The ESG methodology of UniCredit Bank GmbH

For structured investment products

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1. Sustainability at UniCredit Bank GmbH

Embedding sustainability in all that we do is one of the five strategic imperatives of UniCredit Unlocked.

This plan builds on our strong foundations to unlock the potential of our Group, paving the way for the future of our Bank and of all our stakeholders, while ensuring that we always lead by example and fulfil our Purpose of empowering communities to progress.

Our ESG Strategy is built on strong fundamentals and interconnected elements to deliver value:

1. ESG principles, representing our important milestones woven through UniCredit Unlocked
2. Leading by example, striving to set high standards for ourselves and also from those we do business with
3. Setting ambitious ESG goals to support a just and fair transition for our clients
4. Equipping ourselves with tools to assist clients and communities in navigating the environmental and social transition through strategic sustainable actions
5. Embracing and investing the resources needed to deliver and reach our ESG targets and long-term commitments, through a strong Governance Model, embracing our Culture and delivering quality Monitoring, Reporting and Disclosure.

Since August 2022, customers have to state their sustainability preferences when being advised on investments and more and more investors want to invest their money sustainably. But what defines a structured product with sustainability characteristics from UniCredit Bank GmbH and on which criteria is the assessment “sustainable product” based? We would like to outline this to you below.

2. The Sustainable Finance Code of Conduct of the Bundesverband für Strukturierte Wertpapiere (BSW)

The Bundesverband für Strukturierte Wertpapiere (BSW) as the body representing the industry's leading issuers in Germany has defined uniform product and transparency standards in the **BSW Sustainable Finance Code of Conduct.** The code is based on the current version of the "Typology for sustainable financial instruments" (ESG target market) of the Deutsche Kreditwirtschaft (DK), the Bundesverbandes Asset Management (BVI) and the BSW supplements these.

The BSW Sustainable Finance Code of Conduct introduces the product group of structured securities with sustainability characteristics and distinguishes these positively from other structured securities according to the BSW product classification[1]. As a member of the BSW, we commit to comply with this code when publically offering sustainable structured securities to private individuals in Germany.

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

Issuer

The issuer is to take into account the requirements of at least five relevant voluntary ESG commitments in the areas of environmental, social and corporate governance. In any case, it considers the UN Global Compact and the UN Principles for Responsible Banking or the UN Principles for Responsible Investment[2].

It achieves at least one meaningful, positive ESG rating from a recognised ESG ratings agency.

It addresses at least six of the principal adverse impacts on sustainability factors ("PAI"). In addition to one PAI from the "greenhouse gas emissions" category, at least one other environmental PAI and one other social PAI need to be considered.

These criteria are fulfilled for UniCredit Bank GmbH. For example, UniCredit Bank GmbH and its parent company UniCredit SpA achieved "Prime" status with the ESG rating provider ISS ESG.

Product type

The focus lies on investment products in accordance with the BSW product classification. "Leverage products" and also products that profit from a downward movement of the underlying asset cannot be labelled as sustainable.

[1] 24_07_11_BSW_Produktklassifizierung_Kurzversion_dt_5923f67334.pdf
[2] Information on the UN Principles for Responsible Banking at: https://www.unepfi.org/banking/bankingprinciples, on the UN Principles for Responsible Investment: https://www.unpri.org and the UN Global Compact at: https://www.globalcompact.de/

UniCredit Bank GmbH classifies neither leverage products nor so-called reverse products, which rely on a (partial) downward movement of the underlying security, as sustainable.

Underlying

The issuer pursues a clear ESG strategy in choosing the underlying. This means, in particular, that the companies eligible as underlyings for structured securities with sustainability characteristics stand out from other companies with regard to ESG factors. In addition, certain companies are excluded as underlyings or reference issuers for products with sustainability characteristics:

- Companies are excluded as underlying, if they generate revenues from certain economic activities (e.g., nuclear energy, oil and gas production, weapons) that exceed clearly defined permissible thresholds (all minimum exclusions and thresholds can be found here: Sustainable Finance Code of Conduct of BSW)
- Government issuers as reference debtors are excluded if they have an inadequate scoring according to the Feedom House Index[3]
- Agricultural commodites and other raw materials of any kind are also excluded as underlying assets for structured securities with sustainable characteristics.

UniCredit Bank GmbH as an issuer of structured securities complies with these exclusions and additionally extends them in its ESG methodology. This consists of a combination of exclusions, minimum rating requirements and a best-in class approach (see the following chapter).

ESG Product and transparency standard

The issuer is to provide clear and comprehensive information in a product policy on the requirements for and design of structured securities with sustainability characteristics, as well as on the implementation of the requirements described in the BSW Sustainable Finance Code of Conduct and described in the own ESG methodology.

Designation

The designation of the structured security with sustainability characteristics must not contradict or be misleading with respect to the sustainability criteria actually met by the security and in particular the underlying (where present).

Furthermore, UniCredit Bank GmbH also complies with the ESG Standards of the Italian industry association ACEPI (Associazione Italiana Certificati e Prodotti d'Investimento).

[3] https://freedomhouse.org/report/freedom-world/freedom-world-2018

3. The ESG methodology of UniCredit Bank GmbH as issuer

3.1 WHAT IS A STRUCTURED SECURITY WITH SUSTAINABILITY CHARACTERISTICS?

Our structured investment products with sustainability characteristics must fulfil the following requirements with regard to legal form as well as with regard to their underlying assets criteria listed below, which go beyond the BSW Sustainable Finance Code of Conduct. The products must also belong to a certain product type.

3.2 THE LEGAL FORM / THE ISSUER

As an issuer, UniCredit Bank GmbH fulfils all the requirements of the BSW Sustainable Finance Code of Conduct for a structured investment product with sustainability characteristics as well as the requirements of ACEPI.

3.3 THE UNDERLYING

In order to qualify as a structured investment product with sustainability characteristics, we fulfil the criteria of the BSW Sustainable Finance Code of Conduct described above as well as the ACEPI ESG standards and expand them in accordance with our ESG methodology. For indices that fall under the benchmark regulation and the extended ESG disclosure obligations, we apply less stringent criteria than for single shares. As investment funds are subject to the Disclosure Regulation and the UCITS Directive, we base our criteria in this case only on the Disclosure Regulation and the sustainability preferences as described in MIFID II.

Depending on the type of underlying, the following criteria must be met in order to qualify as an underlying for an investment product with sustainability characteristics.

3.3.1 SINGLE SECURITY

In order to qualify as an underlying asset for an investment product with sustainability characteristics companies must fulfil the following exclusion criteria:

- Serious violations of the UN Global Compact or OECD Guidelines for Multinational Enterprises
- Nuclear weapons: >0% of turnover
- Controversial weapons[4]: >0% of turnover
- Production or distribution of armaments, including military weapons and small arms: ≥5% of turnover
- Thermal coal production: >0% of turnover
- Production of energy from thermal coal: ≥5% of turnover
- Tobacco production or services: >0% of turnover
- Production of controversial fossil fuels, e.g. companies that produce hydrocarbons using controversial techniques or in areas with high environmental impact: >0% of turnover
- Nuclear energy, production or distribution: >0% or ≥5% of turnover
- Alcohol production: ≥5% of turnover
- Gambling, production and sale: >0% or ≥5% of turnover
- Pornography, production and sale: >0% or ≥5% of turnover
- Animal testing (excluding legally required testing): >0% of turnover
- Oil production or production of energy from oil: ≥5% of turnover
- Natural gas production or production of energy from natural gas: ≥5% of turnover

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

Furthermore, we pursue a best-in-class approach for single

[4]Controversial weapons according to the definition of the UniCredit's Defense Sector Policy

shares: the company must achieve at least a “Prime -1” status within its sector as defined by ISS ESG.

In the case of sovereign issuers there must be no serious violations of democratic and human rights (based on classification as “Not Free” according to the Freedom House Index (https://freedomhouse.org/countries/freedom-world/scores).

Companies can only qualify as underlying for products with sustainability characteristics if they do not violate the exclusion criteria and fulfil both the minimum rating and the “best-in-class approach”!

3.3.2 SHARE BASKET

Each single underlying of the share basket must fulfil the conditions of the single share (3.3.1) in order to be classified as an underlying for structured securities with sustainability characteristics.

3.3.3 INDICES

Indices where the index sponsor clearly describes in its index concept that it pursues sustainability objectives, can be classified as underlyings for structured securities with sustainability characteristics. In addition Companies are excluded as underlying, if they generate revenues from certain economic activities (e.g., nuclear energy, oil and gas production, weapons) that exceed clearly defined permissible thresholds (all minimum exclusions and thresholds can be found here: Sustainable Finance Code of Conduct of BSW).

3.3.4 FUNDS / FUND INDICES

Irrespective of their legal form, funds categorised in accordance with Article 8 of the Disclosure Regulation[5] and which take into account adverse sustainability impacts and / or for which a minimum investment in sustainable investments pursuant to Article 2 point 17 of the Disclosure Regulation (so-called “Article 8+ funds”) qualify as an underlying for a structured securities with sustainability characteristics, provided that the criteria of the BSW Sustainability Code are also fulfilled.

Funds categorised under Article 9 of the Disclosure Regulation may qualify as an underlying security with sustainability characteristics, provided that the criteria of the BSW Sustainability Code are also fulfilled.

All other funds do not qualify as underlyings for a structured security with sustainability characteristics.

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

For funds that are based on an index (e.g. most ETFs = Exchange Traded Funds), the above rules apply and, in addition the rules for indices (3.3.3) also apply in order to be used as an underlying for a structured security with sustainability characteristics.

3.3.5 COMMODITIES

Until a common market standard is established, no commodity (spot, future, future index) qualifies as an underlying for a structured security with sustainability characteristics.

3.3.6 CREDIT-LINKED SECURITIES

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

3.3.7 INTEREST RATES AND CURRENCIES

If the product relates to an interest rate, interest rate index or a currency, the structure of the bond is decisive for the sustainability classification. If for example, the bond is classified as a Social[6] or Green Bond[7] as a sustainable bond, this classification is also applied to bonds that relate to interest rates or currencies. Example: A green bond that relates to a currency is labelled as a structured security with sustainability characteristics.

3.3.8 UNDERLYINGS WITHOUT SUFFICIENT ESG DATA

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

3.4 THE PRODUCT TYPE

In accordance with the BSW Sustainable Finance Code of Conduct leveraged products and products that rely on a falling underlying are excluded from classification as structured securities with sustainability characteristics. This also applies for products that only partially benefit from a downward movement, such as twin-win certificates.

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

[6]Social-Bonds are bonds where the proceeds are used to finance social projects.

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

4. A, B or C? Sustainability preferences for investment products with sustainability characteristics

If a structured security fulfils all of the criteria above, it qualifies as a "structured security with sustainability characteristics". However, each of these products also requires a sustainability preference, which is expressed by the letters A, B or C.

A = A product which, for a certain proportion, is invested in environmentally sustainable investments, as described in Article 2, point 1 of the EU Taxonomy Regulation. The taxonomy regulation was adopted by the European Commission in 2020 and is part of the "Action Plan to finance sustainable growth" which aims at directing capital flows into environmentally sustainable economic activities.

B = An investment product that invests a certain proportion in sustainable investments, as described in Article 2, point 17 of the EU SFDR regulation. The SFDR is the EU Disclosure Regulation, which attempts to ensure greater transparency about the extent to which financial products have environmental and / or social characteristics, invest in sustainable investments or pursue sustainable investment objectives.

C = In order to be categorised as a C product, so-called "principal adverse impacts on sustainability" (PAIs) must be taken into account. This consideration takes place at the level of UniCredit Bank GmbH as the issuer (see chapter 5).

Since 1 August 2022, UniCredit Bank GmbH has classified its structured securities with sustainability characteristics with the respective letter A, B or C if the described criteria are met. The product offering and the product range will be gradually expanded.

5. Principal Adverse Impacts considered on product level

In order to classify a structured product with sustainability preference "C", the following so-called "adverse sustainability impacts" (PAIs = Principal Adverse Impact) are taken into account:

PAI 1: Carbon emissions (broken down by scope 1, 2 and 3 carbon emissions

PAI 2: Carbon footprint

PAI 3: Weighted average carbon intensity
The UniCredit Group is signatory of the Net-Zero Banking Alliance ("NZBA") and has committed to transition all operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net-zero by mid-century, or sooner, including CO2 emissions reaching net-zero at the latest by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

The UniCredit Group publishes annually progress against absolute emissions and / or emissions intensity targets following relevant international and national GHG emissions reporting protocols and / or climate portfolio alignment methodologies.

PAI 5: Share of non-renewable energy consumption and production
The UniCredit Group discloses its share of total energy consumption from renewable sources (and hence implicitly also the share from non-renewable sources) in its Integrated Report and aims at reducing the share from non-renewable sources to the technically feasible minimum.

PAI 7: Biodiversity and ecosystem preservation practices
The UniCredit Group is signatory of the Finance for Biodiversity pledge and has committed to incorporate criteria for biodiversity in its ESG policies, while engaging with companies to reduce their negative and increase positive impacts on biodiversity. The Group reviews its financing activities and investments for significant positive and negative impacts on biodiversity and sets targets to increase significant positive impacts on biodiversity and reduce significant negative impacts.

PAI 10: Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises

PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD* Guidelines for Multinational Enterprises
The United Nations Global Compact is a strategic policy initiative promoted at national level via local networks and aimed at businesses committed to aligning their operations and strategies with 10 universally accepted principles related to human rights, labour, anti-corruption practices and the environment.

The UniCredit Group submits the Integrated Report as its annual Communication on Progress (COP), publicly disclosing to stakeholders also on progress made in implementing the Ten Principles promoted by the UN Global Compact in its core business, and in supporting broader UN development goals.

PAI 12: Unadjusted gender pay gap
The UniCredit Group is partner or affiliate of different organisations, like B4IG – Business for Inclusive Growth, a partnership between the OECD and a global CEO-led coalition of companies fighting against income and opportunity inequalities. The gender pay gap is disclosed in UniCredit's Integrated Report.

PAI 14: Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
As outlined in UniCredit's Defence Sector Policy, UniCredit Group does not provide any support:

- directly aimed at Nuclear or Controversial Defence-related activities
- directly aimed at exporting Nuclear or Controversial Defence devices, their key components, their key infrastructures, and their key services into forbidden countries regardless of the fact that the customer is a Defence-related subject or not

PAI 31: Non-recycled waste ratio
The UniCredit Group is a member of the international Ellen MacArthur Foundation, which aims to accelerate the transition towards a circular economy. To this end, it brings together companies, science, political decision-makers and institutions to launch global solutions for a circular economy.

PAI 41: Investments in companies without workplace accident prevention policies[8]
Health and safety are fundamental values for our Group. It provides optimal conditions for employees' health, safety and well-being in the workplace in order to avoid or reduce their possible exposure to the risks, accidents and occupational diseases associated with work to a minimum.

To reach and maintain this goal, the UniCredit Group has adopted policies, procedures and controls in compliance with EU directives, local laws, regulations and signed agreements, which ensure an adequate working environment and respect for the individual dignity of all employees. The Group has adopted an organisational and management framework which ensures the protection of personnel in all workplaces. It has put in place an effective company system for the identification, assessment, prevention, protection from and prompt elimination of risks and dangers.

PAI 42: Rate of accidents
The rate of accidents is published in UniCredit's Integrated Report.

PAI 43: Number of days lost to injuries, accidents, fatalities or illness
These numbers are published in UniCredit's Integrated Report.

PAI 46: Insufficient whistleblower protection
The Group's approach to whistleblowing is set out in a specific global rule. In order to promote a corporate Culture based on ethical behaviour and good corporate governance, the policy governs reports of unacceptable conduct by employees within the Group.

This policy is intended to ensure a corporate environment in which employees can report any unacceptable behavior and to define appropriate communication channels for receiving, analysing and using the reports.

[8]Investments in companies without measures to prevent accidents at work

6. ISS ESG – Our independent rating agency

Whether a company fulfils the ESG criteria set by UniCredit Bank GmbH and is therefore suitable as an underlying for a structured security with sustainability characteristics is determined by the independent ESG rating provider ISS ESG.

ISS ESG is the responsible investment division of ISS STOXX, the world's leading provider of ESG solutions for investors, asset managers, hedge funds and providers of asset services providers. With more than 30 years of experience in the field of corporate governance and 25 years' experience in the provision of in-depth sustainability research, ISS ESG is the partner of choice for institutional investors. ISS ESG's solutions enable them to develop and integrate sustainable investment policies and practices and screening solutions. ISS ESG also offers climate data, analyses and advisory services that enable investors to measure, understand and assess climate-related risks across all asset classes. It also provides research and ratings on companies and countries and enables its clients to identify material social and environmental risks and realise opportunities. This holistic range of solutions is complemented by an established standard for analysing, evaluating, forecast and consideration of the financial dimension of companies.

UniCredit Bank GmbH
Client Risk Management
Team onemarkets, MCC

Address
Arabellastr. 12
D-81925 Munich

Online
onemarkets.eu/sustainability

As of July 2026

onemarkets by UniCredit