NZBA - First round interim target setting

Net-Zero Banking Alliance

Interim Targets

VP BANK

Introduction

In joining the Net-Zero Banking Alliance (NZBA), VP Bank pledged to reduce financed emissions of on-balance-sheet credit and investment positions to net-zero by 2050 or earlier.

This document outlines our commitment to the Net-Zero Banking Alliance, communicates interim targets for the first round of target setting, and explains the rationale behind the targets. Going forward, we will continue to develop targets as part of our work with the NZBA and expand the scope of the targets.

We have begun to develop sector-specific targets and measures for the decarbonisation of our on-balance-sheet lending and investment positions. We focus on the areas where we can have the most direct influence and sectors that are most material in terms of emissions.

Net-Zero Banking Alliance

VP Bank joined the Net-Zero Banking Alliance (NZBA) in 2021. The UN-initiated global alliance of banks has committed to moving their on-balance-sheet credit and investment positions to net-zero emissions by 2050 or earlier. With currently 126 members from 41 countries and total assets of USD 73 trillion, the alliance represents around 41% of global banking assets and is a key player in mobilising the financial sector for climate action. Financial market participants have an important signalling and leadership role to play in the global transition to a low-carbon economy. Members of the Net-Zero Banking Alliance are committed to:

- establishing interim targets for 2030 or earlier for material sectors;
- prioritising GHG-intensive sectors;
- publishing emissions and emissions intensity annually as a means of documenting progress;
- considering the best available scientific knowledge;
- setting goals and periodic reporting;
- disclosing progress against a transition strategy reviewed at board level.

Scope

For our first round of target setting, we focus on our own (treasury) investments and include direct investments in listed corporate equity and corporate bonds. We set targets for carbon-intensive sectors/industries, based on a materiality analysis. Our materiality analysis showed the following carbon-intensive sectors as the largest contributors to our own investment portfolio's emissions: Oil & Gas, Cement, and Power.

Targets

A summary of our targets is presented in Table 1 and a detailed breakdown is provided in Table 2.

VP Bank applies a sector decarbonisation approach (SDA) and builds on the methodology provided by the Transition Pathways Initiative (TPI). The SDA takes a sector-by-sector approach, comparing companies within each sector against each other and against sector-specific benchmarks. This comparison establishes the performance of an average company that is aligned with international emissions targets.

We consider targets from the "1.5°C scenario" by Transition Pathways Initiative (TPI) as of the most recent sector assessment.[1] This scenario is aligned with the Paris Agreement to limit global warming and is consistent with a carbon budget that limits the global average temperature rise to 1.5°C with a 50% probability.

Table 1: Summary of emission reduction targets

Sector	Scope	Metric	Base year	Reduction (2030)
Oil & Gas	1,2,3	Physical intensity	2020	~45%
Cement	1	Physical intensity	2020	~35%
Power	1	Physical intensity	2020	~60-70%
Coal	No exposure (investment restriction)			

Coverage

Table 2 provides a detailed overview on the definition of TRBC industries in respect of the sector targets, as well as intensity levels for the baseline year, target year and data coverage. For the power sector, the reported data coverage is low. Accordingly, the intensity levels may fluctuate over the years until better reported data coverage is achieved. Therefore, progress reporting will also include recalibrated past year figures to account for better data availability and consistent progress tracking.

Sector-specific average method

Where no company-specific emissions and/or productivity data are available, a sector-specific average method is applied. This is done in accordance with the PCAF Global GHG Accounting & Reporting Standard for the Financial Industry. The sector average is based on information provided by the Transition Pathway Initiative (TPI) for each sector and year respectively.

Rational

Initially, VP Bank concentrates on emissions from direct investments in our own portfolio's listed corporate equity

[1] At the time this report was generated the most recent sector assessments refer to the following publication dates: cement (April 1st, 2022), oil & gas (August 1st, 2022), energy (July 22nd, 2022).

and corporate bonds. We make use of physical intensity metrics (emission per economic output, e.g. tCO_2e/MWh) and thereby focus on efficiency improvements. This is in line with our aim to finance the transition to a low-carbon economy. Additionally, physical intensity metrics allow for better internal progress tracking and comparability in industries with a similar product mix. Thereby, we also reduce the impact of economic cycles and associated business growth or decline. At the same time, physical intensity metrics are unaffected by an expanding scope of included business segments and increase/decrease in assets under management per business segment.

Climate-related risks and opportunities

We strive to continuously develop and adapt our risk framework while simultaneously identifying and seizing opportunities. In the short term, we are focused on transitional risks arising from regulatory changes and adapting to customer needs and preferences. We consider physical risks to primarily be long-term risks, although it should be noted that, depending on the scenario that materialises, the effects of a disorderly or hot-house scenario will also be felt more strongly in the short to medium term. To better understand the potential adverse impacts and economic consequences resulting from physical risks, we have started to assess the exposure of our mortgage portfolio to natural hazards.

To classify climate-related risks, i.e. physical risks and transition risks, VP Bank has adopted the risk terminology proposed by the TCFD framework and reports in four areas: governance, strategy, risk management and metrics & targets. The assessment and disclosure of the actual and potential material impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning is part of our annual sustainability report.

Net-zero in our operations

The Paris Agreement has set the course for mitigating and adapting to climate change. VP Bank's goal is to achieve CO_2-neutral business operations by 2026. Our stakeholders agree on the importance of this issue and have ranked climate change and resource efficiency as two of the most important topics within the scope of our business activities. To ensure that we achieve our goals, we will regularly engage with our stakeholders and monitor our progress. A yearly progress report and detailed figures on our operation emissions are published in our sustainability report.

Revision

We may revise climate-related information where there is a change to the model or data that could lead to significant differences in the presentation of our net-zero baseline, targets and progress related to those targets.

Next steps

For our first round of interim target setting, we focused on direct investments in listed equity and corporate bonds of our own on-balance sheet investments. The scope of our next targets will incrementally increase to cover more sectors and our lending business, following the guidelines set by NZBA.

Table 2: Detailed NZBA first round interim targets

Sector	TRBC Code	TRBC Industry Group	Emission scopes included	CP unit	data coverage[2] (AUM)	2020 target baseline	2030 target	2030 target %-reduction
Oil & Gas	501020	Oil & Gas	1, 2, 3	gCO_2e/MJ	76%	71.87	40.95	43%
Energy	591010	Electrical Utilities & IPPs	1	tCO_2e/MWh	15%	0.41	0.14	67%
	591040	Multiline Utilities			59%	0.35	0.14	61%
Cement	512020	Constrution Materials	1	tCO_2e/t	100%	0.66	0.42	36%
Coal	501010	Coal	1	tCO_2	100%	0.00	0.00	0%

[2] Data coverage refers to the availability of reported data gathered from third-party data vendors and/or manually collected from investee companies' annual reports. The remaining data gaps (1-data coverage) are filled according to a sector average method.