Climate change strategy

Key messages
– Our climate change strategy focuses on risk management, investments, financing, research and our own operations
– We protect our own, and our clients` assets from climate-related risks and we mobilize private and institutional capital for a low-carbon economy
– We plan to further align our disclosure with the FSB Task Force on Climate-related Financial Disclosure's recommendations over a five-year pathway

Our climate change strategy

In June 2017, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) provided its recommendations on climate-related disclosures. They call on companies to disclose the impacts of climate change on their businesses. Investors and financial institutions will gain transparency to help them make better investment decisions with a common set of data to assess the climate change risks and opportunities of specific companies. We plan to further align our disclosure within the five-year pathway outlined by the TCFD and collaborate within the industry to close gaps.

Refer to our CDP disclosure available at www.ubs.com/ubsandsociety for more details.

Governance

Our climate change strategy is overseen by the The Corporate Culture and Responsibility Committee (CCRC) as part of the UBS and Society governance. This oversight role of the CCRC is embedded in the Organization Regulations of UBS since March 2018. Within the parameters set by the CCRC, climate-related opportunities are overseen by the UBS and Society Operating Committee, and climate change risks by the Global Environmental and Social Risk (ESR) Committee. The CCRC regularly and critically reviews the assessments and steps taken by these management bodies towards executing the climate change strategy. It approves UBS's annual climate change objectives and plans and decides on the progressive alignment of our climate change disclosure pathway, with TCFD's recommendations. These annual objectives and plans are managed as part of our ISO 14001 certified environmental management system (EMS) with defined management accountabilities across the firm.

UBS's management publicly supports 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 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 at Asset Management is a member of the TCFD.

Strategy

We believe the transition to a low carbon economy is vital and we are focused on supporting our clients in preparing for success in an increasingly carbon constrained world. As a leading global financial services provider, we do this in four different ways:

Refer to the risk management section for further details and examples.

Protecting our own assets: We seek to protect our assets from climate change risks by limiting our risk appetite for carbon-related assets and by estimating our firm's vulnerability to climate change risks using scenario-based stress testing approaches and other forward-looking portfolio analyses. We have so far not found any material risk on our balance sheet.

Protecting our clients' assets: We support our client's efforts to assess, manage and protect them from climate-related risks by offering innovative products and services in investment, financing and research. Our Asset Management division has developed a string of products allowing its clients to identify the carbon intensity of their investments and/or to align them with the Paris agreement.

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 change impact: We continue to reduce our greenhouse gas (GHG) emissions and increase the firm's share in renewable energy.

Risk Management

We manage climate change risks and opportunities via our certified EMS and we monitor implementation on an ongoing basis. The EMS helps us to systematically reduce environmental risks, seize climate change / environment-related market opportunities and to continuously improve UBS's climate change / environmental performance and resource efficiency.

Protecting our own assets: Our standard risk, compliance and operations processes involve procedures and tools for identifying, assessing and monitoring environmental and social risks. These include client onboarding, transaction due diligence, product development and investment decision processes, own operations, supply chain management and portfolio reviews. These processes are geared toward identifying clients, transactions or suppliers potentially in breach of our standards or otherwise subject to significant environmental and human rights controversies, including climate change.

We are committed to
– 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 existing coal-fired operators who have a strategy in place to reduce coal dependency or who adhere to strict internationally recognized greenhouse gas emissions (GHG) standards
– severely restricting lending and capital raising to the coal mining sector and not supporting coal mining companies engaged in mountain-top removal (MTR) operations

We have also established standards in the forestry sector to support our clients' efforts to achieve "zero deforestation" in their supply chains.

In order to manage our own, and our clients', risk derived from both the physical and transition risks associated with climate change, we have performed both top-down balance sheet stress testing, as well as targeted, bottom-up analysis of specific sector exposures. In doing so, we identified challenges ranging from the suitability of climate scenarios for banking risk modelling to data availability. To address these challenges, we have committed to work towards alignment and knowledge-sharing within the industry. Sixteen banks, including UBS and the UN Environment Programme Finance Initiative (UNEP FI) have partnered to collaboratively develop analytical tools that will help banks disclose their exposures to climate-related risks and opportunities as envisioned by the TCFD. This includes further refining scenario-based stress-testing methodologies.

Our experience with top down and bottom-up analysis so far:
– Our top-down approach consisted of a scenario-based stress test to assess UBS's balance sheet vulnerability. Leveraging its existing firm-wide top-down stress testing methodology, we developed a climate change scenario and its related regulatory response to assess the impacts on financial assets, operational income and physical assets. Financial impacts were moderate and in line with other stress scenarios, particularly those that foresee an oil shock component. The biggest risk from the regulatory response (i.e. transition risk) was for exposures to large corporates that are most sensitive to shocks in market variables like equity indices. The impact on smaller unlisted companies, including the Swiss corporate portfolio, was limited.

  The biggest risk from severe weather events (i.e. physical risk) was damage to properties in Zurich due to the concentration of assets owned there. The operational income impact was quite minimal.

– We also 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.

– UBS also conducted a bottom-up stress test of its energy lending portfolio in North America against the impacts of climate-change related drought.

UBS is also involved in other activities to reduce gaps in climate-related financial data. 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 natural resources. We are also on the advisory panel of the Natural Capital Finance Alliance's advancing environmental management project.

Protecting our clients' assets: We offer innovative products and services in investment, financing and research. Examples include:

– Our Asset Management business has developed the capability for equity portfolio managers to examine the carbon footprint of their portfolios and comparing the relative carbon footprints of their company holdings and comparing them to that of the benchmark. Carbon emissions data is also made available to all equity portfolio managers through the Portfolio Optimization Platform, which allows portfolio managers and analysts to download carbon and carbon intensity data on over 6,000 companies.

– In 2017, our Asset Management business launched an innovative climate aware rules-based fund for UK investors. The portfolio is oriented towards companies that are better prepared for a low carbon future while reducing exposure to, rather than excluding, companies with higher carbon risk, in order to pursue strategic engagement with these companies. The strategy involves not only a reduction of the CO_2 footprint of the portfolio but also an innovative approach to aligning the portfolio with the two degree carbon reduction scenario in the future.

– Our Asset Management business engages with companies in which it invests on behalf of clients to discuss approaches to mitigating climate change risk, as well as actively voting on shareholder resolutions to improve transparency and disclosure around climate-related reporting. Specifically in the context of the climate aware fund, UBS Asset Management has implemented an engagement program associated with the strategy in order to drive positive change at companies that are considered at highest risk for climate change. The Climate Aware fund received the Fund Launch of the Year award from Funds Europe Magazine, and NEST received an innovation award from Pensions & Investments Magazine. The solution provides a unique way for investors to reduce passive portfolio exposures to carbon risks.

Mobilizing private and institutional capital: We mobilize capital to support environmental and social issues, including the transition to a low carbon economy.
For example:

– We offer 100% sustainable cross-asset portfolios for private clients in Wealth Management, currently available in Switzerland and Germany.

– Our wealth management business is developing a range of new thematic and pooled impact investments.

– We participated in launching Align17 – a WEF Young Global Leaders initiative – an independent platform which stands out in connecting a wider range of public, institutional, and private wealth investors with investment opportunities related to the Sustainable Development Goals.

– Our Asset Management business established a comprehensive approach to environmental and social factors, and to corporate governance, across investment disciplines. The 2017 Global Real Estate Sustainability Benchmark (GRESB) awarded ten of UBS Asset Management's real estate and infrastructure funds 5-star ratings, and seven funds ranked first in their respective peer groups.

– Our 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.

– We strive to be the preferred strategic financial partner relating to Switzerland's energy strategy 2050. And the UBS Clean Energy Infrastructure Switzerland strategy offers institutional investors unprecedented access to a diversified portfolio of Swiss infrastructure facilities and renewable energy companies. Due to client's demand, a successor strategy was launched in September 2017.

Reducing our direct climate change impact

We set quantitative targets and continue to reduce UBS's Group-wide GHG emissions and increase our share in renewable energy in line with our commitment to RE100, a global initiative that encourages multinational companies to make a commitment to using 100% renewable power by 2020, to which we have committed. This will reduce the firm's GHG footprint by 75% by 2020 compared with 2004 levels.

Climate-related metrics 2017

Protecting our own assets

Financial impact from climate-related risks and opportunities

No significant financial risk on our balance sheet identified in past stress tests. A group of 16 banks, including UBS, and UNEP FI have partnered to refine methodologies for risk and opportunities.

Carbon-related assets

CHF 6.5 billion

or 2.8% of total net credit exposure[1]

Protecting our clients' assets and mobilizing private and institutional capital

Products and services supporting a lower-carbon economy

Total deal value in equity or debt capital market services related to climate change mitigation and adaptation: CHF 43.3 billion, and CHF 5.4 billion in financial advisory services.

Four strategic transactions in support of Switzerland's Energy Strategy 2050.

CHF 72 billion

or 2.3% of UBS clients' total invested assets[2]

Support of **82%**

climate-related shareholder resolutions[3]

Reducing our own climate change impact

Greenhouse gas emissions

Weighted carbon intensity of the Climate Aware equities strategy: 117.45t CO_2e per million of USD revenue (44% lower than its benchmark, the FTSE Developed World Index)

GHG footprint[4]

148 kilotons CO_2e

Target to reduce our GHG footprint by 75%, by 2020 (based on 2004 levels)

Legend: CO_2e=equivalent CO_2 emissions

1 As of 31 December 2017. Total net credit exposure across Personal & Corporate banking and the Investment Bank, includes traded and banking products, net of allowances, provisions, and hedges. As recommended by the TCFD, carbon-related assets are defined as assets tied to the energy and utilities sectors (GICS). Non carbon-related assets, such as renewables, water utilities, and nuclear power, are excluded. For grid utilities, the national grid mix is applied.
2 Invested assets of products such as sustainably managed properties and infrastructure, and renewable energy companies.
3 Of the proposals we supported, all were voted against the recommendation provided by the issuer.
4 GHG footprint equals gross GHG emissions minus GHG reductions from renewable energy and GHG offsets (gross GHG emissions include: direct GHG emissions by UBS; indirect GHG emissions associated with the generation of imported / purchased electricity (grid average emission factor), heat or steam and other indirect GHG emissions associated with business travel, paper consumption and waste disposal). A breakdown of our GHG emissions (scope 1, 2, 3) is available in our GRI Document at www.ubs.com/ubsandsociety

