

SUSTAINABLE FINANCE

DISCLOSURE REGULATION

CORPORATE GOVERNANCE

Scottish Widows Europe (SWE) are committed to implementing and maintaining high standards of governance that are consistent with regulatory expectations and evolving best practices which are aligned with our strategy and risk appetite.

Good governance delivers transparency, an ability to act ethically on behalf of customers, and a knowledgeable Board who actively engage with stakeholders, know the business and its risks and challenge the status quo on an ongoing basis to create opportunities and address challenges in the face of a rapidly changing industry and economy.

The Board of Directors ensures that the key Solvency II control functions, i.e. Internal Audit, Compliance, Actuarial and Risk Management, are covered at any time within the company according to the requirements defined in the Solvency II Directive 2009/138, the Luxembourg Law of 07/12/2015 on Insurance Sector as well as their European and Luxembourg implementing measures.

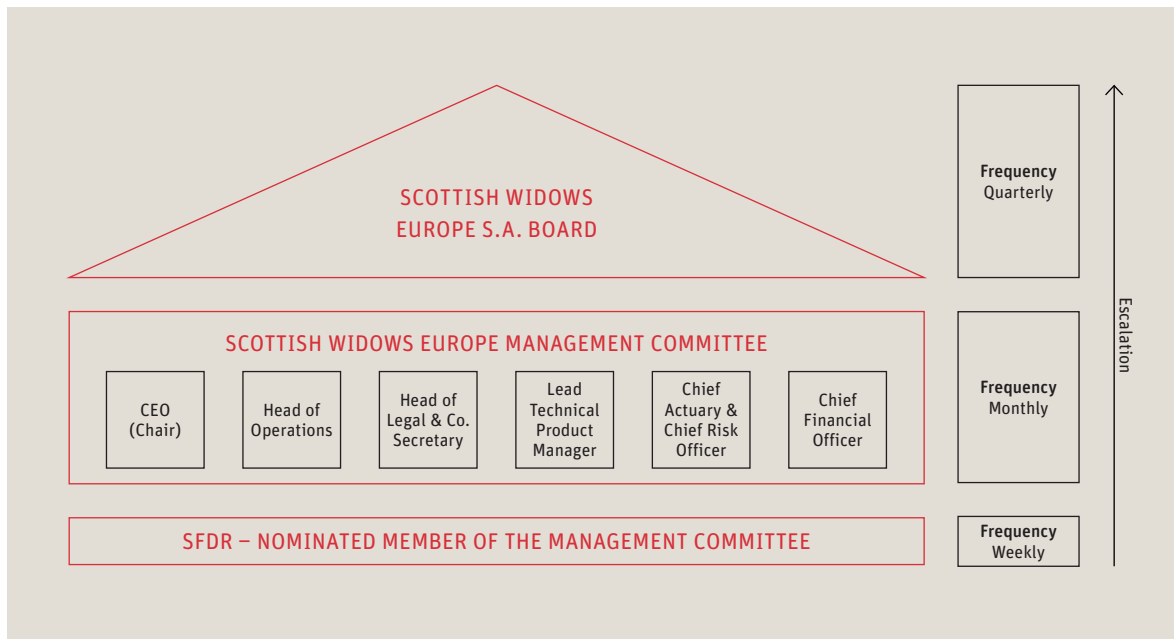
Scottish Widows Europe has a monthly Management Committee meeting reporting system in order to ensure an appropriate communication from bottom to top.

The Management team then reports on a quarterly basis to the Board of Directors.

Environmental, Social and Governance (ESG) matters will be discussed as part of the monthly Management committee meeting, with actions or recommendations being taken to the Board meeting quarterly.

Below is a summary of the Management Committee structure and the meeting frequency along with the escalation framework within Scottish Widows Europe.

Any escalation would initially be provided to the Management committee for review and analysis. Scottish Widows Europe has adopted Lloyds Banking Group (LBG) Code of Conduct, including a dedicated section on Confidentiality rules in which strict rules are detailed.



SWE Board monitors and reviews general progress toward achievement of the Group’s Sustainability Strategy, including all sustainability related external engagements, based on regular updates from SWE management Committee and through the ORSA process.

As part of the ORSA process, SWE Board define the Company Risk Policy and review it (including risk limits) at least on an annual basis.

SWE COO, as SFDR nominated member, monitors adherence to risk tolerance and reviews all top risk issues and exposures with a specific sustainability or climate dimension.

He will:

- coordinate and ensure compliance with Legal Regulatory and Mandatory requirements and (wherever possible) alignment with Group’s Sustainability Strategy
- monitor the progress for the implementation of Scottish Widows Europe S.A.’s Sustainability Strategy
- report to the CEO and to the Management Committee on a monthly basis.

The Insurance & Wealth Investment Strategy Committee (IWISC) formulates, reviews, recommends & implements SWE SWE’s Investment Strategy. They will also review Investment performance, including in the area of climate change.

As part of the ORSA process, SWE CRO will ensure the oversight of the annual sustainability assessment (including any sustainability related performance targets).

HUMAN CAPITAL DEVELOPMENT

Scottish Widows Europe believe in human capital, and fully support all employees in their intrinsically linked personal and professional development whilst ensuring their wellbeing to support our business within a multicultural, flexible and diverse environment.

Investing in people is critical and a key component of our company: our people are our company. Our aim is to develop our employees in their own self development by offering a range of internal and external training opportunities.

The nature of SWE means our Management team are accessible to all employees, to support them and to develop their richness and diversity to strengthen our business and continue to meet the needs of all our customers.

To enhance people's well-being, we provide continual personal development opportunities along with the options of flexitime, partial remote or part time working solutions for applicable employees.

RESPONSIBILITY TOWARDS THE ENVIRONMENT

OUR AIM IS TO REDUCE OUR ENVIRONMENTAL FOOTPRINT BY REDUCING OUR: ENERGY CONSUMPTION, USE OF PAPER/PRINTING, EMPLOYEE TRAVEL, WATER USE AND WASTE GENERATION.

REDUCING EMISSIONS AND ENERGY USE IS THE FOUNDATION AND EXPECTATION OF ANY CORPORATE ENVIRONMENTAL PROGRAM WITH A PROGRESSIVE CLIMATE CHANGE POLICY.

PAPER

As part a major financial services institution, large volumes of paper are used in LBG's offices and in client materials.

Over the last few years, the group have made a number of significant changes in the way they use paper resulting in a significant reduction in their rate of paper consumption. These include the introduction of black and white printing as standard. A further development has been the accelerated roll-out, due to Covid-19, of laptops to employees, thus removing the need for printing documents for reading or editing.

All confidential paper across all offices is shredded and recycled, and most washrooms are equipped with electric hand dryers rather than paper towels.

ELECTRONIC WASTE AND RECYCLING BINS

Electronic waste or "e-waste" is one of the fastest growing waste streams in the world. Electronic devices are rich in precious metals, such as copper, gold, platinum and palladium that can be recovered and reused. Many electronic devices also contain toxic and hazardous materials like lead, cadmium and mercury.

If e-waste is simply disposed of in landfills, hazardous materials could contaminate soil, water and air and create potential health and ecosystem impacts.

The group recognize their ethical responsibility to ensure e-waste is disposed of safely and have placed recycling bins, including electronic recycling bins in most offices, to enable proper waste sorting.

PLASTIC WASTES

Plastic cutlery and crockery have been removed from offices where possible, and replaced with reusable alternatives.

EMPLOYEE TRAVEL AND TELEWORKING

The Covid-19 situation has accelerated the group's review of their professional travel policy and the implementation, on a far wider scale, of remote working. Business travel has been replaced by video conferencing in the short term with greater challenge placed on the "need" to travel overall. The total ban on travel in the last few months has forced the group to find other ways to successfully connect with others, many of which will be maintained on a permanent basis going forward.

ADVERSE SUSTAINABILITY IMPACTS AT ENTITY LEVEL

ACTIVITIES AND SCALE

Scottish Widows Europe is a run-off life insurance company regulated by the Commissariat aux Assurances (CAA). Its only business is the run-off of the life insurance portfolio transferred on 29/03/2019 from Scottish Widows Limited (SWL), its sole shareholder.

The company was set up to allow continued servicing of SWL's European policies (sold mainly in Germany, Austria and Italy) following the United Kingdom's exit from the European Union. As at 31/12/2020 assets under management amount to a little more than €2 Billion.

PRINCIPAL ADVERSE IMPACTS

In accordance with Article 4 from Regulation (EU) 2019/2088 (SFDR) (Sustainable Finance Disclosure Regulation), financial market participants and financial advisers shall publish on their websites information about how they consider Principal Adverse Impacts (PAIs) of investment decisions on sustainability factors.

SWE acknowledge the risk of global warming resulting from the use of natural fossil fuels as well as the human, economic and social activities on our planet.

We are committed to understanding how our company's activities and investments are contributing to this cause and what actions are necessary to help reduce our carbon emissions as well as our carbon footprint in line with our overall objectives.

We are committed to maintaining and improving research to incorporate ESG aspects into our activities, as well as influencing our investment partners to follow this.

At the moment, we do not consider PAIs on sustainability factors due to the lack of access to reliable ESG data. Thus, SWE will not produce a PAI statement for the year 2023.

SWE will still keep its decision not to comply with PAI regime under regular review and will formally re-evaluate the decision from time to time.

SUSTAINABILITY RISK

In accordance with Article 3 from Regulation (EU) 2019/2088 (SFDR) (Sustainable Finance Disclosure Regulation), financial market participants and financial advisers shall publish on their websites information about how they take into account the integration of sustainability risks in their policies.

Sustainability Risk is defined in the SFDR as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. The impacts following the occurrence of a Sustainability Risk may be numerous and vary depending on the specific risk, region and investment class. In general, where a Sustainability Risk occurs in respect of an investment, there will be a negative impact on, or entire loss of its value.

We are conscious that the current Financial Products remain exposed to Sustainability Risks and this, whatever is the level of ESG integration into the investment decision making process. To this end, Sustainability Risks will be integrated into the risk management process alongside the other type of risks.

We will implement (in line with LBG) an initial and ongoing Sustainability Risk Due Diligence of all the investment managers who we delegate portfolio management to.

This due diligence process will consider the following:

- Ensure and assess how sustainability risks are integrated into the investment decisions
- Sustainability risk controls are in place on pre-trade, post trade and for reporting purposes.

As part of our Risk Management process, on a bi-annual basis, using external data from Investment managers, we will keep marketing documentation up to date. We will monitor a variety of factors on the invested assets, such as availability of information and ESG Rating at investee company level, carbon and water footprints, screening of controversies on environmental, social and governance aspects.

We aim to offer customers sustainable investment choices and by using our scale and influence, SWE & LBG will challenge our fund managers and the companies we invest with/in, on behalf of our customers', to behave

more sustainably and responsibly to become more sustainable businesses of the future.

The assessment of sustainability risks is complex and can be difficult to obtain, and may be incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that the data will be correctly assessed.

For any future Funds falling under articles 8 or 9 of the SFDR regulation, we will ensure adequate controls, key risk indicators and reporting solutions are in place to ensure proper disclosure.

REMUNERATION

In accordance with Article 5 from Regulation (EU) 2019/2088 (SFDR) (Sustainable Finance Disclosure Regulation), Financial market participants and financial advisers shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks, and shall publish that information on their websites.

In encapsulating the governance requirements of the Solvency II Directive, insurance undertakings are obliged to draw up a so-called remuneration policy. The remuneration systems for business managers "inside, employees" and supervisory board members of insurance companies must be appropriate, transparent and oriented towards a sustainable development of the company. Scottish Widows Europe has adopted LBG's remuneration policy for this purpose.

The remuneration commitments and practices derived from the Solvency II Directive are consistent with the business and risk strategy, risk profile, risk management practices, objectives and long-term interests and performance of LBG life insurance group.

Due to the absence of new business, the variable remuneration of the Executive Board members and members of the Management Committee is not dependent on new business, so that no special sustainability requirements for remuneration are applied in this respect.

The LBG remuneration policy adopted by Scottish Widows Europe provides that a portion of variable remuneration for Material Risk Takers (MRT's) is deferred and retained for a minimum of three years. For all other employees, the deferral is also applied above a pre-determined threshold. Deferred awards can be claw-back should performance not be sustained during the deferral period.

The individual objectives are in turn derived from the corporate objectives. These include, among other things, objectives of good and prudent corporate governance, which places great emphasis on strengthening compliance aspects.

Conclusion: Scottish Widows Europe has a remuneration system that is appropriate and transparent and meets the regulatory requirements. There are no sustainability risks arising from new business. The remuneration policy is continuously being further developed, also from a sustainability point of view, and is also aiming for greater consideration of further sustainability risks.

REPORTING

Scottish Widows Europe complies with current reporting requirements as they understand them and continue to develop these on an ongoing basis for the benefit of all stakeholders.

IMPORTANT INFORMATION

DISCLAIMER

This policy is intended for information purposes only. It is not intended as an offer, or a solicitation of an offer, to buy or sell any product or other specific service.

- The services mentioned here are subject to legal restrictions in some countries and can therefore not be offered on an unrestricted basis throughout the world.
- All information, opinions and services indicated in this policy are subject to change without notice.
- The general explanations included in this policy cannot address your personal investment objectives, your financial situation or your financial needs. Scottish Widows Europe does not provide legal or tax advice, and this policy does not constitute such advice. Scottish Widows Europe strongly recommends to all persons considering the products or services described in this policy to obtain appropriate independent legal, tax and other professional advice.
- Although all information and opinions expressed in this policy were obtained from sources believed to be reliable and in good faith, neither representation nor warranty, express or implied, is made as to its accuracy or completeness.

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