Private Banking

VALUES WORTH SHARING

TCFD Report

2021

A look inside the Princely Collections: the illustrations in this publication depict studies of natural objects by Franz Anton von Scheidel.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: expertise, reliability and a long-term perspective.

Illustrations: Franz Anton von Scheidel, details from "Depictions of conchiliae in watercolor after Johann Carl Megerle von Mühlfeld (1765–1840)," late 18th century.

www.liechtensteincollections.at

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"In light of the major environmental and social problems, all organizations, but also all private individuals, should scrutinize their goals and behavior to date and adjust these in such a way that they contribute to a more environmentally sustainable and socially inclusive development of our world."

H.S.H. Prince Max von und zu Liechtenstein, Chairman LGT

Preface

H.S.H. Prince Max von und zu Liechtenstein (right) and Olivier de Perregaux

Dear Reader

Never before has the urgency of the fight against climate change been discussed as much as at present. Society is increasingly called upon to find answers to a range of pressing questions, such as: what does climate change mean for us and how should we deal with climate risks? How much will climate protection cost? What kind of restrictions will we face? And what does this mean for social cohesion?

The answers may not always be clear, but that should not stop us from taking action. For far too long now, scientific research and our own experience have shown that enormous environmental changes are taking place. Active and hopefully effective measures to counteract these changes are now required at all levels and in all areas.

Financial markets and their participants can and must make an important contribution to this. They can do so on the one hand in their role as intermediaries between capital-seeking companies and nations and organizations, and on the other hand as investors. But to be successful, they require comprehensive, accurate and relevant information about the impact of climate change on their business, including the risks and opportunities arising from climate-related regulation and technological developments to combat climate change.

In order to communicate LGT's climate-related financial risks, we have committed to disclosing these in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to report them annually.

This first TCFD report is part of our comprehensive sustainability strategy, in which we commit to providing greater transparency. In the report, we explain how LGT Private Banking assesses and mitigates climate risks. Another important measure that we have committed to is reducing net greenhouse gas emissions from operations and investments to net zero by 2030. We consider it our responsibility to lead the way in this area. We will therefore also use this report as a way to document our progress.

H.S.H. Prince Max von und zu Liechtenstein
Chairman LGT

Olivier de Perregaux
CEO LGT Private Banking

Introduction

LGT Private Banking (LGT PB) is committed to reporting in line with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations to assess and disclose climate-related financial risks. This is the first report published by LGT PB to be based on the TCFD recommendations. In our understanding, sustainability risks refer to an environmental, including a climate-related, social or governance event or condition that, if it occurs, could have an actual or a potential material negative impact on LGT PB's activities and operations. In light of market and regulatory practice, LGT PB considers sustainability risks to be drivers of existing risk categories, such as market risk, liquidity and funding risk, credit risk and operational risk. Sustainability risks are therefore considered an integral element when assessing any of the existing risk categories.

Under the 2015 Paris Agreement, more than 190 countries, including Liechtenstein, committed to limit global warming to 1.5 °C above pre-industrial levels (between 1850–1900) by the end of this century.

The latest (6th) assessment report (released in August 2021) of the United Nations Intergovernmental Panel on Climate Change (IPCC) comes to an unequivocal conclusion: human-made global warming is advancing, and the goal of limiting it to 1.5 °C in accordance with the Paris Agreement remains a long way off. Achieving this goal will require drastic reductions in greenhouse gas emissions in the coming decades.

In the run-up to the World Climate Conference (COP26) in Glasgow in November 2021, UN analyses showed that the existing national action plans continue to be inadequate to limit global warming to 2 °C or below. Nonetheless, the majority of countries at the Glasgow summit recommitted to the goal of limiting global warming to 1.5 °C and pledged further action.

In 2021, the urgency of tackling climate change has therefore been highlighted more than ever before. LGT PB is thus committed to contribute, in the context of its activities, to the global efforts to limit climate change through its target of reaching net zero by 2030.

LGT PB's commitment

LGT PB's support for increased climate protection stems from our convictions. For our owners, the Princely Family of Liechtenstein, sustainable and long-term action has always been one of the core elements of its entrepreneurial activities. With our Sustainability Strategy 2025, we are pursuing the goal of integrating sustainability to a greater degree into all of LGT PB's business processes and across the entire product range.

In 2021, LGT PB committed to reducing its net emissions from operations, its own investments and all advised client investments to net zero by 2030. This underscores our commitment to the Paris Climate Agreement and a sustainable financial sector. We as LGT PB consider our net-zero target an important aspect for mitigating climate risks overall, but also in our core business activities. LGT PB's focus in the 2021 reporting year was therefore to establish a basis by creating a data infrastructure that makes it possible to collect meaningful data, set reduction goals and define milestones to reach our net-zero emissions target by 2030. The governance structure has been adopted and we have started the process for developing the Sustainability Strategy 2030, which will replace the Sustainability Strategy 2025, by also including the net-zero goal.

With regard to a uniform accounting of emissions on the investment side, LGT PB is participating in the development of an industry standard and has joined the Partnership for Carbon Accounting Financials (PCAF). Last year, LGT PB was also one of the founding members of the UN Net-Zero

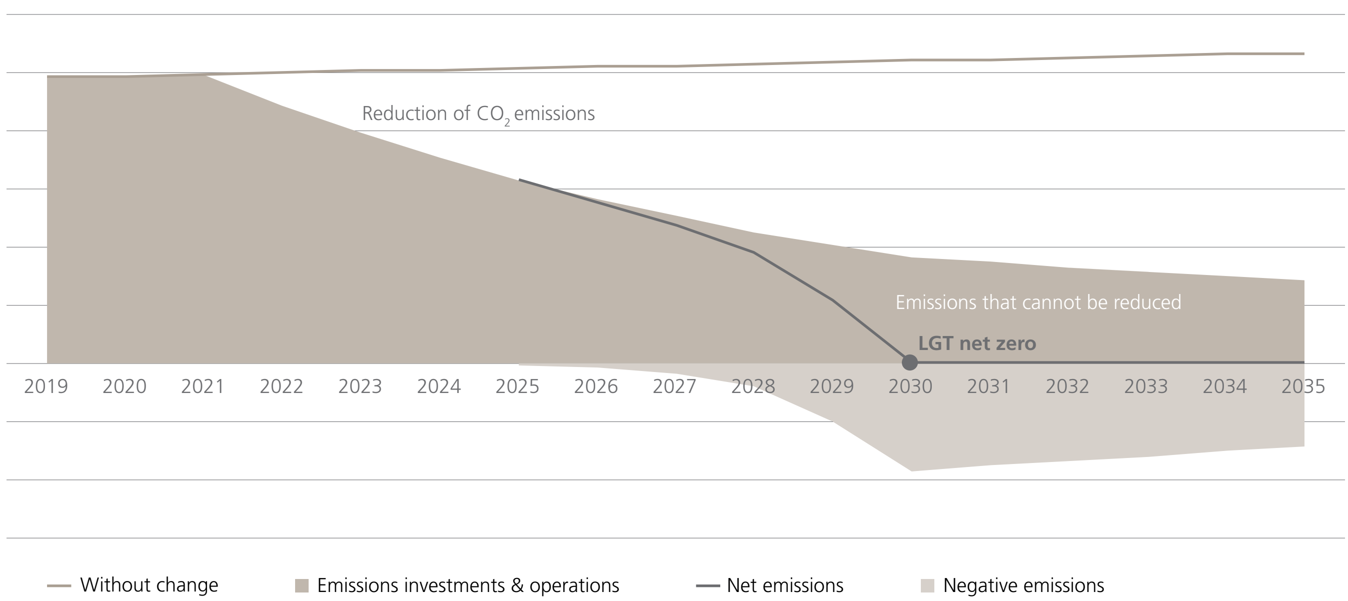
Banking Alliance (NZBA), through which financial institutions from numerous countries commit to undertaking concrete steps to align their lending and investment portfolios with net-zero emissions by 2050.

How does LGT PB define net zero?

According to the IPCC, in order to achieve the Paris Agreement's climate target and to limit global warming to 1.5 °C by the end of the century, net global greenhouse gas emissions must fall to net zero by around 2050. Reducing LGT PB's CO_2 emissions is therefore of utmost importance. However, this cannot be achieved by offsetting CO_2 emissions using certificates and thus avoiding CO_2 emissions elsewhere. Instead, it means that in a first step, we must reduce our emissions as much as possible, and in a second step, the same amount of greenhouse gases we are emitting needs to be removed from the atmosphere and permanently bound. LGT PB will have reached net-zero emissions when its greenhouse gas emissions and the negative emissions (so-called removals) balance each other out. If this is achieved, LGT PB will no longer burden the global CO_2 budget (see Figures 1 and 3). LGT PB's emissions consist of emissions from its operations and from its investments. Negative emissions are CO_2 emissions that are removed from the atmosphere by nature-based or technological solutions in a targeted manner. LGT PB will remove its unavoidable CO_2 emissions from the atmosphere by financing corresponding carbon-reduction measures.

For further information on LGT PB's understanding of net zero and how this relates to the global view, please refer to the "Strategy" chapter.

Figure 1: Reduction path



Governance

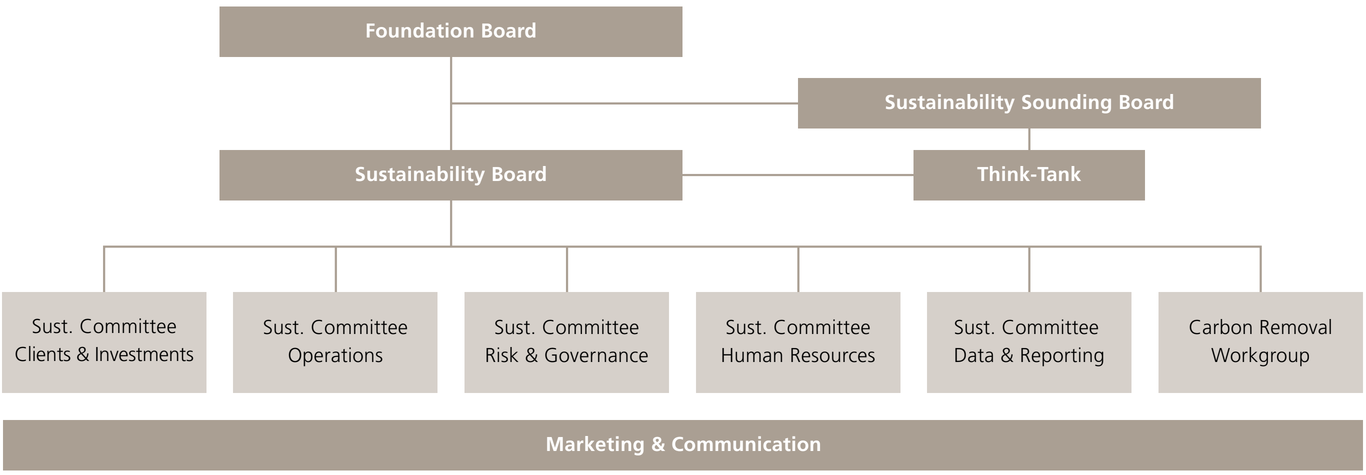
Climate governance structure and processes

Responsible corporate governance is an indispensable prerequisite for maintaining and strengthening the trust of clients and employees, but also of our owner and other stakeholders. LGT PB is managed in accordance with the principles of the separation of powers (LGT Group Foundation Board, LGT PB Executive Board, Board of Directors at the entity level) and checks and balances. Sustainability, including climate change, is regularly on the agenda at meetings of the Foundation Board, the LGT Private Banking Executive Board, the Executive Boards at entity level and Boards of Directors at the entity level. This ensures that sustainability is treated as a priority at all management levels and is incorporated into our business activities.

In addition, the LGT Private Banking Executive Board and various business area heads are represented on the Sustainability Board, which is chaired by Olivier de Perregaux, CEO LGT Private Banking. The Sustainability Board sets the strategic direction and guiding principles for sustainability. LGT Private Banking's Executive Board and business area heads are responsible for implementing the climate-related strategy, taking into account the approach to risks and opportunities that the Foundation Board has defined.

Climate-related considerations are integrated into the sustainability agenda and as illustrated in Figure 2, form part of the mandates of the sustainability committees. Via the Sustainability Board, the Risk and Governance Committee plays an

Figure 2: LGT Private Banking's sustainability governance structure



active role in keeping the Foundation Board appraised of climate-related risks and opportunities. The Sustainability Board, the Sustainability Sounding Board and the sustainability committees meet on a regular basis. Climate-related considerations have also been integrated throughout our business lines. For a detailed overview on how this has been done, please also refer to our Sustainability Report 2021.

LGT Private Banking's Foundation Board
The LGT Group Foundation Board is ultimately responsible for how our institution approaches climate-related risks and opportunities. It is responsible for approving and overseeing our strategy, policies and processes that address climate issues, including monitoring our net zero emissions targets. It is also responsible for determining the risk appetite framework. On a semi-annual basis, the Foundation Board discusses LGT PB's approach to climate-related topics.

LGT Private Banking's Executive Board
LGT PB's Executive Board and all senior management are responsible for implementing our climate-related strategy, taking into account the approach to risks and opportunities that the Foundation Board has defined.

LGT Private Banking's Sustainability Board
The Sustainability Board covers all sustainability topics and reports to the Foundation Board. The Sustainability Board can make suggestions to the risk department and determines key topics. The overall sustainability strategy, including the governance structure, is overseen by the Foundation Board.

LGT Private Banking's Sustainability Sounding Board
With the introduction of the Sustainability Sounding Board, LGT PB established a committee that acts as an advisory board and facilitates discussions about relevant, urgent sustainability topics and topics of strategic relevance, including climate-related topics. The Board is chaired by H.S.H. Prince Max von und zu Liechtenstein, Chairman of the Foundation Board.

LGT Private Banking's sustainability committees
The sustainability committees, which report directly to the Sustainability Board, have integrated climate-related considerations into their agendas and mandates. The sustainability committees with dedicated responsibilities meet on a regular, often quarterly basis to discuss sustainability topics on a more operational level and prepare topics for decision-making at the Sustainability Board level. To keep LGT PB's management apprised of climate-related risks, the Group Risk department discusses climate risk topics within the Sustainability Risk and Governance Committee, which reports to the Sustainability Board. As climate-related risks are part of the overall risk framework, the Group Risk Department reports directly to the Risk Committee of the Foundation Board, which enables direct monitoring of climate-related risks through the Foundation Board. Climate-related risks will be included in the existing risk report and are in particular considered as part of risk appetite (see Climate Risk Governance framework).

LGT Private Banking's Think-Tank
The Think-Tank acts as an independent institution and discusses new initiatives at the request of the Sustainability Board, the Sustainability Sounding Board or the sustainability committees.

Strategy

Climate-related risks and opportunities

LGT PB has identified both climate-related physical and transition risks that could impact its credit, market and operational risk exposure.

Physical risks relate primarily to environmental and climate risks and directly cause losses or can indirectly cause losses, where climate change causes damage to economic-, human- and ecosystems and thereby affect LGT PB's business. Physical risks are further subdivided into acute and chronic risks. Acute physical risk relates to specific weather events that have an increased severity and/or frequency. Chronic physical risk relates to longer-term changes in climate patterns.

Transition risks occur in all environmental, social and governance (ESG) risk categories including climate risks. They arise due to the possibility/threat of increasingly stringent public policies, technology breakthroughs, shifts in investor behavior or public sentiment and disruptive business models.

If no suitable risk management framework is introduced for transition risks, further risks can arise, such as:

Liability/litigation risks are the risks posed by the exposure of institutions to counterparties that may potentially be held accountable for having a negative impact on the environment, society and their governance behavior through their activities.

We are progressively integrating these risks into our risk management framework (see "Risk management" chapter). This includes leveraging climate-related opportunities as shown in Table 1.

LGT PB sees transition risks as the more immediate risk, as new regulations are coming into effect quickly and in particular directly affecting us in the short to medium term. At present, we assume that LGT PB's exposure to physical climate risks is at the lower end of the spectrum in the short term. However, in the long term, the probability of such exposure will increase if the market fails to integrate relevant policies to mitigate climate change. In this scenario, the severity of the physical risks on our operations would be much greater. The time horizons referred to in our sustainability strategy are defined as follows:

- Short term: until 2025
- Medium term: 2025 to 2030
- Long term: 2030 to 2050

Strategic resilience to climate-related risks

The TCFD recommends that organizations describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon

Table 1: Key climate risks and opportunities

	Climate risk impact	Risk category impacted	Potential risks	Opportunities
Physical risks	Acute events and chronic climate change may cause: ▪ Repricing of financial instruments & loss of asset value ▪ Increased probability of default within credit business ▪ Damages to own facilities	▪ Credit risk ▪ Market risk ▪ Operational risk	▪ Floods cause severe damage to real estate assets, reducing the value of properties and potentially leaving clients unable to pay their mortgages ▪ Damages to data centers impact our operational business	▪ We aim to optimize our operations in an environmentally sustainable manner ▪ Data centers are installed on a higher level than on ground floor
Transition risks	Transitional risks may occur as our business models or our investments' business models fail to adapt to a low-carbon economy	▪ Market risk ▪ Operational risk ▪ Reputational risk	▪ A slow adaptation could lead to reduced demand for products and services	▪ LGT PB uses its proprietary analysis tool, the LGT ESG Cockpit, to assess the sustainability quality of client portfolios ▪ LGT PB invests in innovative and rapidly growing businesses that provide attractive and scalable solutions to social and environmental problems
	We fail to respond to regulatory change	▪ Reputational risk ▪ Regulatory risk	▪ We fail to respond to regulatory adaptations, which has a negative impact on our reputation	▪ Constantly monitoring these risks, thus making it possible to act upon them in a timely manner

economy consistent with a 2 °C or lower scenario and, where relevant to the organization, scenarios consistent with increased physical climate-related risks. As we progress with the work on our scenario analysis, we are also continuing our assessment of LGT PB's strategy's reliance on a 2 °C or lower scenario. Initial assessments show that LGT PB's strategy may be affected by both risks and opportunities. Based on this initial analysis, we are committed to minimizing the risks and maximizing the opportunities by building on four tasks defined in LGT PB's climate risks strategy:

- Integrating climate-related risks as part of our risk management strategy.
- Managing climate risks through improved operational processes and norms.
- Supporting sustainable climate-friendly businesses through own investments and client investments.
- Ensuring low exposure to carbon-intensive sectors according to an initial assessment and meeting carbon reduction targets in the medium to long term in line with the net-zero target.

The basis for LGT PB's climate strategy

LGT Private Banking has been systematically integrating sustainability into its processes for over a decade. Our owner, the Princely Family of Liechtenstein, thinks and acts long-term and these values are imbedded in the culture of LGT. For LGT PB to commit itself to a climate strategy with a net-zero emissions target by 2030 was therefore a matter of course. This strategy encompasses CO_2 emissions from operations, our own investments and client investments. Although LGT PB has been offsetting its greenhouse gas emissions from operations since 2010, in the future we must remove the residual CO_2 emissions from operations and investments from the atmosphere with biological and technological measures. However, our first priority has always been to reduce greenhouse gas emissions to the greatest extent possible (see Figures 1 and 3).

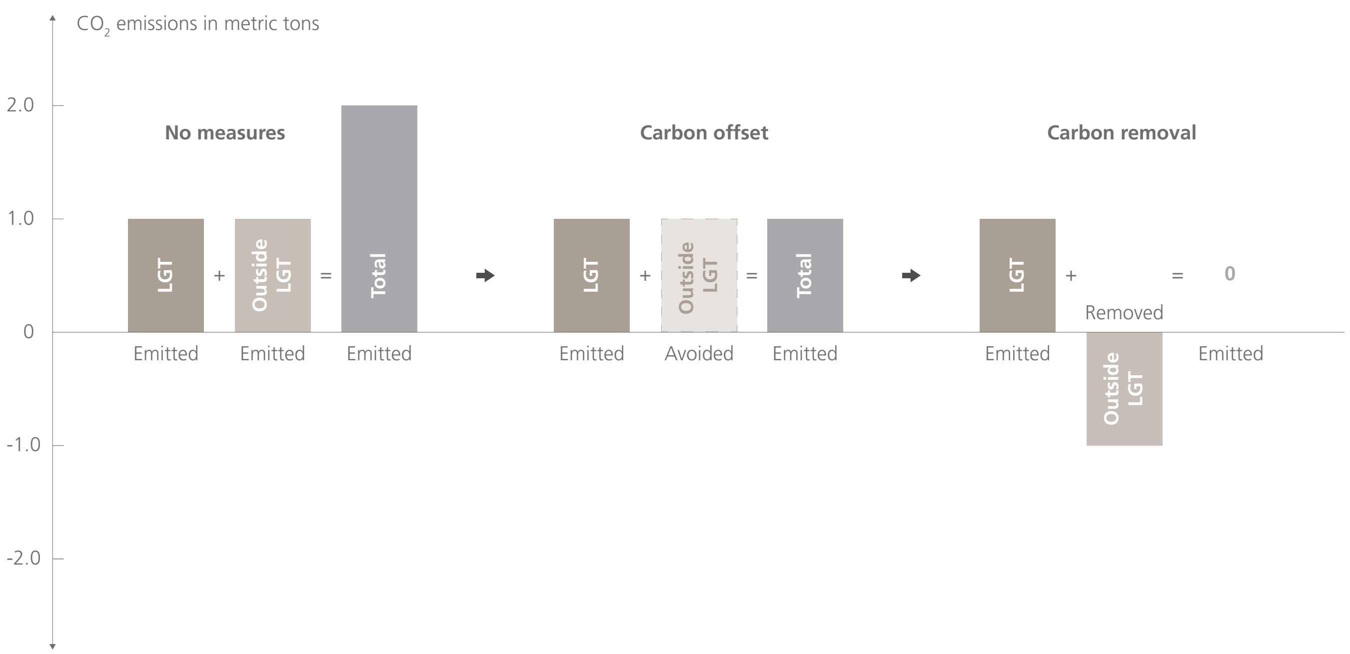
Paris Agreement

There is an almost proportional relationship between the temperature increase over the past decades and the cumulative carbon dioxide (CO_2) emissions over the same period of time. On this basis, it is possible to determine how much CO_2 may still be emitted if the Paris climate target is to be achieved. The Paris Agreement states that global warming must be limited to 1.5 °C by the end of this century compared to the pre-industrial era (the period between 1850-1900).

Global carbon budget for limiting global warming to 1.5 °C

The global carbon budget defines the remaining amount of CO_2 that may still be emitted without the Earth warming by more than 1.5 °C. In 2020, the IPCC put this figure at 400 gigatons of CO_2. Considering that about 40 gigatons of CO_2 are emitted per year, the global carbon budget will be used up in less than ten years.

Figure 3: CO_2 budget



Climate gases

Carbon dioxide (CO_2) is one of several greenhouse gases, which also include methane (CH_4) and nitrous oxide (N_2O), which is better known as laughing gas. These can be converted into the global warming potential (GWP) of CO_2 using so-called CO_2 equivalents (CO_2e). For example, one kilogram of CH_4 has the same impact on the climate as 28 kilograms of CO_2 (1 kg CH_4 = 28 kg CO_2e). The designations "CO_2 neutral" and "climate neutral" are not equivalent, because for "climate neutral CO_2e-neutral" all six greenhouse gases are considered, while for "CO_2 neutral", only carbon dioxide is considered. However, contrary to its official definition, when references are made to CO_2 in general usage, they often erroneously include greenhouse gases.

LGT PB's goal is to reduce greenhouse gases to the greatest extent possible to reach the net-zero 2030 target. This will be achieved through a variety of measures that we will apply to our own operations, but more importantly, also to investments.

Climate neutrality

There is no exact definition for the term "climate neutrality". Climate neutrality is achieved if CO_2 emissions are reduced and the remaining CO_2 emissions are offset with climate protection measures either in the home country or in another location.

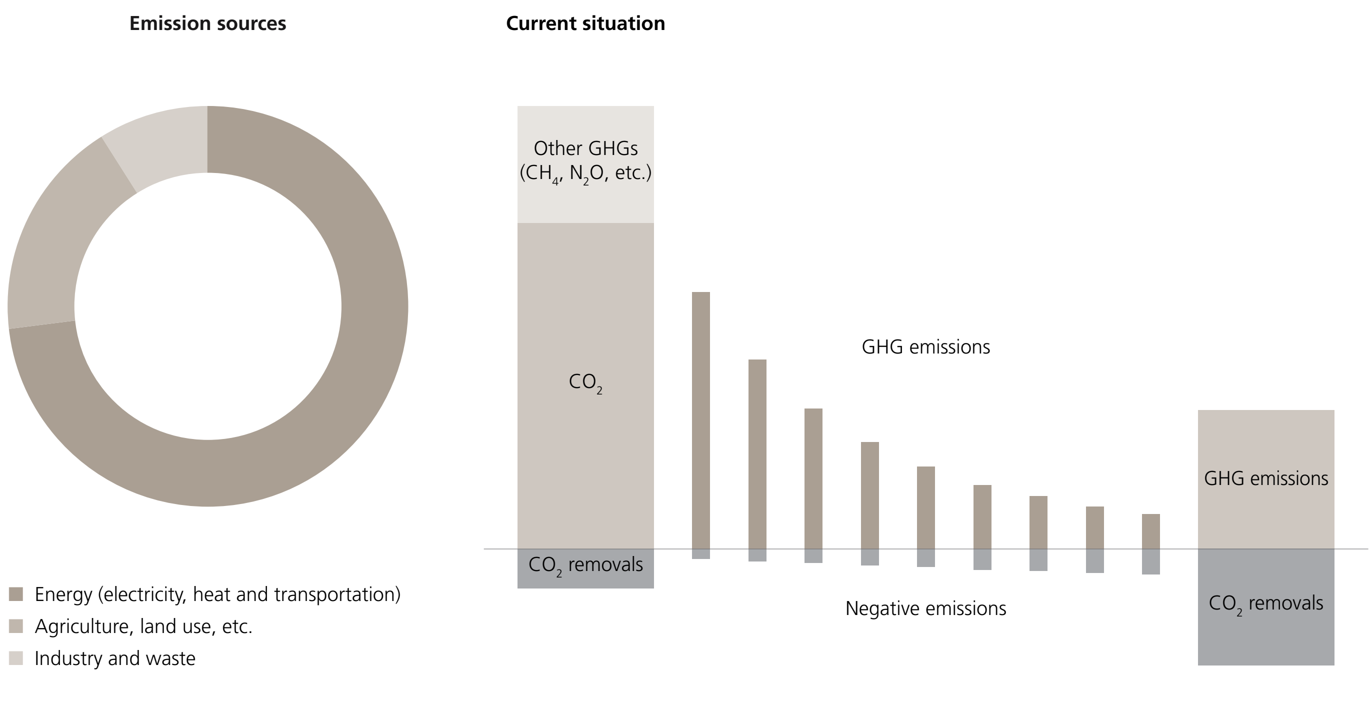
Net-zero emissions globally

According to the IPCC, in order to achieve the goal defined in the Paris Agreement and limit climate change to 1.5 °C, global greenhouse gas emissions must fall to zero by 2050. Net zero means that no negative pressure is being applied to the global carbon budget's bottom line. However, this cannot be achieved through carbon offsets (allowances to reduce greenhouse gas emissions elsewhere). With net-zero emissions, the same amount of greenhouse gas emissions emitted by an actor is removed from the atmosphere and permanently sequestered. As a result, the global carbon budget is not exceeded. However, the first priority should be to reduce CO_2 emissions, with only the residual CO_2 emissions (which cannot be avoided otherwise) then being removed. This process of carbon dioxide removal (CDR) can be achieved through biological or engineered solutions.

CO_2 offsetting

CO_2 offsetting leads to a reduction in greenhouse gas emissions. With CO_2 offsetting, the amount of GHG emissions emitted in one place is therefore avoided in another place, for example, by protecting a forest from deforestation or substituting wind energy for coal-fired electricity. It is important to mention that the emissions reduction would not have been achieved without the offset project (additionality). The bottom line is that CO_2 offsetting still negatively impacts the global

Figure 4: Global view of reduction pathway



carbon budget. But thanks to the financing of these climate projects, the carbon budget is less negatively impacted than it would be without compensation. LGT PB has been offsetting its operational emissions since 2010 and is currently doing so with a wind power project in India.

CO_2 removals

Net-zero emissions means that the amount of greenhouse gases emitted is permanently removed from the atmosphere through negative emissions (removals). This can be done through technological or biological CO_2 sinks. Biological sinks consist of afforestation, reforestation, regenerative agriculture, etc. Technological removals include bioenergy with carbon capture and storage (BECCS), direct air capture (DAC), biochar, etc. By removing the same amount of CO_2 that was emitted from the atmosphere and permanently sequestering it, the balance is zero. "Net-zero emissions globally" therefore means that this annual amount that can be naturally sequestered is not exceeded by the annual greenhouse gas emissions emitted by humans. In turn, this means that the global carbon budget is not exceeded and there is no impact on the climate.

Key elements of LGT PB's climate strategy

By focusing on four key elements, we want to increase our strategic resilience. Our strategy aims to minimize key climate risks while at the same time maximizing opportunities, by:

- Integrating climate-related risks into our risk management strategy.
- Managing climate risks through improved operational processes, norms and measures.
- Reducing CO_2 emissions to the greatest extent possible.
- Supporting net-zero emissions through CO_2 removals and carbon capture where emissions are unavoidable.
- Supporting sustainable, climate-friendly businesses.

Integrating climate-related risks as part of our risk management strategy

Continued greenhouse gas emissions will trigger further warming and long-lasting changes throughout the climate system, increasing the likelihood of severe, pervasive and irreversible consequences for people and ecosystems. The likelihood of occurrence, the impact and the duration of sustainability- and especially climate risks can change rapidly. Climate-related risks are therefore highly relevant in the short, medium and long term. The later society reduces greenhouse gas emissions, the worse the physical consequences will be. The more climate change progresses, the more disruptive climatic, political, regulatory and technological developments become likely.

Climate-related risks have the potential to negatively impact all business areas and risk categories. Climate-related risks can not only negatively impact the performance of individual assets and financial market participants, but potentially also financial stability. Additionally, as these risks can affect different industries and sectors along value chains, there is potential for economic growth to be negatively impacted. Climate risks can therefore potentially materially impact credit risk, market risk, operational risk, reputational risk and regulatory risk.

Adequately identifying and addressing these risks therefore requires consistent monitoring and the establishment of early warning indicators to identify changes in risk potential at an early stage. An appropriate risk assessment of climate-related impacts is often only possible by conducting forward-looking risk assessment in different climate scenario assessments. We therefore acknowledge the importance of scenario analysis as a forward-looking instrument to assess different risks and opportunities. And we are continuing our efforts to measure the impact of different climate scenarios on our business and strategy.

When managing climate-related risks, LGT PB considers climate risks to be risk drivers and integrates them into existing risk categories. They are therefore not considered a new risk category in the risk framework but must be considered as an integrated element in the decision-making process when managing different types of risk.

Thanks to this expertise and the ongoing support of our owner, we are able to benefit from broad know-how, economies of scale and the possibility to react swiftly to changing conditions and new opportunities for mitigating climate risks both for LGT PB and for society as a whole.

Further descriptions of our risk process and methods are provided in the "Risk management" chapter.

Managing climate risks through improved operational processes, norms and measures

To achieve the goal defined in the 2015 Paris Agreement to limit global warming to 1.5 °C above pre-industrial levels, global net emissions must be reduced to zero. LGT PB is convinced that the financial sector must also contribute to achieving this goal. Greenhouse gas emissions must be dramatically reduced if the Paris climate target is to be reached and the climate is to be stabilized by the end of the century.

LGT PB has set itself the ambitious goal of becoming a net-zero emissions company by 2030. In the 2021 reporting year, we began to align the Sustainability Strategy 2025 with our 2030 net-zero emissions target. In April 2021, LGT PB became a founding member of the United Nations' Net-Zero Banking Alliance (NZBA). In 2020, LGT PB signed the Principles for Responsible Banking. It is also a member of the World Economic Forum's Alliance of CEO Climate Leaders and has been a partner of the Swiss Climate Foundation since 2012.

While most of our impact on climate change occurs through our investment activities, we are also ensuring that we reduce our direct impact by managing our operations in a sustainable manner. To ensure progress is made in this area, the measures we have taken are linked to ambitious targets that are set out in our Sustainability Strategy 2025: to reduce CO_2 emissions by 20 percent per FTE[1] and reduce energy consumption by 30 percent per FTE (baseline year 2017) by 2025 (for a detailed overview of LGT PB's operational targets, please refer to Table 2).

To achieve these targets, we have developed local roadmaps, installed a new data center in Bendern (Liechtenstein), installed photovoltaic plants on the rooftops of our buildings in Liechtenstein for direct energy usage and renovated our buildings in Switzerland according to the Minergie standard. In Zurich and Geneva, we cool and heat our buildings with lake water. In 2021, LGT PB carried out a comprehensive renovation of the façade of its Service Center in Bendern. The windows were replaced with heat-insulating glass. In addition, a photovoltaic system with a total of 255 modules on an area of 390 square meters and an installed capacity of 38 kWp was realized on the outer façade, which supplies LGT with solar power.

However, we are working on reducing our energy consumption even further by purchasing renewable energy where possible. And thanks to new technological possibilities such as video conferencing and remote working, we can optimize our environmental footprint even further. We raise employee awareness of sustainability and sustainable investing through internal training and programs at the Liechtenstein Academy. In addition, we regularly conduct campaigns to sensitize our employees to these topics.

Own investments and client investments

To manage transition risks on the investment side of the business, LGT PB aims to reduce the carbon footprint of its own investments to net zero and to reduce the CO_2 emissions of the directly-managed investments in its client portfolios to the greatest extent possible by 2030.

To map the decarbonization of our investment portfolio, we plan to integrate a climate scenario tool in 2022. As a minimum requirement, the provider must include a TCFD-recommended 2 °C and below scenario analysis as well as broad asset class coverage.

More information on the scenario integration can be found in the section "First steps in using scenario analysis to assess long-term climate change impacts".

Credit business

In its credit business, LGT PB focuses on Lombard credit and residential mortgage facilities. Credit is an integral part of LGT Private Banking's offering and is granted based on bankable assets and according to a conservative lending policy. The credit offering serves as an instrument to generate assets under administration and to increase client retention.

LGT PB's mortgage offering focuses on well-maintained residential properties in prime locations and selected core markets. Exceptions can be individually approved, especially for the Liechtenstein market, where LGT PB also has a limited retail banking offering.

Within the Lombard offering, we apply LGT PB Group's exclusion guidelines on thermal coal and controversial weapons. For financial products issued by those companies, there is no standard loan to value (LTV) assigned per default. The overall offering is aligned with LGT PB's Sustainability Strategy 2025 and the 2030 net-zero emissions goal in particular.

Net-zero emissions through CO_2 removals

By offsetting its CO_2 emissions, LGT PB's operations have been climate neutral since 2010. And we will further decrease our carbon footprint to the greatest extent possible, as described. From 2025, we will start to remove operational CO_2 emissions, and gradually increase the amount of removals and decrease the amount of offsets until 2030. Starting from 2030, LGT PB will remove all unavoidable CO_2 emissions from operations and investments from the atmosphere. To offset our emissions, LGT PB has been supporting a Gold Standard-certified wind power project in India since 2019.

[1] Full-time equivalent

In 2022, LGT PB will develop a trajectory to reduce CO_2 emissions from investments and operations to the greatest extent possible as part of our net-zero emissions strategy. This trajectory will determine the carbon dioxide removal (CDR) measures needed for our unavoidable emissions from 2030 onwards.

To achieve our 2030 net-zero target, LGT PB signed an initial ten-year agreement with Climeworks. Climeworks will remove a total of 9000 tons of CO_2 for LGT PB between 2025 and 2030 (see page 24 of the Sustainability Report). Climeworks removes CO_2 through renewable energy-powered plants that filter CO_2 out of the air using its direct air capture and storage DAC+S technology. This CO_2 is then mixed with water and pumped underground in Iceland, where, using the Carbfix method, it reacts with basaltic rock formations and mineralizes. Through this process, the CO_2 is captured in stone and permanently removed from the air.

In further developing LGT PB's carbon removal strategy, we are continuously monitoring the carbon removal market and developing a carbon removal strategy. We also closely collaborate with LGT Venture Philanthropy and our partner companies Lightrock and LGT Capital Partners to this end. LGT Venture Philanthropy supports organizations that focus on ecosystem services, healthcare and education. Lightrock is a private equity impact investor that invests in high-growth companies with a clear positive environmental and social impact.

For further information about the progress we have made in managing the impact of our own operations, please refer to the chapter "Metrics and targets".

Supporting sustainable climate-friendly businesses

We believe that the sustainable allocation of capital gives us the opportunity to make a significant contribution to resolving climate problems. In order to take advantage of the opportunities that arise from the transition towards greater sustainability in business, LGT PB is taking concrete steps to ensure it operates in a more climate-friendly manner. We contribute to climate protection on the one hand through our own investments. On the other hand, we do so through LGT PB's advisory services. In both cases, we track Principal Adverse Impacts (PAI) indicators and taxonomy alignment under the Sustainable Finance Disclosure Regulation (SFDR). In addition, LGT PB seeks to work closely with its partner companies, LGT Capital Partners and Lightrock, as well as with the LGT Venture Philanthropy Foundation to benefit from their expertise. We use this knowledge for our own investments but also to create value and investment opportunities for our clients. Our goal is to take our clients with us on that journey.

Lightrock, which was established by LGT, is organized as a partnership. Lightrock is a global private equity firm that seeks to generate financial as well as societal and environmental returns through its investments. Since 2007, it has been investing in innovative companies with scalable and technology-driven business models across three key impact themes: people, planet and productivity/tech for good.

LGT Venture Philanthropy was founded in 2007 with the goal of improving the quality of life of disadvantaged people and contributing to resilient communities and healthy ecosystems. Through donations and investments, LGT VP funds organizations in Africa and India that implement effective, innovative and scalable solutions in the areas of healthcare, education and the conservation of ecosystems.

Commitments and targets

In 2021, LGT PB committed to achieve net-zero emissions by 2030. In order to calculate financed emissions comparably according to an international standard, LGT PB joined the Partnership for Carbon Accounting Financials (PCAF) in 2021. We also became a founding member of the UN's Net-Zero Banking Alliance in April 2021, underscoring our commitment to continuing to support clients and companies in their transition towards the more sustainable use of limited resources. NZBA members have committed to reducing their emissions to net zero by 2050. The NZBA's goal is to avoid the inclusion of carbon-intensive sectors and sectors that are damaging to the climate in investment portfolios. Through specific targets and regular reporting, it provides banks with the necessary framework to drive their transformation, decarbonize their clients' portfolios and promote change in the real economy, and is therefore a tool that supports LGT PB's efforts to achieve net zero by 2030.

Engagement and leadership

LGT PB is convinced that the only way to tackle global challenges is to address them collectively. We are therefore in regular dialog with various stakeholder groups, in particular our clients, our owner and our employees. We also actively discuss sustainability topics with governments, our suppliers, academics and representatives of civil society.

Cooperation between governments, companies and civil society must be strengthened in order to achieve the climate targets. The Paris Rulebook was finalized at COP26 in Glasgow. Countries agreed on an enhanced transparency framework (joint reporting of emissions and support), a new mechanism and standard for international carbon markets, and a common timeframe for emissions reduction targets.

LGT PB is a member of and has made commitments under various international initiatives that play a key role in creating a climate-neutral financial sector. These include:

- Founding member of the Net-Zero Banking Alliance, established in 2021, whose members have committed to reducing their emissions to net zero by 2050.
- Member of the United Nations' Principles for Responsible Banking since 2020. LGT PB has pledged to develop targets for at least two important areas of business, one of which will be a climate target in line with our net-zero emissions strategy (first report published in June 2022).
- Member of the Alliance of CEO Climate Leaders of the World Economic Forum since 2018.
- Participant and committed to the Ten Principles of the UN Global Compact, which was concluded between companies and the UN with a view to making globalization more socially and environmentally sustainable, since 2012.

Further to this, we seek to advance the topic of sustainability by collaborating with various organizations and associations, among others as a:

- Founding member of Swiss Sustainable Finance (SSF) that is actively engaged in various working groups.
- Member of the Chief Sustainability Officer Roundtable and the Sustainable Finance Working Group of the European Banking Federation.
- Chair of the Sustainability Committee and a member of the Sustainability Working Group of the Liechtenstein Bankers Association.
- Founding donor of the Foundation "Lebenswertes Liechtenstein".
- Member of the Board of the UN Global Compact Network Switzerland & Liechtenstein.
- Vice Chair of the Board of Trustees and Advisory Board of the Swiss Climate Foundation.
- Participant in the regional DACHLi group of the Partnership for Carbon Accounting Financials (PCAF).
- Member of the German association "Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VFU)".
- Member of the World Economic Forum's Alliance of CEO Climate Leaders.
- Member of the Sustainability Expert Group and the Mobility Working Group of the Liechtenstein Chamber of Commerce and Industry (LCCI).
- Member of the Private Banking Industry Group (PBIF) Sustainability Taskforce of the Monetary Authority of Singapore.

Targets

After setting our overall net-zero emissions target for 2030, we defined sub-targets based on LGT PB's business activities. These sub-targets can be allocated into four different categories. Due to the industry we operate in and the business we conduct, separating our emissions in accordance with the GHG protocol is not a straightforward undertaking, as most emissions are associated with GHG Scope 3.15 "Investments". Scope 3.15 emissions are therefore split into three categories and emissions associated with all other scopes are bundled into one category:

- Operations (scope 1, 2 and 3.1–3.14)
- LGT PB's own investments
- Advised client investments
- Credit/financing

The net-zero strategy will be reviewed every three years in order to adjust the CO_2 reduction path where appropriate. LGT PB will disclose its progress on achieving net-zero emissions.

As of this year, we defined our first intermediary climate targets on the path to net-zero emissions by 2030 as shown in Table 2.

Table 2: Targets and actions

Our operational targets	
Target: LGT PB committed to continuously reduce its operational emissions with targets until 2025	Action: ▪ Reduce CO_2 emissions/FTE by 20 percent by 2025 (compared to 2017). ▪ Reduce energy consumption/FTE by 30 percent by 2025 (compared to 2017). ▪ Reduce paper consumption/FTE by 30 percent by 2025 (compared to 2017). ▪ Use 100 percent renewable energy across all our locations worldwide by 2025. ▪ Require all suppliers to fulfill minimum sustainability standards (Supplier Code of Conduct).
Our own investments targets	
Target: LGT PB committed to net-zero emissions for its own investments by 2030	Action: ▪ To ensure a solid basis for calculations, LGT PB aims to establish a comprehensive database by 2025. ▪ Integrate the SFDR's Principal Adverse Impact (PAI) indicators into the investment process to analyze our own investment portfolios with a focus on climate-related indicators. ▪ Disclose GHG emissions of our own investment portfolios by 2025. ▪ Exclude companies according to our controversial weapons and thermal coal exclusion policies (see "LGT PB exclusion guidelines"). ▪ Integrate climate considerations into our investment research.
Clients' investments	
Target: LGT PB is committed to net-zero emissions for its advised client investments by 2030	Action: ▪ We are working on obtaining quantitative data for our client investments, which we will progressively integrate into our climate risk strategy. ▪ Develop a low carbon product shelf.
Credit/financing	
Target: LGT PB is committed to net-zero emissions by 2030 for credit and mortgage portfolios	Action: ▪ We are working on obtaining quantitative data for our credit business, which then needs to be integrated into our climate risk strategy. ▪ Collaborate with PCAF to obtain respective data.

First steps in using scenario analysis to assess long-term climate change impacts

Scenario analysis will help us understand how our operations (directly or via our business relationships) can be impacted by potential climate-related risks as well as how we can harness climate-related opportunities in the future. LGT PB is currently taking a qualitative approach to analyzing different climate scenarios in order to gain an initial idea of potential transition risks.

Based on the Network for Greening the Financial System (NGFS) Scenarios Framework[1], three climate scenarios have been selected for this exercise: an orderly scenario, a disorderly scenario and a hot house world scenario. With these different scenarios, the aim is to capture the uncertainty surrounding different decarbonization pathways.

Orderly scenarios: assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued. Costs for carbon-intensive sectors will increase due to policy impact. Significant investments in low-carbon technologies will be made and are steadily increasing.

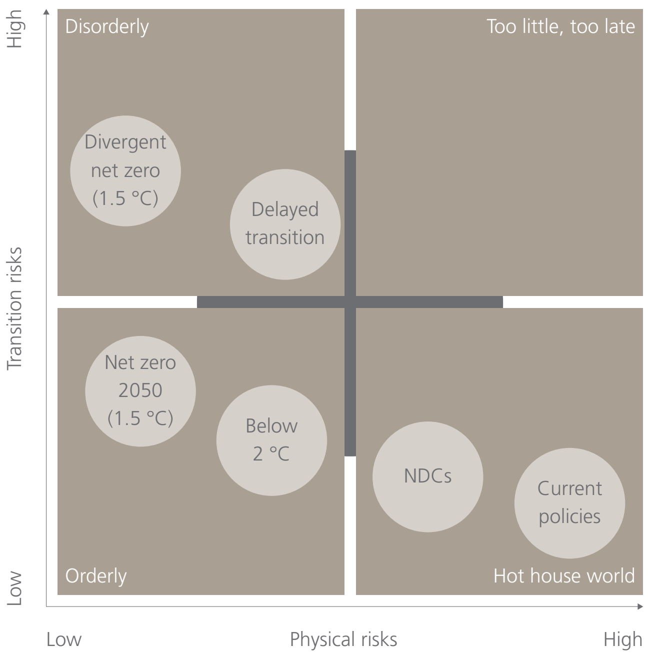
Disorderly scenarios: explore higher transition risk due to policies being delayed or divergent across countries and sectors. For example, carbon prices would likely increase abruptly after a period of delay.

[1] NGFS scenarios: https://www.ngfs.net/sites/default/files/media/2021/08/27/ngfs_climate_scenarios_phase2_june2021.pdf

- Delayed transitions: assume annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2 °C. CO_2 removal is limited.
- Divergent net zero: assumes reaching net zero around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.

Hot house world scenarios: assume that some climate policies are implemented in some jurisdictions, but globally, efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk including irreversible impacts like sea-level rise.

Figure 5: NGFS climate scenarios



As a starting point, LGT PB has used these scenarios to analyze how regulatory change, focusing on carbon pricing, and technology change, focusing on investments in low carbon technologies, could affect LGT PB. Initially, we used LGT PB's trading portfolio to carry out this exercise. This portfolio was selected because of its representative character with regard to broad sector and geographic distribution and the availability of relevant data compared to other investment portfolios.

In 2022, we aim to broaden our scenario analysis, among other things by including different time horizons. Over time, LGT PB will deepen its scenario analysis and further expand it to all own investment portfolios as well as to client-advised investment portfolios. Like in previous years, LGT PB will once again participate in the Paris Agreement Capital Transition Assessment (PACTA) test in 2022 in Switzerland and Liechtenstein, as well as in other countries if participation is possible. In addition to client investments, LGT PB uses this opportunity to analyze and benchmark its own investment portfolio. In 2022, we will also focus on building a reliable basis with regard to climate-related data, which will enable us to conduct a more quantitative analysis. Having comprehensive climate-related data will also enable us to further elaborate on the initial insights gained throughout 2021, which were based on a qualitative approach, by conducting a quantitative assessment.

In the future, we will also use scenario analysis where possible to assess the alignment of investment portfolios with our net-zero ambition. We aim to progressively integrate the results of our scenario analysis into LGT PB's senior management's considerations as well as into other processes and models. These results will enable us to identify where we are particularly exposed to climate risks. This information can then be used to manage the level of risk acceptance in the investment decision-making processes by determining limits and exclusions.

LGT PB cautions that scenario analysis is an evolving methodology that presents many challenges, as it models possible states of things in the future. An inherent characteristic of forward-looking modelling is its reliance on a series of assumptions that could be influenced to varying degrees by data availability and the analyst's discretion.

Initial insights

We expect different transition scenarios to have the following different financial impacts:

Table 3: Expected impacts from different scenarios

	Orderly	Disorderly	Hot house world
Policy impact	Higher costs for carbon-intensive sectors, but time to adapt.	Quick and abrupt surges in carbon costs in the medium to long term, making it difficult for certain sectors to adapt.	Policies remain as they are.
Technology impact	Significant investments in low-carbon technologies (steadily growing).	Slow investment in low carbon technologies, followed by a rapid surge.	Technology change remains modest.
Impact on returns	Can expose specific assets to a higher level of risk.	Higher market volatility and potential negative price shocks for long-term investments.	Returns will mainly be influenced by significantly higher physical risks.

A delayed policy reaction coupled with a slow deployment of technologies and high carbon pricing is likely to impact the capacity for certain industries to adapt and transition to a low-carbon economy (i.e. transition risks).

LGT PB's trading portfolio is mainly invested in regulated banks (currently 64 percent). Generally speaking, banks and other financial services companies will be affected by transition risks in the medium to long term.

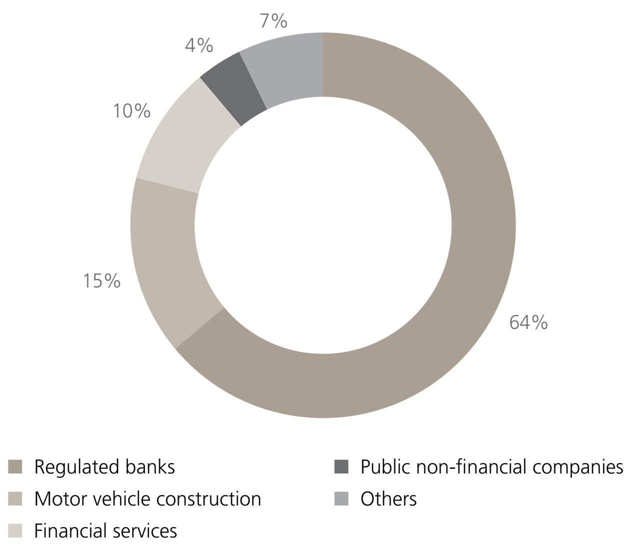
The automotive sector, which accounts for 15 percent of LGT PB's trading portfolio, is more strongly impacted by transition risk, as it is exposed to significant regulatory and technological changes. This sector would be affected in particular by a disorderly scenario in the medium to long term. However, the portfolio comprises investments in companies that are adapting quickly to policy and market changes (innovative companies).

In the short to medium term, our trading portfolio is generally resilient to transition risks for a net-zero by 2050 scenario. Beyond this time horizon, we expect larger variations depending on the type of scenario we are facing.

The resilience of our trading portfolio is attributable to several factors. First, as the focus of our trading portfolio is not long term, short-term portfolio shifts can easily be undertaken. Second, LGT PB's trading portfolio is, with the exception of motor vehicles, not particularly exposed to sectors with substantial GHG emissions.

It should be noted that the results of a scenario analysis can differ largely from one investment portfolio to the next.

Figure 6: Trading portfolio allocation by sector



Risk management

We are in the process of identifying and assessing climate risks, and our methods to this end are continuously evolving. This chapter outlines how we have integrated climate risks to date throughout our risk management process. It also explains how we are managing these risks today and plan to further develop our risk management processes, practices and tools in the future.

Our approach is based on our standard risk management process, which is set out in LGT PB's Group Risk Policy. One of the considerations when developing this approach was how we could integrate sustainability risks, and more specifically climate risks, into each of the four steps in the risk management process. We also show how climate risks are integrated into our governance structure and how operational and strategic management is involved.

Climate-related risk management process and incorporation into overall risk management

LGT PB does not view climate-related risks as a new risk category, but rather as a risk driver, an aggravating risk factor impacting other risk categories covered by its risk management systems. We therefore address climate-related risks within the processes used to cover other risks identified within our risk taxonomy, such as credit risks, operational risks and market risks.

LGT PB is committed to integrating climate risks into its risk management framework, including associated processes, practices and tools.

The climate-related risk governance structure is based on LGT PB's overall climate strategy (for more details please refer to the "Governance" chapter). The Group Risk Department is part of the Sustainability Committee Risk & Governance, which is one of the six sustainability committees. The Sustainability Board sets the guiding principles relating to sustainability, including climate risks topics, and reports to LGT PB's Foundation Board. The committee can make suggestions to the Group Risk Department and determines areas of focus.

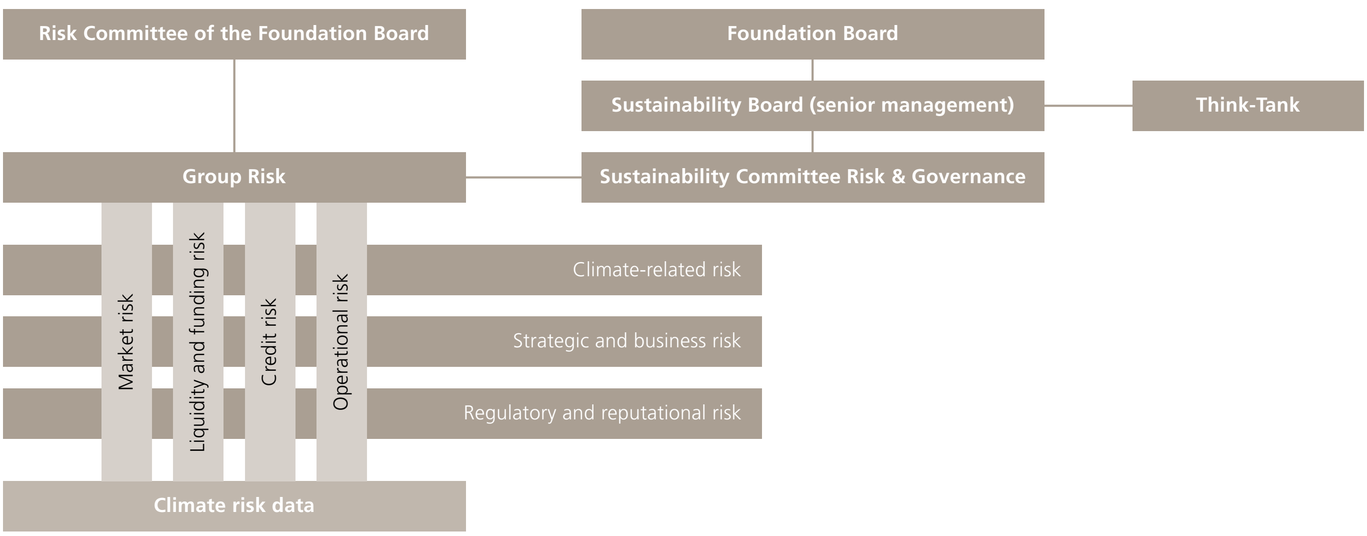
Because climate risk is integrated into LGT PB's overall risk framework, both the Sustainability Board and the Foundation Board must monitor these risks. Group Risk will include climate risk reporting in their periodic Risk Committee reports.

Climate risk affects every risk category. In order to identify its relevance within Group Risk, climate risk is defined as a comprehensive risk within our risk control framework. Existing risk categories are reviewed with regard to how they are potentially impacted by climate risks. Climate risks must be considered in every risk category and be reflected in key figures, scenarios and reports.

In order to have a common understanding of climate risk, it is important that all risk management functions across the Group regularly exchange information and coordinate the inclusion of climate-related risk.

Our climate-related risk management will be based on climate risk data and tools, which enables us to quantify, analyze and project climate risks. We continue to collect this data and liaise with service providers to integrate this information into our risk management and improve our understanding of the

Figure 7: Climate risk governance (embedded in the overall sustainability risk governance)



climate risks impacting LGT PB in the short, medium and long term. As part of this process, LGT PB has started to measure carbon emissions and is monitoring climate-related ratings for specific assets and portfolios.

Identifying climate risks

When referring to climate risks, LGT PB uses the definition provided by the TCFD, which considers climate risks as the potential negative impacts of climate change on an organization.

Both physical risks and transition risks can affect the performance of investments and therefore the ability to deliver long-term returns to our clients.

Currently, we use three approaches to identify climate risks:

- Top-down portfolio-level approach to identify Group-level climate risks
- Updated risk inventory
- LGT Sustainability Rating

The process of identifying climate-related risks at the Group level is conducted using a portfolio approach with a top-down risk perspective. The top-down approach facilitates the identification of climate-related risks pertaining to the institution's most relevant risks impacting all its operations and activities. In this context, LGT PB proactively monitors regulatory changes and the potential risks they could carry for our activities as well as those of our clients and key investments.

LGT PB has updated its risk inventory to include relevant climate risks. This update was performed on the basis of the potential risks and opportunities in tables A1 and A2 of Appendix 1 of the TCFD implementation recommendations.

Table 4: Physical and transitional climate risk drivers potentially impacting LGT PB's operations and activities

Risk transmission channel	Risk driver	
Physical	Acute/extreme weather events: ▪ Extreme weather events: flood (coast and inland), extreme heat, extreme precipitation, landslide, drought, water scarcity, wildfire ▪ Major natural disasters: earthquake, tsunami, volcanic eruption, geomagnetic storms	▪ Man-made environmental damage and disasters: oil spills, radioactive contamination, explosions and major fires, aviation, shipping and railway accidents
Physical	Chronic climate change: ▪ Rising temperature ▪ Rising greenhouse gas and other emissions and pollutants ▪ Extreme weather variability ▪ Rising sea level	▪ Changes in sea currents and winds ▪ Ocean acidification ▪ Changes in precipitation ▪ Rainfall frequency and volume ▪ Changes in land and soil productivity
Physical	Risks to nature-related capital: ▪ Environmental pollution ▪ Decline of food and other goods provision ▪ Biodiversity loss	▪ Reduced hazard regulation ▪ Decline of water security
Transitional	Policy and regulation: ▪ Existing and emerging regulation aimed at addressing climate change through both mitigation policies that reduce climate change and adaptation policies that support adaptation to a changing world	▪ Carbon-, pollution- and waste pricing ▪ Carbon-, pollution- and waste tax ▪ Legal restrictions on investments or legal commitments
Transitional	Technology and business model innovation: ▪ Emerging technologies aimed at supporting the global low carbon transition	▪ Emergence of disruptive technology or business models
Transitional	Consumer or market sentiment: ▪ Shifting supply and demand for commodities, products and services	
Litigation	Environmental litigation: ▪ Climate- and nature-related litigation (e.g. environmental damages) ▪ Fines, penalties and sanctions for environmental damages, greenwashing	▪ Breach of underlying legal frameworks

Table 5: Mapping climate risk drivers to potential impact categories on LGT PB's operations or assets

Risk driver	Potential impact on LGT PB's operations or assets: Disruption of activities or value chain	Raw material price volatility	Adjustment or reallocation of activities	Pricing and accounting climate impacts	Stranded assets	Capital destruction	Liability costs
Acute/extreme weather events	×	×				×	
Chronic climate change		×	×	×	×	×	
Risks to nature-related capital	×	×	×	×	×	×	
Policy and regulation	×	×	×	×	×		
Technology and business model innovation			×	×	×		
Consumer or market sentiment			×		×		
Environmental litigation			×	×			×

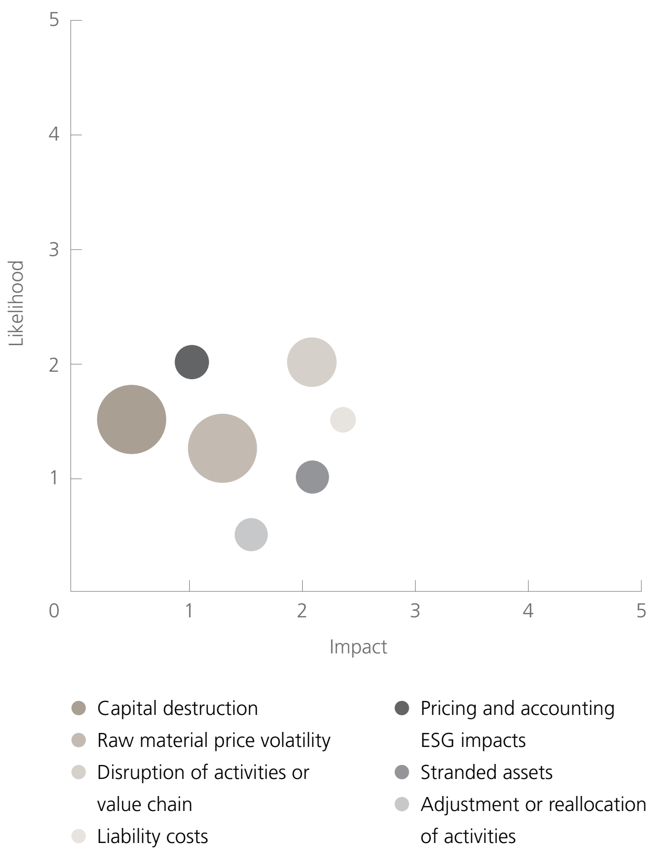
Assessing climate risks

We base our risk management framework, including our risk appetite statement, on a process that prioritizes a set of climate-related risks in order to identify material risks. In a next step after identifying climate risks, they are therefore assessed and plotted on a heat map (see Figure 8), which facilitates the visualization and prioritization of climate-related risks according to their potential materiality to LGT PB's operations.

Our initial assessment was conducted alongside all common climate risk drivers shown in Table 4. All of these risk drivers have been rated as high, middle or low with regard to their potential impact on market, liquidity, credit and operational risk. The prioritization exercise then considers as key indicators the likelihood of occurrence of climate risks (y-axis), and their overall impact on LGT PB (x-axis), see Figure 8. The size of the dots indicates the vulnerability to the risks and their speed of onset. Risks presenting a material impact to LGT PB therefore occupy the upper right quadrant of the heat map.

The initial assessment was conducted on a qualitative basis by subject-matter experts. The result of the initial assessment is that currently, no climate risk is immediately material for LGT PB. We are monitoring these risks, as materiality may change, and will periodically, at a minimum annually, conduct a reassessment. We will also integrate quantitative indicators in future assessments.

Figure 8: Climate risk impact heat map



Risk appetite framework, monitoring and reporting on our climate risk strategy

Climate risk will be part of LGT PB's risk appetite, which will include both qualitative and quantitative climate risk indicators that can then be monitored internally. As mentioned in the "Governance" chapter, the Risk Committee will monitor the risk appetite and therefore also the quantitative climate risk indicators. We plan to expand the risk appetite framework in 2022 with the addition of quantitative data. We will progressively integrate further climate risk data as these become available.

LGT PB's voluntary commitment to partnerships and standards supports transparent reporting (for more details see the section "Engagement and leadership") and helps us to meet external reporting requirements.

Climate risk management

Once climate risk is incorporated into the risk appetite framework and our strategy, it must also be included in day-to-day risk management. LGT PB currently manages climate risks and opportunities in its day-to-day activities in a number of ways:

- Integrating of ESG considerations, including climate risks and opportunities, into LGT PB's investment research
- Using LGT's exclusion guidelines for thermal coal
- Generating ESG ratings for individual stocks and picking securities using the LGT ESG Cockpit
- Ensuring compliance with LGT's Supplier Code of Conduct
- Supporting emerging climate-friendly technologies such as carbon removal technologies

In addition, LGT PB plans to integrate climate-related risks into its investment strategy and uses the Principal Adverse Impact Indicators (PAI) for the credit and market risk assessments.

LGT ESG Cockpit

A central component of our climate risk management is the LGT Sustainability Rating. Launched in 2017, the LGT Sustainability Rating is calculated using the LGT ESG Cockpit. With the LGT Sustainability Rating, we inform clients about the sustainability quality of their investments and the impact they have on the Sustainable Development Goals (SDGs). The LGT Sustainability Rating is based on three factors:

- The ESG assessment of the company's operations, i.e. the degree to which it conducts business in a way that is environmentally and socially responsible (such as greenhouse gas emissions, use of energy and natural resources, waste and toxic emissions, child labor, equal pay, diversity, etc.).
- Controversies, i.e. any negative incidents that occur in connection with a company's operations/manufacturing or the use of its products/services.
- The impact of a company's products and services. This involves an analysis of the positive or negative impact that a company's products and services have on people and the environment measured against the 17 SDGs.

The ESG Cockpit, which was developed by LGT Capital Partners, is our proprietary tool to systematically generate ESG ratings for individual stocks and pick securities in accordance with ESG and climate criteria. It uses ESG data from various specialist and established information providers and is continuously being further developed. With our ESG Cockpit we are able to analyze around 20 different key performance indicators; their individual weighting and the data analyzed in the process vary from sector to sector depending on their significance for the industry in question. For instance, environmental aspects will be highly relevant for a utilities or energy company, while conduct toward employees or diversity will be given a much greater weighting for service providers. Every performance indicator is given a numerical value. These values make up the company's overall rating for the E, S and G segments as well as its aggregate ESG score. The decision of whether to exclude a company from or include it in LGT PB's sustainable investment universe in line with ESG considerations is made on the basis of this overall rating, among other factors.

To obtain a complete and realistic picture of a company's sustainability quality, we have also incorporated controversies relating to companies. This involves accessing reports from over 80 0000 sources, such as the media and other public sources, in 20 languages. This information is prepared by an independent research company and relates to issues that are relevant from an ESG perspective, such as corruption allegations, human rights violations or environmental damage. Negative news/issues related to the company must be factored into the ESG assessment.

In addition, we assess the positive and negative impact that a company's product or service has on the UN Sustainable Development Goals. Integrating impact when assessing companies provides our clients with transparent insights into how these companies' products and services affect the world. By measuring this against the 17 SDGs, we are able to establish the degree to which companies in our, and our clients', portfolios help (or hinder) the achievement of these goals. This holistic assessment approach enables us to gain the most realistic understanding possible of how sustainable the company is.

Integration of Principal Adverse Impact Indicators (PAI) into LGT's ESG Cockpit

Principal Adverse Impact Indicators (PAI) are currently being integrated into our risk data set. We aim to take these indicators into account in our risk analysis for credit and market risk assessments. According to current regulation (SFDR), 18 of the indicators are mandatory, but at least two voluntary indicators must also be selected. PAI Indicators will be integrated into our LGT ESG Cockpit in order to support the Sustainability Rating applied to our client portfolios. This analysis will also be rolled out to our own investments in the coming years.

Current integration of climate-related risks into the investment strategy

LGT PB has developed a framework that facilitates the systematic integration of ESG considerations, including climate risks and opportunities, into our investment research. Our approach is based on the following three pillars:

- **Integrating ESG into financial analysis:** For equity investments, all company fact sheets include the LGT Sustainability Rating as well as a sustainability assessment by our analysts, in addition to our traditional investment assessment with a rating. A similar approach is used for fixed income securities and funds.
- **Thematic ESG investment ideas:** We identify investment opportunities in areas where the private sector plays a key role in providing solutions to global sustainability challenges. Our approach is closely aligned with the UN Sustainable Development Goals (SDGs).
- **Sustainability thought leadership:** We aim to actively contribute to greater understanding of sustainability topics in the private banking industry. For example, as a founding member of the UN Net-Zero Banking Alliance, LGT PB has joined a working group to develop a methodology based on scientific climate scenarios to determine sector-specific medium- and long-term decarbonization targets for portfolios.

LGT PB's exclusion guidelines

To achieve the goal set out in the Paris Agreement of limiting further global warming to 1.5 °C, a shift away from carbon-intensive energy sources is essential. We consistently avoid investments that present sustainability risks, and especially climate risks. In this context, we are convinced that a shift away from thermal coal is urgently necessary to limit global warming.

A key measure in this context is LGT PB's thermal coal exclusion policy, which was introduced at the beginning of 2020. Companies involved in mining thermal coal are excluded from the investment universe if the contribution to revenues generated through thermal coal activities exceeds five percent of their total revenues, or if they are responsible for more than one percent of global annual thermal coal production. Further utilities with significant exposure to electric power production (defined as deriving more than 20 percent of their revenues from electric power generation) are excluded if their average carbon intensity is above 354 g CO_2/kWh for 2022. This ceiling will be lowered every year and will be 197 g CO_2/kWh by 2030 and zero by around 2060, thus following the carbon intensity trajectory used by the IEA.

Table 6: Maximum CO_2 intensity per year as laid out by the IEA (B2DS scenario)

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CO_2 intensity (g CO_2/kWh)	393	374	354	335	315	296	276	256	236	217	197

The policy applies to the entire LGT Group and pertains to LGT PB's trading book, all LGT funds as well as mandates managed by LGT PB. External asset managers who manage mandates for LGT are encouraged to apply similar standards.

We also exclude unconventional oil and gas extraction activities from LGT Capital Partners' sustainable investment funds due to their severe climatic, environmental and social risks. Unconventional production includes the extraction of oil and gas from tar/oil sands, shale oil, shale gas and Arctic wells. In the area of conventional oil and gas production, we limit ourselves to companies that are strongly committed to the energy transition and have low revenues from oil and gas production.

More information on the guidelines
LGT PB's thermal coal exclusion policy

LGT PB Supplier Code of Conduct

LGT PB also expects its suppliers around the world to operate sustainably. Climate-related principles are set out in the Supplier Code of Conduct, which is an integral part of every supplier's contract. With this, the supplier commits to comply with important standards and conventions. We monitor and audit the suppliers' adherence to these principles. If we identify a clear breach, we will terminate the supplier relationship. The Supplier Code of Conduct ensures compliance along the entire value chain.

Partnerships for removals (reduce price risk for removal technologies)

In December 2021, we signed a first agreement with Climeworks, which will remove 9000 tons of CO_2 for us between 2025 and 2030. As previously described, CO_2 capture, or the removal of CO_2 from the air and its subsequent storage, is achieved both through natural methods such as reforestation and through technological solutions such as direct air capture and storage. Climeworks specializes in the latter: its renewable energy-powered plants filter CO_2 out of the air.

To reach our goal to become a net-zero emissions company by 2030, we will focus on nature-based and technological removal projects. We will also collaborate with LGT Venture Philanthropy Foundation and our partner companies LGT Capital Partners and Lightrock in this area. We want to ensure that we have access to removal technologies when needed in order to remove our unavoidable emissions by 2030.

To offset our CO_2 emissions from operations, LGT PB has been supporting a wind power project in India since 2019. The project is Gold Standard certified.

Metrics and targets

LGT PB's overall target is to achieve net-zero emissions by 2030 for its operations, own investments, loans and mortgages, and all client investments that LGT PB can influence (for a detailed overview of LGT PB's targets, please refer to Table 2). As a financial services provider, the bank can have by far the greatest impact on the investment side. Investments are therefore our main focus. Greenhouse gas emissions from investments will be a multiple of the emissions from our own operations.

As a founding member of the NZBA, we are committed to transition all operational and GHG emissions attributable to our lending and investment portfolios to align with pathways to net zero by 2050, or sooner, including CO_2 emissions reaching net zero at the latest by 2050. This includes clients' scope 1, 2 and 3 emissions, where significant, and where data is available and enables us to conduct an analysis. The progress being made on achieving net-zero emissions is monitored and adjusted every three years. As part of such an adjustment process, we have started to define initial sub-targets for specific areas, however, at this early stage of the process, our priority is to gather reliable and solid data.

High-quality data and transparent reporting are key to reaching our goals. We are continuously improving the data quality and expanding the data set. LGT PB already collects data on its operational emissions but will continuously optimize and expand the quality thereof. We apply global and local reporting standards such as the Green House Gas Protocol and the PCAF Standard, also in cases where there is no obligation to do so.

Scope 1, 2 and 3 GHG emissions

Our own investments

We are actively developing relevant metrics to support us in decarbonizing our own investments. To meet our investment targets as defined above, we plan to integrate a climate scenario tool in 2022. Our trading portfolio will be the first portfolio that we will analyze with this tool. Our long-term goal is to integrate all LGT PB own investments into this tool and to include these results in this report.

The PAIs are relevant for determining our risk metrics, which are integrated into the risk appetite. These will be embedded in our data infrastructure in 2022 and are therefore also relevant for our ability to reach our goal regarding our Scope 3.15 emissions by the end of 2025.

Client investments

Quantitative data for our lending business and client investments must be defined and integrated into our climate risk strategy.

As described in the section "Climate risk management", LGT PB helps clients identify the overall alignment of their portfolio based on key sustainability indicators with the help of the LGT Sustainability Rating. Especially when investing in dedicated sustainability products, from 2022 onwards, our clients will receive further information on their investments, including on their environmental and carbon footprint, in order to be able to invest according to their values and in line with their climate ambition.

Furthermore, we want to provide our clients with an offering that aligns with the LGT Private Banking sustainability thematic framework, which outlines our key areas of focus with regard to long-standing sustainable themes (see LGT PB's Sustainability Report), including specific climate-friendly investments in the area of energy efficiency, renewable energy and climate-neutral transportation. The overarching goal is to mobilize and direct capital towards sustainable innovations. This must be achieved not only through explicit restrictions, such as our thermal coal exclusion policy, but also with further policies and guidelines that set clear standards. We will also invest in climate and environmental innovations and support the transition of companies by actively engaging with them.

Operations metrics and targets to minimize climate impacts – direct impact (scope 1, 2 & 3.1–3.14)

The GHG Protocol is the world's most widely applied greenhouse gas accounting standard. LGT PB uses the GHG Protocol as a basis for collecting key figures.

Figures that are already being collected are:

- Energy (heating/cooling and electricity), Scope 1 direct emissions, Scope 2 indirect emissions, and fuel and energy-related activities
- Flights, business travel
- Waste, waste generated through operations
- Paper and water, purchased goods and services

Major steps have been implemented to achieve our targets on the operations side.

Table 7: Operational data

		2021	2020	2019	2018	2017
CO_2e emissions LGT total	Metric tons	4 900	3 987	9 347	9 744	9 217
Scope 1	Metric tons	247	428	510	401	562
Scope 2 "market-based"	Metric tons	2 186	1 995	1 910	2 034	2 311
Scope 2 "location-based"	Metric tons	2 634	2 891	2 718	2 831	3 187
Scope 3.1–3.14	Metric tons	2 467	1 564	6 926	7 310	6 344

		2021	2020	2019	2018	2017
CO_2e emissions LGT FTE	kg	1 241	1 079	2 646	2 968	3 003
Scope 1	kg	63	116	144	122	183
Scope 2 "market-based"	kg	554	540	541	619	753
Scope 2 "location-based"	kg	667	783	769	862	1 038
Scope 3.1–3.14	kg	625	423	1 961	2 227	2 067

Values are for LGT Group incl. LGT Capital Partners

In the past, we have recorded the following emissions categories according to the GHG Protocol: energy with heating/cooling and electricity (in Scope 1 direct emissions, in Scope 2 indirect emissions and in Scope 3 fuel and energy-related emissions); business flights (in Scope 3 business travel); waste (in Scope 3 waste generated in operations); and paper and water consumption (in Scope 3 purchased goods and services).

For the key figures for 2021, in addition to flights, more detailed information on business trips by employees and overnight hotel stays was recorded in the area of business travel.

From 2022, data will also be collected to record the commuter mobility of our employees. In addition, emissions from purchased goods and services will be recorded in even greater detail in the future. This will cover all relevant emissions categories for our ongoing operations in accordance with the GHG Protocol.

LGT PB has focused on sustainability in its facility management for many years. New buildings are constructed exclusively according to LEED or equivalent standards, and we continually optimize the energy consumption of existing buildings. During renovations of the façade in Bendern, we replaced the windows with thermal insulation glass, also to substitute external shading. In addition, we replaced the interior blinds with new glare protection. In the course of the renovations, a photovoltaic system was installed on the exterior façade, which supplies LGT PB with solar electricity.

Photovoltaic and solar units on all LGT PB buildings in Liechtenstein and Switzerland produce electricity and heat. In Bendern, Vaduz and Zurich, LGT PB uses heat exchangers to convert the waste heat from cooling units into heating energy. At the Service Center in Liechtenstein, this enabled LGT PB to self-generate more than twelve percent of the required electricity (2020: 13 percent) and more than twelve percent of the heating energy (2020: 13 percent) in 2021.

To reduce traffic, LGT PB actively encourages its employees to use public transportation. In Switzerland and Liechtenstein, this is done by offering financial incentives and platforms for alternative mobility solutions. LGT PB also promotes e-mobility. Charging stations for electric cars are available for both clients and employees at several locations.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Conclusion and next steps

For more than twelve years, we have been systematically integrating sustainability into our business and across all our investment solutions. We have achieved a number of goals in that time. Since 2010, LGT PB's operations have been climate neutral. In 2012, we introduced our exclusion policy on controversial weapons, and we committed to the UN Global Compact. In 2017, we launched our LGT Sustainability Rating to help our clients invest according to their values by transparently informing them of the sustainability quality of their investment instruments. In 2019, we launched our Focus Sustainability mandate. Since 2020, LGT PB has excluded companies from its investment universe that are active in thermal coal production and electricity generation from thermal coal, and we also signed the Principles for Responsible Banking that year. In 2021, we became a founding member of the Net-Zero Banking Alliance. Whenever possible, we purchase sustainably produced goods and services, and have therefore implemented a Supplier Code of Conduct, which is an integral part of every supplier contract. We also regularly train and educate our employees about sustainability and sustainable investing.

LGT PB is currently offsetting its CO_2 emissions from its operations with a wind power project in India that is Gold Standard certified.

We are only at the beginning of our path to net zero, but we are confident that we will reach our goal.

Expansion of methods and transparency

To ensure a better understanding and management of the impact of climate change on our strategy and business, LGT PB plans to:

- Conduct an impact analysis in line with the Principles for Responsible Banking.
- Integrate further climate risk assessment methodologies into our current risk framework.
- Improve transparency, as integration of the scenario analysis will be one of the key topics in the coming years. At present, we are integrating our trading portfolio into the scenario analysis, but we intend to expand this scope to include further portfolios.
- Integrate further data by working with more data providers. This will help us to provide more quantitative indicators for own investments.

As soon as relevant climate data is integrated into all risk assessments, we plan to expand our risk identification and assessment methods and to broaden the emissions calculation. To underline our commitment to increased transparency, in addition to our memberships such as to the PRB, our Sustainability Report and this first TCFD report, our 2021 sustainability reporting also includes a report based on the GRI standard.

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or an equivalent foreign product information sheet, e.g. a basic information sheet pursuant to Regulation EU 1286/2014 for packaged investment products for retail investors and insurance investment products (PRIIPS KID).

Risk information for single stock/single bond recommendations

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Essential sources of information

Our analysts draw on publicly accessible information we consider to be reliable. For the compilation of the analysis, publications by domestic and foreign media and news services (e.g. Reuters, Bloomberg, VWD etc.), business publications, trade publications, statistics and rating agencies were used, together with information from the issuers of the analyzed securities – mainly via the Internet, but also in writing or by telephone. We also procure information from investment banks (sell-side research and primary research).

Reference regarding valuation rates

Unless otherwise stated or specified, the rates used in the analysis are normally the share prices provided by the news agencies Reuters and/or Bloomberg at the close of the stock exchange of the domestic market of the analyzed security or the relevant principal market of this security on the respective local stock exchange on the eve of the day of compilation.

Explanation of investment recommendations for stocks

We apply a "hybrid approach" (internal fundamental analysis combined with "theScreener", an external, purely quantitative analysis tool). TheScreener is based on purely quantitative, i.e. computable variables such as (but not exclusively restricted to) profit adjustments of the past few weeks, stock valuation in relation to historical performance and comparison groups, the technical trend, performance in relation to the market etc. The assessment of the equity analysts, which is largely based on a qualitative analysis, does not need to match with the one of theScreener. For the overall judgement the assessment of the equity analysts overrides the one of theScreener. LGT Bank (Switzerland) Ltd. categorizes its analysis recommendations into five ratings: for a "Buy" recommendation we expect a relative outperformance compared with the sector. Only equities subjected to an internal fundamental analysis can be rated "Buy". The recommendation "Attractive" is used for equities exclusively ranked by theScreener without any internal fundamental analysis as "slightly positive" or "positive". A moderate relative outperformance versus the index is expected. For equities that we rate as "Hold" we expect a performance largely in line with the one of the sector. This can comprise both equities for which a fundamental analysis has been carried out as well as equities that theScreener ranks as "neutral" versus the index. The recommendation "Unattractive" is used for equities exclusively ranked by theScreener without any internal fundamental analysis as "slightly negative". A moderate relative underperformance versus the index is expected. By contrast, "Sell" recommendations are based on the expectation of a relative underperformance compared with the sector. This can comprise both equities for which we are recommending "Sell" for fundamental reasons as well as equities that theScreener ranks as "negative" versus the index. Therefore the ratings always reflect a relative consideration versus the sector and/or specified index. The risk assessment is based on the individual judgement of the analyst (e.g. we assume a "high" risk for illiquid shares, highly indebted companies or shares from developing countries).

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Explanation of investment recommendations for bonds

We employ both qualitative and quantitative methods to derive our recommendations, which are to be seen as relative to sector/quality peers among comparable maturities. "Buy" and "Sell" recommendations demand a qualitative in-house analyst opinion, in which we incorporate both historical and projected financial results and credit metrics as well as past and anticipated company and sector-specific observations and trends. We recommend "Buy" for a security for which we expect a strong relative outperformance compared to sector/quality peers among comparable maturities. We recommend "Sell" if we expect strong relative underperformance compared to sector/quality peers among comparable maturities. The ratings "Attractive", "Hold" and "Unattractive" can be based purely on a quantitative approach, which includes the

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AA/Aa:	Safe investment, default risk virtually negligible but more difficult to assess in the longer term
A:	Safe investment as long as no unforeseen events impair the overall economy or sector
BBB/Baa:	Average investment. However, problems must be expected if the overall economy deteriorates
BB/Ba:	Speculative investment. Defaults must be expected if the economic situation deteriorates
B:	Highly speculative investment. Defaults are likely if the economic situation deteriorates

For more information on our methodology for bonds, please contact your LGT relationship manager or your local LGT Group company.

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