Our climate commitment

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 change strategy.

We are determined to support our clients in preparing for success in an increasingly carbon-constrained world. As a leading global financial services provider, we focus our climate change strategy on risk management, investments, financing, research and our own operations. We are committed to:

- supporting renewable energy and clean tech transactions

- not financing new coal-fired power plant projects in high-income OECD countries
- only financing new coal-fired projects outside high–income OECD countries that use high-efficiency, low-emissions technologies
- only supporting other types of transactions of coal-fired operators who have a strategy in place to reduce coal dependency or who adhere to strict internationally recognized greenhouse gas emissions standards

- severely restricting lending and capital raising to the coal mining sector and not supporting coal mining companies engaged in MTR operations

- securing 100% of our electricity from renewable sources by 2020, reducing our own greenhouse gas footprint by 75% compared to 2004 levels as a result

In December 2016, the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TFCD) provided its guidance on climate-related disclosures, which UBS welcomes and supports. While we will fully evaluate the TCFD's recommendations for our 2017 disclosure, our climate change strategy already encompasses the four thematic areas covered by the TCFD's recommendations, namely governance, strategy, risk management, and metrics and targets.

Our climate change strategy is part of the UBS and Society governance, and we identify and manage climate-related risks and opportunities as part of our ISO 14001 certified environmental management system.

Our UBS and Society organization coordinates all our activities and capabilities in sustainable investing (SI) and philanthropy, environmental and human rights policies governing client and supplier relationships, our own environmental footprint, as well as our firm's community investment.

We publicly support international, collaborative action against climate change.

- Our Chairman is signatory to the European Financial Services Round Table's statement in support of a strong, ambitious response to climate change.
- Our CEO is a member of the CEO Climate Leaders, an alliance mobilized by the World Economic Forum.
- Our Head Sustainable Investors at Asset Management is member of the FSB's TCFD
- We contributed a case study on our climate change stress testing to a G20 Green Finance Study Group report on research challenges and best practices around risk analysis.
- We contributed to the Natural Capital Finance Alliance's drought stress testing project which explored how to model the impact of drought scenarios on lending portfolios. We are also on the technical advisory panel of their advancing environmental management project.
- We have joined RE100, a global initiative to get the world's most influential companies to use only renewable power.
- We support the CDP, as an investor member as well as a questionnaire respondent, in their aim to improve company disclosure of risks and opportunities related to climate change.

Executing our climate change strategy – Key examples:

Risk management: seeking to protect our clients' and our own assets from climate change risks, as far as it is in our power to do so

At portfolio level, we regularly review sensitive sectors and activities prone to bearing climate change 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.

We also estimate our firm's vulnerability to climate change risks using scenario-based stress testing approaches and other forward-looking portfolio analyses. For example, in 2015 we assessed potential impacts of increasing climate change regulations and extreme weather events scenarios on our energy and real-estate loan portfolios. The potential financial impact on UBS was found to be moderate, primarily due to the relatively short-term maturity profile of these loan portfolios and availability of insurance coverage for real estate.

Investments: mobilizing private and institutional capital towards investments facilitating climate change mitigation and adaptation

Fourteen of our Asset Management's real estate funds obtained the top "Green Star" award in the 2016 Global Real Estate Sustainability Benchmark (GRESB). This was recognition for our efforts in defining and implementing a sustainable and responsible property investment strategy. Half of the 14 funds entered obtained the highest rating (5 stars), among more than 700 real estate portfolios. Our real estate debt funds ranked first and third in the second GRESB Debt Survey.

The UBS Clean Energy Infrastructure Switzerland offers institutional investors unprecedented access to a diversified portfolio of Swiss infrastructure facilities and companies in renewable energies and energy efficiency. End of 2016, nearly 90% of the clients' capital commitments of approximately CHF 400 million were invested into green and brown field infrastructure investments.

Overall, climate change-related investments like these accounted for approximately 6.3% of our sustainable investments (at end of 2016).

We also mobilized capital on our own books. End of 2016, we held green bonds in the amount of CHF 460 million. In early 2017, UBS AM launched a passive climate-aware fund that aims to reduce exposure to carbon intensive companies. The strategy also increases exposure to companies with a track-record of reducing carbon emissions and a high likelihood of aligning their carbon reduction strategy with the two degrees scenario proposed by the International Energy Agency (IEA).

Financing: supporting the transition to a low-carbon economy as corporate advisor, and/or with our lending capacity

The Investment Bank provides capital-raising and strategic advisory services globally to companies offering products that make a positive contribution to climate change mitigation and adaptation, including those in the solar, wind, hydro, energy efficiency, waste and biofuels, and transport sectors. In 2016, the total deal value in equity or debt capital market services relating to these areas was CHF 59.8 billion, and CHF 106.3 billion in financial advisory services.

We strive to be the preferred strategic financial partner related to Switzerland's energy strategy 2050 and executed 13 strategic transactions for Swiss energy utilities in 2016.

We invest in Swiss corporations by supporting Swiss small and medium-sized enterprises (SME) in their energy-saving efforts. As promoted by the Swiss Energy Agency's SME model, clients benefit from the agency's energy check-up for SME at reduced costs and are granted UBS cash premiums for committing to an energy reduction plan within the scheme. Since initiation of the program and until the end of 2015, overall energy savings of SMEs supported by UBS were equivalent to the energy consumption of approx. 1,000 single-family homes (approx. 20,500 MWh per annum) or 3,300 t/CO_2 per annum. In addition, the UBS environmental bonus supports corporate clients when upgrading to more environmentally friendly commercial vehicles. Swiss private clients continue to benefit from the UBS "eco" mortgage when building energy-efficient homes. Our commitment as financial partner in the energy transition in Switzerland continues by our sponsorship of the Swiss Energy and Climate Summit.

Research: offering our clients research capacity on climate change issues

We launched *"Climate change: a risk to the global middle class"* – our first report measuring the impact of climate change and its effects on the global middle class. This UBS study leverages the most recent scientific data on temperature-related mortality and flood risk in global cities.

The 2016 UBS Asset Management report *"Stranded assets – what lies beneath"* examined the stranded assets hypothesis and was motivated by the question if the markets today misprice oil and gas reserves, placing portfolios at risk. Our analysis showed that many public oil and gas companies appear to be reasonably valued in several scenarios, even under a "strong form" of the stranded assets hypothesis.

In January 2017, our Chief Investment Office Wealth Management (CIO) published a white paper on the Sustainable Development Goals and presented climate action and clean energy as areas suitable for private investments helping to achieve the goals. In a bond markets report, CIO Wealth Management outlined that portfolios with a bias towards sustainable investments should include Green bonds.

Investment Bank's Q-Series, in collaboration with UBS Evidence Lab, published a geospatial perspective on water risks, finding that they are not priced into investment analysis. ESG Trends and ESG Analyzer Industry Postcards cover climate change-related topics regularly, and on the basis where considered relevant from an ESG integration perspective for a sector. Recognizing that climate change is by now well established as an issue for companies and markets, it is now firmly embedded in mainstream research in some sectors, for example autos and utilities. We highlight case-studies of interest in ESG Trends, published weekly.

In-house operations: reducing our own greenhouse gas emissions

We continue to reduce UBS's greenhouse gas (GHG) emissions and increase our share in renewable energy in line with our commitment to RE100. At the end of 2016, we sourced 56% of our energy from renewable sources and we were at 54% below the GHG emission levels of baseline year 2004. One of the key drivers for this achievement is our Group-wide real estate strategy, which includes consolidating work space in larger buildings, investing in energy-efficient infrastructure and implementing energy reduction measures across our building portfolio. Since 2012, we reduced our energy consumption by more than 14%, thus outperforming our target of 10% reduction by 2016.

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