11 April 2019

Re: UniCredit's approach to climate change

As investors, we are writing to express our concern about the fact that UniCredit has not yet developed a coherent climate strategy that is publicly available, but has instead chosen to focus on its own operational emissions.[i] We view this as problematic, because, by the nature of your business in banking, UniCredit mostly impacts climate change via the activities and companies the bank finances. UniCredit's lack of action to ensure climate-related risks and opportunities are managed appropriately leaves the bank and its shareholders exposed to increased transitional risks, which we believe to be financially material. Moreover, UniCredit's lack of climate strategy enables the bank to finance high-carbon activities and companies, decreasing the likelihood that the goals of the Paris Agreement will be met.

As shareholders, we request that UniCredit begins more active management of climate-related issues and develops a climate strategy at the board level, using scenario analysis to assess and manage exposure to climate-related financial risks. Furthermore, we request that the bank aligns with its European peers, such as Santander and ING, and publishes a new policy on coal, excluding project finance for coal mining and coal-fired power, as well as general corporate financing for companies highly dependent on coal. Our reasoning is as follows:

1. **Board-level oversight of climate change is essential if UniCredit is to mitigate material climate-related risks.**

There is increasing consensus amongst mainstream financial actors and institutions that climate risks are financially relevant. From 2015-2019, the World Economic Forum (WEF) in collaboration with PwC identified extreme weather events, major natural catastrophes and the failure of climate-change mitigation and adaptation as amongst the most pressing risks facing the economy today, with financial losses arising from climate change potentially reaching $43tr by 2100.[ii] In the same report, climate-related opportunities worth up to $26tr between now and 2030 are identified. WEF and PwC claim that failure to adequately manage climate-related risks and opportunities may breach the director's duties to a company's shareholders.

Considering this, the Taskforce on Climate-related Financial Disclosures (TCFD) recommends that the board of directors, which is accountable to shareholders for the long-term stewardship of the business, acts as the starting point for responsible management of climate-related risks and opportunities.[iii] This is supported by ShareAction's "Getting to Green" report: top performing banks, such as BNP Paribas, integrate the assessment and management of climate-related risks and opportunities throughout the whole organisation, implementation of the strategy being driven by the board and its related committees.[iv]

2. **As climate change is an established risk factor and strategic issue, scenario analysis is a matter of good governance.**

In addition to the TCFD, UNEP FI and 16 major banks – including, BBVA, Barclays, UBS and Standard Chartered – endorse scenario analysis as a tool that is required to identify and measure material climate-related risks.[iii] [v] Scenario analysis can be used to test the robustness of a bank's lending portfolio and strategy under alternative plausible future states, with a recommendation of testing under 1.5-degree, 2-degree and above 2-degree Celsius scenarios.

By testing strategic resilience, scenario analysis can help companies to future-proof their business model.[vi] For example, research by ShareAction found that Crédit Agricole's use of scenario analysis was pivotal in the development of the bank's energy policy.[iv] By providing a tool for companies to assess their exposure to climate-related risks in relation to possible futures, scenario analysis has become a central part of good governance.

3. **When it comes to climate action, UniCredit lags behind its peers.**

Analysis by the IEA has demonstrated that 1,715 GW of coal power capacity could be retired early under a <2°C scenario.[vii] That is equivalent to the total coal plants in China, USA, Japan, Germany and Poland combined, with the losses stemming from the early stranding of these assets estimated at up to $8.3 trillion by 2060. The current capacity of today's coal power fleet is 1,965 GW.

UniCredit has yet to publish a policy excluding the financing of coal power and mining projects, and companies highly dependent on coal. Among the 15 largest European banks, this makes UniCredit the only bank to have failed to adopt a coal exclusion policy of some kind. Within Italy, major insurer, Generali, has taken a strong stance on coal, refusing to invest in companies highly dependent on the fuel.[viii] Failure to end financing for coal may leave UniCredit exposed to avoidable material risks, as well as jeopardising climate goals.

As a result of the above, **we request that UniCredit:**

1) Ensures that organisational governance structures facilitate the development and implementation of a climate strategy that takes into account climate-related risks and opportunities, starting with the board and its related committees;

2) Provides public disclosures in line with the TCFD recommendations and carries out scenario analysis over a range of future climate-related scenarios, providing information about the outcome and any resulting changes in the bank's strategy;

3) Adopts a (1) prohibition of general corporate financing, underwriting and advisory services to companies that are highly dependent on coal mining or coal power, (2) a prohibition of project finance to coal mines and coal-fired power plants anywhere in the world, and (3) a clear, timebound plan to phase out existing exposure to coal assets.

ShareAction and other shareholders would be pleased to meet with a representative of the board or executive committee of the bank to discuss the above further.

We look forward to your response. Please send this to: Sonia Hierzig, Senior Projects Manager – Climate Change, sonia.hierzig@shareaction.org.

Yours sincerely,

References

i UniCredit (2017) "Climate Change" Available online at: https://www.unicreditgroup.eu/en/a-sustainable-bank/our-capitals/natural-capital/climate-change.html [accessed 12 March 2019]

ii WEF (2019) *How to Set Up Effective Climate Governance on Corporate Boards Guiding principles and questions*. Geneva: WEF. Available online at: http://www3.weforum.org/docs/WEF_Creating_effective_climate_governance_on_corporate_boards.pdf [accessed 12 March 2019]

iii TCFD (2017) *Recommendations of the Task Force on Climate-related Financial Disclosures.* TCFD. Available online at: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf [accessed 12 March 2019]

iv ShareAction (2018) *Getting to Green. Showcasing Leading Approaches to Climate Change within the European Banking Sector.* London: ShareAction. Available online at: https://shareaction.org/wp-content/uploads/2018/09/InvestorReport-GettingToGreen.pdf [accessed 12 March 2019]

v UNEP FI (2018) "16 UNEP FI member banks launch first guidance to help banking industry adopt TCFD recommendations" Available online at: https://www.unepfi.org/news/industries/banking/tcfd-recommendations/ [accessed 12 March 2019]

vi TCFD (2016) *The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities.* TCFD. Available online at: https://www.fsb-tcfd.org/wp-content/uploads/2016/11/TCFD-Technical-Supplement-A4-14-Dec-2016.pdf [accessed 12 March 2019]

vii Carbon Brief (2017). "IEA: World can reach 'net zero' emissions by 2060 to meet Paris climate goals". *Carbon Brief*. Available online at: https://www.carbonbrief.org/iea-world-can-reach-net-zero-emissions-by-2060-meet-paris-climate-goals [accessed 12 February 2019]

viii Generali (2018) "Generali approves climate strategy. It will divest € 2 billion from coal." Available online at: https://www.generali.com/media/press-releases/all/2018/Generali-approves-climate-change-strategy-It-will-divest-2-billion-from-coal [accessed 12 February 2019]