Green Funding Framework

Annual Investor Report 2021

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1. Introduction

1.1. UBS's commitment to sustainability

It is UBS's ambition to be the financial provider of choice for clients who wish to mobilize capital toward the achievement of the 17 Sustainable Development Goals and the orderly transition to a low-carbon economy. 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.

As we shift toward a lower carbon future, climate is a clear focus for our firm. In 2021, UBS committed to achieving net-zero greenhouse gas emissions resulting from all aspects of our business by 2050. UBS is also committed to directing capital toward the low-carbon transition: through investments, by helping our financing clients achieve their climate targets, and by identifying and investing in credible, innovative, carbon removal projects.

UBS has developed a comprehensive and ambitious climate roadmap, which we disclose – together with components of pertinence to it (notably targets) – as part of our 2021 Sustainability Report.

In transitioning to a low-carbon economy, we achieved key milestones in 2021:

- Reviewed the progress of companies in our Asset Management's three-year climate engagement program
- Sourced 100% of our own electricity consumption from renewables
- Reduced our own greenhouse gas (GHG) emissions by 92% against our 2004 baseline

We are continuing to support our clients in their transition to a low-carbon future. For example, as a founding signatory of the Net Zero Asset Managers initiative (NZAMi), UBS Asset Management announced its commitment to align USD 235 billion of assets under management (equivalent to 35% of eligible assets as of November 2021) to achieve a 50% carbon emission reduction by 2030. This substantial commitment is particularly meaningful given our globally diversified business with a high proportion of indexed capabilities as well as assets for which there is currently no methodology for net-zero alignment.

1.2. Our climate strategy

We launched our first climate strategy fifteen years ago. In the 2010s, we expanded our focus beyond our own operations to encompass the protection of our assets and those of our clients, together with the mobilization of capital to tackle climate concerns. We refined our strategy by including and disclosing a growing number of climate-related metrics. As we move into the 2020s, we are taking steps to advance further.
Our climate strategy covers two main areas: managing climate-related financial risks, and taking action for a net-zero future. Underpinning these two main areas are four strategic pillars:

- Protecting our clients' assets: As a global financial institution, it is our responsibility to help clients navigate through the challenges of the transition to a low-carbon economy. We help our clients assess, manage and protect their assets from climate-related risks by offering innovative products and services in investment, financing and research.
- Protecting our own assets: We seek to protect our assets by limiting our risk appetite for carbon-related assets. We use scenario-based stress-testing approaches and other forward-looking portfolio analyses to estimate our vulnerability to climate-related risks.
- Reducing our climate impact: We are committed to achieving net-zero emissions in our own operations (scopes 1 and 2) by 2025. We will do this by replacing fossil fuel heating systems, maintaining our 100% renewable electricity coverage and investing in credible carbon removal projects, including negative emissions technology.
- Mobilizing capital: We mobilize private and institutional capital through investments that help the world mitigate and adapt to climate change. We also support this goal as a lender and corporate advisor.

Refer to the UBS Sustainability Report 2021, available here, for more information on UBS's sustainability and climate strategy

1.3. About this report

This report provides an overview of our Green funding portfolio as well as the environmental impact achieved by the use of Green Proceeds from our inaugural Green bond issued in June 2021.

In the fourth quarter of 2021, we expanded the UBS Green Funding Framework to launch a Sustainable Savings Account program, and we look forward to including details of the impact of this program in the report next year.

2. UBS Green funding

As of 31 December 2021, the Eligible Assets are defined as:

- Mortgages on Minergie-certified[1] residential buildings in Switzerland.
- Mortgages on Minergie-certified[1] commercial buildings in Switzerland.

Minergie is a Swiss-registered quality label for the planning of new and refurbished low-energy consumption buildings in Switzerland. The trademark is supported by the Swiss Confederation, Swiss Cantons and the Principality of Liechtenstein. Three different levels of certifications are available on plans new buildings and refurbishments: Minergie, Minergie-P and Minergie-A.

Green Funding

ISIN	Issue date	Maturity date	CCY	Nominal (m)	Nominal (USD m)
XS2358287238	29.6.21	29.6.26	EUR	500	569
CH1120085670	29.6.21	29.6.28	CHF	250	274
Total					843
o/w allocated to Eligible assets					100%

Eligible Assets portfolio[2]

Certification	Notional loan volume (CHF m)	Notional loan volume (USD m)
Minergie	2754	3021
Minergie - P	250	274
Minergie - A	27	30
Total		3,324
o/w funded with Green funding		25%
o/w unallocated		75%
New assets since 30.06.21		880

Note: In in the fourth quarter of 2021, UBS Switzerland AG launched a small pilot offering for a UBS Sustainable Savings Account with a volume of less than USD 0.5m. For 2021, these have not been incorporated into the calculations due to their immaterial volume. UBS will include and report on the deposits from the UBS Sustainable Savings Account in the Annual Investor Report 2022.

1 To view the detailed requirements for certification, please visit www.minergie.ch 2 The total Minergie-certified assets in our portfolio is USD 4.4bn but UBS applies an asset creation date of maximum 2 years prior to issuance for bonds.

3. Allocation of proceeds

The proceeds from the bond issuance is applied on a pro rata basis to the Eligible Asset pool below.

Notional Loan volume (USD m)	New vs. refurbished		Financing vs. refinancing	
	Refurbished	New	New Financing	Refinanced
Minergie	113	2,907	340	2,678
Minergie - P	6	267	35	242
Minergie - A	-	29	2	28
Total	119	3,205	376	2,948

4. Impact reporting

In accordance with our Green Funding Framework, we provide data on the quantitative environmental impact achieved through our Eligible Asset portfolio.

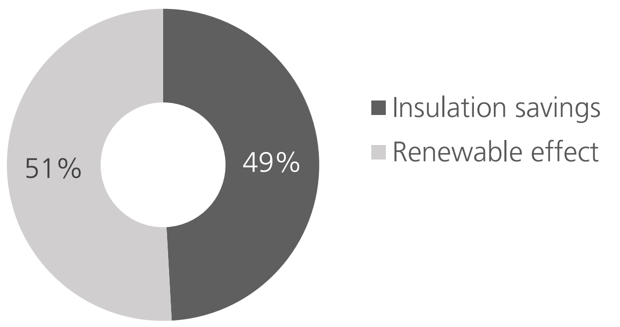
Our impact reporting is based on two core indicators, annual energy saved (kWh) and greenhouse gas emissions avoided on an annual basis (metric tons of CO_2). The calculation incorporates only the loan-to-value[1] of the assets financed by UBS.

The reporting follows the methodology used by Minergie and has been split out by Minergie certification level and type of property, new build or renovated, and the sector driving the savings, renewable effect[2] or insulation savings.

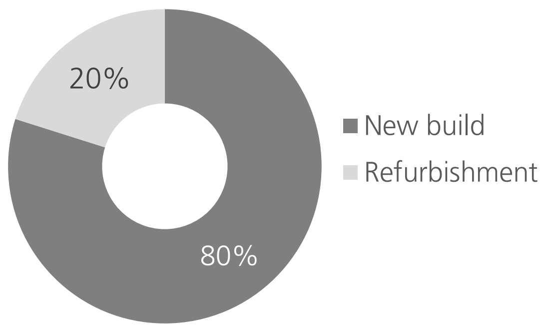
4.1. Energy saving

Energy Savings per sqm/annum (kwH)		
	Refurbished	New
Minergie	97.9	16.6
Minergie - P	117.1	29.9
Minergie - A	-	16.48

Historical energy saving per sector[2]



Historical energy saving by type of building



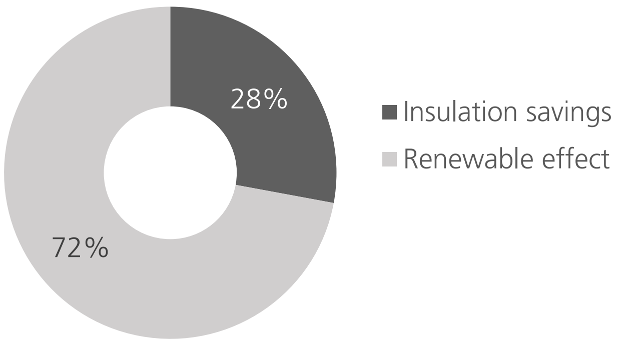
1 The methodology was updated in 2021 after the launch of our Green Funding Framework to reflect a more conservative approach. 2 The renewable effect is the kWh saved from using renewable energy in Minergie-certified buildings, compared to conventional buildings.

Historical split of energy emissions savings per sector and per building type have been provided to give incremental color on the distribution of our portfolio and impact. Historical calculation takes an average distribution between 1998 and 2020.

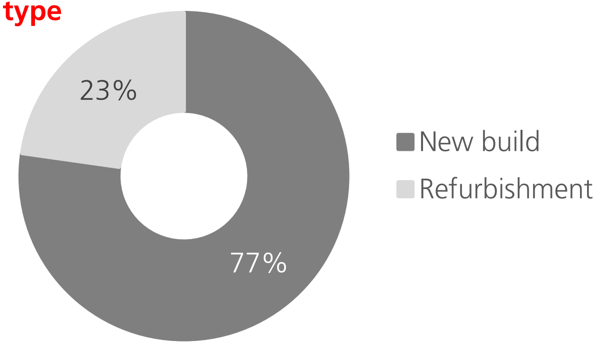
4.2. CO_2 emission saving

CO_2 emission saved per sqm/annum ($kgCO_2$)		
	Refurbished	**New**
Minergie	21.0	3.2
Minergie - P	22.9	3.7
Minergie - A	-	3.4

Historical CO_2 emission saving per sector[1]



Historical CO_2 emission saving per building type



Historical split of CO2 emissions savings per sector and per building type have been provided to give incremental color on the distribution of our portfolio and impact. Historical split calculates the average distribution between 1998 and 2020.

1 The renewable effect is the CO_2 saved from using renewable energy in Minergie-certified buildings, compared to conventional buildings.

5. Impact Methodology

The methodology used by Minergie to calculate the environmental impact of our Eligible Assets has been summarized below.

5.1. Summary

The total energy-related effect over the lifespan of the buildings is regarded as the impact. For example, the calculations are based on how much less energy a Minergie building consumes per year compared with a standard building, and this amount is multiplied by the lifespan of the building (deemed to be 40 years for residential buildings). Therefore, part of the calculated effect refers to the past and part to the future.

The "energy-related effect" adds together two different types of impact, energy savings through a better shell, and the switch from fossil fuels to renewable energy. The calculations are carried out separately for the different Minergie standards (Minergie, Minergie-P, Minergie-A).

5.2. Effect 1: Energy savings

New buildings

The energy savings of a Minergie new building are calculated by comparing the energy consumption of the Minergie building with the energy consumption of a building constructed in accordance with the regulations valid at the time (model cantonal regulations on energy, or "MuKEn"). The difference in annual consumption is then multiplied by the lifespan of the building to calculate the effect over the building's lifespan (deemed to be 40 years for residential buildings)

The indicator for energy consumption is the unweighted energy rating, i.e., the heat requirement for space heating and hot water per sqm of energy reference area (ERA). The difference between the legal requirements valid in the year in question and the Minergie version valid in each case corresponds to the saving per sqm of ERA, which is then multiplied by the number of newly built sqm financed by UBS, in order to calculate the effect. The resulting energy-related effect in kilowatt hours (kWh) is also converted into a CO_2 impact using emission factors. The emission factors (tCO_2 / kWh) vary depending on the average energy source used.

This approach to calculating the effect corresponds to that used by the cantons in their calculations under the harmonized funding model 2009 ("HFM 2009").

Renovations

The energy savings of a Minergie renovation are calculated by comparing the energy consumption of a renovated building with the energy consumption of an average building. The assumptions of the cantonal impact calculations in the HFM 2009 are used as the energy consumption of an existing building. For Minergie, the average consumption figures are used depending on the standard (Minergie, Minergie-P, Minergie-A) and version (e.g., Minergie 1998, 2005, 2009, 2017).

As is the case with new buildings, the indicator for energy consumption is the unweighted energy rating, i.e., the heat requirement for space heating and hot water per sqm of energy reference area (ERA). The energy-related effect is calculated using the renovated energy reference areas and the difference between the energy performance indicators. The CO_2 impact is derived from this in the same way as for new buildings.

5.3. Effect 2: Renewable energy

The method for calculating the effect of renewable energy ("renewable effect") is the same for new buildings as it is for renovations. As a first step, the average share of renewable energy in average new buildings and existing buildings is surveyed (figures from the Swiss Federal Statistical Office). As a second step, the average share of renewable energy in Minergie buildings is surveyed.

To calculate the renewable effect, the difference between average construction and Minergie construction is multiplied by the energy consumption of the Minergie buildings. The result here corresponds to the number of kWh consumed in the Minergie buildings that are produced with renewable energy compared with conventional buildings. This energy-related effect is also converted into a CO_2 impact using emission factors.

1 The post-issuance verification letter and CBI certification are available on UBS Investor Relations webpage.

6. External review

The Green Bonds issued under the UBS Green Funding Framework have received post-issuance certification from the Climate Bonds Initiative (CBI) reaffirming their conformance with the CBI standards for Low Carbon Buildings. Sustainalytics provided the post-issuance verification assessment[1], of which extracts are provided below.

6.1. Assurance scope and objectives

In June 2021, UBS Group AG ("UBS") issued two green bonds aimed at financing mortgages on Minergie-certified buildings in Switzerland. In January 2022, UBS engaged Sustainalytics to review the assets funded through the issued green bonds, and to provide an assessment as to whether the projects financed between June 2021 to December 2021 met the Post-Issuance Requirements under the Low Carbon Buildings of the Climate Bonds Standard Version 3.0.
Green bond assets include mortgage loans to finance residential Minergie-certified buildings in Switzerland, including certification levels Minergie, Minergie-P or Minergie A.

6.2. Post-Issuance evaluation criteria

Post-Issuance Requirements of the Climate Bonds Standard version 3.0:

- Use of proceeds
- Evaluation and selection of projects and assets
- Management of proceeds
- Reporting

6.3. Issuing entity's responsibility

UBS is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, total development cost of each project, and disbursed amounts.

6.4. Independence and quality control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of UBS's green bond, issued to finance Minergie-certified buildings in Switzerland, and provided an independent opinion informing UBS as to the conformance of the green bond with the Post-Issuance Requirements and Low Carbon Buildings criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by UBS with respect to the Nominated Projects & Assets. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by UBS.
Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

6.5. Verifiers responsibility

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 3.0 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.
The work undertaken as part of this engagement included conversations with relevant UBS employees and review of relevant documentation to confirm the conformance of UBS's green bonds with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0.

6.6. Exceptions

No exceptions were identified. All projects aligned with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0 and were in conformance with the Low Carbon Buildings criteria.

6.7. Conclusion

Based on the limited assurance procedures conducted and evidence obtained, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the allocation of USD 843 million from the UBS Certified Climate Bonds, issued to fund eligible green projects, is not in conformance with the Post-Issuance Requirements of the Climate Bonds Standard.

1 The post-issuance verification letter and CBI certification are available on UBS Investor Relations webpage.

7. Disclaimer

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