



 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)

SUSTAINABLE FINANCE  
DDV  Code of Conduct

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<sup>1</sup>. 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 or the group, to which it belongs, has achieved the status of a sustainable company with at least one recognised rating agency and takes into account the the UN Principles for Responsible Banking and / or the UN Global Compact and / or equivalent principles<sup>2</sup>.



This criterion is fulfilled for UniCredit Group and its affiliated companies, and especially UniCredit Bank GmbH.

- **Product type:** The focus lies on investment products in accordance with the BSW product classification<sup>1</sup>. "Leverage products" and also products that profit from a downward movement of the underlying asset cannot be labelled as sustainable.



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.

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

<sup>2</sup>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/>

- **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 that meet certain thresholds in the production and / or distribution of defence equipment (>10%<sup>3</sup>) or coal (>30%<sup>3</sup>)
  - Companies that produce or distribute banned weapons<sup>4</sup>
  - Companies whose tobacco production is >5%
  - Companies that commit serious violations of the UN Global Compact (without a positive outlook):
    - Protection of international human rights
    - No complicity in human rights violations
    - Respect for freedom of association and the right to collective bargaining
    - Elimination of forced labour
    - Abolition of child labour
    - Elimination of discrimination in respect of employment and employment
    - Precautionary principle in dealing with environmental problems
    - Promoting greater environmental awareness
    - Development and dissemination of environmentally friendly technologies
    - Opposition to all forms of corruption

- Government issuers as reference debtors are excluded if they have an inadequate scoring according to the Freedom House Index<sup>5</sup>
- Agricultural commodities are also excluded as an underlying



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).

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

<sup>3</sup>Turnover from production or distribution

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

<sup>5</sup><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 SHARE

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 and serious offences in the payment of taxes
- Banned weapons<sup>6</sup>: >0% of turnover
- Production or distribution of defence equipment: ≥5% of turnover
- Production of coal or production of energy from coal: ≥5% of turnover
- Tobacco production or services: ≥5% of turnover
- Production of controversial fossil fuels, e.g. companies that produce hydrocarbons using controversial techniques or in areas with high environmental impact: ≥5% of turnover (>0% for Arctic drilling)
- 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
- Genetic engineering: >0% 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).

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

Furthermore, we pursue a best-in-class approach for single shares: the company must achieve at least a “Prime -1” status within its sector as defined by ISS ESG.



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 the following companies / government issuers must be excluded from the index concept:

- Companies involved in serious violations of the UN Global Compact
- Companies that manufacture, maintain or use controversial and / or morally unacceptable weapons: >0% of turnover
- Companies involved in the production of coal or the production of production of energy from coal: >10% of turnover
- Companies involved in the production of controversial fossil fuels, e.g. companies that produce hydrocarbons using controversial techniques or in areas with high environmental impact: ≥10% of the turnover
- Companies involved in the production or distribution of weapons: >10% of turnover
- Companies involved in tobacco production: >5% of turnover
- State issuers are excluded if they have an insufficient scoring according to the Freedom House Index, have not signed the Paris Climate Agreement or do not fulfil the standards of the Financial Action Task Force (FATF) standards.<sup>7</sup>

### 3.3.4 FUNDS / FUND INDICES

Irrespective of their legal form, funds categorised in accordance with Article 8 of the Disclosure Regulation<sup>8</sup> 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.

Funds categorised under Article 9 of the Disclosure Regulation may qualify as an underlying security with sustainability characteristics.

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<sup>9</sup> or Green Bond<sup>10</sup> 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.

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

<sup>8</sup>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

<sup>9</sup>Social-Bonds are bonds where the proceeds are used to finance social projects.

<sup>10</sup>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 “adverse impacts on sustainability” (PAIs) must be taken into account. This consideration takes place at the level of UniCredit Bank GmbH as the issuer.

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. 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.







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