February 2021

Pre-contractual disclosure for financial products in accordance with Article 8(1) of Regulation (EU) 2019/2088

Pre-contractual disclosure for financial products in accordance with Article 8(1) of Regulation (EU) 2019/2088

Introduction

The VP Bank Sustainable Plus Mandate is a product advertising environmental and social features and thus qualifies as a product under Article 8(1) of Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector. In this information sheet, we describe those ESG criteria used in the bank's product and how they are implemented. Please read the information carefully before signing a contract for a discretionary sustainability mandate.

1. What environmental and/or social characteristics are promoted by this financial product?

In the VP Bank Sustainable Plus Mandate, a holistic approach to sustainability is pursued taking into account social, environmental and corporate governance factors. This investment philosophy is broadly based on the VP Bank Sustainability Score, thematic investments and special investments, which are described in more detail below.

VP Bank Sustainability Score

The VP Bank Sustainability Score (VPSS) comprises five subcomponents:

- ESG Rating
- ESG Momentum
- Business practices
- Business activities
- Sustainable Development Goals and Impact

Each of these sub-categories is evaluated according to a proprietary methodology. The VP Bank Sustainability Score was designed in such a way that investments with a high score, in addition to the positive assessment in terms of ESG factors, also have a better long-term risk/reward ratio. The detailed description of the methodology can be viewed online (https://www.vpbank.com/en/vp-bank-sustainability-score).

Thematic Investment

You have a choice of five topics (multiple selection possible):

- Environment and climate action
- Renewable energies and circular economy
- Sustainable infrastructure
- Equal opportunities, education and security
- Health and demographic change

Each thematic investment covers environmental or social characteristics and allows you to incorporate your personal preferences into the portfolio allocation.

Special investments

In our sustainability approach, special investments comprise green and social bond investments and microfinance investments.

Green bonds are all types of bonds where the proceeds, or an equivalent amount, are used to partially or fully finance or refinance new and/or existing eligible climate-friendly projects.

Issuers of green bonds must adhere to strict international guidelines such as the International Capital Market Association's Green Bond Principles. These guidelines specify the investments or projects for which the proceeds of the bond issue may be used, how the projects can be selected, how these proceeds are to be managed and how they must be reported.

Social bonds are bonds where the issuer commits to using the proceeds for new and existing projects with positive social impact. Similar to Green Bonds, there are also guidelines that lead to a transparent and social use of the proceeds. These guidelines impose strict requirements regarding the use of proceeds, the project selection process, management of proceeds and reporting.

The same sustainability criteria apply to Green and Social Bonds, which we describe in section 3.

The issuers of microfinance products aim to generate a measurable impact. These products seek to support the development of the financial sector in developing and emerging countries and to improve access to financial services to promote entrepreneurial activity, stimulate the economy and/or create jobs. To this end, these funds deploy their resources to enable local, successful or promising financial service providers to offer specific financial services to micro, small and medium-sized enterprises ("MSMEs") on a permanent basis and to grow financial services in line with demand.

Furthermore, our microfinance products are subject to the same VP Bank sustainability approach as described in section 3.

Sustainability risks

Sustainability risks are systematically incorporated into the investment decision-making process to the extent that they represent an actual potential material risk and/or an opportunity to maximize risk-adequate returns over the long term. Details on the integration of sustainability risk into investment decisions can be found online (https://www.vpbank.com/sites/default/files/assets/downloads/Integration_des_Nachhaltigkeitsrisikos_in_Anlageentscheidungen_EN.pdf).

Sustainability risks vary according to specific risk, region and asset class. Sustainability risks can have a negative impact on the return of the investment product. In general, these risks can lead to increased default risks of the investments or to a complete loss of value.

2. Does this financial product consider principal adverse impacts on sustainability factors?

VP Bank's sustainability approach excludes investments that have an unacceptable negative impact on sustainability factors. Investments must meet minimum criteria in the following three areas: ESG rating, business activities and business practices. Investments that do not meet our minimum criteria are excluded. These exclusions are part of the VP Bank Sustainability Score (VPSS). The description of the methodology can be viewed online (https://www.vpbank.com/sites/default/files/assets/downloads/PASI_Statement_en.pdf). The VPSS methodology uses data from MSCI and is more than just the application of ESG rating.

The identification of key adverse impacts is based on industry specific key ESG factors. The ESG ratings provided by MSCI take this key aspect into account.

3. What investment strategy does this financial product follow?

The objective of the discretionary mandate is to generate a financial return that is consistent with the mandate's risk profile. The mandate is implemented as a multi-asset class portfolio using cash holdings, bonds, equities, collective investments and currency hedging transactions.

The investment strategy of the VP Bank Sustainability Mandate Plus consists of constructing a portfolio that is broadly diversified across several asset classes and promotes environmental and social characteristics.

VP Bank excludes investments in companies which, in our view, have an unacceptable adverse impact on sustainability factors. Investments must meet minimum criteria in the following three areas: ESG rating, business activities and business practices. Investments that do not meet our minimum criteria will be excluded. These exclusions are a consequence of the VP Bank Sustainability Score (VPSS). Furthermore, at least 80% of all collective investments must be classified in accordance with Article 8(1) of Regulation (EU) 2019/2088. For the Sustainable Plus Mandate, a minimum VPSS of 3 is also required for at least 90% of the investments. The score ranges from -1 (insufficient) to 10 (excellent).

In the area of thematic investments, customers have the option of implementing their own sustainability preferences in their portfolio. There are five topics to choose from, three of which promote environmental attributes and the remaining two promote social attributes.

Depending on the risk profile of the selected strategy, different quotas are allocated.

Green and social bonds as well as microfinance products should account for at least 5% of the total portfolio, regardless of the risk profile.

3.1 What is the policy to assess good governance practices of the investee companies?

The VP Bank Sustainability Score is based on ESG rating data provided by MSCI ESG Research. This, in turn, is composed of the basic components of environment (E), social (S) and corporate management or governance (G). MSCI's Governance segment considers various factors such as: Key figures on the owners, board members, salary policy, ethical characteristics of the company and tax indicators. All these characteristics are included in the ESG rating.

4. What is the asset allocation planned for this financial product?

In the Sustainable Plus Mandate, at least 90% of the investments are made in instruments with sustainable characteristics that are aligned with environmental and social characteristics of the financial product.

Of the investments that have environmental and social characteristics, a further subdivision is made into sustainable investments and those investments that do not qualify as sustainable investments under EU Regulation 2019/2088. No specific quota for sustainable investments is formulated in the Sustainable Plus Mandate. For this reason, the majority of the portfolio is defined as follows: Investments that are aligned with environmental or social characteristics but do not qualify as sustainable investments.

The remaining investments are not geared to either environmental or social characteristics. However, these investments also meet the minimum sustainability requirements, which are expressed as a VPSS of at least 3. A maximum of 10% of the total investments can be assigned to this category.

4.1 To what extent are sustainable investments with an environmental objective aligned with the EU taxonomy?

The VP Bank Sustainable Plus Mandate includes investments that meet the environmental objectives according to the EU taxonomy. The data for these calculations are obtained from MSCI ESG Research and the percentage share of sales corresponding to the environmental target is used as the basis for the respective company score.

At the time of publication of this document, the first two targets of the EU Taxonomy Regulation are applicable: Climate Change Mitigation and Adaptation. The Sustainable Plus Mandate therefore aims to achieve a taxonomy alignment rate of at least 2%. This is to be adjusted and increased in the future, with the applicability of further targets and better data availability.

The principle of "avoidance of significant negative impacts" is only applied to those investments underlying the financial product that consider the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining part of this financial product do not consider the EU criteria for environmentally sustainable economic activities.

5. Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

No explicit index was provided as a reference measure.

6. Where can I find more product specific information online?

https://www.vpbank.com/en/private-clients/investing/wealth-management