ordinance (so-called “Article 8+ funds”) qualify as an underlying for a sustainable investment product.

Funds that are categorised according to **Article 9 of the Disclosure Regulation** can qualify as an underlying for a sustainable investment product.

All other funds do not qualify as a sustainable underlying.

This above logic also applies to fund indices that consist of a cash or money market component or of one or more funds. If the fund index consists of several funds, then each individual fund must be an “Article 8+ fund” and / or an “Article 9 fund”.

For funds that refer to an index (e.g. most ETFs = Exchange Traded Funds), the above rules apply, as well as the rules for indices (3.3.3) in order to be considered as an underlying for a sustainable investment product.

3.3.5 RAW MATERIALS / COMMODITY

Until a common market standard has been established, no commodity / raw materials (spot, future, future index) will be classified as a sustainable underlying.

3.3.6 CREDIT LINKED NOTES

The classification with regard to sustainability depends on the reference debtor (e.g. companies or states). Accordingly, the same rules apply as under 3.3.1, 3.3.2 or 3.3.3.

3.3.7 INTEREST RATES AND CURRENCIES

If the product relates to an interest rate, interest rate index or currency, the structure of the bond is decisive for the sustainability classification. For example, if the bond classifies itself as a social⁹ or green bond¹⁰ as a sustainable bond, this classification is also applied to bonds that relate to interest rates or currencies. Example: A green bond that refers to a currency is marked as a sustainable investment product.

3.3.8 UNDERLYINGS WITHOUT SUFFICIENT ESG DATA

Underlyings for which no or only insufficient ESG data are available cannot be classified as underlyings for sustainable investment products. This may be the case, for example, if the rating agency ISS ESG does not rate the company or the underlying is considered as a “non-standard underlying” (e.g. volatility or dividend indices).

3.4 THE PRODUCT TYPE

In accordance with the DDV sustainability code, leverage products and products that rely on a falling underlying are excluded from classification as sustainable products. This also applies to products that only partially benefit from a downward movement, such as, for example, Twin-win certificates.

⁷<https://freedomhouse.org/report/freedom-world/freedom-world-2018>

⁸REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability – related disclosures in the financial services sector

⁹Social-Bonds are bonds where the proceeds are used to finance social projects.

¹⁰Green-Bonds are bonds where the proceeds are used to finance climate- and/or environment protection projects

4. A, B or C?

Sustainability preferences for sustainable investment products

If an investment product meets all of the above criteria, it qualifies as a “structured investment with sustainable properties”. However, every sustainable investment product also needs a sustainability preference, which is expressed with the letters A, B or C.

A = A product that is invested for a certain proportion in ecologically sustainable investments as described in Article 2, Item 1 of the EU taxonomy regulation. The taxonomy regulation was adopted by the European Commission in 2020 and is part of the “Action Plan for Financing Sustainable Growth” which is intended to direct capital flows into ecologically sustainable economic activities.

B = An investment product that is invested to a certain extent in sustainable investments as described in Article 2, Item 17

of the EU SFDR regulation. The SFDR is the EU Disclosure Regulation, which tries to ensure greater transparency about the extent to which financial products have ecological and / or social characteristics, invest in sustainable investments or pursue sustainable investment goals.

C = In order to be classified as a C product, so-called “Adverse Sustainability Impacts” (PAIs) must be taken into account. This consideration takes place at the level of UniCredit Bank AG as the issuer.

Starting on August 1, 2022, UniCredit Bank AG will classify its products with the respective letter A, B or C as sustainable if the criteria described are met. The range of products and variety will be gradually expanded.

5. ISS ESG – Our independent rating agency



The independent ESG rating provider ISS ESG determines whether a company meets the ESG criteria set by UniCredit Bank AG and thus qualifies as an underlying for a sustainable investment product.

ISS ESG is the responsible investment arm of Institutional Shareholder Services Inc., the global leader in ESG solutions for investors, asset managers, hedge funds and wealth services providers. With more than 30 years of experience in the field of corporate governance and 25 years of experience in providing in-depth sustainability research, ISS ESG is the partner of choice for institutional investors. With the solutions from ISS ESG,

they can develop and integrate sustainable investment policies and practices and monitor corresponding portfolio companies through screening solutions. ISS ESG also provides climate data, analytics and advisory services that enable investors to measure, understand and assess climate-related risks across all asset classes. ISS also provides ESG research and ratings on companies and countries, enabling its clients to identify material social and environmental risks and seize opportunities. This holistic range of solutions is supplemented by an established standard for the analysis, evaluation, forecast and consideration of the financial dimension of companies.

6. Our ESG Label



Investment products classified as sustainable by UniCredit Bank AG according to the criteria described above receive our ESG label. This can currently be found on the first page of the respective product brochure.





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