Our sustainability and climate risk policy framework

Our sustainability and climate risk policy framework is embedded in our culture and it:

- applies across all business divisions, Group Functions, locations, and legal entities;
- is integrated into management practices and control principles and overseen by senior management; and
- supports the transition toward a net-zero future.

Introduction

The firm's Sustainability and Climate Risk (SCR) unit (as part of Group Risk Control), manages material exposure to sustainability and climate risks. It also advances our firmwide SCR initiative to build in-house capacity for the management of sustainability and climate-related risks.

At UBS, sustainability and climate risk is defined as the risk that UBS negatively impacts, or is impacted by, climate change, natural capital, human rights, and other environmental, social, governance (ESG) matters. Sustainability and climate risk may manifest as credit, market, liquidity, and/or non-financial risks for UBS, resulting in potential adverse financial, liability and/or reputation impacts. These risks extend to the value of investments and may also affect the value of collateral (e.g., real estate). Climate risks can arise from either changing climate conditions (physical risks) or from efforts to mitigate climate change (transition risks).

Our principles and standards apply across all business divisions, group functions, locations, and legal entities. They define roles and responsibilities for 1LoD (1st Line of Defense, i.e., client and supplier onboarding, transaction due diligence, periodic know-your-client reviews), for 2LoD (2nd Line of Defense, i.e., sustainability and climate risk transaction assessments), and for the GEB (that sets the sustainability and climate risk appetite standards of the firm). Our work in key societal areas, such as minimizing effects of climate change, protecting the environment and respecting human rights, is 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 sustainability and climate risk is a key component of our corporate responsibility. We apply a sustainability and climate risk 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-, environment- and human-rights-related risks and impacts may be mitigated.

Most recently, UBS has developed guidelines and frameworks for Sustainable Lending, Bond and GHG Emissions Trading Products and services. These guidelines support UBS's growth strategy for sustainable products and services and the work to ensure that sustainability-related criteria is met.

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.

Some of our key commitments to sustainability include:

1992 – one of the first financial institutions to sign up to the UN Environment Programme bank declaration (the UNEP FI);

2000 – one of the first companies to endorse the UN Global Compact 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 combating money laundering;

2002 – CDP founding signatory;

2011 – our firm was a driving force behind the establishment of the Thun Group of Banks, which 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 financial sector's implementation of the UN Guiding Principles on Business and Human Rights (the UNGPs);

2014 – we endorsed the "Soft Commodities" Compact from the Banking Environment Initiative and the Consumer Goods Forum, which reaffirms our commitment to developing and implementing responsible business standards;

2019 – we became a founding signatory of the UN Principles for Responsible Banking (the PRB). The PRB constitutes a comprehensive framework for the integration of sustainability across banks.

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 the Supplementary Information document 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.

We were a founding member of the Task Force on Climate-related Financial Disclosures (the TCFD) in 2015, and we continue to support the TCFD's 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 "Environment" section of this report for our climate disclosures, including details about our net-zero implementation**

Forests and biodiversity

We seek to promote nature-related drivers, including biodiversity, focusing on key stakeholder groups (clients, vendors, employees and society at large). Deforestation and forest degradation can cause loss of biodiversity and negatively impact ecosystems services. As approximately 80%[1] of the world's documented species are found in tropical rainforests, deforestation will impact global biodiversity. Approximately 24%[2] of global GHG emissions come from the land sector, which is the second-largest source of emissions after the energy sector. Most of those emissions come from land use changes, such as agriculture activities (cultivation of crops and livestock) and deforestation.

Worldwide it is estimated that more than half of forest loss is due to conversion of forest into cropland (mainly for oil palm and soybean production), while raising of livestock is responsible for almost 40%[3] of forest loss. It is further estimated that almost 50%[3] of all recent tropical deforestation is due to illegal commercial agriculture activities and timber plantations. 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, impacting traditional communities and sometimes leading to violent conflicts.

Recognizing these risks, we:

- became a 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 "Soft Commodities" Compact from the Banking Environment Initiative and the Consumer Goods Forum. 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 "Controversial activities – where UBS will not do business" and "Areas of concern – where UBS will only do business under stringent criteria" sections of this report).

Human rights

We are 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 UN 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 financial sector's implementation of the UNGPs. The second paper, for example, focused on the proactive agenda of the Organisation for Economic Co-operation and Development (the OECD) on Responsible Business Conduct and in particular the OECD's 2019 publication titled 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 "Controversial activities – where UBS will not do business" section of this report); 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 Based on information from WWF, available on wwf.panda.org/discover/our_focus/forests_practice/importance_forests/tropical_rainforest/
2 Based on information from the Environmental Protection Agency, available on epa.gov/ghgemissions/global-greenhouse-gas-emissions-data
3 Based on information from the European Parliament, available on europarl.europa.eu/news/en/headlines/society/20221019STO44561/deforestation-causes-and-how-the-eu-is-tackling-it

Our standards

We have set standards in product development, investments, financing and supply chain management decisions. These include the stipulation of controversial activities and other areas of concern we 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 the use of:

- world heritage sites as classified by the UN 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 (the 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 International Labor Organisation (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

We apply specific guidelines and assessment criteria 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	Companies must be members 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."
Soy	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 or Cefetra-Certified Responsible Soya, and not be subject to any unresolved public criticism from these standards. When a company is not certified, it must credibly commit to the RTRS or a similar standard, providing a robust time-bound plan or demonstrate a credible commitment toward an equivalent standard, to be independently verified.
Forestry	Producing company must seek to achieve full certification of its production according to the Forest Stewardship Council (FSC) or a national scheme endorsed against the Programme for the Endorsement of Forest Certification (PEFC) within a robust time-bound plan. Producing 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 (>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	Transactions directly related to large dams include an assessment against the recommendations made by the International Hydropower 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[1] 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)	We do not provide financing where the stated use of proceeds is for greenfield[1] thermal coal mines and do not provide financing to coal-mining companies engaged in 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)	Transactions directly related to LNG infrastructure assets are subject to enhanced sustainability and climate risk 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 sustainability and climate risk 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 and minerals	Transactions directly related to precious metals or minerals assets that have a controversial environmental and social risk track record are assessed against commitment to and certification of voluntary standards, such as the International Council on Mining & Metals (ICMM), International Cyanide Management Code (ICMC), the Conflict-Free Smelter Program and the Conflict Free Gold Standard of the World Gold Council, the Responsible Gold Guidance of the London Bullion Marketing Association (LBMA), the LBMA or London Platinum and Palladium Market (LPPM) Good Delivery Lists, the Chain-of-Custody and Code of Practices of the Responsible Jewellery Council, the Fairmined Standard for Gold from Artisanal and Small-Scale Mining of the Alliance of Responsible Mining, the Voluntary Principles on Security and Human Rights, and the International Code of Conduct for Private Security Providers. Transactions directly related to precious metals sourcing, custody, distribution and trading are assessed against precious metals' production by refineries that are listed on the London Good Delivery List (LGD), or the Former London Good Deliver List (FLGD) for precious metals produced up to refineries' removal from the LGD, as maintained by the LBMA and LPPM.
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 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.

Sustainability and climate risk 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.

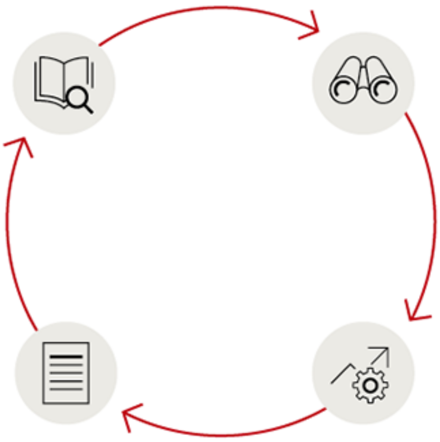
Sustainability and climate risk framework

1 Identification and measurement

Sustainability and climate (physical and transition) risks are identified and their financial materiality is measured

2 Monitoring and risk appetite setting

Exposure to high / moderate risk sectors, emerging risks and regulations is monitored and metrics are reported internally to enable risk appetite setting



3 Management and control

Management and control processes for products, counterparties and transactions ensure material sustainability and climate risks are identified, measured, monitored and escalated

4 Reporting

Key sustainability and climate risk considerations are included in periodic risk reporting

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

Given 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 sustainability and climate risk 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 sustainability and climate risk 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 the 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 (KYC) 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 the 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 2022, 2,834 referrals were assessed by our SCR unit, of which 93 were rejected or not pursued, 397 were approved with qualifications and 365 were pending. The overall number of SCR referrals decreased by 3% compared with 2021.

Sustainability and climate risk assessments

	For the year ended			% change from
	31.12.22	31.12.21	31.12.20	31.12.21
Cases referred for assessment[1]	2,834	2,919	2,168	(3)
by region				
Americas	548	496	373	10
Asia Pacific	729	631	551	16
Europe, Middle East and Africa (excluding Switzerland)	481	556	223	(13)
Switzerland	1,076	1,236	1021	(13)
by business division				
Global Wealth Management	151	278	170	(46)
Personal & Corporate Banking	1,151	1,345	933	(14)
Asset Management	11	24	56	(54)
Investment Bank	1,443	1,162	977	24
Group Functions[2]	78	110	32	(29)
by sector[3]				
Agribusiness[4]	466	536	406	(13)
Chemicals[5]	134	133	97	1
Financial[6]	438	283	168	55
Infrastructure[7]	142	148	90	(4)
Metals and mining	481	615	492	(22)
Oil and gas	350	318	354	10
Technology[8]	144	190	141	(24)
Transport	85	80	60	6
Utilities	204	225	186	(9)
Other[9]	390	391	174	0
by outcome[10]				
approved[11]	1,965	1,988	1,696	
approved with qualifications[12]	397	396	349	
rejected or not further pursued[13]	93	106	119	
pending[14]	365	49	9	
assessed[15]	14	380	0	

1 Transactions and client onboarding requests referred to the SCR function. 2 Relates to procurement / sourcing of products and services. 3 Amendment in sector calculation: sectors calculated based on first assessed entity. 4 Includes, e.g., companies producing or processing fish and seafood, forestry products, biofuels, food and beverage. 5 Includes e.g. chemical and pharmaceutical companies. 6 Includes, e.g., banks, commodity traders, investments and equity firms. 7 Includes e.g., real estate and construction and engineering companies. 8 Includes technology and telecom companies. 9 Includes, e.g., aerospace and defense, general industrials, retail and wholesale. 10 "By outcome" 2022 data is from 25 January 2023. Outcomes from 2021 and 2020 were also recalculated. 11 Client / transaction / supplier transactions approved at SCR. 12 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. 13 Client / transaction / supplier subject to an SCR assessment and rejected or not further pursued. 14 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. 15 Assessed companies related to portfolio reviews.

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