



Sustainability and climate risk policy framework

Sustainability and climate risk policy framework

Our comprehensive and long-standing sustainability and climate risk (SCR) policy framework is embedded in the firm's culture and:

- applies firm-wide to relevant activities, including client and supplier relationships;
- is integrated in management practices and control principles and overseen by senior management; and
- supports transition toward a net-zero future.

Introduction

UBS's commitment to sustainability is central to our purpose and we focus our efforts on the planet, people and partnerships. We want to be the financial provider of choice for clients who wish to mobilize capital toward the achievement of the 17 UN Sustainable Development Goals and the orderly transition to a low-carbon economy. We have set ourselves the goal to achieve net-zero greenhouse gas emissions resulting from all aspects (scopes 1, 2 and 3) of our business by 2050, with intermediate milestones established to ensure progress. Our commitment to sustainability is embedded in our firm's Code of Conduct and Ethics and in our sustainability and impact strategy.

At UBS, Sustainability and climate risk (SCR) is defined as the risk that UBS is negatively impacted by or negatively impacts climate change, loss of biodiversity, human rights infringements, and other environmental, social and governance matters. Climate risks can arise from either changing climate conditions (physical risks) or from efforts to mitigate climate change (transition risks).

SCR may manifest as credit, market, liquidity and operational risks for UBS, resulting in potential adverse financial, liability and reputation impacts. They may also negatively impact the value of investments.

Our principles and standards apply to all relevant aspects of our business and the ways in which we engage with our stakeholders. Our Code of Conduct and Ethics guides our approach to corporate responsibility. Our work in key societal areas such as protecting the environment and respecting human rights are part of this. Living up to our societal responsibilities contributes to the wider goal of sustainable development. As a global firm, we take responsibility for leading the debate on important societal topics, contribute to the setting of standards and collaborate in and beyond our industry.

Managing SCR is a key component of our corporate responsibility. We apply an SCR policy framework to all relevant activities. This helps us identify and manage potential adverse impacts on the climate, environment and to human rights, as well as the associated risks affecting our clients and us. We have set standards for product development, investments, financing and supply chain management decisions. We have identified certain controversial activities we will not engage in, and certain areas of concern where we will only engage in under stringent criteria. As part of this process, we are committed to engaging with clients and suppliers to better understand their processes and policies and to explore how climate, environmental and human rights related risks and impacts may be mitigated.

Our commitment

Our commitment to sustainability starts with our purpose. We know finance has a powerful influence on the world. At UBS, we reimagine the power of people and investment, to help create a better world for everyone: a fairer society, a more prosperous economy and a healthier environment. That is why we partner with our clients to help them mobilize their capital toward a more sustainable world. It is why we have put sustainability at the heart of our own business, too. To help us maximize our impact and direct capital to where it is needed most, we are focusing on three key areas to drive the sustainability transition: planet, people, partnerships.

Thirty years ago, in 1992 UBS was one of the first financial institutions to sign the United Nations' Environment Programme bank declaration (the UNEP FI). We were also among the first companies to endorse the UN Global Compact in 2000 and, in the same year, our firm was a founding member of the Wolfsberg Group of banks, which was originally set up to promote good practice in combatting money laundering. In 2002, we were an original signatory of the CDP.

In 2011, our firm was a driving force behind the establishment of the Thun Group of Banks, which has, in the meantime, published two discussion papers that seek to establish a framework to facilitate the identification of the key challenges and best practice examples for the banking sector's implementation of the UN Guiding Principles on Business and Human Rights (the UNGPs).

In 2014, we endorsed the Banking Environment Initiative's and Consumer Goods Forum's "Soft Commodities" Compact, which reconfirms our commitment to developing and implementing responsible business standards.

In 2019, we became a founding signatory of the UN Principles for Responsible Banking (the PRB). The PRB constitute a comprehensive framework for the integration of sustainability across banks. They define accountabilities and require each bank to set, publish and work toward ambitious targets.

Progress made in implementing Group Sustainability and Impact objectives is reported as part of UBS's annual reporting. This reporting is reviewed and assured externally according to the requirements of the Global Reporting Initiative's (GRI) Sustainability Reporting Guideline. UBS is certified according to ISO 14001, the international environmental management standard.

› **Refer to Appendix 7 of this report for an overview of our external commitments and memberships**

Climate change

Climate change is one of the most significant challenges of our time. The world's key environmental and social challenges – such as population growth, energy security, loss of biodiversity and access to drinking water and food – are all closely intertwined with climate change. This makes the transition to a low-carbon economy vital.

We support this transition through our comprehensive climate strategy, which covers two main areas: managing climate-related financial risks, and taking action on a net-zero future. Underpinning these two main areas are four strategic pillars: protecting our clients' assets; protecting our own assets; mobilizing private and institutional capital; and reducing our direct climate impact.

UBS became a founding member of the Task Force on Climate-related Financial Disclosures (the TCFD) in 2015, we continue to support the TCFD development with formal representation in the Task Force since 2016. We became a founding member of the Net Zero Asset Managers initiative in 2020 and a founding member of the Net-Zero Banking Alliance in 2021.

- › Refer to the “What” section of this report for our full climate report, including details on our net-zero implementation

Forests and biodiversity

We seek to promote nature and biodiversity, focusing on key stakeholder groups (clients, vendors, employees and society at large). Deforestation and forest degradation can cause loss of biodiversity. As approximately 80% of the world's documented species are found in tropical rainforests, deforestation will impact global biodiversity.¹ Approximately 25% of global greenhouse gas emissions come from the land sector, which is the second largest source of emissions after the energy sector. Around half of these emissions comes from deforestation and forest degradation.²

Worldwide, it is estimated that more than half of forest loss is due to conversion of forest into cropland, whereas raising of livestock is responsible for almost 40% of forest loss.³ It is further estimated that almost 50% of all recent tropical deforestation is due to illegal commercial agriculture activities and timber plantations.⁴ In human terms, millions of people rely directly on forests (small-scale agriculture, hunting and gathering, and harvesting forest products such as rubber). Yet deforestation continues to cause severe societal problems, sometimes leading to violent conflicts.

Recognizing these risks, we:

- Became member of the Responsible Roundtable on Sustainable Palm Oil (the RSPO) in 2012 (RSPO certification is a guarantee that palm oil production is sustainable. Accredited certified bodies perform extensive reviews on palm oil producers to ensure strict compliance with RSPO Principles & Criteria for Sustainable Palm Oil Production).
- Endorsed the Banking Environment Initiative's and Consumer Goods Forum's “Soft Commodities” Compact. In doing so, we aim to support the transformation of soft commodity supply chains by expecting producers to be committed to achieving full certification according to applicable sustainability certification schemes, such as the RSPO. We acknowledge that

acquiring land without adequate consultation, compensation and consideration of customary land rights (commonly referred to as land grabbing) can significantly impact local communities, often smallholders who primarily rely on subsistence farming to sustain their livelihood.

- Have identified and will not engage in certain activities that contribute to deforestation and its related impacts (see the subsequent “Controversial activities – where UBS will not do business” and “Areas of concern – where UBS will only do business under stringent criteria” sections).
- Published our biodiversity statement, showing UBS's approach to protecting biodiversity and ecosystems across all of our activities globally.
 - › Refer to our Biodiversity Statement at ubs.com/gri to learn more about UBS's approach to protecting biodiversity

Human rights

UBS is committed to respecting human rights, as set out in the UNGPs, in our business activities. We believe this is a responsible approach underlining our desire to reduce, as far as possible, potentially negative impacts on society. Our commitment in this important area is long standing. In 2000, UBS was among the first companies that pledged to adhere to the UN Global Compact Principles, including on human rights. The principles of the Global Compact, today the largest corporate responsibility initiative globally, stem from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention Against Corruption.

The United Nations took a significant step in 2011 by endorsing the UNGPs. At this point, UBS came together with other banks and formed the Thun Group of Banks to jointly consider these developments and to share experiences regarding the implementation of the UNGPs. To this end, the Thun Group of Banks has published two discussion papers on the banking sector's implementation of the UNGPs. The second paper, for example, focused on the proactive agenda of the Organization for Economic Co-operation and Development (the OECD) on Responsible Business Conduct and in particular the OECD's 2019 guidance on due diligence for Responsible Business Conduct in General Corporate Lending and Securities Underwriting. UBS is a member of the Advisory Group to the OECD.

Recognizing our commitment to promoting human rights, we:

- established a UBS Position on human rights in 2006, and have been regularly updating the UBS Human Rights Statement;
- will not engage in commercial activities that make use of child labor and forced labor, or that infringe the rights of indigenous peoples (see the subsequent section titled “Controversial activities – where UBS will not do business”); and
- will continue our work internally, and externally with the Thun Group of Banks and the OECD, to understand how best to implement the UNGPs across our operations
 - › Refer to our Human Rights Statement at ubs.com/gri to learn more about UBS's commitment to respecting human rights

¹ For more information refer to [iucn.org/resources/issues-briefs/forests-and-climate-change](https://www.iucn.org/resources/issues-briefs/forests-and-climate-change).

² For more information refer to [iucn.org/resources/issues-briefs/forests-and-climate-change](https://www.iucn.org/resources/issues-briefs/forests-and-climate-change).

³ For more information refer to [fao.org/newsroom/detail/cop26-agricultural-expansion-drives-almost-90-percent-of-global-deforestation/en](https://www.fao.org/newsroom/detail/cop26-agricultural-expansion-drives-almost-90-percent-of-global-deforestation/en).

⁴ For more information refer to <https://www.gov.uk/government/news/government-sets-out-world-leading-new-measures-to-protect-rainforests>.

Our standards

UBS has set standards in product development, investments, financing and supply chain management decisions. These include the stipulation of controversial activities and other areas of concern UBS will not engage in, or will only engage in under stringent criteria.

Controversial activities – where UBS will not do business

UBS will not knowingly provide financial or advisory services to clients whose primary business activity, or where the proposed transaction, is associated with severe environmental or social damage to or through use of:

- World heritage sites as classified by the United Nations Educational, Scientific and Cultural Organization (*UNESCO*);
- Wetlands on the *Ramsar list*;
- Endangered species of wild flora and fauna listed in *Appendix 1* of the Convention on International Trade in Endangered Species;
- High conservation value forests as defined by the six categories of the Forest Stewardship Council (*FSC*)
- Illegal fire: uncontrolled and / or illegal use of fire for land clearance;
- Illegal logging including purchase of illegally harvested timber (logs or roundwood);
- Child labor according to *ILO Conventions 138* (minimum age) and *182* (worst forms);
- Forced labor according to *ILO Convention 29*; and
- Indigenous peoples' rights in accordance with *IFC Performance Standard 7*.

The same standards apply when UBS purchases goods or services from suppliers.

In addition, UBS does not directly or indirectly finance the development, production or purchase of controversial weapons of such companies determined to fall within the "Swiss Federal Act on War Materials."

On the topic of cluster munitions and anti-personnel mines: UBS does not provide credit facilities to, nor conduct capital market transactions for, companies that are involved in the development, production or purchase of cluster munitions and anti-personnel mines. UBS does not include securities of affected companies in its actively managed retail and institutional funds and in discretionary mandates. UBS draws upon external expertise to decide whether a company is subject to the restrictions imposed by Swiss law.

Areas of concern – where UBS will only do business under stringent criteria

Specific guidelines and assessment criteria apply to transactions with corporate clients engaged in the areas of concern listed below. The guidelines and assessment criteria apply to loans, trade finance, direct investments in real estate and infrastructure, securities and loan underwriting transactions, and investment banking advisory assignments.

Transactions in the areas listed below trigger an enhanced due diligence and approval process. In addition to the assessment of regulatory compliance and adherence to UBS's controversial activities standards, as well as consideration of past and present environmental and human rights performance and concerns of stakeholder groups, these transactions require an assessment of the following criteria:

Soft commodities	
Palm oil	<ul style="list-style-type: none"> – Companies must be a member of the RSPO and not subject to any unresolved public criticism from the RSPO. – Companies must further have some level of mill or plantation certification and be publicly committed to achieving full certification (evidence must be available). – Companies must also be committed to “No Deforestation, No Peat and No Exploitation” (NDPE).
Soy	<ul style="list-style-type: none"> – Companies producing soy in markets at high risk of tropical deforestation must be a member of the Roundtable on Responsible Soy (the RTRS), or must apply a similar standard such as Proterra, International Sustainability & Carbon Certification (ISCC) or Cefetra Certified Responsible Soya (CRS), and not be subject to any unresolved public criticism from these standards. – When a company is not certified, it must credibly commit to RTRS or a similar standard, providing a robust time-bound plan or demonstrate a credible commitment toward an equivalent standard, to be independently verified.
Timber	<ul style="list-style-type: none"> – Companies producing timber in markets at high risk of tropical deforestation must seek to achieve full certification of their production according to the Forest Stewardship Council (the FSC) or a national scheme endorsed against the 2010 Programme for the Endorsement of Forest Certification (PEFC) meta standard for timber products. – Companies must also have fire prevention, monitoring and suppression measures in place.
Fish and seafood	<ul style="list-style-type: none"> – Companies producing, processing or trading fish and seafood must provide credible evidence of no illegal, unreported and unregulated fishing (IUU) in their own production and supply chain.
Power generation	
Coal-fired power plants (CFPP)	<ul style="list-style-type: none"> – We do not provide project-level finance for new coal-fired power plants globally and only support financing transactions of existing coal-fired operators (>20% coal reliance) if they have a transition strategy that aligns with the goals of the Paris Agreement or if the transaction is related to renewable energy or clean technology.
Large dams	<ul style="list-style-type: none"> – Transactions directly related to large dams include an assessment against the recommendations made by the International Hydropower Sustainability Assessment Protocol.
Nuclear power	<ul style="list-style-type: none"> – Transactions directly related to the construction of new, or the upgrading of existing nuclear power plants include an assessment on whether the country of domicile of the client / operation has ratified the Treaty on the Non-Proliferation of Nuclear Weapons.
Extractives	
Arctic oil and oil sands	<ul style="list-style-type: none"> – We do not provide financing where the stated use of proceeds is for new offshore oil projects in the Arctic or greenfield¹ oil sands projects, and only provide financing to companies with significant reserves or production in arctic oil and / or oil sands (>20% of reserves or production) if they have a transition strategy that aligns with the goals of the Paris Agreement or if the transaction is related to renewable energy or clean technology.
Coal mining and mountain top removal (MTR)	<ul style="list-style-type: none"> – We do not provide financing where the stated use of proceeds is for greenfield¹ thermal coal mines and do not provide financing to coal-mining companies engaged in mountain top removal (MTR) operations. – We only provide financing to existing thermal coal-mining companies (>20% of revenues) if they have a transition strategy that aligns with the goals of the Paris Agreement, or if the transaction is related to renewable energy or clean technology.
Liquefied natural gas (LNG)	<ul style="list-style-type: none"> – Transactions directly related to LNG infrastructure assets are subject to enhanced SCR due diligence considering relevant factors such as management of methane leaks and the company’s past and present environmental and social performance.
Ultra-deepwater drilling	<ul style="list-style-type: none"> – Transactions directly related to ultra-deepwater drilling assets are subject to enhanced SCR due diligence considering relevant factors such as environmental impact analysis, spill prevention and response plans, and the company’s past and present environmental and social performance.
Hydraulic fracturing	<ul style="list-style-type: none"> – Transactions with companies that practice hydraulic fracturing in environmentally and socially sensitive areas are assessed against their commitment to and certification of voluntary standards, such as the American Petroleum Institute’s documents and standards for hydraulic fracturing.
Precious metals	<ul style="list-style-type: none"> – Transactions directly related to precious metals assets that have a controversial SCR track record are assessed against the client’s commitment to and certification of voluntary standards, such as the International Council on Mining and Metals’ (the ICMM) International Cyanide Management Code (ICMC).
Diamonds	<ul style="list-style-type: none"> – Transactions with companies that mine and trade rough diamonds are assessed on the client’s commitment to and certification of voluntary standards, such as the ICMM, and rough diamonds must be certified under the Kimberley Process.

¹ Greenfield means a new mine / well or an expansion of an existing mine / well that results in a material increase in existing production capacity.

SCR framework

UBS annually performs a sustainability and climate risk materiality assessment of its products, services and supply chain (in accordance with the ISO 14001 standard and UBS's Risk Control Self-Assessment). Products, services and activities deemed as having high risk are subject to the following framework.

(1) Risk identification and measurement: the materiality of sustainability and climate risks to which UBS is exposed to are assessed using the firm's risk identification framework as part of the risk inventory process. Climate risks are identified with heatmaps that rate cross-sectoral credit risk exposure to climate sensitivity, from high to low, through a risk segmentation process. In addition, climate risks are assessed by using climate scenario analysis and stress tests exercises to understand the short-, medium- and long-term financial risks to the business model stemming from climate change.

(2) Risk monitoring and appetite setting: UBS's exposures to high- and medium-risk sectors, changes in regulations, and emerging sustainability risks are monitored, and the Group Executive Board reviews and adjusts the risk appetite standards when it sees fit.

(3) Risk management and control: standard financial and non-financial risk processes ensure that material sustainability and climate risks are identified, assessed, approved and escalated in a timely manner. These processes are applied in client onboarding, transaction due diligence, product development and supply chain management.

(4) Risk reporting: key sustainability and climate risk considerations are included in periodic risk reporting at legal entity, divisional and Group levels.

Standard financial and non-financial risk processes ensure that material sustainability and climate risks are identified, assessed, approved and escalated in a timely manner. These include controls during client onboarding, transaction due diligence and product development and as part of the investment decision processes, own operations, supply chain management, and portfolio reviews

Governance

In view of the many sustainability and climate-related challenges globally, these topics will continue to increase in relevance for banks. These developments therefore require regular and critical assessment of our policies and practices, based on an accurate monitoring and analysis of societal topics of potential relevance to UBS.

The management of SCR is steered at the GEB level. Reporting to the Group CEO, the Group Chief Risk Officer is responsible for the development and implementation of control principles and an appropriate independent control framework for SCR within UBS, and its integration into the firm's overall risk management and risk appetite frameworks. The Chief Risk Officer (the CRO) for Sustainability supports the GEB by providing leadership on sustainability in collaboration with business divisions and Group Functions.

Integration in financial and non-financial processes

- **Client onboarding:** Potential clients are assessed for sustainability and climate risks associated with their business activities as part of UBS's Know-your-client processes.
- **Transaction due diligence:** Sustainability and climate risks are identified and assessed as part of standard transaction due diligence and decision-making processes.
- **Product development and investment decision processes:** New financial products and services are reviewed before their launch in order to assess their compatibility and consistency with UBS's environmental and human rights standards. Sustainability and climate risks are also considered where relevant as part of the firm's overall ESG approach to investment decision processes and when exercising ownership rights, such as proxy voting, and engagement with the management of investee entities.
- **Own operations:** Our operational activities and employees, and contractors working on UBS's premises, are assessed for compliance with relevant environmental, health and safety, and labor rights regulations.
- **Supply chain management:** Sustainability and climate risks are assessed when selecting and dealing with suppliers. UBS also evaluates goods and services that pose potential environmental, labor and human rights risks during life cycle (production, usage and disposal) as part of its purchasing processes.
- **Portfolio review:** At the portfolio level, we regularly review sensitive sectors and activities prone to bearing sustainability and climate-related risks. We assess client exposure and revenue in such sectors and attempt to benchmark the portfolio quality against regional and / or sector averages. Such portfolio reviews give us an accurate aggregated exposure profile and an enhanced insight into our transaction and client onboarding processes. Based on the outcome of these reviews, we can explore ways to improve the future portfolio profile along a range of risk parameters.

Clients, transactions or suppliers potentially in breach of our standards, or otherwise subject to significant climate, environmental and human rights controversies, are referred to our SCR unit, which approves or rejects the cases after assessing their compliance with the firm's risk appetite standards. Advanced data analytics on companies associated with such risks is integrated into the web-based compliance tool used by our staff before they enter into a client or supplier relationship, or a transaction. The systematic nature of this tool significantly enhances our ability to identify potential risk.

In 2021, 2,919 referrals were assessed by our SCR unit, of which 100 were rejected or not pursued, 384 were approved with qualifications and 72 were pending. The overall number of SCR referrals increased by 35% compared with 2020, primarily driven by portfolio reviews conducted in the context of UBS net-zero commitment.

Sustainability and climate risk assessments

	For the year ended			% change from
	31.12.21	31.12.20	31.12.19	31.12.20
Cases referred for assessment¹	2,919	2,168	1,889	35
by region				
Americas	496	373	248	33
Asia Pacific	631	551	479	15
Europe, Middle East and Africa (excluding Switzerland)	556	223	282	49
Switzerland	1,236	1021	880	21
by business division				
Global Wealth Management	278	170	199	64
Personal & Corporate Banking	1,345	933	801	44
Asset Management	24	56	4	(43)
Investment Bank	1,162	977	849	19
Group Functions ²	110	32	36	44
by sector				
Agribusiness ³	235	244	197	(6)
Chemicals ⁴	104	71	61	47
Financial ⁵	947	747	722	27
Infrastructure ⁶	146	95	82	54
Metals and mining	236	228	200	7
Oil and gas	159	216	150	(26)
Technology ⁷	205	140	105	46
Transport	68	52	40	31
Utilities	197	144	108	37
Other ⁸	622	231	224	69
by outcome⁹				
approved ¹⁰	1,983	1,689	1,473	17
approved with qualifications ¹¹	384	344	308	12
rejected or not further pursued ¹²	100	117	108	(15)
pending ¹³	72	9	0	700
assessed ¹⁴	380	0	0	0

¹ Transactions and client onboarding requests referred to the SCR function. ² Relates to procurement / sourcing of products and services. ³ Includes, e.g., companies producing or processing fish and seafood, forestry products, biofuels, food and beverage. ⁴ Includes e.g. chemical and pharmaceutical companies. ⁵ Includes, e.g., banks, commodity traders, investments and equity firms. ⁶ Includes e.g., real estate and construction and engineering companies. ⁷ Includes technology and telecom companies. ⁸ Includes, e.g., aerospace and defense, general industrials, retail and wholesale. ⁹ "By outcome" 2021 data is from 26.1.2022 ¹⁰ Client / transaction / supplier subject to an SCR assessment and approved with qualifications. Qualifications may include ring-fencing of certain assets, conditions toward client / supplier or internal recommendations. ¹¹ Client / transaction / supplier subject to an SCR assessment and approved with qualifications. Qualifications may include ring-fencing of certain assets, conditions toward client / supplier or internal recommendations. ¹² Client / transaction / supplier subject to an SCR assessment and rejected or not further pursued. ¹³ Decision pending. Except for few cases still in progress from 2021 and 2020, all 2019 pending cases have been closed and reallocated to the other outcome categories. ¹⁴ Assessed companies related to portfolio reviews.

UBS Group AG
P.O. Box
CH-8098 Zurich

[ubs.com](https://www.ubs.com)

