PRINCIPAL ADVERSE IMPACTS REGARDING SUSTAINABILITY

(SFDR Entity Disclosure)

ethias

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1. Introduction

The European Union has launched an ambitious Sustainable Development Action Plan to support the achievement of the objectives of the European Green Deal by directing private investment towards the transition to a climate-friendly, climate-resilient, resource-efficient and fair economy.

As part of this action plan, the European Regulation (EU) 2019/2088, the so-called Sustainable Finance Disclosure Regulation (SFDR)[1] on sustainability disclosure in the financial services sector, was adopted in November 2019. It introduces new rules on the disclosure of information on sustainable investments and sustainability risks.

This document specifies entity-level information on sustainability risk management policies and principal adverse impacts on sustainability required under Articles 3 and 4 of the SFDR.

For the purposes of the SFDR, «Sustainability Risks» means an environmental, social or governance event or condition that, if it occurs, could have an actual or potential negative impact on the value of an investment, and «Sustainability Factors» means environmental, social, labour, human rights and anti-corruption issues. «Principal adverse impacts» refers to the impact of investment decisions that result in significant adverse effects on any of the above-mentioned sustainability factors.

2. Scope of this document

Ethias implemented a comprehensive set of investment policies and processes to ensure a consistent approach to the integration of Environmental, Social and Governance («ESG») issues.

The information provided in this document relates to the following legal entities, which, as financial market participants, are subject to the publication requirements of the SFDR Regulation.

Name of the legal entity	LEI
ETHIAS SA/NV	549300WG3JO935L6QD56

3. Ethias' approach to sustainable and responsible investment

Ethias is gradually integrating ESG factors into each asset class it manages.

Every year, Ethias invests the premiums paid by its policyholders in order to make them grow and to honour all its insurance services. Through these investments, Ethias is committed to playing an important social role, hoping to better prepare the world of tomorrow and contribute to a more sustainable society. Ethias sees its role as a responsible investor in the long term, particularly in the management of legal and supplementary pensions and in supporting the economy.

ESG factors can influence not only the management of investment portfolios across asset classes, sectors, companies and regions, but also the diverse interests of clients and other stakeholders.

1 The EU SFDR Regulation is available in all languages on the official EU website (link to the EU SFDR Regulation 2019/2088)

Ethias' investment philosophy is based on the belief that sustainability issues are a major challenge for the years to come. We believe that the combination of fundamental «extra-financial factors» and traditional financial criteria will enable us to build more stable and better performing portfolios over the long term. The extra-financial approach has become a necessity in more ways than one:

1. it is crucial to exclude companies or underlying assets that expose portfolios to high levels of ESG risk, which would ultimately affect financial performance;
2. it focuses on companies that have implemented good practices in terms of managing their environmental impacts, governance and social practices and that, through their responsible practices, appear to be better equipped to meet the major challenges of the future;
3. it helps to improve performance through active dialogue with companies on managing ESG concerns regarding investments or to limit Ethias' exposure to reputational risk.

4. Dual materiality of ESG factors

As outlined in the EU Non-Financial Reporting Directive (2014/95/EU), a large number of ESG factors can be analysed from two complementary angles:

» impact on the development, performance or position of a company, as well as on the financial value of an investment in the broadest sense («financial» materiality);

» external impacts of the company's activities or the investment on ESG issues («environmental, social and governance» materiality).

Ethias' sustainable and responsible investment policies and processes address these two impacts.

5. Sustainability risk: our approach

5.1. Exclusion policy and ESG rating

With regard to the investments it manages, Ethias uses a sustainability risk approach resulting from the integration of ESG criteria into its investment processes. It created a framework for integrating sustainability risks into investment decisions based on sustainability factors. This framework is based in particular on:

» sectoral and standard exclusion policies ;

» ESG rating methodologies.

These policies and methodologies are described in more detail below. We believe they contribute to sustainability risk management in two complementary ways:

» exclusion policies are designed to exclude assets with the most severe sustainability risks identified through our investment process;

The use of ESG ratings in the investment process allows Ethias to focus on assets with superior overall ESG performance and to reduce sustainability risks.

In addition to these overall approaches, Ethias integrates, as far as possible, specific sustainability risk assessments into its investment processes for certain portfolios for which no market data or ESG rating methodologies exist, such as in certain unlisted asset classes.

6. Sectoral and standard exclusion policies

Sectoral and normative exclusion policies are one of the pillars of Ethias' approach to sustainability risks and principal adverse impacts. The exclusion lists are based on data provided by third-party providers and are intended to enable Ethias to exclude assets from considered investments that are exposed to significant sustainability risks or are likely to have a significant adverse impact on sustainability factors.

Our exclusion policies focus on the following ESG factors:

- Environment - «E»: climate (thermal coal mining; unconventional oil and gas extraction; conventional oil and gas extraction; unsustainable power generation)
- Social - «S»: health (production or distribution of tobacco) and human rights (violations of the United Nations Global Compact («UNGC»); manufacture, use, maintenance and distribution of controversial weapons)
- Governance - «G»: business ethics (UNGC violation)

7. Methodologies for ESG exclusion and rating policies

One of the challenges insurance companies face when integrating sustainability risks or principal adverse impacts into their investment process is the limited availability of relevant data for this purpose: such data is not yet systematically disclosed by issuers or, when disclosed by issuers, may be incomplete or follow different methodologies. Most of the information used to establish exclusion lists or determine ESG factors is based on historical data, which may not be complete or accurate or fully reflect the future ESG performance or risks of investments.

The methodologies of the ESG exclusion and rating policies applied by Ethias are regularly updated to take into account changes in data availability or methodologies used by issuers to publish ESG information, but there is no guarantee that these ESG methodologies will succeed in capturing all ESG factors.

For listed issuers, we use raw ESG data from ESG research providers.

For sovereign issuers, in addition to raw ESG data from ESG research providers, we rely on ESG indicators published by recognised international sources.

For alternative asset classes, Ethias is often confronted with a significant lack of reliable, accessible and relevant data on many markets. Ethias therefore aims to limit the sustainability risk during the due diligence process prior to each investment.

8. Principal Adverse Impacts (PAI)

8.1. Identification and prioritization of IAPs

Following the principle of double materiality, Ethias uses the sector exclusions and ESG methodologies mentioned above to manage the principal adverse impacts of its investments.

Sectoral exclusions are related to specific sectors of activity that have been identified as having some of the most serious PAIs, such as the impact of coal and oil sands on carbon emissions. These sectoral exclusions are the highest priority for avoiding PAIs.

PAIs are generally identified and assessed using ESG factors such as carbon emissions or respect for human and labour rights. Ethias collects data on these ESG factors from a data provider and from public data sources.

However, such ESG data is not widely available for certain asset classes such as unlisted assets.

While our ability to significantly assess these impacts is limited by an absence or limited availability and quality of information, data and indicators for certain alternative asset classes, Ethias will continue to develop these processes to gather information and data on principal adverse impacts of investments where appropriate.

For private issuers, Ethias also takes into account controversies, which reflect events in which the issuer has had a significant negative impact on sustainability, social or governance factors.

This ESG rating methodology is applied by Ethias in order to allow for a prioritisation of PAIs that is relevant for each sector of activity and for each asset class. The list of ESG factors, the source of the data and the weighting matrix are reviewed regularly to best reflect Ethias' analysis of PAI priorities and the ESG quality of issuers.

Ethias also relies on historical information and data collected from third-party data providers that may be incorrect or incomplete.

While a rigorous selection process of these third party providers is applied to ensure appropriate levels of supervision, its processes and proprietary ESG methodology may not necessarily take into account all ESG risks and, as a result, Ethias' assessment of principal adverse impacts on product performance may not be entirely accurate and unforeseen sustainability events may adversely affect portfolio performance.

8.2. Description of PAIs and action plans

Ethias has developed several frameworks to capture relevant PAIs for each type of issuer.

Ethias monitors the overall ESG score and CO2 emissions of its global holdings as well as certain climate-related indicators every year.

For alternative asset classes, PAIs are specific to the relevant sub-asset classes. For example, for real estate assets, Ethias assesses indicators such as energy efficiency and carbon emissions, and where Ethias has management control, specific asset-level plans are developed to address these indicators. For alternative asset classes with very limited information and data available, action plans will be assessed and implemented when quantitative information on principal adverse impacts is available.

In May 2021, Ethias validated (through its sustainable and responsible investment policy) its commitment to achieve carbon neutrality by 2050 at the latest for all its assets.

9. Engagement Policy

Ethias has adopted an engagement policy in which it seeks to improve the practices of issuers with regard to a specific objective, on behalf of the share and bond positions in the investment portfolio.

This engagement policy describes Ethias' engagement process and Ethias' commitment to provide transparency and regular reporting on engagement activities, as well as how Ethias participates in collaborative engagement actions.

Ethias has also adopted a voting policy (including a summary of Ethias' voting approach), another crucial aspect of its active shareholding.

More information on Ethias' engagement and voting policies is available on the Ethias website.

10. Compliance with codes of conduct

In addition to its commitment (aligned with the Paris Agreement) to achieve carbon neutrality by 2050 at the latest on its assets, Ethias is a signatory to the following codes:

- Signatory to the Principles for Responsible Investment (www.unpri.org)
- United Nations Global Com