

# Environmental and social risk policy framework

Comprehensive, highest industry standards, deeply rooted in our culture

Our comprehensive environmental and social risk framework is deeply rooted in our culture, and

- governs client and supplier relationships and applies firm-wide to all activities
- meets the highest industry standards as recognized by environmental, social, governance ratings
- is integrated in management practices and control principles and overseen at the most senior level of our firm.

This framework is aligned with our **UBS in society** organization that covers all the activities and capabilities related to sustainable finance (including sustainable investing), philanthropy, environmental, climate and human rights policies governing client and supplier relationships, our environmental footprint, human resources as well as community investment.

## Introduction

We live in a world that is more interconnected, more interdependent and more interactive than ever before. Rapid technological advances in particular continue to have a profound effect on the economic, political, cultural, environmental and social landscape. These advances have changed the way we think and act. They have altered the way we do business. They have transformed the products and services we consume, and reshaped the perceptions of the world around us. While this has brought with it significant benefits and opportunities, it has also created far greater awareness of the challenges we all face.

As a global company, and the largest truly global wealth manager to high net worth and ultra high net worth clients, UBS is in a unique position to help address these challenges, both together with our clients and through our own efforts. Our principles and standards clearly define how we want to do things at UBS. They apply to all aspects of our business and the ways in which we engage with our stakeholders. Our Code of Conduct and Ethics documents our 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 to lead the debate on important societal topics, contribute to the setting of standards and collaborate in and beyond our industry.

Managing environmental and social risks is a key component of our corporate responsibility. We apply an environmental and social risk policy framework to all our activities.

This helps us identify and manage potential adverse impacts to the environment and to human rights, as well as the associated risks affecting our clients and us. We have set standards in product development, investments, financing and for supply chain management decisions. We have identified certain controversial activities we will not engage in, or will only engage in under stringent criteria. As part of this process, we engage with clients and suppliers to better understand their processes and policies and to explore how any environmental and social risks may be mitigated.

The foundation of UBS's environmental and social risk policy framework is established in the Code of Conduct and Ethics of UBS and the **UBS in society** constitutional document.

## Our focus

Our industry is playing an active role in addressing global issues such as human rights and the protection of our environment. Climate change impacts ecosystems, societies, and economies worldwide, and we support clients achieving their goals in support of the transition to a low-carbon economy. Growing environmental and human rights concerns have resulted in a fast-changing regulatory and competitive landscape which is affecting our firm, our suppliers and our clients. In response to these emerging risks and opportunities, we are shaping appropriate solutions and commitments.

Over twenty-five years ago, UBS was one of the first financial institutions to sign the United Nations (UN) Environment Programme's "Statement by Financial Institutions on the Environment and Sustainable Development." We were also among the first companies to endorse the UN Global Compact, we were an original signatory of the CDP, and our Asset Management (AM) business is an Investment Manager signatory to the Principles for Responsible Investment.

In 2019, we became a founding signatory of the UN Principles for Responsible Banking. The Principles 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.

In 2000, 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 2011, the 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 (UNGPs). We are a member of the Roundtable on Sustainable Palm Oil (RSPO), and joined its complaints panel in 2014. Also 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.

Progress made in implementing **UBS in society** 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 the "Driving change in business" section of the [Sustainability Report 2019](#) for an overview of 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, focusing on four pillars:

- Protecting our own assets: We have reduced carbon-related assets on our balance sheet to 0.8% or USD 1.9 billion as of 31 December 2019, down from 1.6% at the end of 2018 and 2.8% at the end of 2017. In 2019 we also revised our standards in the energy and utilities sector and further embedded climate-related risk into our standard risk management framework.
- Protecting our clients' assets: We support our clients' efforts to assess, manage and protect them from climate-related risks by offering innovative products and services in investment, financing and research. We also actively engage on climate topics with companies that we invest in.
- Mobilizing private and institutional capital: We mobilize private and institutional capital towards investments facilitating climate change mitigation and adaptation and in supporting the transition to a low-carbon economy as corporate advisor, and/or with our lending capacity.
- Reducing our direct climate impact: We have committed to using 100% renewable electricity by mid-2020. This will reduce our firm's GHG footprint by 75% compared with 2004 levels.

We publicly support international, collaborative action against climate change. Our Chairman is a signatory to the European Financial Services Round Table's statement in support of a strong, ambitious response to climate change. Our Group CEO is a member of the Alliance of CEO Climate Leaders, an informal network of CEOs convened by the World Economic Forum and committed to climate action. Our Head Sustainable Equity Team within AM is a member of the Task Force on Climate-related Financial Disclosures (TCFD).

■ Find our Climate strategy under [www.ubs.com/climate](http://www.ubs.com/climate)

### Forests and biodiversity

Deforestation and forest degradation can cause biodiversity to decline. As approximately 80% of the world's documented species are found in tropical rainforests, deforestation will impact global biodiversity. Deforestation is, in fact, second only to the energy sector as a source of global greenhouse gas emissions and accounts for up to 20% of emissions, more than the entire global transport sector.

It is further estimated that more than 50% of tropical deforestation is due to the production of soy, palm oil, timber and beef. 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 conflict.

Recognizing these risks, we:

- became member of the RSPO in 2012
- 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 land acquired 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 (sections Controversial Activities – Where UBS will not do business and Areas of Concern – Where UBS will only do business under stringent criteria).

### Human rights

UBS is committed to respecting and promoting human rights in all 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 July 2000, UBS was one of 43 companies that pledged to adhere to the Global Compact.

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 together with other banks formed the Thun Group of Banks to jointly consider these developments and conclusions and to share experiences and ideas regarding the implementation of the UNGPs. To this end, the Thun Group of Banks has 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 UNGPs.

Both discussion papers were also intended to inform other pertinent initiatives, in the specific case of the second the OECD's proactive agenda on Responsible Business Conduct, which released in 2019 its 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's project.

Recognizing these risks, we:

- established a UBS Position on human rights in 2006. In 2013, we revised the firm's Environmental and Social Risk Framework to formalize accountability for human rights issues.
- stipulated that we will not engage in commercial activities that make use of child labor and forced labor, or that infringe the rights of indigenous peoples (see section Controversial Activities – Where UBS will not do business).
- 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.

#### Our standards

UBS has set standards in product development, investments, financing and supply chain management decisions, which 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 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 Forestry Stewardship Council (FSC);
- **Illegal fire:** uncontrolled and/or illegal use of fire for land clearance;
- **Illegal logging** including purchase of illegal 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, adherence to UBS's controversial activities standards, past and present environmental and human rights performance, as well as concerns of stakeholder groups, these transactions require an assessment of the following criteria:

#### Soft commodities

- **Palm oil:** 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). Company must also be committed to "No Deforestation, No Peat and No Exploitation" (NDPE).
- **Soy:** Companies producing soy in markets at high risk of tropical deforestation must be a member of the Roundtable on Responsible Soy (RTRS) and not subject to any unresolved public criticism from the RTRS. Companies must further be publicly committed to achieving full certification (evidence must be available).
- **Timber:** 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 (FSC) or a national scheme endorsed against the 2010 Programme for the Endorsement of Forest Certification (PEFC) meta standard for timber products. Company must also have fire prevention, monitoring and suppression measures in place.
- **Fish and seafood:** Companies producing, processing or trading fish and seafood must provide credible evidence of no illegal, unreported and unregulated fishing in their own production and supply chain.

#### Power Generation

- **Coal-fired power plants (CFPP):** We do not provide project-level finance for new coal-fired power plants globally and only support financing transactions of existing coal-fired operators (>30% coal reliance) who have a transition strategy in place that aligns with a pathway under the Paris Agreement, or the transaction is related to renewable energy.

- **Large dams:** Transactions directly related to large dams include an assessment against the recommendations made by the World Commission on Dams (WCD) and the International Hydropower Association Sustainability Assessment Protocol.
- **Nuclear power:** 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:** We do not provide financing where the stated use of proceeds is for new offshore oil projects in the Arctic or greenfield<sup>1</sup> oil sands projects, and only provide financing to companies, which have significant reserves or production in arctic oil and/or oil sands (>30% of reserves or production), where the stated use of proceeds is related to renewable energy or conventional oil & gas assets.
- **Coal mining:** We do not provide financing where the stated use of proceeds is for greenfield<sup>1</sup> thermal coal mines and do not provide financing to coal mining companies engaged in mountain top removal operations. We continue to severely restrict lending and capital raising to the coal mining sector.
- **Liquefied Natural Gas (LNG):** Transactions directly related to LNG infrastructure assets are subject to enhanced ESR 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:** Transactions directly related to ultra-deepwater drilling assets are subject to enhanced ESR 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:** 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:** Transactions directly related to precious metals assets that have a controversial environmental and social risk track record are assessed against the client's commitment to and certification of voluntary standards, such as the International Council on Mining & Metals' (ICMM) International Cyanide Management Code (ICMC).
- **Diamonds:** 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 ICMC, and rough diamonds must be certified under the Kimberley Process.

### Our processes and governance

UBS applies an environmental and social risk framework to all transactions, products, services and activities such as lending, capital raising, advisory services or investments that involve a party associated with environmentally or socially sensitive

activities. The framework seeks to identify and manage potential adverse impacts to the environment and to human rights, as well as the financial and reputation risks of being associated with them.

### Integration in risk, compliance and operations processes

Procedures and tools for the identification, assessment and monitoring of environmental and social risks are applied and integrated into standard risk, compliance and operations processes.

- **Client onboarding:** Potential clients are assessed for environmental and social risks associated with their business activities as part of UBS's Know Your Client compliance processes.
- **Transaction due diligence:** Environmental and social risks are identified and assessed as part of standard transaction due diligence and decision-making processes in all business divisions and relevant product lines.
- **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. Environmental and social risks are also considered in investment decision processes and when exercising ownership rights like proxy voting and engagement with the management of investee entities.
- **Own operations:** Our operational activities and employees, or contractors working on UBS premises, are assessed for compliance with relevant environmental, health and safety, and labor rights regulations.
- **Supply chain management:** Environmental and social 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 lifecycle (production, usage, and disposal) as part of its purchasing processes.
- **Portfolio review:** At portfolio level, we regularly review sensitive sectors and activities prone to bearing environmental and social 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 UBS's position, or otherwise subject to significant environmental and human rights controversies, are identified as part of UBS's standard risk and compliance processes. 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 2019, 1,889 referrals were assessed by our environmental and social risk unit, of which 82 were rejected or not pursued, 299 were approved with qualifications and 32 were pending.

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

## Environmental and social risk assessments

	For the year ended			% change from
	31.12.19	31.12.18	31.12.17	31.12.18
<b>Cases referred for assessment<sup>1</sup></b>	<b>1,889</b>	2,114	2,170	(11)
<b>by region</b>				
Americas	<b>248</b>	288	305	(14)
Asia Pacific	<b>479</b>	718	604	(33)
Europe, Middle East and Africa (excluding Switzerland)	<b>282</b>	293	253	(4)
Switzerland	<b>880</b>	815	1,008	8
<b>by business division</b>				
Global Wealth Management <sup>2</sup>	<b>199</b>	426	507	(53)
Personal & Corporate Banking	<b>801</b>	684	795	17
Asset Management	<b>4</b>	7	7	(43)
Investment Bank	<b>849</b>	980	852	(13)
Corporate Center <sup>3</sup>	<b>36</b>	17	9	112
<b>by sector</b>				
Agribusiness <sup>4</sup>	<b>197</b>	277	291	(29)
Chemicals	<b>61</b>	91	87	(33)
Financial <sup>5</sup>	<b>722</b>	589	617	23
Infrastructure	<b>82</b>	109	53	(25)
Metals and mining	<b>200</b>	249	233	(20)
Oil and gas	<b>150</b>	187	207	(20)
Technology <sup>6</sup>	<b>105</b>	164	140	(36)
Transport	<b>40</b>	51	53	(22)
Utilities	<b>108</b>	176	191	(39)
Other <sup>7</sup>	<b>224</b>	221	298	1
<b>by outcome<sup>8</sup></b>				
approved <sup>9</sup>	<b>1,476</b>	1,648	1,679	(10)
approved with qualifications <sup>10</sup>	<b>299</b>	358	397	(16)
rejected or not further pursued <sup>11</sup>	<b>82</b>	108	94	(24)
pending <sup>12</sup>	<b>32</b>	0	0	

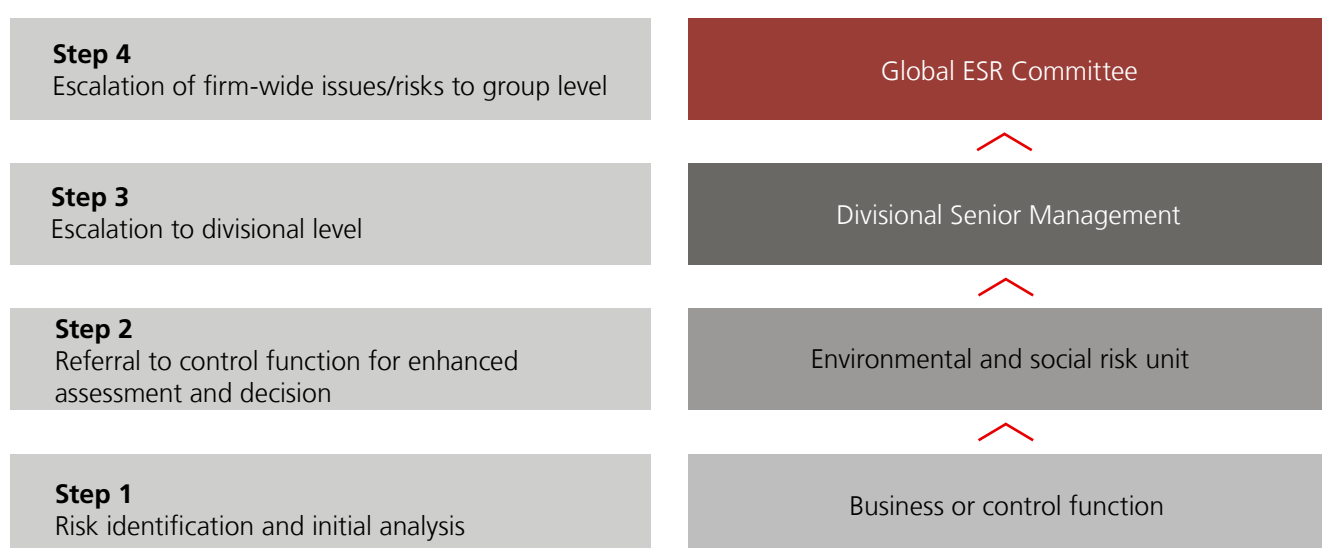
<sup>1</sup> Transactions and client onboarding requests referred to the environmental and social risk (ESR) function. <sup>2</sup> Wealth Management and Wealth Management Americas reported as Global Wealth Management from 2018. Therefore, 2017 numbers were restated. <sup>3</sup> Relates to procurement / sourcing of products and services. <sup>4</sup> Includes, e.g., companies producing or processing fish and seafood, forestry products, biofuels, food and beverage. <sup>5</sup> Includes, e.g., banks, commodity traders, investments and equity firms. <sup>6</sup> Includes technology and telecom companies. <sup>7</sup> Includes, e.g., aerospace and defense, general industrials, retail and wholesale (from 2017). <sup>8</sup> "By outcome" 2019 data is from 22.1.2020. <sup>9</sup> Client / transaction / supplier subject to an ESR assessment and considered in compliance with UBS's ESR framework. <sup>10</sup> Client / transaction / supplier subject to an ESR assessment and approved with qualifications. Qualifications may include ring-fencing of certain assets, conditions towards client / supplier or internal recommendations. <sup>11</sup> Client / transaction / supplier subject to an ESR assessment and rejected or not further pursued. <sup>12</sup> Decision pending. Pending cases 2018 have been closed and reallocated to the other outcome categories.

### Escalation and approval processes

Where business or control functions responsible for identifying and assessing environmental and social risks as part of due diligence processes determine the existence of potential material risks, they refer the client, supplier or transaction to a

specialized environmental and social risk unit for enhanced due diligence. If identified risks are believed to pose potentially significant environmental or social risks, they are rejected by the risk unit or are escalated according to the firm's reputation risk escalation process.

### Environmental and social risk escalation process



### Governance and oversight

In view of the many environmental and social 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.

This process is the responsibility of a committee at Group Executive Board-level, the Global Environmental and Social Risk Committee, which sets the overall risk appetite for the firm and resolves and policy matters relating to environmental and social risks and their associated reputation risks.

It is chaired by the Group Chief Risk Officer, who is responsible for the development and implementation of principles and appropriate independent control frameworks for environmental and social risks within UBS.

All corporate responsibility and sustainability developments at UBS are monitored and reviewed by the UBS Corporate Culture and Responsibility Committee, a Board of Directors' committee of UBS Group AG. The Committee supports the Board in its duties to safeguard and advance UBS's reputation for responsible corporate conduct. In this capacity it reviews and monitors the implementation of UBS's ESR framework.