Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant:	VP Bank AG, MI3TLH1I0D58ORE24Q14

1. Summary

VP Bank Group considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of VP Bank Group realted to the following subsidiaries, namely:

- VP Bank Ltd; LEI: MI3TLH1I0D58ORE24Q14
- VP Bank (Switzerland) Ltd; LEI: 54930066YZFYEEPGIP56
- VP Bank (Luxembourg) SA; LEI: 549300FKMQ4CQTPLCI28

At entity level, VP Bank Group considers principal adverse impacts on sustainability factors. Whether, and if so which, principal adverse impacts on sustainability factors are considered at the product-level is determined by the pre-contractual information of the respective financial product.

This statement covers the reference period from1 January 2022 to 31 December 2022 (year n).

2. Description of the principal adverse impacts on sustainability factors

At VP Bank Group we actively manage investment risks related to sustainability factors and understand the consequences our investment products and advisory services have on the environment and society. We take the concept of «double materiality» serious and continuously work on mitigating negative sustainability impacts, as well as increasing the positive sustainability impacts of our business activities and product offering.

An adverse sustainability impact refers to the negative impact that an investment decision may have on environment or society. The EU SFDR Level 2 RTS provides a list of 18 compulsory adverse sustainability indicators (Annex I, Table 1), covering aspects of GHG emissions, biodiversity, water, waste, and social/employee matters relevant to investments in corporates, sovereigns, supranationals and real estate. Additionally, a list of voluntary indicators is provided: 22 environmental indicators (Annex I, Table 2) and 24 social indicators (Annex I, Table 3). Thereof, at least one voluntary environmental indicator and one voluntary social indicator must be selected in addition to list of compulsory indicators.

General approach to sustainability factors:

To mitigate adverse principal sustainable impacts, VP Bank Group makes use of a combination of alternative approaches. The major methods implemented are restrictions and improvements. The baseline for this implementation is the «VP Bank Sustainability Score» (VPSS), a detailed description of the methodology is published (online). VP Bank Group restricts investments that cause an unacceptable adverse impact. Specifically, investments must meet minimum criteria in the following three areas: ESG rating, business activity and business practices. Investments that do not meet our minimum criteria are not considered as part of our investable universe. The VPSS methodology builds on data provided by a third-party vendor, but goes further than the standard ESG score.

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Eligible investments must meet minimum sustainability criteria based on the risks and impacts they potentially pose. Products that do not meet VP Banks's sustainability criteria are not eligible for investment advice or portfolio management. These criteria are implemented into relevant investment, portfolio management and advisory systems and processes where VP Bank Group makes investment decisions and recommendations. Recommendations are continuously monitored to ensure criteria are met. Should an investment become ineligible, it will no longer be recommended and in cases where existing portfolios contain such investments, we will notify clients and offer alternative solutions. In the case of portfolio management mandates, continuously ineligible financial instruments are sold within a certain grace period.

Below is a summary of the major methods considered relevant to mitigate principle adverse impacts in our investment activities:

Restrictions: ESG Rating

The ESG rating is composed of the most material environment (E), social (S) and governance (G) factors for each industry. MSCI ratings range from AAA (best) to CCC (worst) relative to industry peers. We exclude the two lowest rating grades B and CCC. In the case of third-party funds and ETFs, we require a minimum level of coverage by MSCI and allow only a limited number of B and CCC rated investments. The allowable thresholds depend on the region and its economic structure and maturity.

Restrictions: Business practices

Business practices refer to the behaviours of enterprises. VP Bank Group is guided by three internationally recognised standards: UN Global Compact, UN Guiding Principles for Business and Human Rights, and International Labour Organization (ILO) Labour Standards. We exclude stocks and bonds of companies that breach these international standards or have a «very severe» controversy as identified by MSCI. In the case of third-party funds and ETF recommendations, there may be a very low share of investments with breaches of international standards and «very severe» controversies.

Restrictions: Business activity

Business activity refers to the products and services that a company offers. «Critical» business areas are defined as tobacco, gambling, thermal coal, nuclear and controversial weapons. We exclude companies that generate their revenue from these critical business areas above the defined thresholds. Third-party funds and ETFs may contain a very small proportion of companies operating in areas considered «critical».

Improvements: ESG momentum

Besides above restrictions, we also consider improvements in sustainability factors as a meaningful way to finance the sustainability transition and consequently reduce the negative sustainability impacts across our investment universe. This component of the VPSS measures to what extent and in what direction the ESG rating has changed. We reward companies or governments or sovereign debtors that improve their ESG rating and penalise those who show a continuous deterioration of their ESG score.

VP Bank has implemented the application of the VPSS, including different minimum thresholds, for discretionary portfolio management and investment advisory services.

Outlook

Going forward we plan to develop additional reporting tools to evaluate portfolios, with the aim of improving the overall sustainability performance. VPSS is subject to a continues review process, including a critical review of its current specification as well as the potential to incorporate the newest, relevant research. Besides, we are continously reviewing the appropriateness to expand the list of principle adverse impacts considered by our investment team, subject to relevance in light of our investment management philosophy and exposures.

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No	Adverse sustainability impact	Metric	Impact [2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period
			Indicators applicable to investments in investee companies		
			CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
1	GHG emissions	Scope 1 GHG emissions (in Tonnes CO_2) Eligible assets: 75.30% Covered assets: 52.73%	87,367.25	An explanation of the year-on-year differences will be provided from next year onwards. For this first year reporting no reference point is available.	Our general approach to sustainability factors is as described above. In terms of principal adverse impacts specifically related to greenhouse gas (GHG) emissions indicators, we are a signatory to the Net-Zero Banking Alliance (NZBA) and are committed to achieving net-zero emissions for material on-balance sheet lending and investment positions by 2050 or earlier. As part of this, we are working on a net-zero transition plan with a focus on carbon-intensive industries and their largest emitters. As part of our due diligence process, which is anchored in the methodology underlying the VP Bank Sustainability Score (VPSS), we exclude investments in thermal coal (5% of revenues) in our discretionary portfolio management and investment advisory mandates.
	GHG emissions	Scope 2 GHG emissions (in Tonnes CO_2) Eligible assets: 75.30% Covered assets: 52.73%	17,327.97	As above.	As above.
	GHG emissions	Scope 3 GHG emissions (in Tonnes CO_2) Eligible assets: 75.30% Covered assets: 52.64%	728,367.28	As above.	As above.
	GHG emissions	Total GHG emissions (in Tonnes CO_2) Eligible assets: 75.30% Covered assets: 52.70%	833,062.49	As above.	As above.
2	Carbon footprint	Carbon footprint (Tonns CO_2 Emissions per invested EUR million) Eligible assets: 75.30% Covered assets: 52.61%	124.13	As above.	As above.

3	GHG intensity of investee companies	GHG intensity of investee companies (onnes of CO_2 emissions per EUR million of revenue) Eligible assets: 75.30% Covered assets: 57.30%	542,717,534.04	As above.	As above.
4	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector Eligible assets: 75.30% Covered assets: 35.03%	12.24%	As above.	As above.
5	Share of non-renewable energy consumption	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage Eligible assets: 75.30% Covered assets: 49.07%	62.22%	As above.	As above.
6	Energy Consumption Intensity Agriculture, Forestry & Fishing	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 5.01%	0.58	-	n/a
	Energy Consumption Intensity Mining and quarrying	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 24.15%	1.81	-	n/a
	Energy Consumption Intensity Manufacturing	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 35.42%	0.91	-	n/a
	Energy Consumption Intensity Electricity, gas, steam and air conditioning supply	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 28.16%	5.69	-	n/a

Energy Consumption Intensity Water supply; sewerage; waste management and remediation activities	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 22.11%	1.55	-	n/a
Energy Consumption Intensity Construction	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 24.27%	0.18	-	n/a
Energy Consumption Intensity Wholesale and retail trade; repair of motor vehicles and motorcycles	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 31.34%	0.61	-	n/a
Energy Consumption Intensity Transporting and storage	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 24.15%	1.81	-	n/a
Energy Consumption Intensity Real estate activities	Energy consumption in GWh per million EUR of revenue of investee companies Eligible assets: 75.30% Covered assets: 27.75%	1.78	-	n/a

7	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas Eligible assets: 75.30% Covered assets: 33.32%	0.49%	As above.	Our general approach to the sustainability factors is described above. With respect to principal adverse impacts specifically related to biodiversity indicators, we have not set explicit targets. As part of the VP Bank Sustainability Score (VPSS), which is based on the MSCI ESG rating methodology, we implicitly consider biodiversity and land use as one of the key issues in the environmental pillar of the model. Companies are assessed on the potential impact of their operations on biodiversity in the areas in which they operate and on their efforts to manage the environmental impacts of their operations. In order to reduce the risk of principal adverse impacts, we exclude the two lowest MSCI ratings, B and CCC. In addition, a company with a very high level of controversy will also be excluded from our stock and bond recommendations.

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8	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average Eligible assets: 75.30% Covered assets: 1.08%	2.81	As above.	Our general approach to sustainability factors is described above. With respect to principal adverse impacts specifically related to water stress indicators, we have not set explicit targets. As part of the VP Bank Sustainability Score (VPSS), which is based on the MSCI ESG rating methodology, we implicitly consider water stress as one of the key issues in the environmental pillar of the model. Companies are assessed on the water intensity of their operations, water stress in their operating areas, and their efforts to manage water-related risks and opportunities. To reduce the risk of material adverse impact, we exclude the two lowest MSCI ratings, B and CCC. In addition, a company with a very high level of controversy will also be excluded from our equity and bond recommendations.

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9	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average Eligible assets: 75.30% Covered assets: 19.37%	0.76	As above.	Our general approach to sustainability factors is described above. With respect to principal adverse impacts specifically related to toxic emissions and waste indicators, we have not set explicit targets. As part of the VP Bank Sustainability Score (VPSS), which is based on the MSCI ESG rating methodology, we implicitly consider toxic emissions and waste as one of the key issues in the environmental pillar of the model. Companies are assessed on the potential for environmental contamination and toxic or carcinogenic emissions from their operations, as well as the strength of their environmental management systems. In order to reduce the risk of principal adverse impacts, we exclude the two lowest MSCI ratings, B and CCC. In addition, if a company is involved in a major controversy, it will also be excluded from our stock and bond recommendations.
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS					
10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises Eligible assets: 75.30% Covered assets: 57.54%	11.38%	As above.	Our general approach to sustainability factors is described above. As part of the VP Bank Sustainability Score (VPSS) investments in business with documented practices that are illegal or in breach of specific international standards and norms are excluded. Specifically, we exclude investments in violation of: UN Global Compact, United Nations Guiding Principles for Business and Human Rights, and International Labour Organization (ILO) Labour Standards.

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11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises Eligible assets: 75.30% Covered assets: 57.37%	39.81%	As above.	Our general approach to sustainability factors is described above. As part of the VP Bank Sustainability Score (VPSS) investments in business with documented practices that are illegal or in breach of specific international standards and norms are excluded. Specifically, we exclude investments in violation of: UN Global Compact, United Nations Guiding Principles for Business and Human Rights, and International Labour Organization (ILO) Labour Standards.
12	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies Eligible assets: 75.30% Covered assets: 16.18%	4.67%	As above.	Our general approach to the sustainability factors is as described above. In terms of principal adverse impacts specifically related to gender diversity indicators, we are a signatory to the Luxembourg Women in Finance Charter and the Swiss Advance initiative. As such, we are committed to promoting the advancement of women at all levels, including senior management and board level, and aim to achieve at least 30% female representation at all management levels in all member firms by 2030. In January 2023, our new Diversity and Inclusion Policy came into force, which will guide us in the process of achieving our Sustainability Plan 2026 as well as the voluntary commitments mentioned above. As part of the VP Bank Sustainability Score (VPSS), if a company is involved in a very severe controversy related to issues of discrimination and workforce diversity, it will be excluded from our equity and bond recommendations.

13	Board gender diversity	Average ratio of female to male board members in investee companies Eligible assets: 75.30% Covered assets: 55.84%	30.87%	As above.	As above.
14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons Eligible assets: 75.30% Covered assets: 57.38%	0.09%	As above.	Our general approach to sustainability factors is as described above. As part of our due diligence process, which is anchored in the methodology underlying the VP Bank Sustainability Score (VPSS), we exclude investments with any ties to controversial weapons in all our discretionary portfolio management and advisory mandates, as well as in our own treasury investments.
		Indicators applicable to investments in sovereigns and supranationals			
15	GHG intensity	GHG intensity of investee countries (Kton per EUR million of GDP) Eligible assets: 52.50% Covered assets: 18.58%	3,102,655.21	-	n/a
16	Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law Eligible assets: 52.50% Covered assets: 0.98%	0.00	-	n/a
		Indicators applicable to investments in real estate assets			
17	Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels Eligible assets: 44.50% Covered assets: 0.00%	n/a	-	n/a
18	Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets Eligible assets: 44.50% Covered assets: 0.00%	n/a	-	n/a

3. Other indicators for principal adverse impacts on sustainability factors

In addition to the predefined set of mandatory indicators (SFDR, Annex I, Table 1), we consider two additional indicators subject to data availability and quality.

First, we consider an additional environmental-related indicator with respect to investments in companies without carbon emission reduction initiatives. As such, we measure the share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement (SFDR, Annex I, Table 2, Indicator 4).

Second, we consider an additional indicator for social and employee, respect for human rights, anti-corruption and anti-bribery matters with respect to investments in companies with a lack of a human rights policy. As such, we consider the share of investments in entities without a human rights policy (SFDR, Annex I, Table 3, Indicator 9)

We do not use any other indicators at the entity-level to identify and assess additional material adverse impacts on sustainability factors other than the mandatory indicators listed in Table 1 (SFDR, Annex I) above and the additional voluntary indicators, as described above.

Additional climate and other environment-related indicators

No	Adverse sustainability impact	Metric	Impact [2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period
			Indicators applicable to investments in investee companies		
			CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
1	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement Eligible assets: 75.30% Covered assets: 57.09%	45.64%	As above.	Our general approach to sustainability factors is as described above. In terms of principal adverse impacts specifically related to greenhouse gas (GHG) emissions indicators, we are a signatory to the Net-Zero Banking Alliance (NZBA) and are committed to achieving net-zero emissions for material on-balance sheet lending and investment positions by 2050 or earlier. As such, we are seeking investment in companies which share our philosophy and have carbon emission reduction initiatives in place.

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Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

No	Adverse sustainability impact	Metric	Impact [2022]	Explanation	Actions taken, and actions planned and targets set for the next reference period
			Indicators applicable to investments in investee companies		
	INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS				
1	Lack of a human rights policy	Share of investments in entities without a human rights policy Eligible assets: 75.30% Covered assets: 57.36%	6.91%	As above.	Our general approach to sustainability factors is described above. As part of the VP Bank Sustainability Score (VPSS) investments in business with documented practices that are illegal or in breach of specific international standards and norms are excluded. Specifically, we exclude investments in violation of: UN Global Compact, United Nations Guiding Principles for Business and Human Rights, and International Labour Organization (ILO) Labour Standards. As such, we are seeking investment in companies which share our philosophy and have a human rights policy in place.

4. Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Approval Date

This statement has been approved by the CIO on 29.06.2023 and will be reviewed and updated annually.

Governance

The integration of sustainability criteria into the investment and advisory processes are governed by the relevant VP Bank Group's policy frameworks and integrates it in its overall monitoring and compliance systems and processes. This includes various committees that are re-sponsible for developing and approving the approach to sustainable investing, the eligibility criteria, and strategies: Investment Strategy Committee, Investment Tactics Committee, and Product & Pricing Committee.

The relevant investment, compliance, internal audit function, management body and senior management are re-sponsible to implement aspects of this sustainability policy according to their respective duties.

Prioritisation

We do not prioritise one principle adverse sustainable impact over another. In principle, we take the stand that all indicators are equally important. Yet, subject to data availability – both in terms of scope and quality – and with regards to VP Bank Group's strategic goals and committed initiatives, we set a focus on aspects that currently have the highest material impact on the environment and society in our opinion and therefore require increased attention.

Selection, Identification & Assesment

The selection of principle adverse impacts considered by our investment team is subject to relevance in light of our investment management philosophy and exposures. We are convinced that the consideration of sustainability factors leads to better investment results. We consider sustainability criteria in all our portfolio solutions, building blocks and product selection.

Data Source and Margin of Error

Principal adverse sustainability impacts are assesed based on data provided by MSCI. An initial analysis has shown that both coverage and quality can vary significantly across alternative adverse impact indicators. We believe that this issue will fade away over time. The harmonisation of corporate reporting on these issues will both increase the quality and accuracy of the data as well as the coverage.

5. Engagement policies

VP Bank Group is continuously reviewing its approach on engagement and voting, as well as its role as a corporate citizen. For the current reference period, VP Bank Group does not take actions with respect to engagements to reduce specific principal adverse impacts.

6. References to international standards

Our evaluation of the business practices of companies is based on compliance with three internationally recognised standards. Data on the compliance with these standards is gathered from MSCI. Specifically, we are considering the following: UN Global Compact, United Nations Guiding Principles for Business and Human Rights, and International Labour Organization (ILO) Labour Standards.

In addition, VP Bank Group is a signatory of the UN PRI (Principles for Responsible Investment), PRB (Principles for Responsible Banking) and NZBA (Net-Zero Banking Alliance) and integrates their respective requirements, as well as being committed to achieving the corresponding objectives.

As of now, VP Bank Group has not implemented forward-looking climate scenario analysis in their internal processes. Building expertise and acquiring the necessary data is planned for the years to come. As of now, participation in initiatives like the Paris Agreement Capital Transition Assessment (PACTA) has and will provide valuable insights in this respect.

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