UNION BANCAIRE PRIVÉE

UBP'S SUSTAINABILITY RISK FRAMEWORK

Executive Summary

Introduction

UBP has been a signatory of the United Nations Principles for Responsible Investment (UN PRI) since March 2012 and has since implemented and built upon those principles.

The sustainability risk framework has been designed to identify and address sustainability risks in our organisation across all activities and entities, i.e. Wealth Management (discretionary and advisory), Asset Management and Treasury & Trading.

Sustainability risks are classified according to three categories: environmental, social and governance. We aim to measure UBP's exposure to those three categories and mitigate them.

Sustainability risk definition

Sustainability risks are defined as "environmental, social or governance events or conditions that, if they occur, have or may potentially have significant negative impacts on the assets, financial position and earnings of a supervised entity or on its reputation".

Sustainability risk management: governance

The Executive Committee is the ultimate body in charge of sustainability matters, including sustainability risk management, at UBP.

In addition, dedicated committees, reporting directly to the Executive Committee (ExCo), have been set up to address sustainability matters:

- The Responsible Investing Committee (RICo) makes proposals to the ExCo regarding potential Key Risk Indicators (KRIs) to be monitored and defines proxies to maintain a comprehensive sustainability score methodology with regards to sustainability risks in investment portfolios.
- The Corporate Social Responsibility Committee (CSRCo) is in charge of managing sustainability risks at the UBP entity and group level.
- Group risk management is in charge of carrying out the monitoring and the analysis of dedicated KRIs, and with the implementation of the sustainability risk framework being effective from the 1st of January 2022, of a daily review and analysis of breaches, with a potential escalation to ExCo of the uncleared cases. In addition, a monthly consolidated ESG report will be produced and sent to senior management.

Sustainability risk scoring methodology

UBP has chosen MSCI ESG Research LLC (MSCI) as its main data vendor. However, when a specific issuer is not covered (i.e. no data is available), proxies and potentially other providers may be used.

Each company is scored by MSCI against around 35 ESG key material issues (Carbon Emissions, Water Stress, Labor Management, Business Ethics etc.) covering the three categories, i.e. environmental, social and governance.

For each risk, the company's exposure (Risk Exposure Score) is assessed as well as the way it deals with the risk (Risk Management Score).

The Risk Exposure Score and Risk Management Score are combined in such a way that a higher level of exposure requires a higher level of demonstrated management capability in order to achieve the same overall Key Issue Score.

Sustainability risk monitoring

Sustainability risk monitoring is organised around three main themes:

- *Specific issuer lists*: according to the risk appetite defined by UBP's Responsible Investment Policy, two lists are maintained and monitored by group risk management:
  - Exclusion List: this defines the base-level exposure that UBP is willing to have to certain sectors and activities that are considered harmful from an ESG perspective. The current list excludes companies involved in controversial activities such as tobacco production, thermal coal extraction, nuclear weapons, landmines and cluster munitions. Specific revenue thresholds may apply.
  - Watch List: this includes companies that may be involved in ESG controversies and represent a potential threat in the long run. Portfolio managers may still invest in these stocks/issuers, but investments are closely monitored by group risk management (through dedicated KRIs). Any investment in such companies is systematically challenged.
  - Additionally, and in line with group policy, securities subject to International sanctions are excluded.

- *Portfolio sustainability risk scores*: the objective is to have, for each portfolio, a sustainability score computed and monitored. The sustainability score for a given portfolio is the weighted average of individual sustainability scores based on the market value of each position. Minimum thresholds may apply, depending on the strategy.

- *Carbon emissions*: dedicated reporting on climate exposure

  We measure the carbon footprint of our investments by their weighted-average carbon intensity (WACI).

  The WACI is defined as the market-weighted average of total carbon emissions in tons of CO2 divided by total revenues. This measure is the most appropriate across all asset classes, not only for equities but also fixed-income and mixed assets.

  It is calculated by MSCI, using the latest available carbon emission data or estimates.

  It should be noted that only Scope 1 and 2 emissions are taken into account, as Scope 3 data is additive across companies and may result in double counting.

  Key risk indicators (e.g. WACI of the balance sheet, total assets under management on the watchlist etc.) and their respective limits are defined by the ExCo in line with the desired risk appetite level.

Our sustainability risk framework is fully integrated and part of our operational risk framework.