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.
Strategic Goals

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 Manage-
dent division has developed a string of products allowing
its clients to identify the carbon intensity of their invest-
ments 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 opportu-
nities via our certified EMS and we monitor
implementation on an ongoing basis. The EMS
helps us to systematically reduce environmental risks, seize
cclimate change / environment-related market opportunities
and to continuously improve UBS’s climate change / environ-
mental 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 interna-
  tionally 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
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.
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 exposure1

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.

Invested assets of products such as sustainably managed properties and infrastructure, and renewable energy companies.

Support of 82% climate-related shareholder resolutions2

Reducing our own climate change impact

Greenhouse gas emissions

Weighted carbon intensity of the Climate Aware equities strategy: 117.45t CO$_2$e per million of USD revenue (44% lower than its benchmark, the FTSE Developed World Index)

GHG footprint4

148 kilotons CO$_2$e
Target to reduce our GHG footprint by 75%, by 2020 (based on 2004 levels)

Legend: CO$_2$e=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