Task Force on Climate-related
Financial Disclosures

TCFD
Report 2023

Empowering
Communities to Progress.

UniCredit

Contents

2023 was a **year defined by transformation**

Dear Stakeholders,

UniCredit's pan-European footprint means we see first-hand how changing environmental conditions are impacting our society.

In Europe alone in recent years, we have witnessed a concerning increase in climate-related issues. Wildfires are spreading, rising sea levels are threatening our coasts, and this year was the hottest summer on record, as extreme weather increasingly disrupts our lives and economies – something we have seen up close through the terrible recent flooding in Bologna and indeed across Italy.

It is abundantly clear that the just and fair transition we are all working towards cannot happen soon enough if we are to prevent a deepening of this crisis.

This transformation is a responsibility that we continue to take seriously at UniCredit. We cannot be the bank for Europe's future without addressing our impact on the environment, as well as our social impact and governance framework. We believe that leading by example on key ESG issues is the right thing to do and have sought to bring our clients on this journey with us.

One of the most powerful ways we have done this is through the direct financing of environmental initiatives, empowering clients and communities alike to progress by supporting renewable energy projects and energy efficiency efforts.

Our actions continue to be governed by steadfast principles and values, and we seek to go above and beyond any targets where the outcomes are clear and positive.

We are members of the Net Zero Banking Alliance, setting Net Zero targets of 2030 for our own emissions and 2050 for our financed emissions portfolio.

Earlier this year, we announced 2030 targets for the shipping and commercial real estate sectors and in doing so, have now outlined our ambitions for seven of the most carbon-intensive sectors.

Moreover, as the traditional scope of ESG broadens, we have also expanded our focus to embrace nascent topics including biodiversity and the circular economy, and in May this year, we published our Statement on Natural Capital and Biodiversity.

Having already addressed several nature-related issues (adopting the Equator Principles, for example, and publishing policies on sensitive sectors alongside commitments on human rights), this represents our first comprehensive Natural Capital framework in which biodiversity and climate issues are interrelated.

Of course, we recognise that our activities can have both positive and negative impacts on natural resources and the environment. This understanding enables us to manage and mitigate any potential negative impacts that could harm the planet and our communities, while also playing an active role in supporting the necessary transition to more sustainable practices.

With our unique footprint across Europe and on the ground presence, we can be a true pioneer in creating behavioural change – helping clients in higher-emitting sectors to transition while integrating ESG into our own day-to-day operations.

In doing so, we are creating a new benchmark in our industry and shaping a better future.

Andrea Orcel
Chief Executive Officer UniCredit S.p.A.

UniCredit's ambition is to be the **Bank for Europe's future**

As confirmed by the World Meteorological Organization, 2023 has been the hottest year on record by a clear margin and Europe is currently the fastest-warning continent, with temperature rising at twice the global average rate. Adverse impacts of climate change are increasing and in July 2023, for the first time in history, the World Health Organization Regional Office for Europe declared climate crisis and related extreme weather events a public health emergency in Europe.

From a regulatory perspective, 2023 also represents a landmark year as EU regulatory bodies increased their focus on preventing greenwashing and introduced some pivotal reporting regulations aiming to improve transparency and accountability on sustainability, such as the entering into force of the additional environmental objective of the EU Taxonomy Regulation (circular economy, water and marine resources, pollution prevention and control, biodiversity and ecosystems) and the adoption of the Corporate Sustainability Reporting Directive just to mention the most impactful.

Furthermore, climate change and climate risk have become key concerns for policy makers at central banks and in banking supervision, with financial institutions expected to play a central role in providing capital to finance the green transition and mitigate impacts and manage risks of climate change. For this reason, concerted action between public and private sectors is critical to a successful energy transition and to the mitigation of impacts and the management of the risks of climate change. In this context, the financial system has an important role in the Net Zero journey, with more than $80 billion in climate finance commitments agreed in COP28.

At UniCredit, we are committed to playing our part. We are striving to reduce our direct and indirect environmental impacts while supporting Europe's green transition. Our climate strategy is founded on the identification and awareness of all the climate-related risks that UniCredit may encounter and the potential opportunities arising from the transition to a low-carbon economy. We actively engage and support corporate clients in transitioning to a lower carbon business model, helping them to fully exploit green business opportunities. Furthermore, we aim to assist our clients in achieving a just transition, ensuring fairness throughout the process.

In this context, we committed to Net Zero in October 2021 when we joined the Net Zero Banking Alliance (NZBA), targeting Net Zero on our own emissions by 2030 and on financed emissions by 2050. Since then, we put in place concrete actions to achieve Net Zero on our own emissions. We also set intermediate 2030 targets to reduce our financed emissions on some of the most carbon-intensive sectors in our loan portfolio: Oil & Gas, Power Generation, Automotive and Steel, with the recent addition of intermediate targets on Shipping and Commercial Real Estate.

In the first quarter of 2024 we also published UniCredit inaugural transition plan which is a further important step in our Net Zero journey. It illustrates how we are turning our commitments into actions, making our targets operational, and ensuring all relevant functions of the Bank can contribute.

In addition, at the beginning of 2024 we published our Statement on Natural Capital and Biodiversity. It represents our first comprehensive Natural Capital framework in which biodiversity and climate issues are interrelated.

We all know that a successful transition cannot be achieved overnight and a concerted effort by all stakeholders is necessary. We will continue to lead by example and play our part as the bank for Europe's future.

Fiona Melrose
Head of Group Strategy & ESG

TCFD Recommendations and Supporting Recommended Disclosures

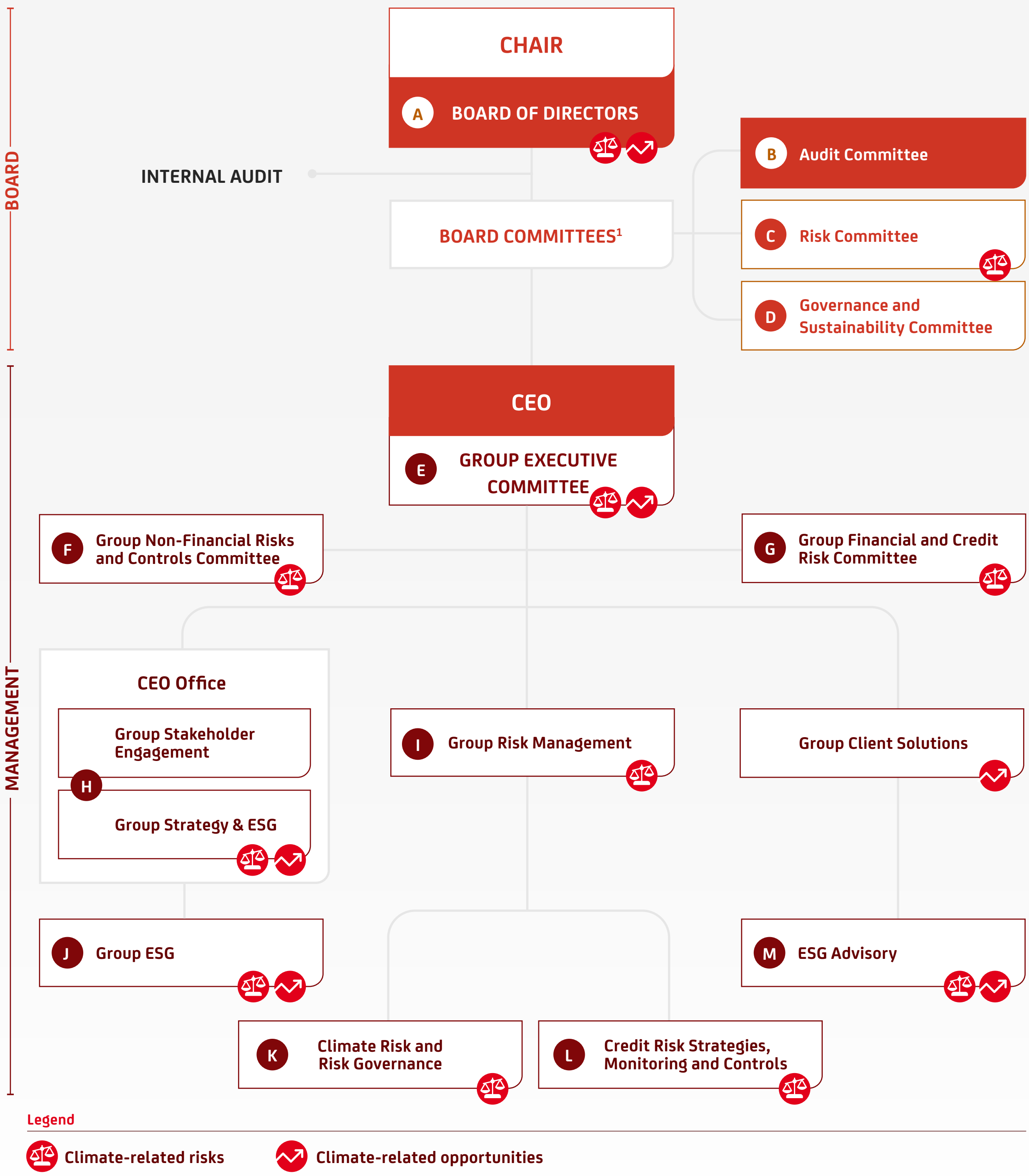
In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. The disclosure recommendations are structured around four thematic areas that represent core elements of how companies operate: Governance, Strategy, Risk Management, Metrics and Targets.

Governance

Governance of climate-related risks and opportunities

We have significantly strengthened our sustainability governance in recent years, underpinning our drive to further integrate climate criteria and other ESG-related matters into the Group strategy. These changes concern both the Board and managerial levels of our governance.

Governance of climate-related risks and opportunities



1. The full suite of Board Committees includes also the Remuneration Committee, the Nomination Committee, and the Related-Parties Committee

Corporate bodies oversight

As of 12 April 2024, UniCredit operates under a one-tier corporate governance system based on the existence of a Board of Directors and an Audit Committee, established within the Board itself, both appointed by the Shareholders' Meeting.

A **UniCredit's Board of Directors** defines the overall strategy of the Bank and the Group, of which the Group's ESG Strategy and its associated KPIs are an important pillar, and oversees its implementation over time. The Board approves the Group Risk Appetite Framework (RAF) which establishes the desired risk profile vis-à-vis its short and long-term strategic objectives and business plan. For monitoring purposes, dedicated Climate Risk KPIs have been included in the Risk Appetite Framework, enabling the Bank to oversee the evolution of transition and physical risks it is exposed to.

Competencies of the Board members

80%

of the Directors in office (i.e., 12 out of 15) **have expertise in Sustainability (ESG)**

B **The Audit Committee** assesses the suitability of periodic financial and non-financial information to correctly represent the Company's strategy and its sustainability, also with reference to the ESG factors.

C **The Risk Committee** supports the Board of Directors in risk management related matters, performing all the activities instrumental and necessary for the Board to make a correct and effective determination of the Risk Appetite Framework (RAF) and of the risk management policies. In particular, the Risk Committee supports the Board of Directors:

(i) in defining and approving the risk management strategic guidelines, framework and policies, including those regarding climate and environmental risks, non-compliance risk, and risk data quality; and

(ii) in verifying that risk strategies, management policies and the RAF are correctly implemented.

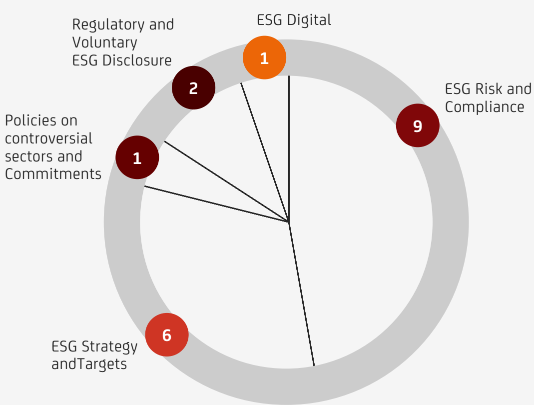
D **The Governance and Sustainability Committee** provides advice and support to the Board on matters related to corporate governance and in fulfilling its responsibilities, while pursuing sustainable success as an integral component of the Group's business strategy and long-term performance. In particular, it supports the Board on sustainability and ESG-related matters (with the exception of all risk-related ESG components, such as climate and environmental risks, which fall under the remit of the Risk Committee). The Committee – upon the evaluation of its Chair and the CEO – carries out preliminary activities, analyses and submits proposals regarding the Group's sustainability and ESG framework, policies and guidelines.

Board activities on climate-related risks and opportunities[2]

11
Meetings in which climate-related issues were discussed

5
Main thematic areas of work

19
Items discussed[3]



Items include

ESG Risk and Compliance
– Risk Appetite Framework: climate-related KPIs
– Climate and Environmental Risk roadmap
– Greenwashing prevention

ESG Strategy and Targets
– Net Zero commitment: priority sector targets and strategy progress
– Remuneration policies
– ESG targets monitoring

Policies on controversial sectors and Commitments
– Update on Policies application

Regulatory and Voluntary ESG Disclosure
– Integrated Report
– Pillar III disclosure

ESG Digital
– ESG Data Architecture and Digital

2. Activities carried out from January 2023 to March 2024, prior to the renewal of the Board resolved by the 12 April 2024 Shareholders' Meeting
3. Some items were discussed in multiple meetings

Governance of climate-related risks and opportunities continued

Management role

At management level, dedicated committees and specialised functions ensure the implementation of the Group's strategy while effectively assessing and managing climate-related risks in accordance with the approved RAF. These functions also capitalise on the business opportunities that emerge from the transition to a low-carbon economy.

E **The Group Executive Committee (GEC)** is the Group's most senior executive committee and is chaired by the CEO. Its mission includes establishing the banks' comprehensive ESG strategy. It also ensures the efficient steering, coordination and control of the Group's business, as well as the alignment between the parent company and the various businesses and geographies regarding strategic topics such as ESG issues, including the development of strategies and initiatives related to climate change, and setting relevant targets and guidelines at the Group level. Furthermore, the GEC acts as risk council of the Group with overall responsibility for risk management and control. In dedicated Risk sessions, which have approval as well as consulting and proposal powers, the GEC supports the CEO in coordinating and monitoring all categories of risks and in steering ESG-related matters, thereby ensuring a dedicated focus on Climate and Environmental risks, among others.

H **The Group Strategy & ESG and Group Stakeholder Engagement** functions work together as a **CEO Office**[4], handling all important initiatives for the CEO. These initiatives include strategy development, M&A, the integration of ESG criteria into our business operations, stakeholder management and dealing with regulatory affairs.

J **The Group ESG function,** part of Group Strategy & ESG, steers the definition and implementation of the Group's ESG strategy. It ensures the ESG framework is consistent with the Group's principles and Purpose and with relevant international standards and practices. Moreover, the function is tasked with, inter alia, developing the social agenda and related proposition, overseeing the adoption of relevant policies and standards, and with monitoring and disclosing the Group's ESG impacts and results. This includes the Group's annual sustainability disclosure, UniCredit's TCFD Report, and the implementation of the Principles for Responsible Banking-UNEP FI and related reporting.[5] Furthermore, Group ESG, in collaboration with all relevant functions of the Bank, is involved in Net Zero target setting and governance.

M On the business opportunity side, **ESG Advisory**, part of Group Client Solutions, is a multi-disciplinary solutions team focused on enabling clients to create long-term stakeholder value by integrating sustainability into their strategic decisions, including by:

- providing independent first-class advisory services aimed at building resilience and adaptability to climate change while exploiting transition opportunities;
- assessing the impact of applicable regulations, sustainable finance market principles and practices, market trends and stakeholders' expectations on clients' business models;
- steering the company's strategy communications with investors, advising on ESG Ratings and reporting;
- identifying the most suitable solutions based on the defined strategic positioning.

To help customers seize opportunities arising from the ecological transition, dedicated teams have been established in all major countries where the Group operates. These teams are responsible for developing and offering new ESG-related products and services for both coporate - large and SME - and individual clients, in line with the Group's targets and ambitions.

Further teams and experts. ESG matters are embedded across our Group through dedicated teams and experts in several Group functions which manage, inter alia, climate-related topics in line with their areas of competence, such as Risk & ESG Solutions within the Group Digital Solutions department. The Compliance and Regulatory Affairs functions also have resources dedicated to these issues.

4. Also includes the Group CEO Staff
5. The function also co-coordinates the Group's conversion project towards implementation of the Corporate Sustainability Reporting Directive (CSRD) together with the Group Finance function

Climate risk management

Within the Bank's Risk Management function, the management of Climate and Environmental (C&E) risk has become increasingly significant and strategically important, undergoing a substantial transformation in recent years. C&E risk is embedded across the three main risk management pillars of credit, financial and non-financial risks, with the aim of identifying, measuring, monitoring and managing C&E risk impacts at central and local levels. The following are the main structures directly involved in Climate risk management:

E **The Group Executive Committee (GEC)**, in addition to its role in steering the overall business of the Bank, ensures a dedicated focus on Climate and Environmental Risks, as detailed above.

F **The Group Non-financial Risks and Controls Committee (GNFRC)** supports the CEO in steering and monitoring non-financial risks. For example, it approves governance policies and guidelines for the management of reputational risk regarding sensitive sectors.

G **The Group Financial and Credit Risk Committee** defines strategies, policies, operational limits and methodologies for Credit risk, Market risks and Financial risks.

I K L **The Group Risk Management function** supports the CEO in defining the Group Risk Appetite proposal, to be shared with the Group Executive Committee and the Risk Committee and submitted to the Board of Directors for approval. This process occurs in coordination and in alignment with the yearly budget plan. The function is also responsible for defining the climate risk framework at Group level and for supporting local implementation. Within the various risk areas, specific employees and functions are dedicated to the integration of climate topics within risk management activities and the effective dissemination of the appropriate knowledge. Such functions include: **Climate Risk and Risk Governance** which oversees climate-related and environmental risks, and **Credit Risk Strategies, Monitoring and Controls** which manages the integration of climate and environmental factors within the credit risk cycle.

Training

Several training initiatives focused on ESG and climate change-related risks and opportunities are in place at all levels of the Bank to address various needs.[6] A range of these training initiatives is shown below.

Training initiative from January 2023 – June 2024

Name of the initiative	Target	Climate-related topics
Board of Directors Onboarding	Board members	– Path to Net Zero[7]
Board of Directors Training	Board members	– Focus on climate-related and environmental risk: supervisory authorities' expectations[8]
Board Committees Training	Board Committees members	Sessions on:[9] – Climate and Environmental risk regulatory context and market practices – Opportunities and constraints with ESG data and the European ESG regulatory framework
ESG Programme for Group Executives (in partnership with PoliMi Graduate School of Management)	Group Executives	Among the topics covered: – ESG Risks and Impacts: Focus on Climate change – The Economic Impact of Climate Change for Companies and Banks – Climate Risk Assessment Strategies – Climate Risk Management
ESG Fundamentals	All Group colleagues	Among the topics covered: – Introduction to Climate Change (from the Paris Agreement to COP 26) and to Climate Risk and UniCredit's response
ESG Teach-In	All Group colleagues	Among the topics covered: – Net Zero fundamentals – UniCredit's commitment to the Net Zero Banking Alliance and its alignment with the Paris Agreement emission reduction goals
ESG corporate advisoring certification (in partnership with PoliMi Graduate School of Management)	Business colleagues in the corporate division (Italy)	Among the topics covered: – Climate change – Energy transition – Circular economy
Sustainable Finance Expert (in partnership with the European Business School)	Business colleagues in the retail, wealth management and corporate and client solutions divisions (Germany)	Among the topics covered: – Regulatory requirements – EU taxonomy – Net Zero
Net Zero webinars	Business and Risk colleagues working on Net Zero topics	Among the topics covered: – Client Transition Plan Assessment – Net Zero impacts on Group Risk Management Framework
ESG LookOut! Calls	Selected colleagues working on ESG topics	Among the topics covered: – The Biofuels Sector

6. For more information refer to the 2023 Integrated Report, Human Capital chapter
7. Dedicated to the Board after its renewal resolved by the 12 April 2024 Shareholders' Meeting
8. Dedicated to the Board before its renewal resolved by the 12 April 2024 Shareholders' Meeting
9. Dedicated to the former ESG Committee and the Internal Controls & Risk Committee, before the new set-up of the Board's Committees effective from 12 April 2024

Dedicated climate risk training to support the Risk Management function

We developed a dedicated climate-risk learning offer specifically for the Risk Management function to enhance the relevant competencies. The training was customised according to role and, in particular, to engage employees in climate risk-related activities.

Training was delivered across three key areas:

- for all **Risk Management employees**, the learning offer was aimed at providing the fundamentals on climate risk and covered a broad range of topics, including ESG Strategies, Social and Governance matters, environmental and social products and initiatives, ESG strategic commitments and Impact Measurement model;
- for **Risk Management employees** partially or fully dedicated to climate risk-related activities, we provided a specific learning offer to upskill their competencies according to market developments: in particular, a training course on 'Climate Risks Governance and Management' provided an overview of climate risk and the risk management framework (identification of the threshold of KRIs, inclusion within the ICAAP and focus on the expectations of the ECB), and a course focused on 'Climate Risks in the Banking Sector' provided an overview of how the banking sector is moving towards the integration of C&E elements;
- for **Climate Risk Experts**, we provided a specialist in-class training path on climate risk topics, including climate risk governance and strategy implementation with deep dives on each topic.

Remuneration

Our Remuneration Policy has been developed to support the achievement of the UniCredit Unlocked strategic plan, in which the ESG strategy of the Group plays a crucial role.[10]

Following a proposal of the Remuneration Committee, which was subsequently approved by the Board of Directors, we formulated comprehensive scorecards for the CEO and top management which include a core set of our ESG targets, in order to foster the alignment of management with the Group's current and future ESG ambitions. The inclusion of these KPIs is also intended to promote the alignment of management's interests with those of shareholders.

The overall 2024 variable remuneration for the CEO and the other Executives with Strategic Responsibilities will depend on the degree of achievement of the short-term performance scorecard.

For the CEO and selected individuals belonging to the GEC and their first reporting line, **60% of the bonus will be deferred and subject to additional long-term performance conditions**, defined at Group level and covering the three years following the 2024 annual performance (i.e. from 2025 to 2027).

Amongst the long-term performance conditions, Sustainability (non-financial section of the scorecard), including climate-related KPIs, is weighted to account for **20% of the overall long-term scorecard**.

Long-term performance conditions

Lever and KPIs		2025-27 Target
80% **Profitability**	**ROTE with CET1 @13%**	Avg 25-27 vs. mid term Cost of Equity (11%)[11]
20% **Sustainability**	**ESG business DE&I ambitions Net Zero commitments**	**Qualitative assessment** based on specific evidence from **current and future ESG and DE&I strategy.** KPIs are subject to the evolution of ESG strategy and regulation. Current strategy foresees: • **ESG business penetration:** support our clients in their sustainability journey offering ESG related products and services to ensure a fair share of ESG business over total (lending new production, sustainable bonds, stock of AuM), starting from 2024 ESG targets[12] as disclosed in 4Q2023 Fixed income presentation and successive updates as per ESG strategy • **DE&I Ambitions,** including reduction on Gender Pay-Gap (through 110m EUR investment in strategic plan horizon and successive updates as per DE&I strategy) and gender parity ambition across the organizational levels • **"Net Zero" commitments**: progress vs. Net Zero 2030 target on the four most carbon intensive sectors within the portfolio, which include Oil & Gas, Power Generation, Automotive, and Steel, recently added. Targets have been set as per press release of January 31, 2023 and January 18, 2024, using the International Energy Agency (IEA) Net Zero 2050 pathway as the benchmark scenario.

10. Refer to the 2024 Group Remuneration Policy and Report available in the Governance section of our website (www.unicreditgroup.eu) for more information
11. RoTE calculated as per current methodology. In case of methodological changes or material change of the macro-economic scenario (eg. more than 100 bps in interest rate vs budget assumptions), the Board retains the faculty to mechanically recast long-term targets according to the updated scenario
12. Percentage of ESG lending new production (including Environmental, Social and Sustainability linked lending) on overall medium/long-term lending new production: group 2024 target set at 15%; percentage of Sustainable bonds (for corporates and financial institutions, excluding Sovereign, Supranational and Agency Long Term Credit) on all bonds: group 2024 target set at 15%; percentage of ESG assets under management stock on Total of assets under management stock: group 2024 target set at 50%

Remuneration continued

As part of the additional long-term performance conditions, the sustainability goal is primarily aimed at supporting clients in their green and social transition, while also embedding sustainability and diversity, equity and inclusion (DE&I) ambitions into the UniCredit culture. This goal includes a specific focus on climate risk through Net Zero commitments.

The above-mentioned goal is subject to a qualitative assessment based on specific evidence derived from both current and future ESG and DE&I strategies.[13]

The current strategy envisages:

ESG business penetration:
- Percentage of ESG lending[13] new production on overall Medium/Long Term lending new production: Group 2024 target set at 15%;
- Percentage of Sustainable bonds[14] on all bonds[14]: Group 2024 target set at 15%;
- Percentage of ESG Assets under Management stock on Total Assets under Management stock: Group 2024 target set at 50%.

DE&I ambitions:
- Gender parity across our organisation and a more diverse, inclusive and sustainable workplace, in accordance with Italy G20 Women's Forum CEO Champion Commitment 'Towards the Zero Gender Gap';
- c.€100 million allocated to ensuring equal pay for equal work over 2022-2024 cumulative.

Net Zero:
- Progress vs. Net Zero commitments on four of the most carbon intensive sectors within the portfolio which include Oil & Gas, Power Generation, Automotive and Steel (see the Metrics and Targets chapter for more details).

In order to align the Group's management remuneration structure and reinforce management's commitment to our ESG strategy, these objectives are cascaded to the reporting line of the CEO and extended to the organisational levels below.

In particular, the long-term sustainability goal is assigned to the entire Group Material Risk Takers (GMRT) population (i.e. those categories of staff whose professional activities have a material impact on an institution's risk profile) belonging to business functions up to the level of Group Executive Committee-1.

All other GMRT scorecards for the assessment of short-term performance include at least one ESG goal. These goals can be selected from a cluster of ESG KPIs included in the KPI Bluebook, a catalogue of performance indicators reviewed annually by the relevant key functions within the Group. ESG Strategy and Net Zero are among the ESG KPIs defined in the Bluebook.

13. Refer to the 2024 Group Remuneration Policy and Report available in the Governance section of our website (www.unicreditgroup.eu) for more information
14. Including Environmental, Social and Sustainability linked lending
15. For corporates and financial institutions, excluding Sovereign, Supranational and Agency Long Term Credit

Strategy

Our environmental and climate strategy

Sustainability is at the core of UniCredit's strategy and it is embedded in all our day-to-day actions and decisions.

We know that fulfilling our Purpose of empowering communities to progress would not be possible without meeting the highest ESG standards across the whole Group.

UniCredit's approach to preserving Natural Capital is based on tangible actions that aim to mitigate direct and indirect impacts. It has therefore been based on the double materiality concept which considers both an inside-out and an outside-in perspective.

We recognise that our activities (mainly lending) can have both positive and negative impacts on natural resources and the environment. This understanding enables us to manage and mitigate any potential negative impacts that could harm the planet and communities, while also influencing the market to support the necessary transition to more sustainable practices.

Inside-out perspective

Manage the direct and indirect impacts that our operations and lending have on the environment

Indirect impacts

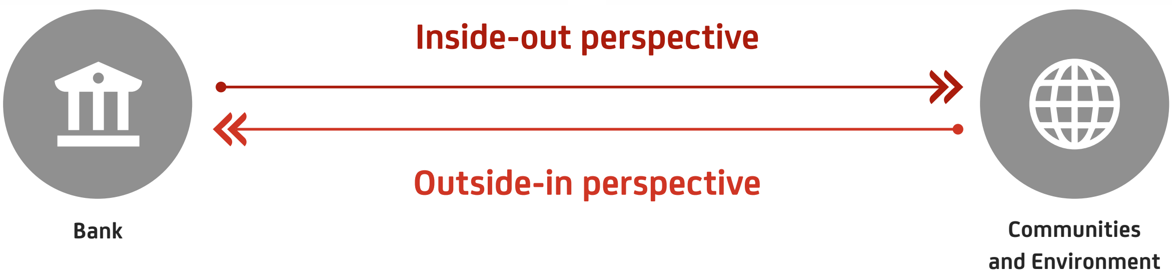
Accompany our clients on their **green transition journey** by:

- Assessing and monitoring our **portfolio exposure** towards most nature-related sectors
- Identifying and evaluating the **impacts on nature**
- Adopting a **sector policy framework**
- Defining the journey towards **Net Zero on portfolio emissions**

Direct impacts

Reduce our **environmental footprint** by:

- Steering our behaviour towards **Net Zero on own emissions**
- Procuring electricity from **renewable sources**
- Improving **energy and space efficiency**
- Fostering the **circular economy** and efficient use of resources



Outside-in perspective

Prepare to measure the business consequences of ecological stress and the associated socioeconomic transition and take advantage of emerging opportunities

- Executing our **Group strategy**
- Correctly **managing climate and environmental risks,** in line with the agreed Risk Appetite Framework (RAF) and the ECB climate stress test requirement

Climate-related risks and opportunities

Our climate strategy is founded on the identification and awareness of all the climate-related risks and opportunities that the Bank may encounter.

We **identify, analyse and assess climate-related risks,** including transition as well as physical risks, with the aim of incorporating them into the Bank's comprehensive risk management framework.

Managing Climate & Environmental (C&E) risks has become increasingly significant and strategically important in recent years, and our approach has transformed to **consider factors other than climate, such as biodiversity and circular economy**. This approach is embedded across the three main risk management pillars – credit, financial and non-financial risks – with the aim of identifying, measuring, monitoring, and managing C&E risk impacts, for both transition and physical risks.

In order to properly assess the potential impacts of climate-related risks for the Group, **we run climate scenario analysis and stress testing**. A full description of these processes is provided in the Risk Management section.

The table below provides an overview of each identified **climate-related risk,** its potential impacts, the corresponding time horizons (short-, medium- and long-term)[1] and the actions undertaken to monitor and mitigate these risks.

Potential Climate-Related Risks	Time Horizon[1]	Main Potential Impacts	Specific Actions	Overarching Actions
Transition risks Changes in or introduction of public policies and/or environmental regulations	Short and medium/ long term	– Reduction of business for corporate clients with potential drawbacks on creditworthiness/solvency – Financial implications arising from environmental/ESG regulations and GHG emission limits and/or taxes applied to clients operating in specific economic sectors – Reduction of Group profits deriving from concentration on sectors more sensitive to climate-related risks	– Inclusion of ESG risks considering both counterparty scoring (including the use of an internally developed questionnaire) and energy performance certificates (EPC) and when assessing credit applications – Enhancement of Market and Liquidity risk framework to incorporate the assessment, monitoring and control of ESG risks – Integration of industry steering signals within the Credit Risk Strategies framework, based on relevant Climate & Environmental (C&E) factors	– Definition of data governance processes and related IT investments to integrate ESG risk into the risk management framework – Participation in international working groups and commitments related to climate, such as the Net Zero Banking Alliance, stakeholder engagement initiatives and active collaboration with policy makers – Risk identification process and materiality assessment, including stress tests, to evaluate the significance of climate-related risks in the short-, medium- and long-term horizons – Inclusion of specific KPIs related to transition and physical risks within the Risk Appetite Framework. The risk appetite is then cascaded to more granular levels via risk strategies and policies – Promoting a sustainable culture within the organisation by developing ESG training courses and workshops
Transition risks Technological changes	Short and medium/ long term	– Increase in costs for corporate clients with potential drawbacks on creditworthiness/solvency		
Transition risks Changes in customer/ consumer preferences	Short and medium/ long term	– Reduction of business for corporate clients with potential drawbacks on creditworthiness/solvency – Potential changes to the offering of products and services to clients		
Transition risks Changes in customer or community perceptions	Short and medium/ long term	– Reputational impacts or negative perceptions from the community or Stakeholders due to inadequate management of climate-related risks	– Environmental sector policies and their subsequent implementation – A Reputational Risk assessment to evaluate the positioning of clients and specific projects in relation to climate-related topics	

1. Short-term 2030, Medium-term 2030-2040, and Long-term 2040-2050

Climate-related risks and opportunities continued

Potential Climate-Related Risks	Time Horizon[2]	Main Potential Impacts	Specific Actions	Overarching Actions
Physical risks **Acute** Extreme weather events such as floods, droughts, heavy rainfall, heatwaves, fires and hail **Chronic** Chronic weather events such as variations in average temperatures and sea level rise	Short and medium/long-term	– Financial implications resulting from corporate/retail clients being damaged by extreme weather events, potentially impacting their creditworthiness/solvency – Potential damage to the Bank's infrastructure and the potential disruption of activities – Increase in energy supply costs due to higher heat/electricity demand – Potential fires, driven by rising temperatures, affecting areas in proximity to the Bank's buildings – Potential impact of sea level rise on buildings located near the sea – Reduced productivity due to higher temperatures	– Inclusion of ESG risks considering counterparty scoring – Monitoring of physical risks both on counterparties within our portfolio and individual collaterals	– Definition of data governance processes and related IT investments to integrate ESG risk into the risk management framework – Participation in international working groups and commitments related to climate, such as the Net Zero Banking Alliance, stakeholder engagement initiatives and active collaboration with policy makers – Risk identification process and materiality assessment, including stress tests, to evaluate the significance of climate-related risks in the short-, medium- and long-term horizons – Inclusion of specific KPIs related to transition and physical risks within the Risk Appetite Framework. The risk appetite is then cascaded to more granular levels via risk strategies and policies – Promoting a sustainable culture within the organisation by developing ESG training courses and workshops – Signing (2022) of the Finance for Biodiversity Pledge (FfB) and participation as member to the working table on Biodiversity of the UNEP FI

2. Short-term 2030, Medium-term 2030-2040, and Long-term 2040-2050

We have identified **several potential opportunities arising from the transition to a low-carbon economy** that have an impact on both on Group business and operations.

These opportunities are described in the table below:

Segment	Opportunity	Time Horizon[3]	Main Potential Impact
Business – Individual Solutions	Enlarge our environmental retail product offering in the areas of renewable energy lending and energy efficiency lending, in alignment with the most recent European regulations	Medium-term	Increased revenues due to growing demand for renewable energy/ energy efficiency funding as a result of specific EU policies
	Keep our investment product strategy aligned with the latest regulations and develop an enriched ESG products proposition to better meet our customers' sustainability appetite	Medium-term	Better competitive position that reflects shifting consumer preferences, resulting in increased revenues
Business – Corporate Solutions	Enhance our ESG proposition with the support of selected ESG partners and develop adequate tools to assess our corporate clients in their ESG journey, providing them with the best solutions for a just and fair green transition	Short-term	Better competitive position that reflects consumers' ESG journeys, resulting in increased revenues
	Advise clients to take advantage of strategic initiatives and subsidised finance options to facilitate the achievement of their decarbonisation goals	Short-term	Improvement in reputation and positive return in terms of overall investments by customers
	Strengthen our product and service offering to meet our customers' needs and support them in improving their sustainability profile	Medium-term	Increased revenues due to growing demand for ESG products and services
	Reinforce our competencies providing strategic advisory and debt arranging in the main energy perimeter transition sectors to support our clients' energy transition journey	Medium-term	Increased revenues due to greater diversification of customers' financial assets
Operations	Reduce the environmental impact of our buildings and assets (offices, branches, data centres) by leveraging electricity from renewable sources and optimising energy and space efficiency	Medium-term	Reduction in energy costs and improvement in reputation through better ESG positioning

3. Short-term 1 year, Medium-term 1-3 years

Climate-related risks and opportunities continued

Deep dive

Our position on Nature

At the beginning of 2024, we published our **Statement on Natural Capital and Biodiversity**[4] – which can be found alongside our other policy frameworks[5].

We had already addressed several nature-related issues, including by adopting the Equator Principles, for example, and by publishing our policies on sensitive sectors alongside commitments on human rights and rainforests. However, this statement represents our first comprehensive Natural Capital framework in which **biodiversity and climate issues are interrelated.**

We are the **first Italian bank to sign up to the Finance for Biodiversity Pledge (FfBP)**.

As signatories of the FfBP, we aim to **disclose our initial level of action by 2025.**

We have also contributed to the first climate and nature nexus paper titled **'Unlocking the biodiversity-climate nexus'[6].**

Furthermore, we are members of the **Working Group on Nature** within the United Nations Environment Programme Finance Initiative (UNEP FI), related to Principles for Responsible Banking (PRB). We are proud to be the only Italian bank – among 34 international peers – to have contributed to the publication of the **'PRB Nature Target Setting Guidance'[7].**

Internally, we are developing **specific training** on biodiversity and climate issues to ensure basic awareness for all. We have also created a dedicated pathway for specific roles more exposed to the topics in collaboration with international universities.

Notably, alongside our **Net Zero targets and Transition Plan[8]**, our Natural Capital Framework also considers the **Circular Economy** as a key lever for change. We aspire to be at the forefront here by integrating such considerations into our business operations, alongside climate-related initiatives.

We have also participated in the **Working Group on Pollution and Circular Economy** within the UNEP FI, related to Principles for Responsible Banking (PRB), and have recently contributed to the paper "Circular economy: The nexus with environmental and social impact"[9]. This paper includes guidance for operationalising the nexus between circular economy and climate, nature and pollution, as well as healthy and inclusive economies. The central focus of the guidance is on how banks can integrate support for the transition to a circular economy into their Principles for Responsible Banking journey, while creating synergies with other impact areas such as climate, nature, pollution and healthy and inclusive economies. The guidance also provides supplements on the Textile, Buildings and Construction sectors which recommend concrete actions banks can take to integrate circularity in policies and processes, and to increase funding for circular solutions and opportunities across the value chain.

4. The Statement is available in the ESG and Sustainability section of our Group website (Statement on Natural Capital and Biodiversity)
5. Visit the dedicated section on our Group website for more information (ESG Sustainability Policies and Ratings)
6. Visit the dedicated website for more information (Unlocking the biodiversity-climate nexus - Finance for Biodiversity Foundation)
7. Visit the dedicated website for more information (PRB Nature Target Setting Guidance – United Nations Environment – Finance Initiative)
8. Refer to the "Net Zero progress and our inaugural transition plan" section in this report for more information
9. Visit the dedicated website for more information (Circular Economy as an Enabler for Responsible Banking: Leveraging the Nexus between Circularity and Sustainability Impact – United Nations Environment – Finance Initiative)

Net Zero progress and our inaugural transition plan

Our commitment to Net Zero

Climate change is one of the biggest challenges that the world faces, impacting every person on the planet through weather events such as extreme heat, forest fires, severe rainfall and flooding.

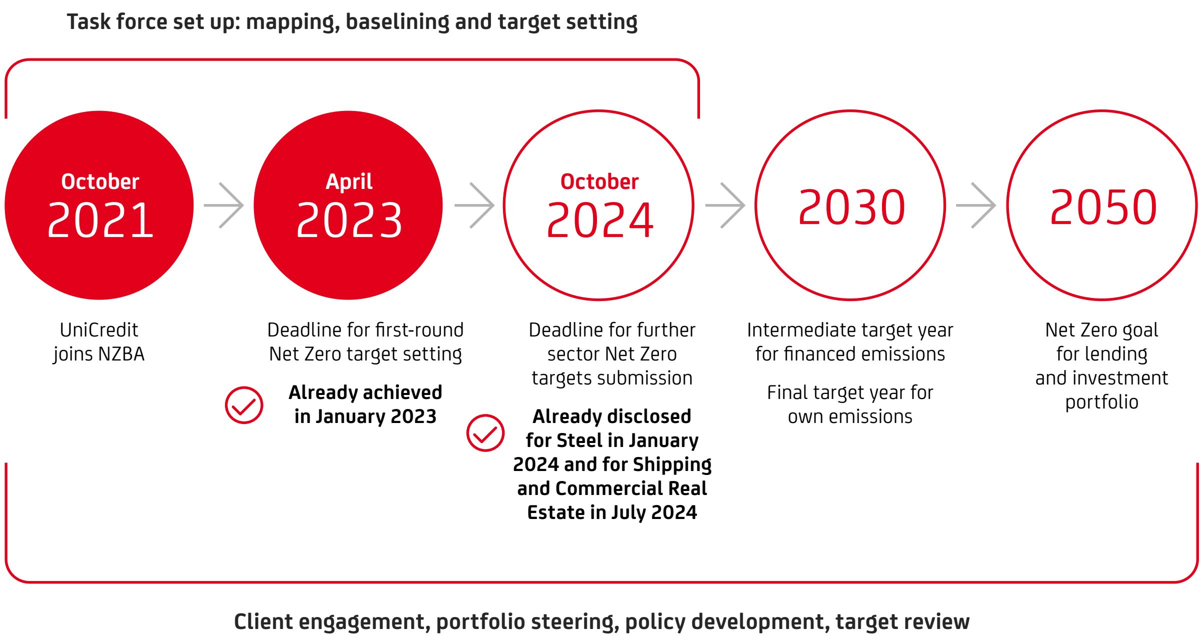
2023 was the warmest year in human history and scientists expect temperatures to continue rising. Concerted and coordinated action between public and private sectors is critical to a successful energy transition and to the mitigation of impacts and the management of the risks of climate change. In this context, the financial system has an important role in the Net Zero journey, with more than $80 billion in climate finance commitments agreed in COP28.

At UniCredit, we are committed to playing our part. We are striving to reduce our direct and indirect environmental impacts while supporting Europe's green transition. In this context, we committed to Net Zero in October 2021 when **we joined the Net Zero Banking Alliance (NZBA), targeting Net Zero on our own emissions by 2030 and on financed emissions by 2050.**

Since then, we put in place concrete actions to achieve Net Zero on our own emissions. We also set intermediate 2030 targets to reduce our financed emissions on some of the most carbon-intensive sectors[10] in our loan portfolio: Oil & Gas, Power Generation, Automotive and Steel, with the recent addition of intermediate targets on Shipping and Commercial Real Estate.

Small and low-materiality sectors will not be considered for the definition of Net Zero intermediate targets. However, we will continue to monitor them to ensure our approach remains open for future adjustments, if necessary.

Our path towards 2050 Net Zero targets



10. Based on Net Zero Banking Alliance sectors

Net Zero progress and our inaugural transition plan continued

Our inaugural transition plan

In line with NZBA requirements and the Glasgow Financial Alliance for Net Zero (GFANZ) recommendations, our transition plan represents a further important step in our Net Zero journey.

Since joining the NZBA, we have established 2030 intermediate sectoral targets and identified actions needed to achieve them. In 2023, we dedicated significant effort to designing and setting up the internal engine needed to make our targets operational, involving all the relevant functions of the Bank to deploy the actions identified. 2024 will focus on turning our commitment into actions, cascading the Net Zero transition plan to the whole Group.

Designing the first version of UniCredit's transition plan has been a **cross-functional strategic exercise**, that also required a deep understanding of the external context and **challenges on the road to Net Zero,** most of which apply to the whole financial sector.

We recognise that financial institutions will only be **effective enablers of the transition if appropriate policies, standards and conditions are in place in the real economy.**

This is why we are collaborating with external stakeholders with the aim of clarifying the role of banks and how we can effectively assist our clients. In setting our plan for the years ahead, we are also working to take into account different voluntary frameworks, guidelines and criteria on transition, set by different market-based initiatives and third-sector entities, recognising that **a common framework would simplify execution** and benefit the entire sector.

The landscape is still evolving, with many assumptions still to be made and regulatory requirements to be set. We therefore regard this plan as an **opportunity to provide transparency on the progress we have been making in our journey to Net Zero along with the challenges we have been dealing with** to support our clients in their decarbonisation path.

In addition, we have established a broader ambition to support our clients on a just and fair transition – which means **going beyond Net Zero** to take into account more broadly natural capital (e.g. biodiversity loss) and social aspects (e.g. impact on workers in carbon-intensive sectors, impact on vulnerable categories, etc.). The transition will impact employment, especially in the energy sector, with workers experiencing rapid changes and job insecurity. **Balancing these aspects is a relevant challenge** for the whole financial sector, and this will require adjustments to our strategy in the coming years.

Furthermore, in common with the entire financial sector, we are working to **act on challenges linked to data availability and reliability**. We rely on clients and external providers for data on real economy transition, such as clients' transition plans. However, such plans are still nascent, variable in quality and with key data points often missing, with consequent risks of inappropriate transition choices.

Finally, we are not only facing challenges but also opportunities. If investments in clean energy are still below the expected levels to achieve Net Zero, this does nevertheless open up new business opportunities for financial institutions to help companies to decarbonise.

In light of the above-mentioned challenges and opportunities and the dynamic and forward-looking nature of the transition planning exercise, the **UniCredit transition plan will be updated over time** based on the evolution of our overall ESG Strategy and the speed at which we are accompanying our clients in their own transition.

The following sections illustrate the key content of our transition plan. In line with the GFANZ guidelines for financial institutions, our plan covers:

- Our **foundation** of Net Zero objectives and priorities
- Our **engagement strategy** to foster dialogue with clients and other key stakeholders on transition
- The **implementation strategy** we are deploying to embed Net Zero considerations into our daily activities
- The **metrics and targets** we set on Net Zero, and the levers we use to achieve them, by sector
- How our **ESG governance** supports the transition

Foundation

Our ambition and progress on our own emissions

Even though financed emissions account for most of our climate impact, the management of our own environmental footprint is also key to becoming a Net Zero bank. Our ambition is to reach **Net Zero on own emissions** (Scope 1 and 2, market-based) **by 2030.**

We have established well-defined objectives to contain our environmental footprint. **Renewable energy** sourcing is a crucial step on our path towards achieving Net Zero on our own emissions, together with **space optimisation, energy efficiency, and transforming our heating systems**.

We continue to make progress with our approach to green energy procurement, with an increase in electricity procured from renewable sources in 2023.

Moreover, we are the first bank in Italy to have closed a **corporate PPA (Power Purchase Agreement)** to fulfil the energy demand of our data centres. This agreement will strengthen UniCredit's Group-wide Green Energy Procurement strategy, and serve as an example of best practice across our geographies.

In addition to renewable sourcing, we are also committed to improving the space and energy efficiency of our buildings. In 2023, we introduced a **new Smart Office Workplace Policy** to improve the quality of the built office environment with a focus on hybrid solutions, health, well-being, and sustainability. Furthermore, in light of the hybrid way of working in our headquarters and the reduced office attendance by employees, we optimised our HQ footprint by releasing selected buildings and creating newly refurbished spaces. In most of our buildings, we have consolidated our efforts in applying smart energy control systems, improved thermal insulation, adapted temperature settings for heating and cooling, and improved the algorithms that manage Heating, Ventilation, and Air conditioning (HVAC) and lighting controls, optimising both energy consumption and workplace comfort.

In the coming years, we plan to transform a significant number of fossil fuel heating systems into highly efficient electrical heat pumps or district heating.

The Group's guidelines for dedicated energy management measures, launched at the end of 2022 in response to the global energy crisis, were key enablers for the improvements we made to our energy consumption in 2023.

As of 2023, we have **reduced our own GHG emissions by 28% versus 2021** including by procuring electricity from renewable energy sources, improving the energy efficiency of our premises and data centres and promoting sustainable mobility solutions.

Our ambition and progress on financed emissions

UniCredit is committed to reducing its financed emissions (Scope 3, Category 15). As mentioned, to prioritise the actions required on our loan portfolio, we first set **intermediate 2030 targets on Oil & Gas, Power Generation and Automotive**, three of the most carbon-intensive sectors in our portfolio, then we added new intermediate targets for **Steel** in January 2024, and **Shipping and Commercial Real Estate** in July 2024, together with the 2022 baseline for Residential Real Estate.

Since setting our first Net Zero targets in 2023, emissions **decreased for the Oil & Gas sector, as well as** physical intensity **for the Power Generation sector**, in line with their transition trajectories. Physical intensity remained quite stable for Automotive mainly due to a change in the granularity of data used for emissions baseline estimation. Further details on our progress and action plans by sector are provided in the Metrics and Targets section of this report.

Net Zero progress and our inaugural transition plan continued

Engagement strategy

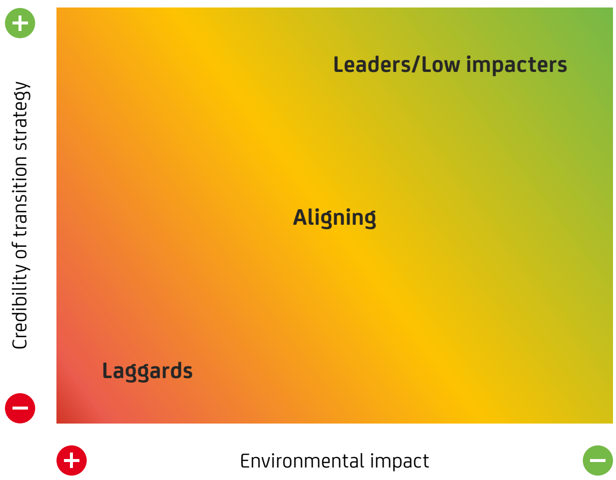
Our engagement strategy outlines how we can most effectively engage key stakeholders in the transition path. These stakeholders include our **clients,** as well as **financial institutions, industry-led associations, regulators, governments, and policymakers.**

Client engagement

Partnering with our clients for a just and fair transition is one of the pillars of our ESG strategic framework and has been at the core of our ESG Strategy for the last few years. Our purpose is to help clients accelerate their transition by providing them with effective advisory, tools and appropriate financing support.

To further tailor our approach to the needs of different clients, we have defined specific **Net Zero clients' engagement strategies**. First, we **clustered our Net Zero clients** based on their actual impact on our financed emissions and on their forward-looking transition strategy, thereby identifying transition leaders, clients aligning to transition, and laggards vis-a-vis transition. The next stage was to set **differentiated engagement strategies** by client cluster and sector, ranging from retaining/expanding our relationship with leaders, to active engagement of aligning clients, and gradual reduction of our support to laggards. In all cases, we regard **green and transition finance as a key lever to assist our clients' transition**, especially for those who are not yet leaders on the transition journey, as explained in the Products and Services section of this chapter.

Net Zero client clusters



To ensure our approach is based on strong foundations, one of the key challenges we face is to develop an accurate **understanding of our clients' transition strategy**. To tackle this, we are currently developing a **bespoke approach to reading and interpreting our clients' transition plans**, when available, and to strategically engage with them on their decarbonisation strategy. Based on internationally recognised frameworks and sectoral initiatives on transition planning (e.g. GFANZ, CDP, CA100+), we have selected key qualitative and quantitative elements for evaluating the level of maturity of our clients' transition strategies.

We have already started to apply the bespoke approach with pilot cases, and plan to collect this information for our Net Zero sectors' clients based on publicly disclosed documents, ensuring our business is ready to have specific dialogue on these topics. In addition, we will rely on external experts to further strengthen our understanding of our clients' transition plans.

This approach represents a fundamental part of our Net Zero engagement strategy to facilitate insightful and data-driven discussions with existing and prospective clients regarding new opportunities to finance their transition and mitigate potential risks.

ESG forms part of the daily dialogue with our clients, both from a strategic and a commercial point of view. We have a **dedicated ESG Advisory team** that supports our business networks across all geographies in assessing and addressing clients' ESG-related needs. Furthermore, at local level we benefit from **dedicated expert roles**. For example, we have set up a team of ESG Experts to support Relationship Managers in the origination and structuring of ESG deals for corporate clients across all Italian commercial regions. Also in Germany we have dedicated supporting roles, such as the Sustainable Finance Experts.

Engaging with other stakeholders

As mentioned, we are operating in a dynamic environment, with the emergence of new, interconnected topics relevant to the transition that are not yet clearly regulated. In this context, **we aim for constant dialogue with key external stakeholders** to ensure a shared approach to reach Net Zero.

This is why UniCredit constantly engages with **sector associations** to help shape financial institutions' role in supporting the real economy transition. For example, we are taking part in NZBA working groups where we provide feedback to set clear guidelines and standards. Furthermore, we maintain active dialogue with **policymakers and regulators** on Net Zero through sector associations such as the Institute of International Finance (IIF), the Association for Financial Markets in Europe (AFME) and the European Banking Federation (EBF), which provide input and feedback on the role of financial institutions in achieving climate goals, on the framework for transition finance and on transition planning.

As we believe that a true transition can only be achieved through a **systemic industry approach**, we maintain constant dialogue with a broader set of stakeholders to understand key trends in the sectors where we have set targets. For example, in the energy sector we understand the importance of **resilience and energy security,** which is why it is one of the topics discussed in our **European Energy Transition Forum**.

This forum brings together senior representatives from leading energy companies with international institutional investors. Thanks to our business industry experts, we are able to gain a deeper understanding of our clients' situations, enabling us to develop **360-degree support to clients**, not only on financing but also advising them on which strategic solutions can be adapted to their transition journey. We also act as **facilitators between larger clients, smaller clients and startups** across geographies, enabling connections that help clients in specific sectors sharing best practices in line with their transition strategies.

More generally speaking, the participation of financial institutions in **industry-led initiatives** is crucial to the provision of the tools required for clients' transition, developing concrete investment projects, and arranging financing. In turn, this fundamental dialogue also enables corporates to understand how to make their projects bankable.

To support our clients' transition, we also **partner with institutional stakeholders to channel additional financing.** In 2023, for example, we signed an agreement with the European Investment Fund (EIF), part of the European Investment Bank (EIB) Group, to channel €1bn to small businesses across seven countries in Central and Eastern Europe.

We also strive to **engage locally with industry sectors and other stakeholders** in the countries where we are present. For example, UniCredit Bank Austria is working together with WWF Austria on consistently anchoring sustainability goals in its lending portfolio and is also a partner in Klimaaktiv, alongside 10 other companies in Austria. The Klimaaktiv pact envisions a reduction in greenhouse gas emissions by participating companies of at least 50% by 2030, compared to 2005. Members of the Klimaaktiv pact are regularly and rigorously audited. Annual inspections and robust criteria guarantee that the pact partners meet the requirements for climate-friendly business in a credible manner.

Finally, in November 2023 we held our **inaugural ESG Day, "Empowering a Just and Fair Transition"**, a one-day event dedicated to meetings and discussions involving both internal and external stakeholders, including employees, clients and partners, as well as renowned ESG experts. The opening panel session was dedicated to climate change and the green transition, "The road ahead: Safeguarding the climate in troubling times", with the participation of experts from different disciplines, including representatives from NGOs.

Implementation strategy

A key pillar of UniCredit's transition plan is our implementation strategy, which defines how we integrate **Net Zero considerations into all our core business activities and decision-making processes.** There are five main components to this strategy:

1. **Target setting**
   to ensure we structurally embed Net Zero into our planning process for the coming years, constantly adjusting our Net Zero trajectory based on the most recent data and effectively cascading it through the organisation

2. **Monitoring**
   to effectively track our progress against our Net Zero targets, and to identify corrective measures in case of deviations

3. **Risk management**
   to ensure we adequately manage the different risks (reputational risk, climate and environmental risk and credit risk) linked to our clients' transition to more sustainable business models

4. **Products and services**
   to effectively assist our clients' journeys to Net Zero

5. **Supporting tools**
   to ensure the organisation has all the relevant information to operate in this space

Net Zero progress and our inaugural transition plan continued

1. Target setting

The process for target definition involved a broad **cross-functional working group** with support from our ESG, Risk Management, Finance and Business functions. It entailed the development of a **dedicated internal methodology** to calculate our emissions baseline and to project its potential future trajectory, based on Net Zero reference market practices (SBTi, PCAF, IEA) and on sector guidelines (e.g. by NZBA). It also required **gathering new information from external and internal data sources** and using tools to model the future evolution of our financed emissions. Once targets were set, they were broken down by division and cascaded to the whole organisation.

This activity has already become **part of our normal activities** to ensure we constantly adjust our targets over time based on our financed emissions' evolution. This is why in 2023 we already started working to embed target setting, breakdown, and cascading activities into our existing planning processes, assigning clear responsibilities within existing governance and setting up adequate tools to systematically gather and model all data required.

2. Monitoring

Monitoring our progress against targets is fundamental to the effective and timely steering of our loan portfolio. To achieve this, we have set up a **dedicated process to track our Net Zero KPIs evolution** vis-à-vis our baseline and targets.

The Net Zero monitoring process demands strong collaboration between all Net Zero involved functions (Risk Management, Finance, ESG, Digital and Business) given high interdependencies between targets breakdown, targets cascading and data strategy. It requires that we not only track the evolution of our exposure on existing clients but also periodically refresh climate data for the calculation of climate impact. In this context, **data strategy is critical** to improve coverage and ensure quality, also leveraging on specialised providers.

Thanks to the new monitoring process we have put in place, we are now able to provide our business functions with dedicated periodic reports on Net Zero impact evolution, including all underlying drivers needed to steer our Net Zero portfolio.

3. Risk management

As a result of our commitment to sustainability, we have been embedding **climate and environmental risks in our risk framework across all the various risk types** (credit risk, financial risks, non-financial risks).

We started to integrate climate factors within our Risk Appetite Framework and our Risk Strategies for managing credit, financial and non-financial risks. We developed a specific methodology and process based on a dedicated climate and environmental questionnaire to determine our clients' position on the transition pathway. We introduced sector-specific policies which commit us to stop financing controversial carbon-intensive activities, such as energy production from thermal coal and the most impactful Oil & Gas operations (e.g. tar sands, fracking, ultra-deep water drilling, arctic extraction, etc.) and to phase out similar financing that had been granted in the past, before the policy came into effect. We continually update our policies to ensure that the most recent evolution of related risks are considered and properly managed.

In 2024, we are further building on this approach by introducing **specific considerations on the sectors in our portfolio for which we set intermediate Net Zero targets**, i.e. we:

- Updated our **Oil & Gas policy** by integrating Net Zero provisions as a driver for the reputational risk classification of customers
- Introduced specific KPIs related to our Net Zero targets into our **Risk Appetite Framework** (RAF)
- Included more comprehensive qualitative guidelines to incorporate Net Zero commitments in our **Credit Risk Strategies**
- Embedded **Net Zero client strategies into the credit process** (see Engagement strategy section of this chapter for more details)

4. Products and services

In line with UniCredit ESG Strategy, in the last few years we have been at the forefront of sustainable lending. We are supporting many of our clients with dedicated products such as green loans (aligned to market standards such as ICMA or EU Taxonomy), green financing in partnership with public entities at local and European level (e.g. Kreditanstalt für Wiederaufbau, European Investment Fund, etc.), sustainability linked loans and much more.

Moreover, since starting our Net Zero journey we realised that **supporting our clients also with dedicated transition finance is key to reaching our Net Zero ambition.** There are many different definitions of financial products that constitute "transition finance", including those proposed by the International Energy Agency, GFANZ, OECD, and United Nations. Most definitions generally focus on financial offers dedicated to reducing real economy emissions by financing either transitional activities or high emitters transitioning to Net Zero.

We have established our own internal definition of transition finance based on EU Commission recommendations and included it in our **ESG Product Guidelines** at the end of 2023. This is a key enabler to support Net Zero clients that are aligned with our path. Our ESG guidelines apply to all Group countries. They aim to define a comprehensive methodology for the homogeneous classification and reporting of UniCredit's ESG products and services offer, and define the criteria for eligibility. The objective is to protect the Group against greenwashing and social washing risks. The guidelines also require our clients to have certified transition plans in place to access transition finance, so that we ensure that the required financing is dedicated to eligible transition initiatives.

Accounting is a key challenge related to financing transition: in fact, a **transition finance loan may lead to a temporary increase in financed emissions** and move us further away from our targets in the near term. To address this, we are working to provide adequate disclosure of our transition finance volumes in our future reporting. Furthermore, we aim to develop methodologies to quantify medium- to long-term expected benefits in terms of reduced financed emissions.

Finally, to effectively identify which of our products are most effective for our clients, we will continue to leverage our dedicated ESG functions such as the ESG advisory team, which helps business network colleagues analyse clients' ESG needs and identify the most appropriate products to support them.

5. Supporting tools

To provide all involved UniCredit functions with relevant Net Zero information and methodologies needed to effectively implement our transition strategy, we are also **upgrading our supporting tools and introducing new functionalities,** e.g.:

- Introducing **clients' transition plans assessment** functionalities into existing tools
- Displaying **Net Zero relevant data by client** (including their impact, cluster and recommended strategy) to our business network leveraging on existing dashboards
- Enabling business colleagues to **simulate Net Zero impact** at single deal and portfolio level through dedicated tools

The additional functionalities described above were designed during 2023 with the involvement of cross-functional working groups from the ESG, Risk Management, Business and Digital functions, and will be progressively rolled-out and fine-tuned during 2024.

In addition, in March 2023 we announced the **partnership with ENI Open-es,** an alliance that brings together entrepreneurial, financial and associated networks. Open-es supports all stakeholders on their sustainable development path through a digital and innovative platform which aims to equip our clients with a best-in-class tool to enable their decarbonisation path.

Deep dive

Open-es partnership

In March 2023, we announced the partnership with ENI around Open-es, an ecosystem initiative that aims to enhance cross-business collaboration and support companies in measuring and improving their ESG performance.

Open-es is an alliance that brings together entrepreneurial, financial and associative networks, supporting all stakeholders on their sustainable development path through an innovative digital platform.

Launched by Eni in 2021 and currently **involving more than 21,000 companies and 25 partners as of June 2024**, Open-es is an inclusive and collaborative community that is committed to achieving ESG targets.

Our role is to act as a value-chain leader partner in this alliance, thereby playing a **strategic role** in the sustainable development of the Italian corporate sector and, more broadly, with initiatives and solutions aimed at companies of every size.

Our participation in Open-es has once again underlined our ambitions to achieve our Net Zero targets by 2050 providing our corporates clients with a best-in-class tool for mapping and improving their ESG profile, as well as demonstrating our commitment to supporting clients and communities on the path towards a just and fair transition.

In addition **to promoting synergies** for companies in terms of efficient sharing of information, the partnership created by Open-es between the **financial and industrial sectors** also plays a key role in **enabling investments** and **encouraging the concrete actions necessary** for the development of sustainability across the entrepreneurial system.

Open-es
ecosystem sustainability
powered by Eni

Net Zero Governance

Over the last few years, we have continued to evolve our organisation to further integrate climate-related criteria into the Group Strategy. In support of our commitment to Net Zero, the most recent updates to our approach to ESG governance include the establishment of **a dedicated Net Zero project** at Group level, which was initially set up in 2022 and is led by a cross-functional team. This project brings together ESG, Finance, Risk Management, Business and Digital to identify and implement the key actions needed to define and support our transition strategy.

To further highlight its strategic importance, the Net Zero Project – which is divided into two sub-projects: financed emissions and own emissions – is also part of the Group ESG Roadmap.

The Group ESG function works with the relevant bank functions across all aspects of Group Strategy and ESG – and is therefore integral to our Net Zero Governance initiatives.

As a key part of our transition plan, we are working to increasingly **embed Net Zero into our core banking processes**, such as the planning, risk and business processes. As part of this effort, we embedded Net Zero KPIs into our Risk Appetite Framework (RAF), as mentioned before in the Risk Management section.

In terms of our clients, we are leveraging the Bank's existing ESG functions, further promoting crucial capabilities – such as our **ESG advisory experts** – that have pivotal roles in the client engagement process.

To support our enhanced ESG governance processes and maintain our Net Zero momentum, during the year we delivered **dedicated Net Zero training sessions** at Group level for UniCredit internal functions involved in all our operating countries. Our training focus was on the key skills and knowledge needed for Net Zero decision-making. These modules included: basic training on Net Zero fundamentals; how to assess clients' transition plans; clients' Net Zero engagement strategies and their implications for the credit process; and transition finance and its applicability for Net Zero clients.

Finally, to ensure the right commitment of the organisation, we also **aligned our remuneration policy to Net Zero objectives**. We introduced Net Zero KPIs in the Sustainability Section of our Top Management long-term performance conditions. The Sustainability Section (non-financial section of the scorecard) has a 20% weight of the overall long-term scorecard.

International and institutional initiatives

We have a long track record of strengthening and demonstrating our ESG commitments by adhering to significant international and institutional sustainability initiatives:

TCFD	**Task Force on Climate-related Financial Disclosures (TCFD)**	– **2019** Endorsement of Task Force on Climate-related Financial Disclosures (TCFD) – **2020** First standalone report with disclosure aligned with TCFD recommendations
UN environment programme finance initiative	**UNEP FI Principles for Responsible Banking (PRB)**	– **2019** We signed the UNEP FI Principles for Responsible Banking (PRB) aimed at supporting banks in aligning their business strategy with society's goals – **2020** We joined several working groups organised by UNEP FI in support of PRB implementation. UNEP FI PRB reporting was disclosed – **2021** We signed UNEP-FI commitment to Financial Health and Inclusion – **2022** We joined the permanent working group on Nature
Sustainable Development Goals	**UN Sustainable Development Goals (SDGs)**	– **2015** The UN Sustainable Development Goals (SDGs) were published. We have contributed since then by monitoring our progress via measurable KPIs, resulting from the management of material topics and related risks and opportunities
EBA European Banking Authority	**European Banking Authority (EBA)**	– **2020** We voluntarily joined the European Banking Authority (EBA) first pilot sensitivity exercise held by banks which aimed at providing a preliminary estimate of sustainable exposures based on EU green taxonomy. Results published during 2Q21
European Hydrogen Forum	**European Hydrogen Forum**	– **2021** We became a member of the European Clean Hydrogen Alliance. The Alliance aims at the deployment of hydrogen technologies by 2030
GFANZ Glasgow Financial Alliance for Net Zero	**Net Zero Banking Alliance**	– **2021** We joined the Net Zero Banking Alliance, the banking element of the Glasgow Financial Alliance for Net Zero (GFANZ) – **2023** We disclosed first-round targets on Oil & Gas, Power Generation and Automotive sector within our path towards Net Zero – **2024** We disclosed second-round targets on Steel, Shipping and Commercial Real Estate
Sustainable Steel Principles	**Sustainable Steel Principles**	– **2021** We are among the six global banks that have formed the Steel Climate-Aligned Finance Working Group facilitated by RMI's Center for Climate-Aligned Finance – **2022** We signed the Sustainable STEEL Principles, a climate-aligned finance agreement for the steel sector
Finance for Biodiversity Pledge	**Finance for Biodiversity Pledge**	– **2022** We signed up to the Finance for Biodiversity, the only international pledge fully dedicated to financial institutions and committed to call on global leaders and to protect and restore biodiversity through their finance activities
Ellen MacArthur Foundation	**Ellen MacArthur Foundation**	– **2022** We became a Member of the Ellen MacArthur Foundation's international charity network to support our approach to accelerating the circular economy transition across our countries

Risk Management

Integrating climate risk management into our risk framework

At UniCredit, we recognise that Climate & Environmental Risk factors are crucial elements in safeguarding our clients' portfolios and assets from climate-related risks. To achieve this goal, we are integrating climate and environmental factors into our risk management processes and procedures. Climate Risk management encompasses the identification, measurement and monitoring of these risks as well as the implementation of mitigation measures. We actively engage and support corporate clients in transitioning to a lower carbon business model, helping them to fully exploit green business opportunities. Furthermore, we aim to assist our clients in achieving a just transition, ensuring fairness throughout the process.

Every year, we conduct a detailed and thorough process to proactively identify all potential risks the Group may encounter. The primary outcome of this activity is UniCredit's risk inventory – a comprehensive list of the quantitative and qualitative risks to which the Group is or may be exposed. The risk identification process enables us to assess which risks are, or are likely to be, material considering their exposures. Material risks are determined annually using a quantitative approach that involves assessing the risk level against the materiality threshold.

In line with the European Banking Authority's (EBA)[1] and the European Central Bank's (ECB)[2] expectations, our risk identification process covers Environmental, Social & Governance (ESG) risk dimensions, assessed through the lenses of physical and transition risk drivers. We consider whether these could positively or negatively affect the risk types already incorporated into the Group's risk management framework.

ESG risks pertain to any adverse financial consequences that may arise for the Group due to the existing or prospective impacts of ESG factors on our counterparties or invested assets:

- Climate and Environmental (C&E) factors relate to the quality and functioning of the natural environment and its systems and include factors such as climate change, biodiversity, energy consumption, pollution and waste management.
- Social and Governance factors, which could have an impact on reputational risk, revolve around the rights, well-being and interests of individuals and communities. They include governance arrangements for the environmental and social factors in the policies and procedures of counterparties.

In line with the "Recommendations of the Task Force on Climate-related Financial Disclosures" (2017), climate- related risks can be divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change, described in detail below.

Transition risks refer to the risks arising from the transition to a lower-carbon economy, which may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, pace and focus of these changes, transition risks can pose different levels of financial and reputational risk for organisations. Transition risks include:

- **Policy and Legal risks** stemming from continuously evolving policy actions, which attempt to either constrain actions that contribute to the adverse effects of climate change or seek to promote adaptation to climate change, and from litigation or legal risks;
- **Technology risk** arising from technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system and that can have a significant impact on organisations to the extent that new technology replaces old systems and disrupts some parts of the existing economic system;
- **Market risk** driven by potential shifts in supply and demand for certain commodities, products and services;
- **Reputational risks** created by changing client or community perceptions of the organisation's contribution to or detraction from the transition to a lower-carbon economy.

Physical risks refer to the risks related to the physical impact of climate change. These types of risk can be event driven (acute) or long-term shifts (chronic) in climate patterns and, as such, their effects can be felt both in the short and medium/long term.

- **Acute physical risks** are event-driven, including increased severity of extreme weather events (e.g. droughts, floods, etc.);
- **Chronic risks** refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures).

1. EBA Report on management and supervision of ESG risks for credit institutions and investment firms (June 2021)
2. ECB Guide on Climate-related and Environmental risks (November 2020)

Integrating climate risk management into our risk framework continued

The connections between climate risk drivers and the risks faced by banks are referred to as transmission channels.

The likelihood and magnitude of the impact of climate risk drivers can be affected by a number of additional variables. These include: the geographic location of the bank and the assets or exposures involved, as well as the interactions and interdependencies between transmission channels and climate risk drivers that can amplify impacts and mitigating measures that can reduce or offset impacts.

Understanding these transmission channels is crucial for assessing the impact of climate risk drivers in our risk management framework. Below, we outline the climate-related risk drivers, relevant transmission channels and risk types that may be affected.

Climate-related risk drivers

Physical risk drivers

- Acute
- Chronic

Transition to low carbon economy risk drivers

- Policy changes
- Technological changes
- Behavioural / consumer preferences changes
- Client or community perception changes

Transmission channels

- Carbon price / carbon tax
- New climate-related regulations
- Stranded assets
- Damages to property
- Shifts in prices and asset values
- Increased volatility of asset prices
- Lower asset performance
- Operational disruption
- Productivity changes
- Losses of business opportunity
- Disputes, claims
- Interest rate levels
- Changes in individuals' habits
- Changes in clients' expectations
- Political decisions
- Energy Performance Certificates
- Insurance availability/ affordability/ pricing

Risk types potentially impacted

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Reputational Risk
- Business Risk
- Real Estate Risk
- Inter-risk diversification

Assessing the potential impacts of climate risks

Climate scenario analyses and stress testing

To identify and monitor climate-related risks, we carry out an annual materiality analysis which aims to assess the relevance of a range of climate-related risk drivers and their potential impact for the Group. This analysis is conducted under the normative and economic perspectives for both short-term and medium/long-term horizons. We use scenario analyses to ensure full coverage of risk types and the integration of forward-looking elements to identify how the risk types (e.g., credit risk, market risk, etc.) are impacted by transition and physical risks for different time horizons. The process also assesses capital adequacy to ensure Group resilience for the medium/long-term horizon. The outcome of the short-term assessment for the 12-month time horizon also feeds into the materiality assessment which is part of our internal risk identification process.

From a methodological perspective, the projections of credit risk impact are performed using the current distribution of bank loans. Over the time horizon (up to 2050), they assume an exposure reallocation in terms of industry/sector in line with Group Credit Strategy and ESG commitments. Similarly, for the secured portfolio some initial assumptions have been considered regarding the expected dynamics of EPC ratings for Residential/ Commercial buildings. No profit generation is considered.

The set of climate scenarios considered is provided by a qualified external provider and aims to assess and quantify potential vulnerabilities through analyses in stressed conditions for the short and medium/long-term horizons. The main climate assumptions embedded in the scenarios in terms of transition policies and level of emissions/temperature are consistent with those of the NGFS/IEA[3]. This ensures consistency with scientific climate change pathways to properly assess the impact of physical and transition risk drivers. The scenarios are extended with a more comprehensive set of variables (climate and macro-economic related) and are disaggregated at a higher level of granularity, to align with our stress testing models framework.

In particular, we deploy a central scenario (Baseline), which considers the current political context, the central macro-economic outlook and climate assumptions similar to the International Energy Agency (IEA) STEPS scenario. Baseline considers policies deemed sufficiently credible to materialise, as well as two polarised stressed scenarios with very low probability of occurrence.

The scenarios used for our 2023 climate-risk analysis are described below

Baseline	Delayed transition	Energy disorder
Central scenario	**Transition risk stressed scenario**	**Physical risk stressed scenario**
Narrative: Projection of commitment and measures currently adopted by different countries. Climate assumptions aligned with the IEA's Stated Policies Scenario	Narrative: policies are introduced in 2030, starting the transition. The delayed start implies that a more stringent policy is required to achieve similar climate outcomes by 2050, resulting in greater economic impacts. Aggressive and uncertain carbon taxation policies cause substantial inflationary pressures, stranded assets and financial instability. Government carbon tax revenues are sufficient to cover the fiscal costs of the transition.	Narrative: Increased protectionism in energy, with demand primarily met by fossil fuels, and other strategic sectors in addition to a lack of effective policy actions to address climate change, resulting in high emissions and severe temperature increase. The scenario also considers physical damage estimates attributed to changes in temperature volatility and the increasing likelihood of acute events.

The polarised stressed scenarios are modelled as deviations from the Baseline scenario's macroeconomic outlook. As such, they aim to capture climate risk driven outcomes, with varying mixes of physical (main driver of Energy Disorder scenario) and transition risks (main driver of Delayed Transition scenario).

3. Network for Greening the Financial System/International Energy Agency

Assessing the potential impacts of climate risks continued

The following heatmap depicts the results of the 2023 climate-risk scenario analysis for the short, medium, and long-term horizons, in terms of the impacts on the components of the capital adequacy ratio under the economic perspective.

2023 climate-risk scenario analysis for the short, medium, and long-term horizons

	Delayed Transition			Energy Disorder	
	Short Term	Medium-term	Long-term	Medium-term	Long-term
Credit risk	ML	ML	H	MH	H
Market risk	ML	MH	MH	ML	ML
Operational and Reputational Market risk	L	L	L	ML	ML
Business risk	L	L	ML	L	ML
Real Estate risk	L	L	MH	ML	MH

L Low impact   ML Moderately low impact   M Moderate impact   MH Moderately high impact   H High impact

The short-term column refers to the impact for each risk type, considering the maximum impact of the two stressed climate scenarios. The same exercise is carried out for the medium and long-term horizons (i.e., 2030, and 2040-2050) to isolate transition and physical risk drivers. Credit Risk is the most affected component and reaches its peak in the long-term in the scenario with no climate policies and increased protectionism ("Energy Disorder"), which embeds lower economic growth and a rise in the frequency of extreme natural events with consequent increase of default rate and depreciation of real estate collateral. High/moderately high impacts are estimated for Credit Risk, Real Estate Risk and Market Risk[4] under the Delayed Transition scenario driven by a disorderly transition, reaching a peak in 2050.

In the short-term period, the impacts on credit risk are expected to be limited in respect of:

- Low % of exposures in Stage 2 and the relevant counterparts operating in highly vulnerable sectors (1.7% of Total Gross Loans)
- Average maturity of loans in stage 2 toward highly vulnerable obligors of around 4 years
- Limited number of Collateral Properties located in geographic areas prone to extreme natural events (e.g., flood/wildfire) with an average LTV of 31%

The outcomes of the 2023 short-term materiality assessment performed within the standard Internal Capital Adequacy Assessment Process (ICAAP) framework, complemented by further concentration analyses and stress scenarios, suggest a limited impact of climate-related risk drivers. Similarly, the outcome of the liquidity impact of climate-related risks also reveals a limited materiality of the exposures to these risks in the Internal Liquidity Adequacy Assessment Process (ILAAP). According to the long-term assessment, the capital position of the Group is adequate considering the potential impact of climate-related risks on a longer time horizon.

4. Calculated based on internal methodology which considers an instant loss defined as the maximum negative shock up to 2050

Risk Appetite Framework

UniCredit's Risk Appetite provides an integrated view of business and risk strategy ensuring strategic plan execution within the risk capacity a bank is willing to assume. It establishes the Group's desired risk profile, driving short-term and long-term strategic objectives, and is supervised by the UniCredit Board of Directors.

The Risk Appetite Framework (RAF) is composed of three key elements:

- **Risk Appetite Statement (RAS)** provides a strategic view of and guidance on the target risk profile and is expressed via qualitative statements
- **Risk Appetite Dashboard** quantitative KPIs with related targets and risk tolerance thresholds for proactive risk steering
- **Risk Strategies** ensure the cascading of the Risk Appetite to more granular levels via operative indicators, limits and controls

Since 2020, dedicated Risk Appetite Statements are drawn up regarding C&E risks, including the definition of UniCredit's commitment to assist its clients in a just and fair transition and the continuous integration of C&E risks within the Risk Management framework.

Dedicated quantitative C&E risk-related KPIs have been included in the Risk Appetite Dashboard since 2022, addressing both transitional and physical C&E risks.

As of 2024, the following C&E KPIs are included in the Risk Appetite Dashboard and regularly monitored at Group level and certain significant Legal Entities High Transition risk exposure KPI – aimed at measuring the Group's exposure against largest counterparties that appear more vulnerable along the transition path towards a lower-carbon economy, based on information retrieved through Climate and Environmental Questionnaire during credit application.

Physical risk KPI designed to measure potential damages that extreme climate-related acute physical risks events could cause to the Group's collateral portfolio. The KPI is monitored at Group Level and as of 2023 is applied to certain significant Legal Entities.

- **Net Zero KPI** defined on the following 3 priority sectors with the same metrics used to set 2030 targets (financed emissions and physical intensity), to steer accordingly the portfolio in 2024:
  - Oil & Gas: Financed Emissions ($MtCO_2e$)
  - Power generation: Physical intensity (gCO_2e/kWh)
  - Automotive: Physical intensity (gCO_2e/vkm) .

As an integral part of the Group Risk Appetite monitoring process, C&E KPIs are subject to an **escalation process** (in the case of risk tolerance threshold breaches) with related corrective/mitigation actions to be defined, when needed. The Group Board of Directors is informed of the breach and remedy actions (if any) on a quarterly basis. As of today, no breach in any of the defined thresholds has taken place.

Credit Risk

Transition risk in the credit portfolio – focus on industry view and assessment at counterparty level

We have been working on the identification, measurement, monitoring and mitigation of transition risk. We use different metrics to measure the transition risk of the portfolio, and also considers the distribution of the credit portfolio by industry.

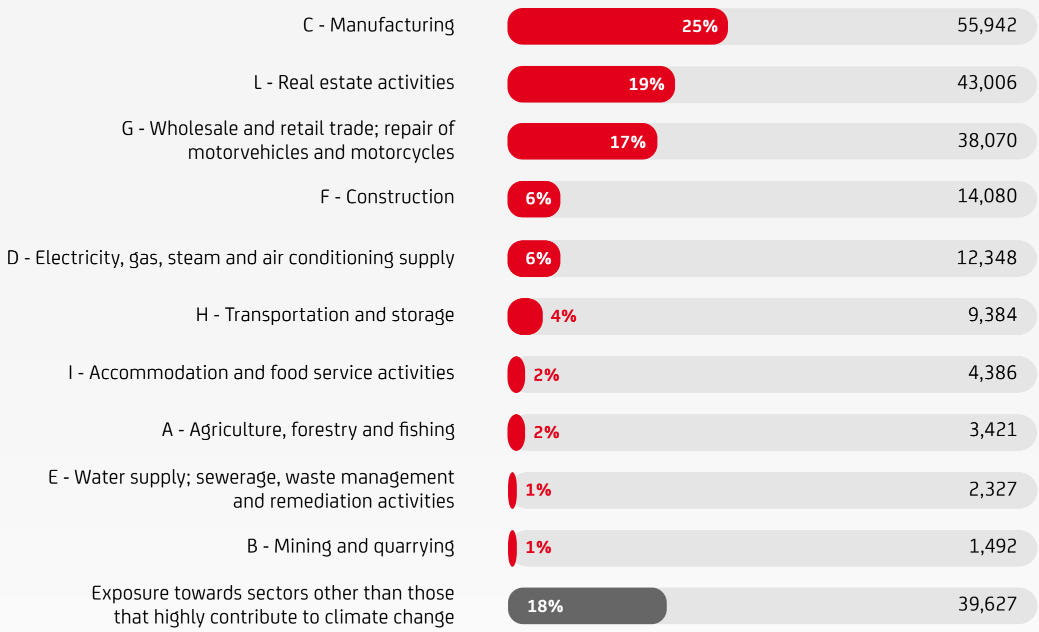
The corporate portfolio (Non-financial corporate exposure, as defined by FINREP), has a Gross Carrying Amount (GCA) of €224 bn as of December 2023. Around 20% of GCA is represented by sectors (e.g. Financial and insurance activities, Information and communication, Professional, scientific and technical activities, Activities of extraterritorial organisations and bodies) that do not contribute greatly to climate change, consistent with the regulatory taxonomy.

The rest of the portfolio is very diversified across industries; the most relevant sectors are: Manufacturing, 25% of GCA, Real Estate 19%, and Wholesale and retail trade 17%.

We also carefully assess concentration at geographic and single client levels.

Among these industries, exposure to the NACE sectors showing higher GHG Intensity[5] accounts for 16%. Exposures are broadly diversified across sectors, with a relatively higher concentration in electricity and gas supply and base metal production.
The same considerations can be made in terms of gross fee and commission income percentage.

Distribution of Non-financial corporate GCA, gross fee and commission income and gross interest income by higher GHG intensity sectors (as of December 2023)



The percentages shown in the graph refer to the incidence of sector exposure to total NFC portfolio exposure.

5. (> 1000 tCO_2 e/m €) based on the ECB climate stress test

Distribution of Non-financial corporate GCA, gross fee and commission income and gross interest income by higher GHG intensity sectors (as of December 2023)

NACE sector	Short sector description	% GCA	% Gross fee and commission income	% Gross interest income
A01	Agriculture	2%	1%	2%
B05-B09[6]	Mining	0%	0%	0%
C19	Petroleum	1%	1%	1%
C20	Chemicals	2%	2%	2%
C23	Non-metallic minerals	1%	1%	1%
C24-C25[7]	Metals	4%	5%	4%
D35	Electricity & Gas	6%	3%	6%
H50	Water transport	1%	0%	1%
Total (on total NFC portfolio)		**16%**	**13%**	**17%**

6. Mining includes the mining of coal and lignite, extraction of crude petroleum and natural gas, mining of metal ores, other mining and quarrying and mining support service activities
7. Metal includes the manufacture of basic metals and manufacture of fabricated metal products, except machinery and equipment

Credit Risk
continued

We have developed a comprehensive approach to assess and manage transition risk. The outcome is a Risk Management framework that is fully consistent with the RAF and is based on three pillars:

- **Specific Reputation Risk Policies** (see dedicated section within Non-financial Risks)
- Dedicated **Industry steering signals**, based on relevant C&E factors included in **the Credit Risk Strategies** framework
- **Assessment at single client level**, leveraging a dedicated **C&E questionnaire**

In particular, **Credit Risk Strategies**, which are reviewed at least once a year, are an important tool for ensuring that the relevant C&E factors are included in the overall credit risk strategy. **Industry steering signals** (underweight, neutral, overweight) and **related industry limits** embed all relevant C&E factors, leveraging a heatmap based on transition risk scores by economic activity.

Further principles are also integrated within **qualitative guidelines that enable the business to assess and mitigate the risks for each specific industry.** The cascading of these principles to the legal entities of the Group, together with monitoring and escalation processes at local and holding level, ensure that different credit portfolios are steered in alignment with the RAF.

To determine the extent to which the Bank's Credit counterparties are exposed to Climate and Environmental risks, the C&E questionnaire is based on a set of **cross-industry** questions (11 across the different sections) as well as **industry-specific** questions (an additional two for specific sectors), measuring qualitative and quantitative **current and forward-looking** key indicators in **three main areas**:

1. **C&E exposure:** Five questions that allow an analysis of the current level of exposure of the Economic Group under assessment, with a focus on: (i) level of GHG emission (Scope 1, 2 and 3); (ii) Water consumption; (iii) Energy consumption; (iv) Waste production and recycling; (v) Alignment to EU Taxonomy
2. **C&E vulnerability:** Four questions that enable an analysis of the climate change management maturity level on a forward-looking basis, focusing on two main topics: (i) Company's investment plan to shift to lower emission level business model; (ii) GHG emissions reduction target
3. **Economic Impact:** Two questions that allow an analysis of the potential impacts on corporate clients' financial and industrial performance in terms of cost and revenues.

As shown below, three key steps determine the questionnaire result:

Three steps to determining the questionnaire result

Questionnaire

11 cross-industry and two industry-specific C&E related qualitative-quantitative questions

Scoring and Weighting

Questions and answers converted into homogeneous scores on a scale from 1 to 5 and weighted by relevance to enable differentiation

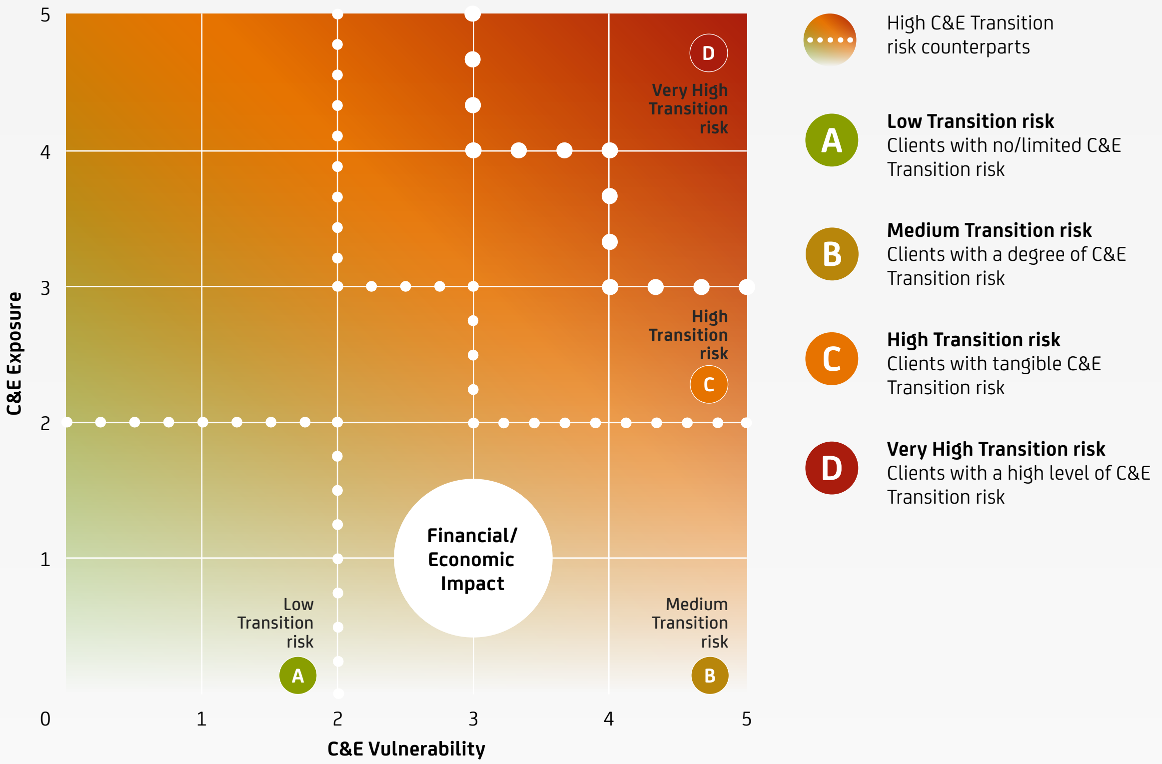
Results and Matrix

The sum of weighted score positions each counterpart on the Transition Risk Assessment Matrix

In detail, the process involves:

1. Calculation of question-specific indicators based on the answers provided (a penalty system is in place and applied when information cannot be retrieved)
2. Conversion of indicators, related to single questions, to standardise the scores of different responses and guarantee comparability of results
3. Weighting of question-specific scores according to a pre-defined table (that takes into account the relevance of the questions) and calculation of the summary score for the different dimensions:
   a. Sum of question-specific scores (and penalties if necessary) for each question in the Exposure cluster; the result is plotted on the vertical axis of the matrix
   b. Sum of question-specific scores (and penalties if necessary) for each question in the Vulnerability cluster; the result is plotted on the horizontal axis of the matrix
4. Determination of C&E score ratings (1-Low; 2-Medium; 3- High; 4- Very High[8]), as shown in the matrix below

Matrix scoring methodology



c.1,200 counterparties

were assessed during 2023

45%

of our Corporate EAD represented

8. The labels associated with the questionnaire scores have been changed vs. previous report, to ensure consistency with the scores adopted by the Bank for other purposes. The revision does not relate to any changes in the level of risk of the individual classes. It only concerns their name; labels 1 – Low; 2 – Medium-Low; 3 – Medium-High; 4 – High have been changed to 1 – Low; 2 – Medium; 3 – High; 4 – Very High

Credit Risk
continued

The results

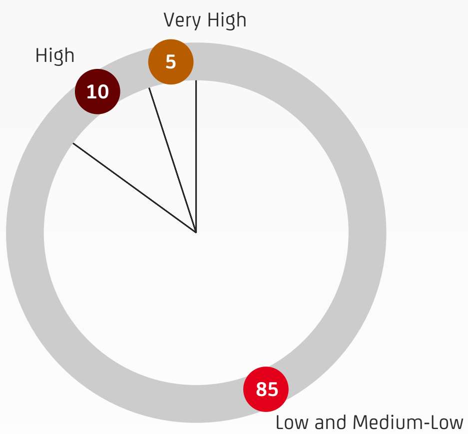
As the results of the climate and environmental assessment are integrated into the credit application, they are therefore included in the files submitted to credit committees. This allows decision makers to effectively take climate and environmental factors into account during the credit decision phase.

A specific process, factoring in transition risk and physical risk evaluation (together with reputational risk and Net Zero when relevant), has been designed and cascaded to the Group Legal entities through a dedicated Group Operational regulation in order to address the inclusion of Climate and Environmental considerations into the overall evaluation of the client. Leveraging the transition risk score, the application process results in specific strategies (in terms of eligible products) to steer the corporate portfolio's exposure, supporting clients' green transitions while reducing UniCredit's exposure to C&E Risks at the same time.

In cases where the client is subject to high transition risk, the strategy predicts the degree of prevalence or exclusivity of our ESG products. At counterparty level, the outcome of the physical risk assessment aims to complement the strategy by recommending mitigation actions where deemed necessary.

Adoption of this process is making progress in the various Group Legal entities, in line with the availability of the ESG Group's infrastructure. Below, we provide a synoptic view showing the distribution of the transition risk score.

Risk of our clients (approximate %)



Transition risk – at the collateral level

We gather Energy Performance Certification (EPC) data from our various Legal Entities in order to measure transition risk associated with assets accepted as collateral. This process ensures that we fulfil regulatory obligations (Pillar 3, EU Taxonomy, Stress Tests) while also meeting the needs of our management:

- for the stock, where the data could not be promptly retrieved, we used external specialised providers, to develop an estimation model.
- for the new flows, the following transition risk KPIs are collected and properly considered during the origination phase:
  - Energy Performance Certification label (EPC) with flag indicating estimated/reported;
  - Primary Energy Demand (PED) measured as kWh/sqm;
  - CO_2 emissions;
  - Energy Performance Certification label issuance year.

This information has been integrated into the ESG Global IT Infrastructure and is available on local mortgage platforms at the origination stage.

Investments – enablers for implementation

We have designed a global framework for ESG related information, supported by a central IT architecture – a key enabler for compliance with regulatory disclosure requirements and for enhancing Risk Management processes, as well as for supporting the business steering, monitoring and reporting framework.

All the ESG data collected has been integrated into the ESG Global IT infrastructure: a single data framework that will allow ESG data to be integrated with other risk information, ensuring the uniqueness of the information and its use for different purposes.

To implement this idea, we created a new integrated ESG ecosystem that necessitated the development of three new main assets:

- Survey/Front-End. This has a dual function, not only allowing the submission of customers surveys to retrieve ESG KPIs in the origination phase (as described above), but also making key ESG information available to the Network, through the ESG KPIs cockpit (relevant tool for the steering of Business and Credit Strategies);
- Calculation Engine, to identify green loans;
- Sustainability Data Repository, to collect information, manage reporting and data exploration activities.

We have planned a phased roll-out of this architecture to all Group countries.

Physical risk in the credit portfolio

Physical risk is carefully monitored for both counterparties within our portfolio and individual collateral assets.

This involves the assessment of a **wide range** of **hazard events**, with particular attention given to the following:

Table 1: Risk hazard events at counterparty level

Type of physical risk (acute/ chronic)	Material physical risk hazard event	Description of the physical risk hazard event	Metric/ approach	Spatial resolution	Source
Acute	Landslides	Risk of landslide events, long historical data	Annual probability of event with high severity	grid 200 metres/ census cell	Third-party Data & Bundesanstalt für Geowissenschaften und Rohstoffe & Istituto di Ricerca per la Protezione Idrogeologica
Acute	Floods	Risk of flood events, related to waterways and heavy rain events, predictive model	Annual probability of event with high severity, return period 50y	grid 100 metres/ census cell	Third-party Data & ISPRA (Italy)
Acute	Wind (Extreme wind-related events)	Probability of extreme wind events based on storm footprint, measured on Beaufort scale, return period 50y	Annual probability of extreme events (11-12 Beaufort scale)	grid H3	Third party Data
Acute	Wildfire	Risk classes depending on days with high fire risk subject to the type of environment in which the company is located, RCP 4.5 scenario	Average days/year with high fire risk, subject to type of environment	grid 4 kilometres	Third-party Data & ESA Data & Copernicus Data
Acute	Extreme waves (extreme waves, storm surges)	Probability of having storm surges and high energy waves	Wave height in RCP 8.5 with a return period of 50y	grid 25 kilometres	Third-party Data
Acute	Frost occurrence	Probability of cold events (frost, even of short duration), predictive model	Average number of events by years	grid 10 kilometres	Third-party Data
Acute	Heat occurrence	Probability of hot events (even of short duration), predictive model	Average number of events by years	grid 10 kilometres	Third-party Data
Acute	Heat waves	Probability of heat waves (extreme hot event > 3 days), historical data	Number of events (> 3 days) observed in a 60y period	grid 10 kilometres	Third-party Data

Credit Risk
continued

Type of physical risk (acute/ chronic)	Material physical risk hazard event	Description of the physical risk hazard event	Metric/ approach	Spatial resolution	Source
Acute	Aridity	Probability of aridity phenomena (ratio precipitation/	Mean annual precipitation (P)/ mean annual evapotranspiration (ETP)	grid 500 metres	Third-party Data
Chronic	Rainfall soil erosion	Severity of soil erosion due to rainfall, scenario RCP 4.5	R factor: Mj mm/ ha h yr	grid H3	Third-party Data
Chronic	Shoreline erosion	Score representing the erosion compared to the present, RCP 4.5	Meter of erosion, scenario RCP4.5 a y2050	grid 200 metres	Third-party Data
Chronic	Sea level rise	Estimates the sea level with various meteorological models	Max wave height at 2050, return period in 50y	grid 25 kilometres	Third-party Data

Table 2: Risk hazard events at collateral level

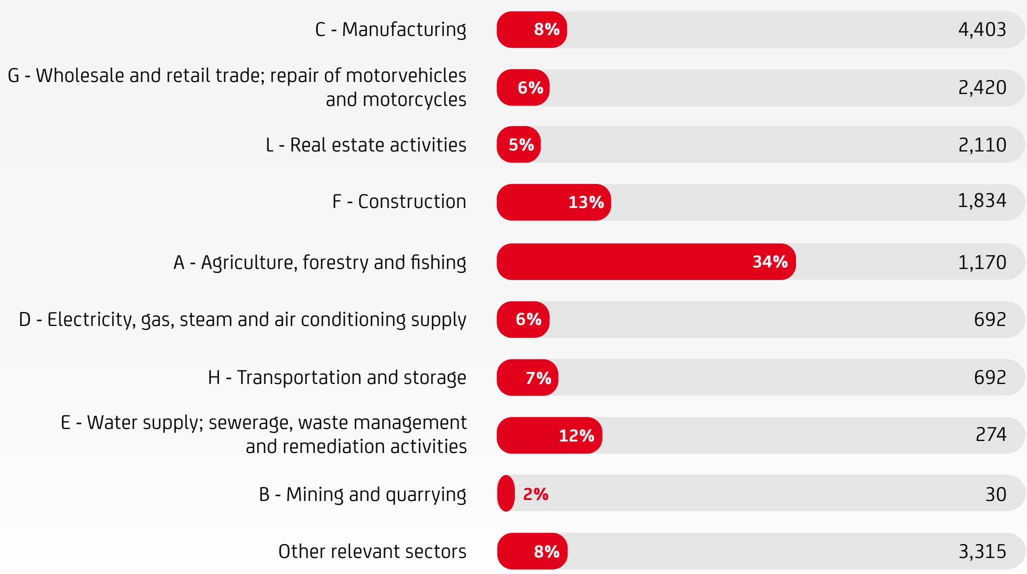
Type of physical risk (acute/ chronic)	Material physical risk hazard event	Description of the physical risk hazard event	Metric/approach	Spatial resolution	Source
Chronic	Sea level rise	Estimates the sea level with various meteorological models	Sea level rise hazard zones defined on Elevation Index (driven by coastal topography) and sea level rise Index (driven by sea level rise). The sea level rise hazard information is available for different scenarios	30 metres resolution for flooding hazard by sea level rise globally	Third-party data: Sea level rise zones were modelled based on high-resolution elevation data from elevation model and sea level rise projections from climate models
Acute	Flood: – River Floods – Flash Floods	– River floods: Risk of river flood events, related to waterways and heavy rain events, predictive model – Flash floods are short-term events which can be produced by multiple thunderstorms with heavy rain over one area	– River floods: global climate model and global land surface models estimate changes in peak water runoff at hydrological basin resolution. These changes in peak runoff are then used to scale current river flood maps. The projections are available in different scenarios – Flash floods: The flash flood map is based on meteorological data, as well as soil, terrain and hydrographic data (slope and flow accumulation). The meteorological data includes the amount, variability, and extreme behaviour of rainfall	– River floods: 30 metres – Flash floods: approximately 250 metres	Third-party data: – River floods: Geoweb natural hazard maps – Flash floods: soil-sealing maps (detected by looking at impervious surfaces), curvature (from global multi-resolution terrain elevation data), slope and flow accumulation (from conditioned terrain data) as modifiers to generate the final flash flood map

Type of physical risk (acute/ chronic)	Material physical risk hazard event	Description of the physical risk hazard event	Metric/approach	Spatial resolution	Source
Acute	Storms	– Storms (including blizzards, dust and sandstorms): – extratropical storms and storm surges	– Extratropical storms: The main variables of the exposure analysis are forward wind, maximum wind speed, minimum central pressure, radius of maximum wind speeds, track of the centre (eye) in 3 to 6 hourly intervals – Storm surges: multiple wave heights are simulated for each coast and the maximum expansion calculated. Wind speeds and bathymetry data were also taken into account	– Extratropical storms: approximately 5 kilometres – Storm surges: approximately 30 metres	Third-party data
Acute	Wildfire	Risk classes depending on days with high fire risk subject to the type of environment in which the company is located, RCP 4.5 scenario	Fire Weather Index (FWI) combining the probability of ignition, the speed and likelihood of fire spread and the availability of fuel.	Approximately 1 kilometre	Third-party data: modelled according to daily information on temperature, precipitation, humidity and wind

The group guidelines to integrate physical risk and transition risk KPIs into collateral evaluation, issued through a CRO Letter in 2023, have been transposed and embedded in a Group Operational Regulation published in January 2024 and properly cascaded to all the Legal Entities.

According to the guidelines, the appraiser is delegated to evaluate, based on own independent assessment, the extent of transition risk (leveraging EPC) and physical risk (through a homogeneous set of hazards to be assessed and evaluated with a dedicated taxonomy provided by the guidelines) and to also embed these components in the overall assessment and final value assigned to the collateral.

Distribution of Non Financial corporate GCA exposed to physical risk (€/million) and sector incidence (%)[9] (as of December 2023)



9. Reported percentages in the graph refer to the incidence of sector exposure to total NFC portfolio exposure

Credit Risk
continued

Distribution of GCA exposed to physical risk by country

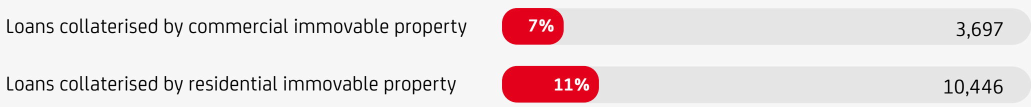
Corporate portfolio (Data in €/m)

Country	Physical risk	Physical risk/GCA (%)
Italy	7,727	10%
Germany	2,984	5%
Other countries	6,229	7%
Group	16,940	8%

Physical risk – at the collateral level

Distribution of GCA exposed to collateral physical risk by segment[10]

(Data in €/m)



10. Reported percentages in the graph refer to the incidence of the segment's physical risk exposure out of the total segment exposure.

Distribution of GCA exposed to collateral physical risk by country

(Data in €/m)

Country	Physical risk	Physical risk/GCA (%)
Italy	8,729	6%
Germany	1,632	4%
Other countries	3,783	7%
Group	14,144	10%

The new Group framework developed in 2023 ensures that both **EPC information and physical risk assessments** are considered for **collateral evaluation** purposes.

Financial Risk

With regard to financial risks (Market Risk, Liquidity Risk and Counterparty Credit Risk), several concrete initiatives have been implemented to further integrate C&E risk into the financial risk management framework. The key pillars of our approach include:

a. **an overall methodological approach** for incorporating C&E drivers within the Financial Risk framework that has been further defined, leveraging a combination of assessment methodologies already employed by the Bank.

b. **C&E KPIs** are included within market risk strategy in line with Group ESG strategy; dedicated limits and warning levels are applied. Specifically:

   1. Granular Market Limits (GMLs) for equities and credit exposure vs high transition and physical risk score in the trading-book;
   2. Granular Market Limits (GMLs) for non-sovereign debt securities exposure vs high transition and physical risk score in the investment portfolio, i.e., in the banking book;
   3. Early Warning for sovereign debt securities exposure vs high transition and physical risk score in the investment portfolio, i.e., in the banking book;
   4. Stress Test Warning Levels (STWL) on dedicated climate scenarios;

c. **an assessment of C&E** drivers is incorporated into the process of evaluating a bank's new financial products. When assessing new products, legal entities are responsible for verifying whether any C&E risk is embedded in the product's payoff/structure and for ensuring consistency with Group ESG strategy by involving the local competent function, if necessary.

d. **a monthly reporting and monitoring framework** through the inclusion of Physical and Transition risks within the Financial Risk relevant perimeter, and the inclusion of Market and Counterparty Credit Risk Stress Tests.

e. **specific inclusion and exclusion criteria** for the investment and transaction due diligence processes, in line with our Coal and Oil & Gas sector policies.

f. **reporting and monitoring framework** has been enhanced by incorporating transition and physical risks – and in December 2022 the Climate risk stress test scenarios were further increased.

Monitoring and reporting:

The Financial Risk department monitors and reports monthly to competent corporate governing bodies the concentration towards Climate Risk with reference to equity risk and corporate and financial bonds in the trading book, corporate and financial bonds in the investment portfolio, counterparty credit risk exposures and counterbalancing capacity.

In April 2022, the Market Risk stress testing programme was enhanced with a dedicated Climate Risk scenario which extends the ECB short-term disorderly transition scenario regarding the scope of risk factors and perimeter. Moreover, since October 2022, the monthly reporting and monitoring framework has been enhanced by incorporating transition and physical risks and in December 2022 the Climate risk stress test scenarios were further increased. In September 2023 scenarios were further updated, including scenarios mainly focusing on transition risk as well as on physical risk.

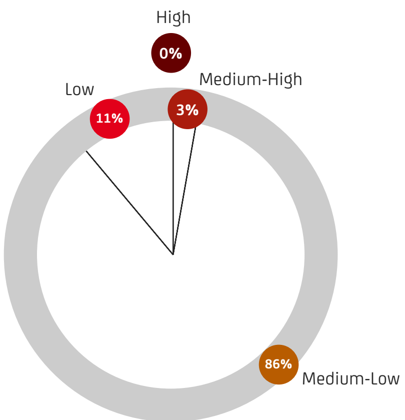
Materiality assessment:

We assess materiality for financial risk via the standard ICAAP framework, as previously described, complemented by further concentration analyses and stress scenarios. Based on these assessments, combined with qualitative considerations of UniCredit's trading business model, climate and environmental drivers do not appear to be material factors for market risk exposures. Similarly, the outcome of the liquidity impact of climate risks also reveals a limited materiality of the exposures to these risks in ILAAP.

Investment portfolio:

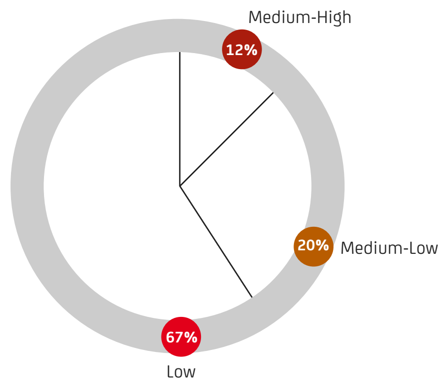
Direct **Transition and Physical Risk Scores** are available for 97% and 51% respectively of the relevant perimeter of the Investment Portfolio (Corporates and Financials exposure). The distribution of the investment portfolio is mainly concentrated in the **Medium-Low** category (86%) for Transition Risk and in the Low category (67%) for Physical Risk. The Group has no material exposure with high transition risk score, and no high risk score for physical risk.

Transition risk – Investment portfolio



Financial Risk
continued

Physical risk – Investment portfolio



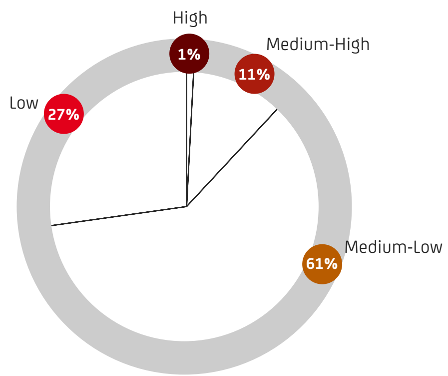
Trading portfolio:

The overall materiality of climate-related exposure is very low. The split between equity-related and credit-related risk in the trading book is illustrated below:

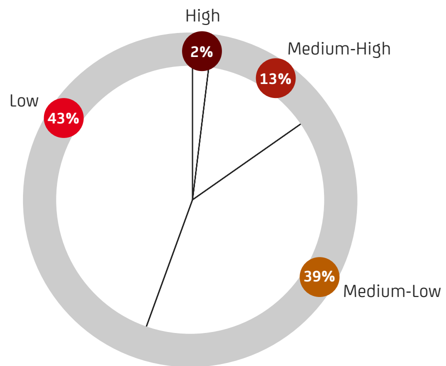
Equity risk in the trading book:

Direct **Transition and Physical Risk Scores** are available for 83% and 81% respectively of the relevant perimeter of the Portfolio (Corporates and Financials exposure). Risk distribution is mainly concentrated in the **Medium-Low** category (61%) for Transition Risk and in the Low category (43%) for Physical Risk. Currently there is almost no exposure for a high-risk score for either transition or physical risk.

Transition risk – Trading portfolio – equity risk



Physical risk – Trading portfolio – equity risk

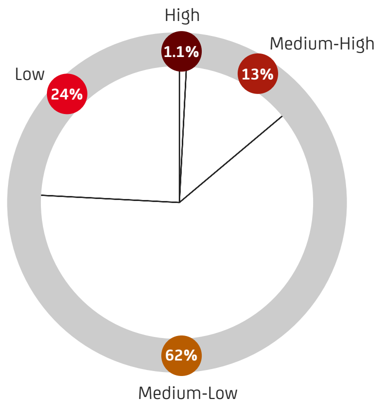


Credit risk in the trading book:

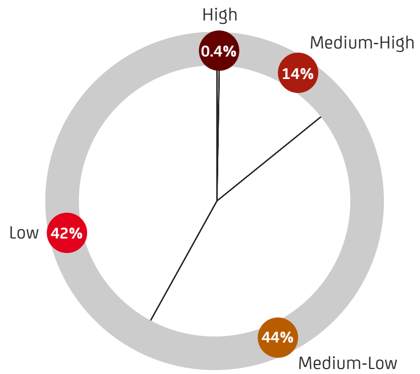
Direct **Transition and Physical Risk Scores** are available for 91% and 68% respectively of the relevant perimeter of the Portfolio (Corporates and Financials exposure).

Risk distribution is mainly concentrated in the **Medium-Low** category (62%) for Transition Risk and also in the **Medium-Low** category (44%) for Physical Risk. Currently there is a non-material (1.1%) exposure for a high-risk score for transition risk, and almost no (0.4%) high-risk score for physical risk.

Transition risk – Trading portfolio – credit risk



Physical risk – Trading portfolio – credit risk



Non-financial Risk

Non-financial risks can be influenced by environmental factors in general, and by climate change in particular, in two different ways:

Reputational risk – risk for the Group of being perceived and criticised for supporting activities and projects through its financial products and services that harm the environment and contribute to worsening the climate change scenario.

Operational risk – risk for the Group of facing temporary disruption or unavailability of key premises (e.g. data centres, operational centres, headquarters) or for the discontinuity of services suffered by some of its third-party service providers due to adverse extreme climate conditions.

We have implemented adequate processes to mitigate the above-mentioned risks. These are described below.

Reputational risk

We define **Reputational risk** as the current or prospective risk to earnings and capital resulting from the negative perception of the Group's image by various stakeholders including clients, shareholders/ investors, regulators, employees, debt-holders, market analysts, civil society, NGOs, media and other relevant parties.

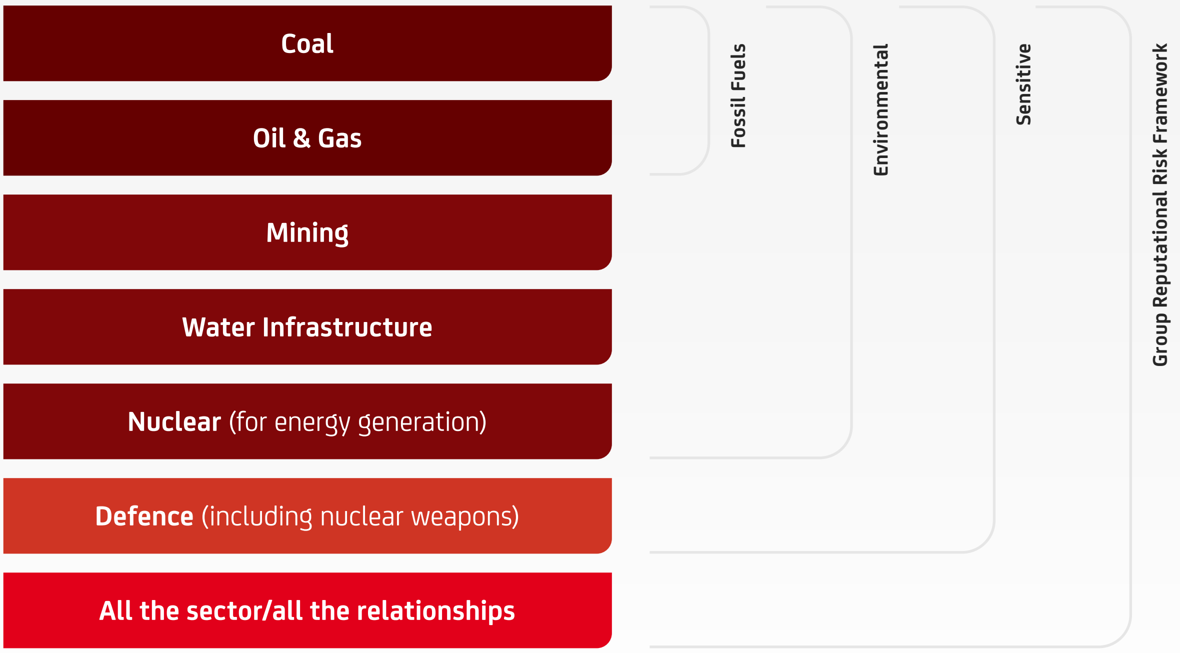
We manage Reputational risk by:

1. Setting clear **general rules and guidelines** for:
   - Defining the profile of relationships (with clients as well as with other relevant counterparties such as suppliers) and operations (mainly financial support, but also investments and other financial services offered) that the Group is available to manage and develop
   - Defining the profile of what the Group does not consider to be in line with its principles and reputational standards. These rules and guidelines are designed to ensure alignment with laws, internal and external regulations, and best practices within the sector and reflect the sensitivity of the Group
2. Setting additional **specific rules and guidelines for sectors considered sensitive** (Coal, Oil & Gas, Defence, Nuclear, Mining, Water Infrastructures)
3. Requiring for each relationship the evaluation of the conformity to the rules and guidelines mentioned above
4. Ensuring **respect of the rules** mentioned above for each operation and performing a specific **Reputational risk Assessment** involving Reputational risk and other competent functions in cases of potential deviation
5. Setting conditions, controls or limitations, where deemed necessary, in order to reduce the material residual Reputational risk for the Group, regardless of sector
6. Independently from the sector, evaluating the liability/ litigation risk that can derive from supporting a deal which could produce a negative environmental or social impact, when the deal is under the Equator Principles (EP)
7. Taking the **right decisions at the right level of authorisation** in cases of potential reputational risk.

Non-financial Risk
continued

The six sensitive sectors identified

Through continuous monitoring of the market and stakeholder expectations, we identified six «sensitive sectors» for which we adopted a dedicated additional set of provisions and rules by the end of 2022. These are listed below:



In addition, we have signed specific commitments regarding exit from the Tobacco industry and from activities that favour deforestation or forest degradation.

We continually review the sectors described above, as well as other sectors, to ensure we include the relevant sectors in the sensitive category, taking into account the evolution of the market and the sensitivity of the Group towards these sectors.

For each sensitive sector, our policy covers the following aspects:

– The scope of the sector (type of subjects and activities)
– The forbidden activities (activities that the Group cannot support with its financial products and services, e.g. controversial weapons, nuclear weapons, coal-related activities, oil & gas activities in the Arctic region)

The classification of clients:

– **Class A –** Clients completely in line with the provisions and for which the Group can provide full financial support
– **Class B –** Clients partially in line with positive transitions and moving in the right direction. The Group can support these clients with its financial products and services, refraining from providing other types of financial products and services that do not align with the transition towards more sustainable practices
– **Class C –** Clients not aligned with the provisions of the Group or moving in a different direction and for which the Group will not provide any kind of financial support. In these cases, we may consider a phase-out of the relationship

Classification in the Coal sector

	Provisions	General Financing: General Financing	General Financing: Sustainability linked RCF	Project Financing: Green Activities Financing	Project Financing: Coal-related Activities	Project Financing: Other Activities	Other: Basic Banking	Other: Advanced Banking
Full Support	– No coal developer (no increase in coal business since September 2020) AND – Current revenues from coal ≤ 25% AND – Phase out by 2028	Allowed	Allowed	Allowed	Not allowed	Allowed	Allowed	Allowed
Green Financing	– No coal developer (no increase in coal business since September 2020) AND – Phase out in line with National Energy & Climate Plan	Not allowed	Allowed, to be evaluated and approved	Allowed, to be evaluated and approved	Not allowed	Not allowed	Allowed	Not allowed
Phase-out	– Coal developer (increase in coal business since September 2020) OR – Phase out plan missing OR – Phase out plan beyond the National Energy & Climate Plan target date	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed	Not allowed

The classification of clients:

Full Support – Clients completely in line with the provisions and for which the Group is available to provide full financial support

Green Financing – Clients partially in line with positive transitions and moving in the right direction. We can support these clients with financial products and services, but will refrain from providing other types of financial products and services that do not align with the transition towards more sustainable practices

Phase-out – Clients not aligned with the provisions of the Group or moving in a different direction and for which the Group in not able to provide any kind of financial support. In these cases a phase-out of the relationship may be considered

Allowed

Allowed, to be evaluated and approved

Not allowed

Non-financial Risk
continued

Classification in the Oil & Gas sector

	Provisions	General Financing		Dedicated Purpose Financing/ Transactions Financing					Other	
		General Financing	Sustainability Linked RCF	Green Activities Financing	Controversial Oil & Gas-related Activities Financing	Oil-related Activities Financing	Gas-related Activities Financing	Other Activities Financing	Basic Banking Services	Advanced Banking Services
Full Support	– Current revenues from Unconventional Oil & Gas activities ≤ 25% AND – Current revenues from Arctic Oil & Gas activities ≤ 25% AND – Not relevant for Net Zero	✓	✓	✓	✗	✓	✓	✓	✓	✓
Transition Support	– Current revenues from Unconventional Oil & Gas activities ≤ 25% AND <50% AND – Current revenues from Arctic Oil & Gas activities ≤ 25% AND <50% OR – Relevant for Net Zero	✗	(✓)	(✓)	✗	✗	✓	✓	✓	✓
Phase-out	– Current revenues from Unconventional Oil & Gas activities >50% OR – Current revenues from Arctic Oil & Gas activities >50%	✗	✗	✗	✗	✗	✗	✗	✗*	✗

Annual Clearance Applicability

– **Medium** and **Large Corporate** Segment (turnover > €50 m) or CIB Division

– **Upstream** and **Midstream** and owners, operators, subcontractors or suppliers of Key Components/ Infrastructures/Services (including companies in the juridical group, i.e. >25%)

✓ Allowed

(✓) Allowed, to be evaluated and approved

✗ Not allowed

✗ *With the exception of Current/Cash accounts

A Reputational Risk Assessment is requested

We have developed a process for assessing Reputational Risk, identifying cases where a dedicated assessment is necessary.

On schedule

A. Annual Clearance

e.g. Whenever a customer is subject to the annual credit review

On event

B. Reputational Clearance

Whenever an event, related to a customer, occurs and the event itself could impact UCG reputation

e.g. The customer is involved in a scandal of public interest and the event is also covered by the media which give due information

e.g. The customer is accused by the judiciary of having violated the anti-money laundering law

C. Single Deal Approval

When a customer, belonging to one or more "sensitive sectors" is requesting a financial support for a project or a general financing

e.g. The customer asks for a letter of credit to export weapons in a foreign country

e.g. The customer operating in the Oil & Gas sector asks for general financing

Non-financial Risk
continued

Decisional bodies on RepRisk (Holding and Legal Entities)

The decision-making bodies responsible for assessing cases of reputational risk can vary according to the relevance of the case and alignment with the policy provisions. Cases that could prove to be highly relevant in terms of Reputational Risk are brought to the attention and are subject to the decision-making of the Group Non-financial Risks Committee (GNFRC), chaired by the Group CEO.

Decision makers/number of cases in 2023:

Types of cases discussed:

1,880 transactions evaluated in 2023

GNFRC

Group CEO with selected GEC members
28 cases

Cases with **High RepRisk** or where **RepRisk appetite yet to be set**

RepRisk Office

Head of NFR and Heads of Specialist Functions
68 cases

Cases with **High RepRisk** or where **appetite already set in previous decisions**

RepRisk Function and Specialist Functions

Head of RepRisk and Specialist Functions
1,270 cases

Cases with **Low or Medium RepRisk** or when **explicitly requested by the police**
(e.g. client classification in A, B, C classes for Coal)

Proponent Business

Cases **in line with the provisions and allowed by the policy** (no deviations)

2nd level Controls performed by RepRisk Function

Relationship Deals

Specialist Functions: ESG, Financial Crime, Sanctions, Anti-money Laundering, Media and Communication, Legal

Decision-making bodies for RepRisk (Holding)

Similar structures have been established at local level within each of the Group's Legal Entities. At local level, RRO and GNFRC are collapsed into the LNFRC (Local Non-financial Risk Committee), chaired by the Local CEO.

Cases where reputational risks are deemed to be of significant relevance within a specific Legal Entity are submitted to the Holding company for further validation (Non Binding Opinion).

A RepRisk decision taken at local level also requires an NBO by the Holding Company in two specific situations:

1. When the case, authorised by the Local NFR Committee, presents a **High RepRisk** and has to be submitted to a **Group Credit Committee** (GCC or GTCC)
2. When **explicitly requested by the policy.** e.g. Green Project Financing in the Oil & Gas or Coal sectors, granted to a B Class client, requires an NBO to double check that the Green project is currently aligned with the EU Taxonomy

Whenever further scrutiny of a case is deemed necessary, Legal Entities can ask the Holding Company for an NBO for cases other than the two mentioned above.

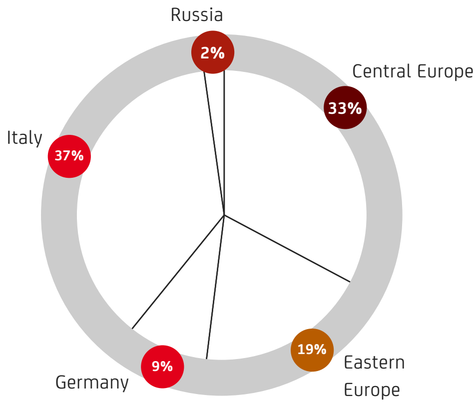
Any unplanned and unforeseen situations related to a specific relationship or deal and not aligned with the standard provisions of the policy are evaluated case by case. Expert judgement is required for evaluating the alignment of the case with UniCredit's general principles on Reputational Risk. Any decisions must diligently consider the provisions of the applicable policy and the characteristics and context of the case under examination.

The process described above led to 813 assessments being conducted across the Group in 1H2024, some of which involved more than one sector.

At Group level, **392 cases of Annual (A) & Reputational Clearance (B)** (i.e. assessments of the relationship with clients or other counterparties) were performed, of which **75 were High-Risk.**

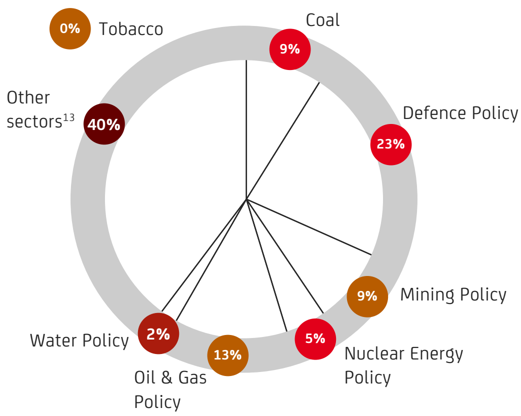
RepRisk assessment by geography[11]

813 RepRisk decisions at group level
(those in the business autonomy not included)



RepRisk assessment by sector[12]

886 RepRisk decisions at group level
(those in the business autonomy not included)

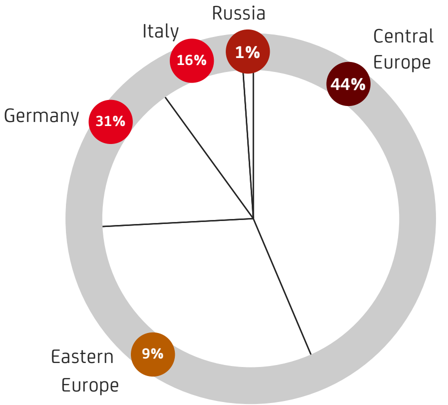


11. Italy includes UniCredit S.p.A, UniCredit Leasing S.p.A, UniCredit Factoring S.p.A. Central Europe includes Austria, Czech Republic & Slovakia, Hungary and Slovenia. Eastern Europe includes Bosnia and Herzegovina, Bulgaria, Croatia, Romania and Serbia
12. More sectors can apply for each RepRisk assessment
13. Other sectors includes local regulations, sensitive sectors not yet regulated or other RepRisk issues

Non-financial Risk
continued

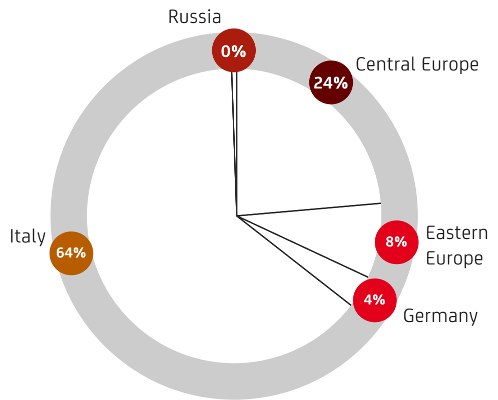
Annual clearance released at group level

392 Annual (A) & Reputational (B) clearance at group level[14]

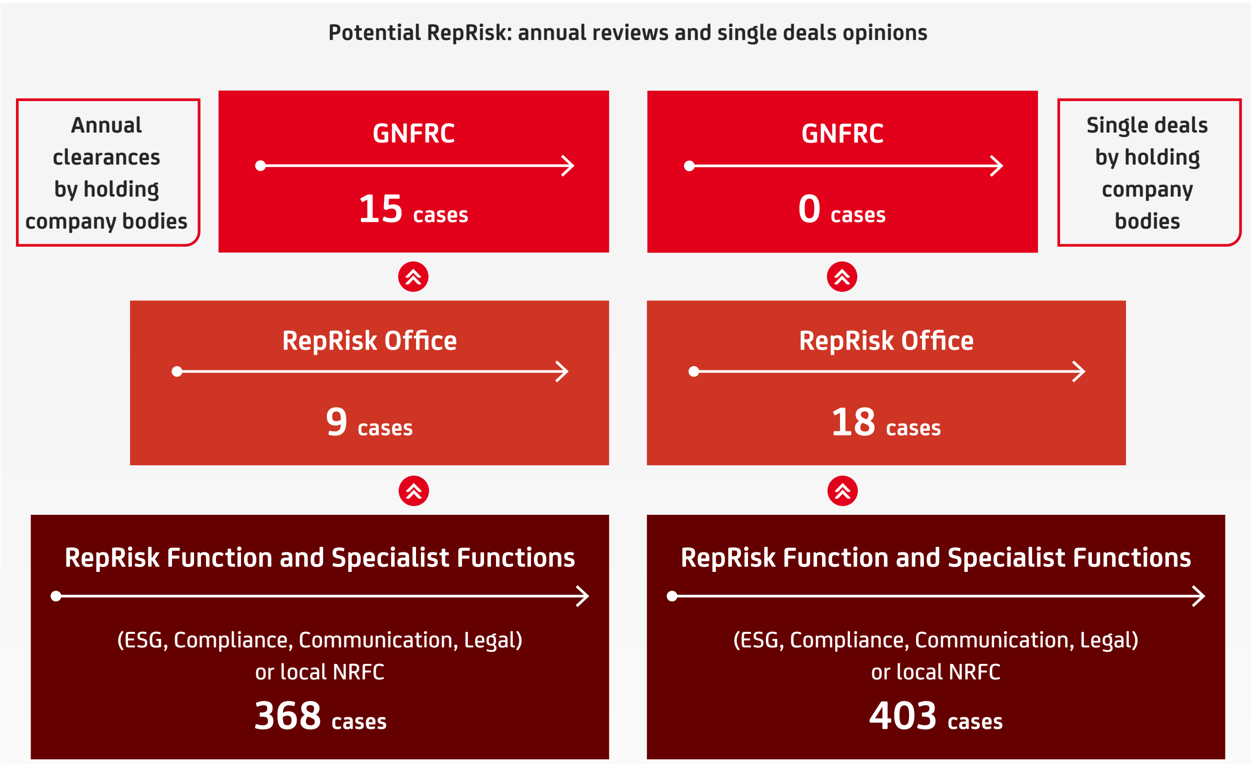


Single deal decisions taken at group level

421 Annual Single deal at group level[14]



At Group level, we performed 421 Single Deal assessments, of which 66 were High-Risk.



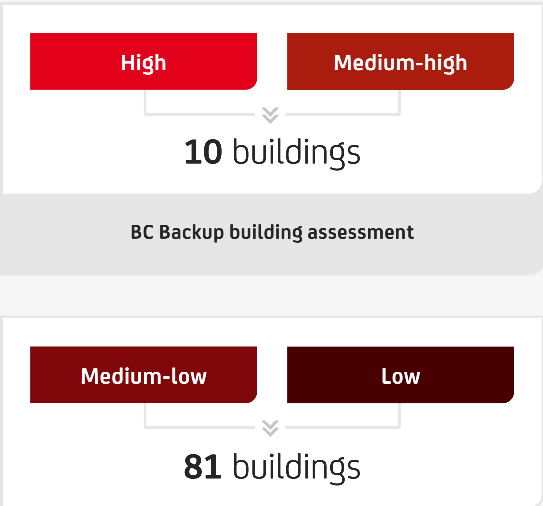
14. Decisions taken by GNFRC/ LNFRC Committees, Group/ Local Rep Risk and specialist functions (decisions taken by proponent business not included in the figures)

Operational Risk

For all Legal Entities, the Group carries out an annual assessment to identify critical locations where unavailability could harm business continuity (e.g. data centres, headquarters and operational centres). In 2023, 103 buildings were identified.

Each location is classified according to its current risks from extreme adverse climate conditions (river floods, flash floods and wildfire).

Scenario analysis



For the 10 buildings potentially exposed to high or medium-high risk in 2023, we assessed the relevant business continuity plan to check the effectiveness of protection in cases of adverse climate conditions.

Where the business continuity plan highlighted the inadequacy of the backup building (e.g. exposed to the same risk as the primary location), a new backup location was defined. In the case of one specific building, the Legal Entity Management Board formally accepted the risk because mitigating options could not be identified.

Moreover, in 2023 we also considered exposure to the perceived risk in a scenario of +4°C in 2030. We identified eight further buildings currently not exposed to such risks but potentially exposed to them in this additional scenario. Working with Group Real Estate, we now have dedicated KPIs in place to monitor climate events against historical records. This will enable us to take immediate action if the climate risk exposure worsens. As yet, we have detected no deviations from the historical records of these buildings.

In order to assess the resilience of third-party service providers with regard to climate change, we have enhanced the Third-Party Assessment, which is performed during onboarding of new suppliers, then yearly. It now considers the business continuity plans adopted by suppliers to manage potential adverse climate events.

Metrics and Targets

Our ESG Targets

From ESG volumes …
… to ESG penetration

At the end of 2023 the Group updated its **ESG targets focusing on ESG share over total business for a more transparent view** on UniCredit's ESG performance and with indicators **netting out overall market effects not related to ESG**:

- **ESG Lending** (including Environmental, Social and Sustainability linked lending) over MLT loans new production
- **ESG Investments Products** penetration rate over total stock
- **Sustainable Bonds** over total bonds (with focus on Corporates and Financial Institutions in alignment with Group strategy)

Targets are **subject to evolution of ESG regulation**, expected to further mature over 2024.

● 1H24 Actual ● FY24 Target

ESG Lending[1]

Slightly below on environmental lending with 22.2bn, while outperforming on social lending with 11.1bn since Jan 2022

ESG Investment Products[2]

Positive year progress with improved ESG penetration rate at 52% (c.102bn stock) at 1H24 vs 48% at Dec 2023

Sustainable Bonds[3]

Good performance with 30.1bn since Jan 2022 with focus on Corporates and Financial Institutions in alignment with Group Strategy

1. KPI calculated as ESG new production Including Environmental, Social and Sustainability linked lending, divided by MLT loans new production in given year
2. Based on Art. 8 and 9 SFDR regulation
3. LT Credit. KPI calculated as ESG All regions' bonds, including sustainability linked bonds, divided by all regions' bonds for given year

Net Zero Metrics and Targets

Financed emissions

After joining the Net Zero Banking Alliance (NZBA) in 2021, with a Net Zero ambition for our portfolio by 2050, from January 2023 to July 2024 we **disclosed targets on six sectors** (i.e., Oil & Gas, Power Generation, Automotive, Steel, Shipping and Commercial Real Estate) and **emissions baseline for Residential Real Estate**.

The table below provides an overview of main data per sector.

Following a detailed review of our financing portfolios, among the most carbon-intensive sectors identified by NZBA, we have identified three sectors where we do not have a material exposure: Aluminum, Cement and Aviation. In particular, each of them represents less than 1% of our exposure to carbon intensive sectors, with lending on-balance sheet of less than €1bn[4].

Given their low materiality, these sectors will not be considered for the Net Zero target setting. However, we will continue to monitor them to ensure our approach remains adaptable for future adjustments, if necessary.

Sector	Scope	Value Chain	Metric[5]	Scenario Benchmark	Baseline		2022YE Progress	2030 Target
					Year	Value		
Oil & Gas	Scope 3 Category 11	Upstream, Midstream, Downstream	Absolute Financed Emissions	IEA NZ 2050 (World)	2021	21.4 $MtCO_2e$	-10% vs. baseline (19.3 $MtCO_2e$)	-29% vs baseline
Power Generation	Scope 1	Power Generation	Emission Intensity	IEA NZ 2050 (Europe)	2021	208 gCO_2e/kWh	152 gCO_2e/kWh	111 gCO_2e/kWh
Automotive	Scope 3 Category 11 Tank-to-wheel	Automotive Manufacturers (Light-duty Vehicles)	Emission Intensity	IEA NZ 2050 (World)	2021	161 gCO_2/vKm	165 gCO_2/vKm	95 gCO_2/vKm
Steel	Fixed System Boundary – Scope 1, 2 and 3 (Category 1 and 10)	Crude steel makers	Emission Intensity	IEA NZ 2050 (World)	2022	1.45 tCO_2/tSteel	–	1.11 tCO_2/tSteel
			Alignment score		2022	-0.69	–	
Shipping	Scope 1 and 3 (Category 3) – WTW[6]	Shipping Operators[7]	Emission intensity	IEA Net Zero 2050 (World)	2022	Passenger: 14.1 gCO_2e/GT-nm Merchant: 9.5 gCO_2e/dwt-nm	–	-30% vs baseline
Commercial Real Estate[8]	Operational Emissions[9]	RE operators – building owners (asset financing)	Emission intensity	CRREM v.2.01	2022	44.2 $kgCO_2e/m^2$ [10]	–	-44%/-55% vs baseline
Residential Real Estate[8]	Operational Emissions[9]	Homeowners (mortgages)	Emission Intensity	–	2022	36.3 $kgCO_2e/m^2$ [10]	–	–

4. In parallel we constantly check that the sum of all excluded sectors for materiality reasons (e.g., aluminum, cement, aviation) is not higher than the 3% of the total lending on balance of the carbon intensive portfolio
5. Emission intensity is exposure weighted
6. Well to Wake approach
7. Including asset financing and other loans
8. Real Estate focused on Italy, Germany, Austria. Excluding Leasing
9. Include clients' Scope 1, 2 or Scope 3 for building owners that leased assets
10. Emissions intensity available in Italy as $kgCO_2/m^2$ vs $kgCO_2e/m^2$ in Germany and Austria, with estimated impact on Italy baseline of around 5%

Oil & Gas

Progress so far

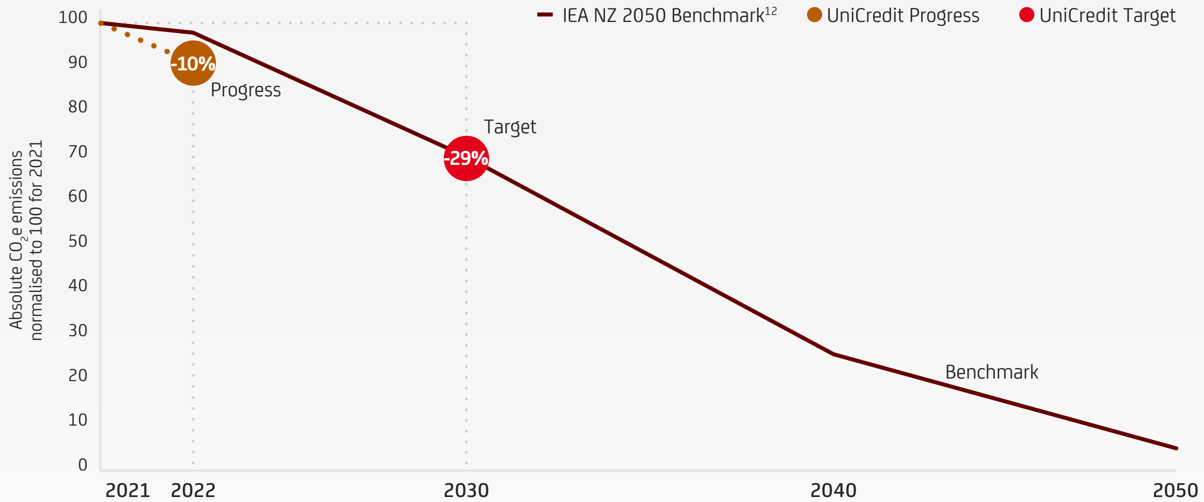
To achieve our target for the sector, we started working on defining how to reduce the impact of our portfolio of Oil & Gas clients. During the last year, our focus has been on further engaging clients with transition strategies to actively support them in their transition path, and on gradually reducing our exposure to clients with high impact sector Scope 3 emissions not aligned to the transition. This approach allows to balance the need to ensure energy security while at the same time shifting to more sustainable energy sources.

As a result, **in 2022 our financed emissions already decreased by 10% vs 2021.** The achieved reduction has been mainly driven by the deleveraging of non-strategic clients, partially counterbalanced by the decrease of the company value of Russian counterparties that increased our share of financed emissions for those clients[11] (coherently with the volatility of the metric).

Key levers for transition

With regard to the Oil & Gas sector, traditional business models are increasingly under pressure because the effects of climate change are worsening, with energy security becoming even more relevant. A key strategic challenge for Oil & Gas companies is aligning existing skills and capital with new requirements of energy transition. As the industry landscape is diverse and there's no "one size fits all", a **collaborative dialogue between companies, shareholders and financial actors** is necessary. As highlighted by the IEA, most Oil & Gas companies are watching the energy transition from the sidelines, with only 1% of total clean energy investment globally coming from Oil & Gas producers. For this reason, the **industry's engagement will be key in the upcoming decades.**

Oil & Gas Financed emissions % of reduction



In scope on balance sheet lending YE2022	Financed emissions baseline YE2021[13]	Financed emissions YE2022 vs YE2021[13]	Financed emissions 2030 Target vs 2021
€5.7bn	21.4 $MtCO_2e$	-10% (to 19.3 $MtCO_2e$)	-29%

11. i.e., increase of 'client attribution factor' given by the lending to the client on the client's company value (financed emissions calculation according to PCAF methodology)
12. Percentage reduction of the NZ IEA World scenario, including Oil & Gas only
13. Computed on portfolio in scope when data available (Scope 3 emissions for midstream companies not computed in line with current literature)

Net Zero Metrics and Targets continued

In this scenario, we believe that Oil & Gas players have several opportunities to play a meaningful role in the energy transition to **scale up crucial technologies such as hydrogen, biofuels, and carbon capture, utilisation and storage (CCUS).** At UniCredit, we are working to encourage the industry transition on multiple fronts:

- Engaging with clients to **educate them about transition** and make them aware of the importance of clear transition plans as a pre-requisite for the financing of transition projects
- **Rebalancing our loan portfolio**:
  - Supporting clients investing in alternative, more sustainable fuels
  - Gradually reducing the financing of the most carbon-intensive activities
  - Collaborating in sector-led initiatives and with new ventures for sector technology innovation, even when solutions are not yet fully mature

To sustain our clients' transition, we are supporting companies that are planning to rebalance and diversify their activities, helping them address sector challenges linked to the energy crisis, such as the need to provide energy security.

To support the sector's transition, we are also **promoting sector-based initiatives that facilitate the growth of alternative clean fuels**, such as hydrogen. Since 2021, we have been a member of the **European Clean Hydrogen Alliance,** established by the European Commission to support the development of green hydrogen projects to drive the energy transition. Through this alliance, we successfully contribute to the deployment of low carbon solutions across Europe, working closely with key industry players and regulators. The alliance also enables us to stay abreast with the latest developments in the rapidly growing hydrogen sector.

Power Generation

Progress so far

To achieve our target for the sector, we started working on our portfolio of Power Generation clients to define how to reduce our impact. Our focus has been on further growing our financing to clients with credible transition plans and that already have low levels of physical intensity (leveraging more renewables in the production of energy) or clear plans to reduce it, to pursue a climate transition. At the same time, we have started to gradually reduce exposure to those clients with high levels of physical intensity and whose transition strategy is missing or not credible enough.

In 2022 the physical intensity of our loan portfolio achieved the value of 152 gCO_2e/kWh down by 27% vs 2021. The result achieved is well below the target trajectory thanks to the improvement of:

- Data quality that helped a better identification of renewable financing. More than €5bn in our portfolio are related to lending to "pure" renewable companies or dedicated loans to traditional players to support power production from renewables
- Average physical intensity of our client base that is progressively changing the technology mix towards more sustainable sources, consistent with their transition plan.

Key levers for transition

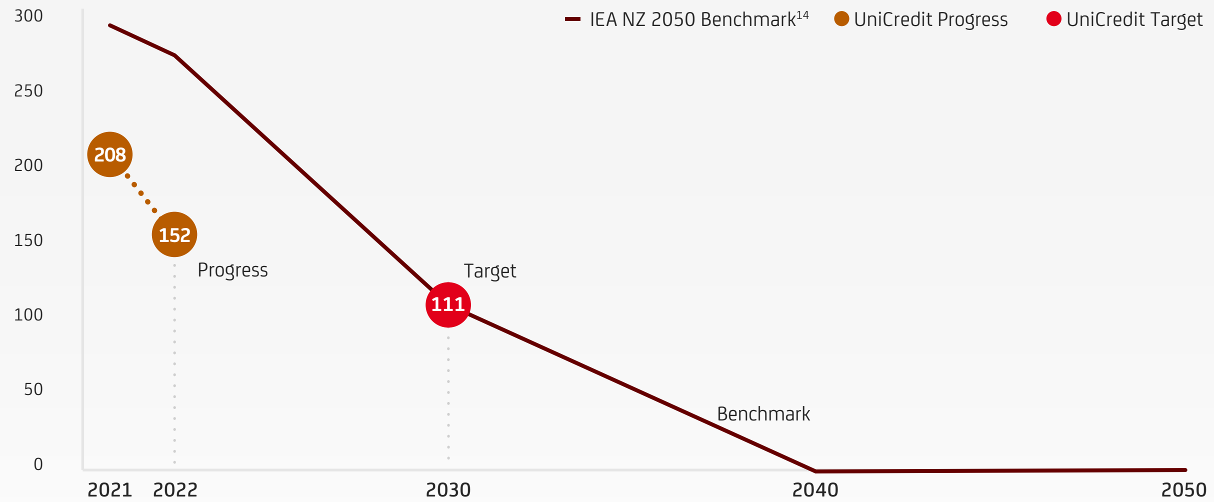
For the Power Generation sector, energy transition is taking place in two key ways: on one hand, an **increase in generation from renewable sources with a reduced contribution from coal and other fossil fuel sources;** on the other, ensuring **related infrastructures are upgraded and expanded** to enable the necessary system resilience and flexibility.

Specifically on Power Generation, our strategy is primarily focused on supporting our clients to shift from fossil fuel energy production to more sustainable sources of energy (e.g. pure renewables).

To this extent, our industry experts work with clients that want to **refocus their business model** and also with clients that want to further **invest in renewable energy projects.** For example, we work with utilities that need to rebalance their portfolio of activities/assets on more sustainable technologies. Thanks to our extended network, we are also able to serve pure renewable players through project financing initiatives, especially in wind, photovoltaic and advisory activities.

Through sector-specific events, we are also involved in discussions on how to best approach energy transition. For example, in **Czech Republic and Slovakia, UniCredit is a member of the Solar Association,** the largest professional association of solar energy entrepreneurs to promote technical, legislative and economic conditions for the operation of the renewable energy sector. We are also a partner of **Climate & Sustainable Leaders,** a unique platform in Czech Republic to foster sustainability and climate protection.

Power Generation Emission Intensity (gCO_2e/kWh)



In scope on balance sheet lending YE2022 **€10.4bn**	Emission intensity Baseline YE2021[15] **208 gCO_2e/kWh**	Emission Intensity YE2022[15] **152 gCO_2e/kWh**	Emission Intensity 2030 Target **111 gCO_2e/kWh**

14. Scenario scaled down to European level (excluding Ammonia and Hydrogen)
15. Computed on portfolio in scope when data available

Net Zero Metrics and Targets continued

Automotive

Progress so far

To achieve our target for this sector, our focus has been on supporting the transition of our clients, the majority of which have already started on their transition path by defining and disclosing credible Net Zero targets and plans to progressively switch their production from vehicles with internal combustion engines to hybrid and electric vehicles.

In 2022 the physical intensity of our loan portfolio remained quite stable vs 2021 at 165 gCO_2/vkm, showing a slight increase (+2.3% vs 2021).

Our 2022 performance can be explained by two trends that offset each other. On the one hand, we have observed an improvement of the metric thanks to the strong increase of sales of hybrid and electric vehicles of the car manufacturers in our portfolio. On the other hand, this benefit was totally offset by the negative effect caused by an improvement of data used to calculate the emissions (i.e. more granular data of sales per car model and brand by geography enabling a better estimation of the emissions).

We expect an improvement of our metric, already in the next monitoring cycle, thanks to the financing of some specific projects of our clients dedicated to the production of electric vehicles.

Key levers for transition

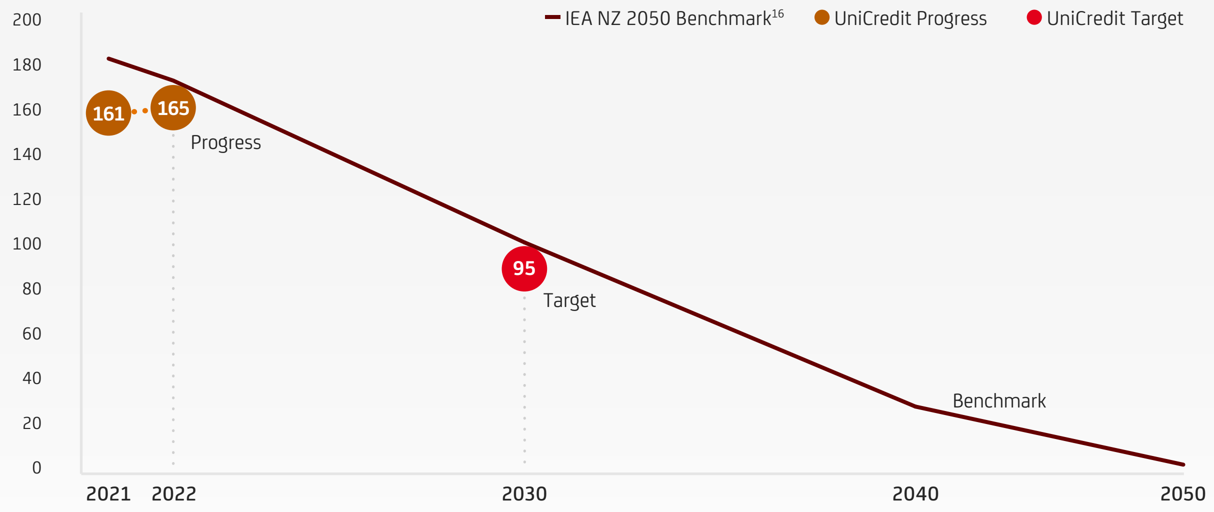
The Automotive sector is a pillar of the global economy and at the same time one of the major contributors to climate change. Road transport in Europe accounts for around one fifth of greenhouse gas (GHGs) emissions. Despite an observed shift towards cleaner road vehicles and fuels, **total GHGs from passenger cars and heavy good vehicles have increased in Europe** due to increasing transport volumes.

Europe, driven by its ambitious Green Deal target, is expected to electrify rapidly, according to McKinsey Quarterly, Transition to Net Zero – Road mobility (August 2022) and the European Environment Agency, Road Transport – Road transport (europa.eu). This will have a significant impact on the entire automotive supply chain, include driving greater demand for e-batteries.

Our strategy for the Automotive sector aims to help our clients seize new market opportunities across their value chain (including EV battery manufacturing, infrastructure management etc) as they **shift towards low-emission vehicles.** We have started to actively work with a range of our clients – including some of the top car manufacturers in the market – to finance specific projects entirely dedicated to electric vehicle production, such as finance for a new dedicated factory.

Our **holistic industry approach** ("In Motion"), combines the expertise of all our specialists along the total automotive value chain, from natural resources to recycling. With the support of the ESG Advisory team, we offer tailor-made sustainable financing for investments into new technology to support the sector in its transformation towards zero emission mobility.

Automotive Emission Intensity (gCO_2/vkm)



In scope on balance sheet lending YE2022 **€2bn**	Emission Intensity Baseline YE2021[17] **161 gCO_2/vkm**	Emission Intensity YE2022[17] **165 gCO_2/vkm**	Emission Intensity 2030 Target **95 gCO_2/vkm**

16. World scenario on whole fleet
17. Computed on portfolio in scope when data available

Steel

In January 2024 we disclosed the new intermediate target on Steel sector to meet our 2050 Net Zero ambition.

UniCredit is one of the founding members of the **Sustainable STEEL Principles** which were launched in 2022. These principles established a level playing field for green projects by encouraging transparent reporting and providing a clear goal setting methodology for the Steel sector. The Fixed System Boundary coupled with a methodology that addresses both primary and secondary production provides the most comprehensive reporting guide to date.

Overview of key design choices

Key Design Choices	
Value chain in Scope	Crude steel producers[18]
Emission Scope	Fixed System Boundary (Scope 1, 2 and Scope 3 Category 1 and 10)[19]
Metric	Emission intensity tCO_2/tSteel
Financing Activities	Corporate lending book – on-balance sheet exposure

As recommended by the Sustainable STEEL Principles Association, we defined the baseline and targets for all crude steel Group producers in the Bank's lending portfolio (based on balance sheet exposure). Activities included in scope are:

- Crude steel making and basic steel processing
- Steel sales and steel product production (related to crude steel making Groups)

In line with Sustainable STEEL Principles, the carbon emissions scope follows a **Fixed System Boundary,** which identifies a consistent boundary of activities to be reported on, regardless of whether they are executed by the steel mill itself, a supplier, or off-taker (i.e. regardless of whether they are Scope 1, 2, or 3 emissions of an individual company). This approach takes into account the Steel sector's high degree of variability in emissions, particularly elements of Scope 3, depending on the ownership structure and level of vertical integration.

We selected exposure-weighted emission intensity in tons of CO_2 emissions per tons of produced steel (tCO_2/tSteel) as the metric **to calculate the baseline and set our 2030 interim target.**

The **portfolio alignment score** is an additional metric that we consider, and is calculated according to the Sustainable STEEL Principles' definition. The score enables us to assess the alignment of both the client and the Bank's portfolio to the benchmark pathway scenarios (i.e. IEA Net Zero and MPP TM[20] specific trajectories) that consider the percentage of primary (i.e. iron ore) and secondary (i.e. scrap) steel production.

Baseline estimation

2022 Data and Baseline	
Client data	– Exposure from internal source – Emissions, production, scrap charge from an external data provider
PCAF Data Quality Score	2.32
On balance sheet lending (drawn exposure)	EUR 2.2 bn
Baseline emission intensity	1.45 tCO_2/ tSteel
Baseline alignment score	-0.69
Scrap Charge %	47%

18. Steel manufacturers that are processing crude steel purchased from third parties (i.e. re-roller) are not considered. Following SSP methodology, included exposure for Holding, Financial Service and Trading companies, if related to Steel Groups in perimeter, and other supporting business activities controlled by Steel Group
19. Category 1. Purchased goods and services and Category 10. Processing of sold products. All emissions in the Fixed System Boundary are included, as defined by the Sustainable STEEL Principles
20. Mission Possible Partnership Technology Moratorium

Net Zero Metrics and Targets continued

Using the selected design elements, the on-balance sheet lending in scope for the sector was €2.2bn, at 31/12/2022.

We used the following inputs to calculate the Group emission baseline and alignment score for the Steel sector: production data, emissions data and scrap charge. This data was sourced from the third-party data provider to the Sustainable STEEL Principles Association.

The 2022 baseline emission intensity of the Steel sector, as per the Fixed System Boundary (Scope 1, 2 and 3[21]) **was estimated at 1.45 tCO_2/ tSteel,** which is lower than the value of the selected IEA Net Zero benchmark, equal to 1.51 tCO_2/ tSteel in 2022.

We used the weighted average scrap charge of our portfolio, equal to 47% in 2022, to tailor the IEA Net Zero and MPP TM benchmarks, taking into account the input raw material mix used in production by our clients, that generates different emission intensities.

Comparing our 2022 emission intensity with 2022 benchmark values, **the 2022 Bank portfolio alignment score is -0.69.**

Target setting

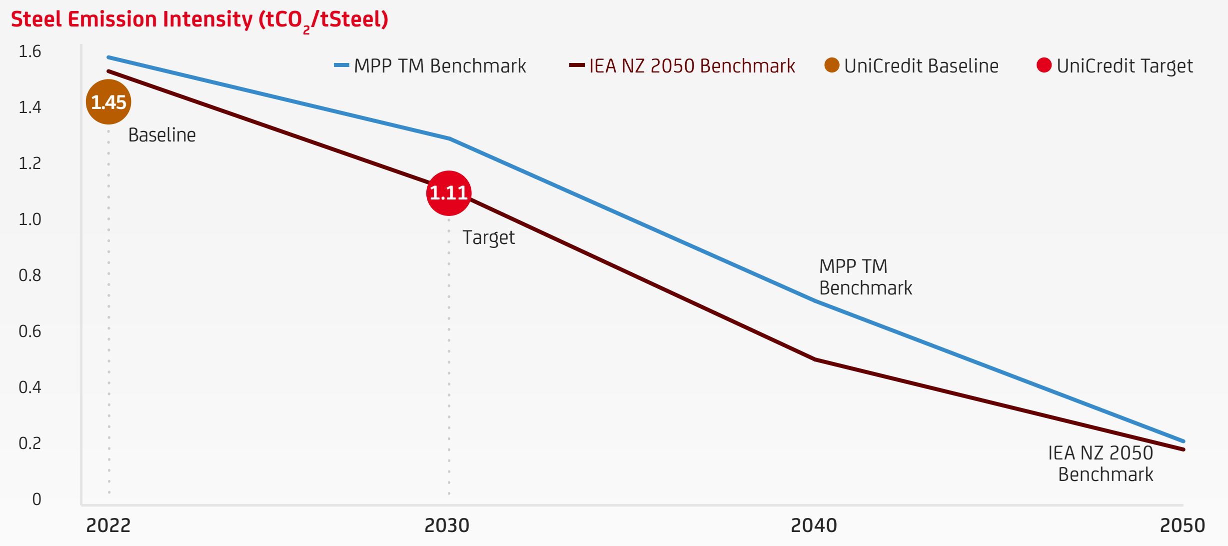
We selected the **IEA Net Zero 2050 benchmark**[22] as the reference scenario to set the 2030 intermediate target. The benchmark is based on the UniCredit portfolio scrap charge in 2022.

We are targeting a **2030 emission intensity of 1.11 tCO_2/ tSteel in line with the benchmark** and market practices for the Steel sector, corresponding to an alignment score equal to 0 in 2030[23].

Key levers for transition

The decarbonisation of the steel industry to Net Zero requires joint efforts from all stakeholders including regulators, producers, and final customers – which is why **industry-backed initiatives are key to the adoption of a unified standard.** At UniCredit, we believe this is a key step to help the steel industry transition into a greener future, as we continue to support our clients in their ambitions and engage in strategic industry discussions around the development of real investment projects.

In recognition of the importance of collaboration between the financial word and the steel industry, we are taking part in the **Steel Climate-Aligned Finance Working Group** facilitated by RMI's Center for Climate-Aligned Finance. This working group seeks to support decarbonisation in an industry responsible for over 7% of global CO_2 emissions.



On balance sheet lending YE2022	Emission Intensity Baseline YE2022	Emission Intensity 2030 Target
€2.2bn	1.45 tCO_2/tSteel	1.11 tCO_2/tSteel

21. Category 1 and 10
22. IEA trajectory is an enhancement of IEA NZE providing split trajectory and following a fixed boundary approach
23. According to benchmark tailored on UCG portfolio with 2022 portfolio weighted average scrap charge

Shipping

International shipping carries over 80 per cent of world trade by volume and is responsible for almost 3 per cent of all global GHG emissions. The sector not only plays a critical role in international trade and maritime passenger transport – it is also a carbon intensive sector under pressure to decarbonise.

This decarbonisation process requires joint efforts from all stakeholders across the maritime transport and energy production value chain, including financial institutions. At Unicredit, we want to contribute to the transition of the sector by supporting our clients in their decarbonisation plans and committing to a 2030 intermediate Net Zero target.

Overview of key design choices

Key Design Choices	
Value chain in Scope	Shipping operators (including passenger and merchant ships)[24]
Emission Scope	Scope 1 and Scope 3 Category 3 – Well To Wake[25]
Metric	Emission intensity (gCO_2e/GT-nm for passenger ships, gCO_2e/dwt-nm for merchant ships)[26]
Financing Activities	Corporate lending book – on-balance sheet exposure related to vessel and non-vessel financing

In line with industry guidelines and market practice, we defined the baseline and targets for **Shipping operators**, including passenger as well as merchant ship operators. In order to increase portfolio coverage, we included both vessel and non-vessel financing, considering on-balance sheet lending in line with our approach to the other sectors.

The assessment of sector emissions focused on **Scope 1** and **Scope 3 category 3 emissions i.e., Well To Wake –** "lifecycle emissions" (from ships' fuel combustion and from fuel production and distribution) aligned with the 2023 International Maritime Organization Strategy on the reduction of GHG emissions from ships.

We selected Exposure-weighted emission intensity as the metric to calculate the baseline and set our 2030 interim target. As we consider both passenger ships and merchant ships in our portfolio, we used two different metrics in line with the available guidelines: grammes of CO_2e over Gross Tonnes (i.e., volume) times nautical miles for Passenger Ships and grammes of CO_2e over Deadweight (i.e., carried weight) times nautical miles for Merchant Ships.

Baseline estimation

2022 Data and Baseline	
Client data	– Exposure from internal source – Emissions and transport work (tonnage and nautical miles) from clients and public data sources
PCAF Data Quality Score	1.69
On balance sheet lending (drawn exposure)	EUR 3.1 bn
Baseline emission intensity	14.1 gCO_2e/GT-nm for passenger ships 9.5 gCO_2e/DWT-nm for merchant ships

Using the selected design elements, on-balance sheet lending in scope for the sector was €3.1bn at 31/12/2022.

To calculate the Group emission baseline for the sector we used emissions data and transport work data (i.e., Gross Tonnage for passenger ships and Deadweight tonnage for merchant ships). We engaged directly with our clients to gather the necessary data in order to establish our Net Zero baseline. When data was not available or collected by the client, we used public databases. This approach is reflected in a high quality PCAF data score[27].

The 2022 baseline emission intensity of the Shipping sector, as per Scope 1 and 3 cat. 3 was estimated at 14.1 gCO_2e/GT-nm for the lending portfolio related to passenger ships, and 9.5 gCO_2e/DWT-nm for the portfolio related to merchant ships[28].

24. Inclusion of non-operative vessels with proxies; exclusion of military ships; inclusion of corporate small and corporate large clients and exclusion of retail small clients; exclusion of bad loans
25. Scope 1 downstream emissions from fuel combustion and Scope 3 upstream emissions from fuel production and distribution
26. Annual Efficiency Ratio (AER) which calculates the carbon intensity of each vessel by dividing the amount of CO_2e emissions by cargo carrying capacity and distance sailed; Gross Tonnage ("GT") i.e., volume, is used to measure cargo capacity for Passenger ships whereas Deadweight Tonnage ("DWT") i.e., weight, is used for merchant ships
27. PCAF score for Shipping was calculated by following the methodology for Motor vehicle loans
28. Non-vessel financing was allocated between the two sub-segments (passenger and merchant ships) by considering the clients' core business

Net Zero Metrics and Targets continued

Target setting

We selected the **IEA Net Zero 2050 benchmark** as the reference scenario to set the 2030 intermediate target.

By 2030, we aim to achieve a 30% reduction of the physical intensity Scope 1 and 3 of the overall Shipping portfolio, from a 2022 baseline of

- 14.1 gCO_2e/GT-nm for passenger ships
- 9.5 gCO_2e/DWT-nm for merchant ships

This is in line with the % reduction in the IEA NZ 1.5 scenario from 2022 to 2030.

Key levers for transition

Industry stakeholders agree that decarbonising the Shipping sector is a significant challenge.

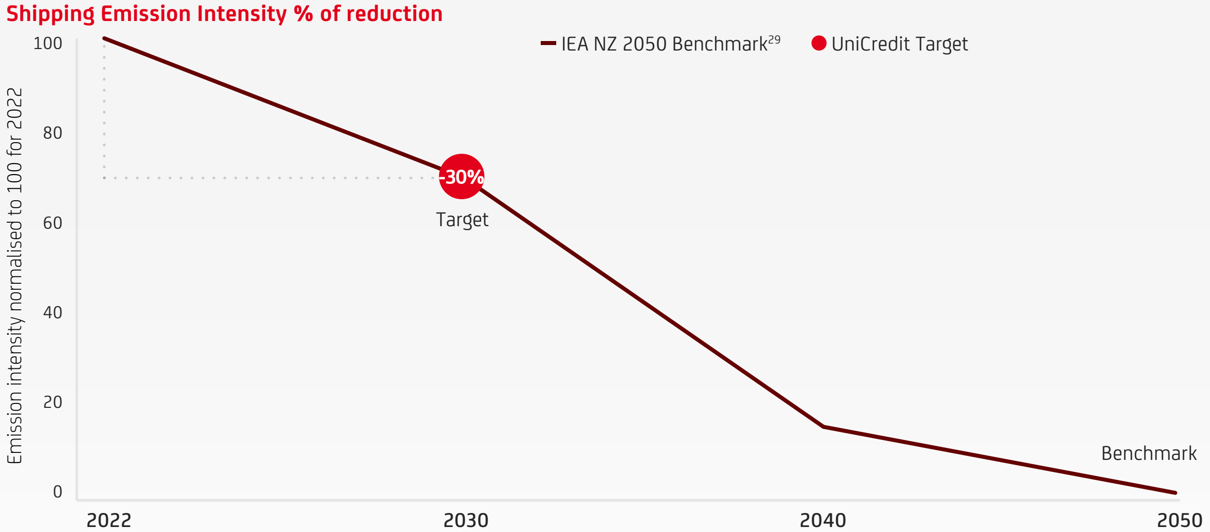
Shipping is a fundamentally international industry. It is therefore essential that maritime transport is subject to uniform regulations. In this sense, we commend the steps taken by the International Maritime Organization (IMO) in its efforts to counter the effects of climate change stemming from the sector.

Through the adoption of the 2023 IMO Strategy on Reduction of GHG emissions from ships, the IMO has increased the ambition to reduce global GHG emissions and provided a framework for Member States that sets out the path to a greener industry.

As stated by UNCTAD (United Nations Conference on Trade and Development), minimising uncertainty about future regulations, and improving clarity around carbon prices and fuels, is needed to spur action and investment by shipowners and other stakeholders across the maritime transport and energy production value chain (UNICTAD, Review of maritime transport 2023). At a global level, important steps need to be taken to facilitate the availability and usability of alternative fuels through dedicated and adequate production, bunkering facilities, and storage.

At Unicredit we believe that scaling up investment in new ships (including design, engines and onboard technologies) is also crucial. We will do our part by funding our clients' next generation vessels and/or financing the retrofit of their existing ships. We are continuously engaging our customers to identify with them the best financing strategy to accelerate their transition.

Shipping Emission Intensity % of reduction



On balance sheet lending YE2022	Emission Intensity Baseline YE2022	Emission Intensity 2030 Target
€3.1bn	**14.1 gCO_2/GT-nm** **9.5 gCO_2e/DWT-nm**	**-30%**

29. Percentage reduction of the IEA NZ 2050

Real Estate

The real estate sector, which includes energy used for constructing, heating, cooling and lighting homes and businesses, as well as the appliances and equipment installed in them, is estimated to account for 30% of global final energy consumption and 26% of global energy-related emissions – underlining its relevance to the Net Zero pathway.[30]

More specifically, in the geographies relevant for UniCredit, European institutions calculate that 85% of the buildings were built before 2000, with 75% of these having poor energy performance. As a result, buildings account for around 40% of energy consumed in the EU and more than one third of the EU's energy-related GHG emissions.[31]

While experts acknowledge the relevance of real estate to energy consumption and global warming, the global policy environment for building sustainability is still under development, with an increasing number of countries currently implementing regulations to not exceed the 1.5° global temperature increase thresholds. The European Union has recently approved its Energy Performance of Building Directive (EPBD), which aims to achieve a fully decarbonised building stock by 2050 as well as regulating and aligning the energy code environments in all European countries, thereby improving the environment for citizens and investors to make investment decisions.

While the overall sector remains off track to reach the Net Zero goals by 2050[32], we have observed an increase in clients' awareness of, and interest in, sustainability initiatives and standards, especially within the Commercial Real Estate sector. This is reflected in a trend of financing new or renovated buildings certified with the highest environmental standards (e.g., LEED).

To support the sector's decarbonisation, UniCredit has defined a Net Zero target for its Commercial Real Estate portfolio in its three largest and most material geographies: Italy, Germany and Austria. For Residential Real Estate, the bank analysed its portfolio across the same three geographies and identified a 2022 baseline to track its progress over time, supporting its clients in reducing the carbon footprint of their homes and constantly monitoring the ongoing evolution of the regulatory landscape.

Commercial real estate

Overview of key design choices

Key Design Choices	
Value chain in Scope	Real Estate operators[33] in Italy, Germany and Austria
Emission Scope	Operational emissions[34]
Metric	Emission intensity: $kgCO_2e/m^2$ [35]
Financing Activities	Corporate Lending book – on-balance sheet exposure related to Medium Long-Term loans to purchase or refinance a building[36]

In line with current market practices, we set the baseline for **Real Estate operators**, which we define as clients selling or buying real estate, renting real estate or providing other real estate services for their own or leased property. We have only considered financing for purchase or refinance of the building when the real estate asset is taken as collateral, and the client is owner of the building.[37]

The calculation of the emissions baseline focuses on the **operational emissions** that are associated with the energy used during the operation of the building.[38]

We selected **Exposure-weighted emission intensity** in kilos of CO_2 equivalent over square metres as the metric to calculate the baseline and set our 2030 interim target.

Using the selected design elements, on-balance sheet lending in scope for the sector was €31.1bn at 31/12/2022.

To calculate the emissions baseline for the sector, we used loan and asset information available in our internal systems, and retrieved the emissions data from the Energy Performance Certificate (EPC) collected from the borrowers. When this was unavailable, we estimated figures from the building EPC label, collected or estimated. The level of estimated data used for baseline computation is currently high because in some of our geographies information has in the past not been available or mandatory by law. However, we expect to improve the availability of actual EPC information over time as the regulatory framework evolves.

30. 2023 IEA Tracking Clean Energy Progress, 2024 UNEP Global Status Report for Building and Construction
31. Eurostat energy balances and EEA Greenhouse Gas Inventory, 2023
32. 2024 UNEP Global Status Report for Building and Construction
33. Owners of the buildings on which emission baseline is computed; performing the following activities: selling or buying real estate, renting real estate or providing other real estate services for clients' own or leased property and may be done on a fee or contract basis
34. Scope 1, 2 and Scope 3 Category 13 (if property Is leased)
35. Emissions intensity available for Italy as $kgCO_2/m^2$ and for Germany and Austria as $kgCO_2e/m^2$
36. Exclusion of bad loans; only lending collateralised by the asset (residential or commercial) considered in the baseline estimation
37. The building could be a residential or a commercial asset, when eligible to obtain an Energy Performance Certificate (EPC)
38. E.g., including heating, hot water, cooling, ventilation, lighting systems, equipment and lifts

Net Zero Metrics and Targets continued

Baseline estimation

2022 Data and Baseline	
Client data	– Loan and asset information from internal sources – Building emissions derived from the Energy Performance Certificate (EPC) collected from the borrower or estimated from the EPC label collected or estimated[39]
PCAF Data Quality Score	4.7
On balance sheet lending (drawn exposure)	€31.1 bn
Baseline emission intensity	44.2 kgCO_2e/m^2

The **2022 baseline emission intensity** of the **Commercial Real Estate sector** was estimated at **44.2 kgCO_2e/m^2.**[40]

Target setting

We selected the **CRREM v2.01** scenario[41] as the reference trajectory to set the 2030 intermediate target. We aim to achieve a **reduction** in the physical intensity of the operational emissions of **44% to 55%** from the 2022 emissions baseline (corresponding to a 2030 physical intensity range of 24.8 – 19.9 kgCO_2e/m^2).

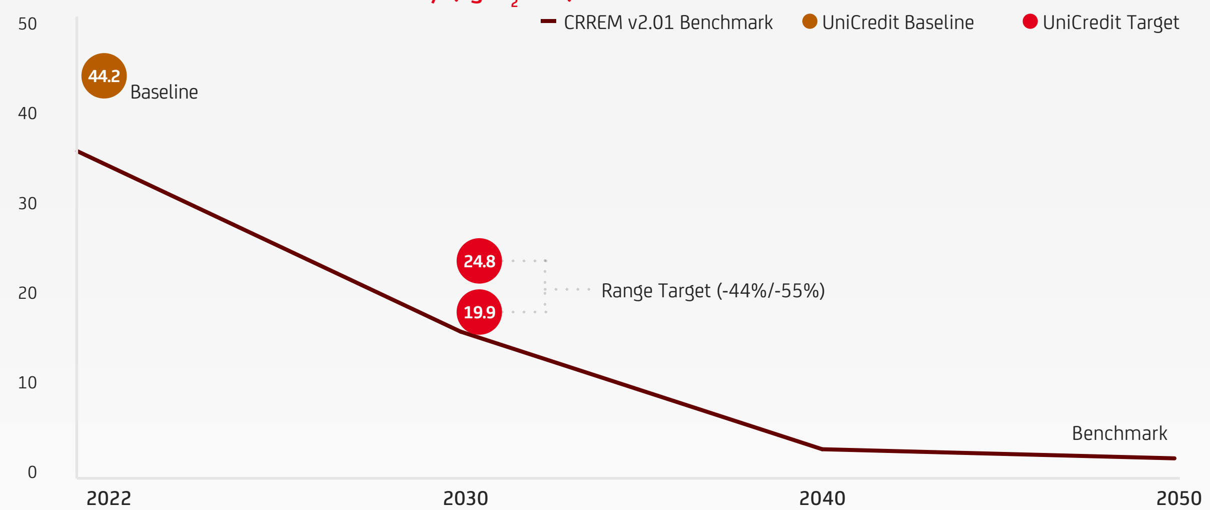
This range, with the -55% in line with the reduction of the CRREM decarbonisation trajectory, is ambitious and considers market uncertainty and regulatory developments at the same time.

Key levers for transition

To achieve this challenging target, UniCredit will continue to support its corporate clients on their journey to a sustainable transition. We aim to focus financing towards better new energy-efficient buildings, while also supporting our clients in the retrofitting of less efficient premises, favouring transactions with lower emissions intensity and better energy certificate labels. We will engage with our customers, stimulating conversations to ensure that we support them with the products and financing opportunities they need to achieve their transition plans.

We aim to improve data quality for the sector, refining the proxies underlying the baseline calculation as and when more precise methodologies become available, and stepping up our efforts to collect actual Energy Performance Certificates, where available.

Commercial Real Estate Emission Intensity (kgCO_2e/m^2)



On balance sheet lending YE2022	Emission Intensity Baseline YE2022	Emission Intensity 2030 Target
€31.1bn	**44.2 kgCO_2e/m^2**	**-44% to -55%**

39. EPC label estimated when not available on the stock, based on Country-specific data and methodologies, also leveraging on external providers and sources (e.g., PICAF)
40. Emissions intensity available for Italy as kgCO_2/m^2 and for Germany and Austria as kgCO_2e/m^2
41. Tailored to Unicredit portfolio (i.e., Geographies in scope and type of assets)

Finally, it is important to emphasise that strong commitments from governments and other industry stakeholders will be crucial to the achievement of the decarbonisation targets. Our target already reflects challenging public government commitments on the share of renewables within the electricity grid of the countries in scope. These commitments are therefore a key enabler for the overall sector decarbonisation and our ability to achieve the 2030 intermediate goal.

Residential real estate

Overview of key design choices

Key Design Choices	
Value chain in Scope	Homeowners in Italy, Germany and Austria
Emission Scope	Operational emissions[42]
Metric	Emission intensity: $kgCO_2e/m^2$ [43]
Financing Activities	Mortgages – on-balance sheet exposure to Individual clients to purchase or refinance a residential asset[44]

In line with industry guidelines and market practice, we defined the baseline for Residential Real Estate by considering our retail mortgages portfolio, therefore the financing we provide to our private individual clients to purchase or refinance residential premises.

As for Commercial Real Estate, the computation of the emissions baseline was focused on the **operational emissions** that are associated with the energy used during the operation of the building.[45]

We selected **Exposure-weighted emission intensity** in kilos of CO_2e over square metres as the metric to calculate the baseline.

Using the selected design elements, on-balance sheet lending in scope for the sector was €72.8bn at 31/12/2022.

Baseline estimation

2022 Data and Baseline	
Client and asset data	– Loan and asset information from internal source – Building emissions derived from the Energy Performance Certificate (EPC) collected from the borrower or estimated from the EPC label collected or estimated [46]
PCAF Data Quality Score	4.3
On balance sheet lending (drawn exposure)	€72.8bn
Baseline emission intensity	36.3 $kgCO_2e/m^2$ [46]

In line with the approach used for Commercial Real Estate, to calculate the Group emissions baseline for the Residential Real Estate sector we leveraged loan and asset information in our systems and Energy Performance Certificate (EPC) information. We used actual data to estimate emissions of the building when it was available, and proxies when it was unavailable.

The **2022 baseline emission intensity** of the **Residential Real Estate sector** was estimated **at 36.3$kgCO_2e/m^2$**.[47]

Key levers for transition

We will monitor progress on the initial baseline and are ready to support clients that want to reduce the carbon footprint of their homes.

For this segment, transitioning to net-zero buildings requires the strategic use of policy as well as financial tools. Government intervention and adequate incentive schemes will be crucial enablers for the decarbonisation path. It is essential to have coordinated policies that support an improvement in the energy consumption mix for the existing building stock (e.g., through an increase in the share of renewables within each country's electricity supply), while at the same time providing the right incentives to increase renovation rates, especially in the poorest areas and those with more heritage buildings, and a lower net zero assets construction rates.

42. Scope 1, 2 and Scope 3 Category 13 (if property Is leased)
43. Emissions intensity available for Italy as $kgCO_2/m^2$ and for Germany and Austria as $kgCO_2e/m^2$
44. Exclusion of bad loans; only lending collateralised by the asset (residential or commercial) considered in the baseline estimation
45. E.g., including heating, hot water, cooling, ventilation, lighting systems, equipment and lifts
46. EPC label estimated when not available on the stock, based on Country-specific data and methodologies, also leveraging on external providers and sources (e.g., PICAF)
47. Emissions intensity available for Italy as $kgCO_2/m^2$ and for Germany and Austria as $kgCO_2e/m^2$

Further KPIs and Metrics

Indirect impacts

Promoting sustainable financial instruments[48]

11
own Green Bonds issued since 2021

c.€6.5bn
total amount of Green Bonds

Hungary
2
Green Mortgage Covered Bonds (0.06bn, Sep21; 0.047bn, Sep23)

Italy
3
Senior Green Bonds (1bn, Jun21; 1bn, Nov22; 0.75bn, Nov23)

Czech Republic
1
Green Mortgage Covered Bond (0.5bn, Jun23)

Germany
2
Green Mortgage Covered Bond (0.5bn, Sep21; 0.5bn, Sep22)

Austria
3
Green Mortgage Covered Bond (0.5bn, May22; 0.75bn, Feb23; 0.75bn, Jan24)

Direct impacts

Space optimisation

Our new agile building layouts enable us to release space as we refurbish, reducing our **building's footprint**

Headquarter Space Optimisation Projects (sqm saved in 2023)

26,000
Italy

67,000
Germany

9,600
Austria

1,500
Slovakia

Energy management

- Heating and cooling systems' **working hours reduction** and sustainable **temperature set-point**
- **Lighting time frame reduction** and **signage turn-off** during night hours
- **Old HVAC system replacement** and **LED lighting implementation**

Local measures

- **Photovoltaic panels** have been installed in Austria, Hungary and Slovakia

In Italy, we are progressing with the implementation of a project aimed at **groundwater wells to free cooling units of both CED and HVAC systems**[49]

Electricity procurement

90.4 100%

of total electricity consumption in 2023 was from **renewable sources**[49]

100%

48 Data as of 1H24

49. Free cooling is the process of lowering the air temperature in our data centres by using naturally cool water instead of mechanical refrigeration

Mobility initiatives

We provide **bike storage in all the Group's main buildings,** as well as **electric bike charging stations** for employees in Italy, Germany, Russia and Slovakia.

A pilot project to install re-charging stations for e-cars (company cars, cars assigned to employees for professional and personal and for colleagues' private cars) was launched at the beginning of June at our Milan Lampugnano headquarters.

Thanks to space optimisation and energy management initiatives, we have already achieved tangible results[50]

-12%
in total energy consumption (2023 vs 2022)

-16% of natural gas consumption (2023 vs 2022)

-10% of electricity consumption (2023 vs 2022)

-15.6% of district heating (2023 vs 2022)

50. Data refers only to buildings where energy consumption invoices are in UniCredit's name

Further KPIs and Metrics continued

Environmental performance indicators[51, 52]

Scope 1: Direct GHG emissions[A] (tons CO_2e) 2023-2022[B]

Country	2023	2022
Italy	11,342	12,827
Germany	6,849	8,227
Central Europe	3,351	3,887
Eastern Europe	4,530	5,163
Total	**26,072**	**30,104**

A. GHG emissions from sources owned or controlled by our Group, which includes direct energy consumption, road business travel and refrigerant gas leakages

B. 2022 figures restated from those published in the 2022 Integrated Report as a consequence of the periodical updates of GHG emission factors and corrected data. 2021 figures restated from those published in the 2022 Integrated Report as a consequence of corrected data: total 2021 Scope 1 emissions are 33,158 tCO_2e

Scope 2: Indirect GHG emissions[A], market and location-based (tons CO_2e) 2023-2022[B]

Country	Market-based		Location-based	
	2023	2022	2023	2022
Italy	363	442	48,532	53,170
Germany	4,195	4,794	29,454	35,602
Central Europe	741	945	4,316	4,955
Eastern Europe	16,124	23,945	18,253	19,319
Total	**21,422**	**30,126**	**100,555**	**113,046**

A. GHG emissions from purchased electricity, steam and heating/cooling consumed by equipment or systems owned or controlled by our Group

B. 2022 figures restated from those published in the 2022 Integrated Report as a consequence of the periodical updates of GHG emission factors and corrected data. 2021 figures restated from those published in the 2022 Integrated Report as a consequence of corrected data: total 2021 Scope 2 market-based emissions are 33,035 tCO_2e and total 2021 Scope 2 location-based emissions are 110,888 tCO_2e

Scope 3: Other indirect GHG emissions[A] (tons CO_2e) 2023-2022[B]

Country	2023	2022
Italy	8,847	9,335
Germany	4,857	5,195
Central Europe	5,782	5,194
Eastern Europe	10,196	10,058
Total	**29,683**	**29,782**

A. GHG emissions from air and rail business travel; from copy paper consumption; from glass, paper and plastic disposal; and from energy consumption at leased assets for which we do not have operational control calculated considering the market-based method

B. 2022 figures restated from those published in the 2022 Integrated Report as a consequence of the periodical updates of GHG emission factors and corrected data. 2021 figures restated from those published in the 2022 Integrated Report as a consequence of corrected data: Scope 3 emissions are 27,247 tCO_2e

Scope 3: Total other indirect GHG emissions, by category (tons CO_2e) 2023-2022

Category	Description	2023	2022
1. Purchased goods and services	Copy paper consumption	626	723
5. Waste generated in operations	Glass, paper and plastic disposal	221	248
6. Business travel	Air and rail	2,904	2,071
8. Upstream leased assets	Energy consumption at leased assets not within operational control	25,932	26,740
Total		**29,683**	**29,782**

51. Data includes the full set of Legal Entities considered respectively in the 2023 Integrated Report perimeter (corresponding to a full-time equivalent of more than 70,200) and 2022 Integrated Report perimeter (corresponding to a full-time equivalent of more than 74,000), unless otherwise stated. Country-to-country comparisons may be misleading as different tracking systems should be taken into account. The business division Central Europe also includes Poland

52. The sum of Country figures may not coincide with corresponding total figures due to rounding

Energy consumption per employee[A] (GJ/capita) 2023-2022

Country	2023	2022
Italy	27	28
Germany	45	49
Central Europe	18	22
Eastern Europe	20	21
Group	**26**	**29**

A. Figures include energy consumption at premises for which we have operational control and at leased assets for which we do not have operational control

Copy paper consumption per employee (kg/capita) 2023-2022

Country	2023	2022
Italy	28	30
Germany	7	8
Central Europe	17	23
Eastern Europe	33	37
Group	**25**	**27**

Approximately 100% of copy paper used Groupwide holds an environmental label, such as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC). Approximately 73% of copy paper used Groupwide derives from recycled sources.

Water usage per employee (m^3/capita) 2023-2022

Country	2023	2022
Italy	23	31
Germany	26	24
Central Europe	7	8
Eastern Europe	8	9
Group	**17**	**21**

Waste production per employee (kg/capita) 2023-2022

Country	2023	2022
Italy	66	65
Germany	247	199
Central Europe	66	88
Eastern Europe	159	153
Group	**116**	**111**
of which hazardous[A]	0	0

A. The values are a consequence of rounding (the real values are 0.4 for 2023 and 0.4 for 2022)

Waste by disposal method 2023-2022

Country	Separation and recycling of valuable materials		Incineration		Disposal in landfill		Other treatment	
	2023	2022	2023	2022	2023	2022	2023	2022
Italy	97.70%	97.78%	0.00%	0.00%	0.00%	2.22%	2.30%	0.00%
Germany	66.76%	60.40%	33.17%	39.53%	0.00%	0.00%	0.07%	0.06%
Central Europe	57.72%	59.53%	18.54%	24.44%	19.38%	14.15%	4.36%	1.88%
Eastern Europe	17.62%	20.00%	0.71%	0.71%	79.27%	77.25%	2.39%	2.04%
Group	**56.93%**	**56.34%**	**12.28%**	**14.24%**	**28.97%**	**28.48%**	**1.81%**	**0.93%**
Total hazardous by disposal method	75.34%	66.74%	1.48%	1.02%	0.00%	0.00%	23.18%	32.23%

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