June 2022

# Statement on principal adverse impacts of investment decisions on sustainability factors

Disclosure pursuant to Article 4 of Regulation EU/2019/2088

## Summary
## (SFDR RTS L2, Art. 5)

An adverse sustainability impact refers to the negative impact that an investment decision may have on environment or society. VP Bank Group considers principal adverse impacts of investment decisions on sustainability factors in the selection of financial products. This document summarises how VP Bank Group conducts due diligence on principal adverse sustainability impacts of its investment and advisory decisions.

VP Bank Group considers principal adverse impacts of its investment decisions on sustainability factors where it takes the investment decisions. The present statement is the consolidated principal adverse sustainability impacts statement of VP Bank Group and its subsidiaries. These include:

| Name | LEI |
|---|---|
| VP Bank Ltd | MI3TLH1I0D58ORE24Q14 |
| VP Bank (Switzerland) Ltd | 54930066YZFYEEPGIP56 |
| VP Bank (Luxembourg) SA | 549300FKMQ4CQTPLCI28 |
| VP Bank (BVI) Ltd | 5493006RC8WBL0CUBE87 |
| VP Bank Ltd Singapore Branch | 549300ZLFTWDKYVN3U18 |
| VP Wealth Management (Hong Kong) Ltd | 254900HWHGUUT7JLZB92 |
| VP Bank Ltd Hong Kong Representative Office | MI3TLH1I0D58ORE24Q14 |
| VP Fund Solutions (Luxembourg) SA | 5493004X2QB08ZUK6V68 |
| VP Fund Solutions (Liechtenstein) AG | 529900R5UQB9UVVBIM04 |

This principal adverse sustainable impacts statement covers the reference period from 30 March 2021 to 31 December 2021.

In accordance with the group policy framework, this statement has been approved by the CIO on 29 June 2022 and will be reviewed and updated periodically as needed. The group policy framework is approved by the Board of Directors.

## Applicability

The assessment and consideration of principal adverse sustainability impacts apply to the following:

- VP Bank Group and all its locations listed above
- All investment and advisory decisions including portfolio management, and investment advice
- Management of VP Bank investment funds through VP Fund Solutions

This does not apply to:

- execution only services
- services to intermediary clients
- third party structured products

## Consideration of principle adverse sustainability impacts by VP Fund Solution

VP Fund Solutions (VPFS) only considers principle adverse sustainable impacts for VP Bank funds managed by VPFS. VPFS intend to monitor the industry position closely and update its approach in due course as the position evolves and further regulatory guidance is made available.

## Description of the principal adverse impacts
## (SFDR RTS L2, Art. 6)

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. For a conceptual visualisation please refer to Figure 1.

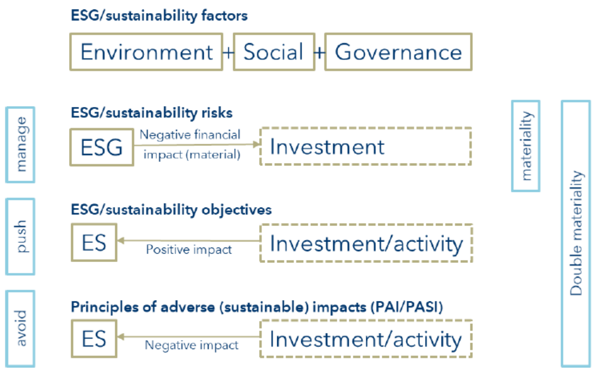


Figure 1 - Visualisation of the double materiality concept

The EU SFDR Framework provides a list of 18 compulsory adverse sustainability indicators, 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 and 24 social indicators. Thereof, at least one environmental and one social indicator must be selected in addition to list of compulsory indicators.

In principle, adverse sustainability impact considerations are conducted on all financial products that VP Bank

Group offers unless they are not considered investments or financial instruments or only provide an economic exposure. Such as:

- Cash products (Money Market / Credit, Limit, Balance, money market deposit)
- Forwards, Options, Futures

## Actions taken to address principal adverse impact (SFDR RTS L2, Art. 6)

To mitigate adverse principal sustainable impacts, VP Bank Group makes use of a combination of alternative approaches. The major methods implemented are restrictions, improvements, and proxy voting. The baseline for this implementation is the «VP Sustainability Score» (VPSS), a detailed description of the methodology is published (online). VP Bank Group restricts investments that cause an unacceptable adverse impact. Moreover, 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 MSCI but goes further than the standard ESG score.

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 contains 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
- 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 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

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 experience a downgrade.

## Actions planned to further mitigate principle adverse sustainability impacts (SFDR RTS L2, Art. 6)

VP Bank Group has implemented the application of the VPSS for portfolio management and advisory services. Going forward we plan to develop additional reporting tools to evaluate the portfolios further with the aim to improve the overall sustainability performance and of the investments.

The VP Sustainability Score 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.

Starting with the reference period 2022, we have partnered with Institutional Shareholder Services (ISS) and delegate our votes to ISS by following their proxy voting recommendations under the «SRI Policy» profile. This proxy policy takes a traditional SRI investor perspective on social, environmental, and economic issues based on the «triple bottom line» value creation. For more details see section «Engagement policies». A detailed overview on the proxy voting guidelines regarding the «SRI Policy» are available from ISS (online). Thereafter, we plan to increase the scope of our proxy voting partnership with ISS by offering this service to our clients and thereby allow clients to act on their voting rights and do so in a sustainable way.

## Description of policies to identify and priorities principal adverse sustainability impacts (SFDR RTS L2, Art. 7)

### Identification

To identify principal adverse sustainability impacts, VP Bank has acquired additional data packages from 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.

### Prioritization

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 have the highest material impact on the environment and society.

### Governance

The integration of sustainability criteria into the investment and advisory processes are governed according to 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 responsible for developing and approving the approach to sustainable investing, the eligibility criteria, and strategies:

- Investment Strategy Committee
- Investment Tactics Committee
- Product & Pricing Committee

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

## Engagement policies (SFDR RTS L2, Art. 8)

VP Bank Group is continuously updating 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.

## Reference to international standards (SFDR RTS L2, Art. 9)

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
- 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. In the meantime, participation in the PACTA 2020 and 2022 climate scenario analysis has and will provide valuable insights in this respect.