

Our sustainability and climate risk policy framework



Sustainability and climate risk policy framework

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

- is applied Group-wide, across 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 lower carbon future.

Introduction

At UBS, sustainability and climate risk (SCR) is defined as the risk that UBS negatively impacts, or is impacted by, climate change, natural capital, human rights and other environmental and social matters. SCR may manifest as credit, market, liquidity, business and non-financial risks for UBS, resulting in potential adverse financial, liability and reputational 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 efforts to mitigate climate change (transition risks). Nature-related risks refer to how organizations and people depend on and impact natural capital, which is defined as natural resources that combine to yield a flow of benefits to people. Another risk referred to in this document is greenwashing risk.

Group Risk Control (GRC) is responsible for our firm-wide SCR policy framework and the management of exposure to sustainability and climate-related (financial) risks on an ongoing basis as a second line of defense, while our Group Compliance, Regulatory & Governance (GCRG) function monitors the adequacy of our control environment for non-financial risks, applying independent control and oversight.

Our principles and standards apply across all the business divisions, Group functions, locations and legal entities. These principles and standards define roles and responsibilities for the first line of defense (i.e. client and supplier onboarding, transaction due diligence and periodic know-your-client reviews), second line of defense (i.e. sustainability and climate risk transaction assessments) and the Group Executive Board (the GEB), which sets the sustainability and climate risk appetite standards for the firm. Our work in key societal areas, such as protecting the environment and respecting internationally recognized human rights standards, is all part of this. Living up to our societal responsibilities contributes to the wider goal of sustainable development.

Managing SCR is a key component of our corporate responsibility. We apply a SCR policy framework to all relevant activities and across sectors. This helps us identify and manage potential adverse impacts on climate, nature, the environment and human rights, along with the associated risks affecting our clients and ourselves. UBS identified certain controversial activities, where we do not engage and areas of concern, where we engage only under a stringent criteria. For example, UBS recognizes the significant impact of deforestation and land conversion on nature and biodiversity. Our standards cover selected high-deforestation-risk commodities, such as soy or palm oil, which apply across industries and sectors and aim to mitigate their respective negative impact on nature.

› Refer to our Human Rights Statement, available at ubs.com/sustainability-reporting

Our standards

We have set standards and guidelines in product development, investments, financing and supply-chain management decisions. These include the stipulation of controversial activities and other areas of concern in which we will not engage or will only engage subject to stringent criteria. We have established guidelines for sustainable finance and carbon and environmental markets instruments to support UBS's growth strategy for sustainable products and services. We have established a decarbonization control framework with defined thresholds per sector, per business division and at Group level to monitor and control the utilization of the business divisions contributions toward the 2030 corporate lending sector decarbonization targets.

› Refer to the **UBS Group Sustainability Report 2024**, available at ubs.com/sustainability-reporting, for further information on our firm's decarbonization control framework

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 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 (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 Labour Organization (ILO) Conventions 138 (minimum age) and 182 (worst forms);
- forced labor according to ILO Convention 29; and
- indigenous peoples' rights in accordance with International Finance Corporation (IFC) Performance Standard 7.

The same standards apply when UBS purchases goods or services from suppliers.

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, investment banking advisory assignments and the procurement of goods and services from suppliers.

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 Roundtable on Sustainable Palm Oil (RSPO) and not subject to any unresolved public criticism from the RSPO. Production companies must furthermore 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 members of the Round Table on Responsible Soy (RTRS) or similar standards such as Proterra, International Sustainability and Carbon Certification (ISCC) or Certified Responsible Soy (CRS) and they must 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	The producing company must seek to achieve full certification of its production according to the Forest Stewardship Council (FSC) or a national scheme endorsed in line with the Programme for the Endorsement of Forest Certification (PEFC) within a robust time-bound plan. The 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 / or 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 CFPP 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 of whether the country of domicile of the client / operation has ratified the Treaty on the Non-Proliferation of Nuclear Weapons.
Extractives	
Arctic drilling 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.
Metals and mining	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 ICMM, the International Council on Mining & Metals (the ICMM), the International Cyanide Management Code, 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 (the LBMA), the LBMA or London Platinum and Palladium Market (the 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 metal production by refineries that are listed on the London Good Delivery List (the LGD) or the Former London Good Deliver List (the FLGD) for precious metals produced up to the refineries' removal from the LGD, as maintained by the LBMA and the LPPM. We do not provide financing where the stated use of proceeds is for mining operations that utilize tailings disposal in the sea or in rivers. We do not provide financing where the stated use of proceeds is for the exploration or extraction of mineral resources of the deep seabed. Transactions with companies that mine uranium are assessed against the companies' strategy and actions to manage water contamination, waste, and worker and community health and safety, especially with regard to radiation. Consideration is also given to the designated use of the mined uranium (or other radioactive material).
Diamonds	Transactions with companies that mine and trade rough diamonds are assessed against the client's commitment to and certification of voluntary standards, such as the ICMM, and rough diamonds must be certified under the Kimberley Process.
Others	
Project finance	Project finance transactions, including project finance advisory services, project-related corporate loans, bridge loans, project-related refinancing and project-related acquisition finance, are subject to enhanced due diligence in alignment with the Equator Principles.
Shipping	Transactions involving marine transportation are assessed against relevant factors such as greenhouse gas emissions and energy efficiency, human rights, safety and pollution prevention policies and responsible ship recycling, in line with applicable international conventions and standards (e.g. International Maritime Organization conventions, the Hong Kong Convention). The carbon intensity and climate alignment of the ship financing portfolio are measured and reported in accordance with the Poseidon Principles.

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.

Sustainable finance and carbon and environmental market guidelines

These guidelines contribute to mitigating the potential greenwashing risk and setting group-wide minimum requirements when labeling, marketing and distributing sustainable financing, green equity, carbon and environmental market instruments. Greenwashing refers to a practice where sustainability-related statements, declarations, actions or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial services.²

Sustainable financing and green equity instruments

- Green, social, sustainability, and sustainability-linked (GSSS+) loans and bonds
- Sustainability-linked loans financing bonds (SLLB)
- Green mortgages and green loans for real estate
- Transition loans and bonds
- Biodiversity or nature loans and bonds
- Other instruments labeled, marketed or promoted as having intentions or objectives to achieve environmental, social and governance (ESG) outcomes
- Green equity instruments

These instruments are assessed against the applicable industry standards e.g. the Loan Market Association (LMA), Loan Syndication & Trading Association (LSTA), Asia Pacific Loan Market Association (APLMA), the International Capital Market Association (ICMA) principles, the EU Green Bond Standard (EuGB), the World Federation of Exchanges (WFE) and certificates for green buildings recognized by the industry.

Carbon and environmental market instruments

- Voluntary Carbon Credits (VCC)
- Carbon Emission Allowances (CEA)
- Biodiversity credits
- Other instruments labeled, marketed or promoted as having intentions or objectives to achieve Greenhouse Gas emissions reduction or removal outcomes or positive biodiversity / nature outcomes.

These instruments are assessed against the applicable industry standards, e.g. the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles, the Biodiversity Credit Alliance guidance and applicable market rules.

Sustainability and climate risk framework

UBS annually performs an assessment of the proximity to sustainability and climate-driven risks of its products, services and supply chain. Products, services and activities deemed high risk are subject to the following framework.

Sustainability and climate risk management framework



Related toolkit

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 investment decision processes, own operations, supply chain management and portfolio reviews.

² ESA Progress report on Greenwashing – June 2023.

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 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 (CRO) for Sustainability oversees sustainability and climate risk activities in Group Risk Control, including the Sustainability and Climate Risk Initiative.

Integration in financial and non-financial processes

- *Client onboarding*: Potential clients are assessed for SCR associated with their business activities as part of UBS's know-your-client (KYC) processes.
- *Transaction due diligence*: SCR 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. SCR 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*: SCR 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 2024, 5,452 referrals were assessed by our SCR unit, of which 380 were rejected or not pursued, 484 were approved with certain qualifications and 464 were pending. The overall number of SCR referrals increased by 23% compared with 2023. The increase is mainly driven by the combination of SCR standard and risk appetites of Credit Suisse and UBS.

Sustainability and climate risk assessments

	For the year ended		% change
	31.12.24	31.12.23	31.12.23
Cases referred for assessment ¹	5,452	4,443	23
Cases referred for assessment: UBS Europe SE	175	126	39
by region			
Americas	849	847	0
Asia Pacific	862	896	(4)
Europe, Middle East and Africa (excluding Switzerland)	790	590	34
Switzerland	2,951	2,110	40
by business division			
Global Wealth Management	705	587	20
Personal & Corporate Banking	2,347	1,580	49
Asset Management	30	13	131
Investment Bank	2,263	2,181	4
Group functions ²	107	82	30
by sector ³			
Agriculture ⁴	728	480	52
Industrials ⁵	599	575	4
Financial services ⁶	701	526	33
Real Estate ⁷	222	223	(0)
Metals and mining	838	631	33
Fossil fuels	681	666	2
Services and technology ⁸	352	164	115
Transportation	273	442	(38)
Utilities	449	386	16
Sovereigns	48	-	
Others ⁹	561	350	60
by outcome ¹⁰			
approved ¹¹	3,100	2,423	28
approved with qualifications ¹²	484	390	24
rejected or not further pursued ¹³	380	306	24
pending ¹⁴	464	344	35
assessed ¹⁵	1,024	980	4

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: sector is selected based on main assessed counterparty, following UBS GIC2 code approach. ⁴ Includes companies producing or processing fish and seafood, forestry products, biofuels, food and beverage. ⁵ Includes chemical and pharmaceutical companies. ⁶ Includes banks, commodity traders, investments and equity firms. ⁷ Includes real estate and construction and engineering companies. ⁸ Includes technology and telecom companies. ⁹ Includes aerospace and defense, general industrials, retail and wholesale. ¹⁰ "By outcome" 2024 data is from 22 January 2025. Outcome from 2023 was 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. ¹⁵ Assessed companies related to portfolio reviews.

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