

Communication on Progress - Swedbank

Background

Swedbank is a bank firmly rooted in the Swedish savings bank history. Social responsibility and community engagement are two core elements of Swedbank's history. As a major player in the financial market, we can play a part in financing future innovations. At the same time, by factoring sustainability risks into our decisions, we can reduce social and environmental risks and help businesses stay viable over the long term.

Commitment to UN Global Compacts 10 principles

In a world of population growth, finite resources and climate change, businesses are facing growing demands to contribute to responsible growth. Our strategy is to integrate sustainability considerations into our business decisions, such as lending and investment, in order to contribute to a more sustainable development. Swedbank's sustainability ambitions are in line with the 10 principles of the UNGC and Swedbank will continue its support of the United Nations Global Compact.

Michael Wolf, CEO Swedbank

Sustainability integrated in our business

As a financial player, we have the opportunity to promote and support long-term development by helping to finance sustainable innovations and services. We also have an important role to play by factoring sustainability risks into our financing and investment decisions. We therefore integrate key sustainability aspects into our daily work. We are reporting our results, challenges and efforts in accordance with Global Reporting Initiative guidelines and more information is to be found in our annual report and on our web site.

To us, responsible lending means promoting a sustainable financial situation and taking responsibility for reducing indirect impacts on people and the environment that can arise through our customers' businesses. Sustainability risks can rarely be separated from financial risks, which is why a sustainability analysis is conducted in connection with all business loan applications exceeding SEK 5m. In the analysis general sustainability risks are discussed with the customer based on a risk assessment model comprising questions on human rights, the environment and climate, taxes and corruption. If the company is considered to have significant sustainability risks, and/or the amount applied for is too high for the employee in charge to grant, the case is forwarded to a credit committee for final decision.

Swedbank's Sustainability and Ethics Council handles cases from the entire Group and gives recommendations on individual issues involving sustainability and ethics. In this way, every business area, by escalating cases to the Council, can receive support on issues involving business ethics and sustainability.

As Sweden's largest fund manager, we are in a position to influence the companies we invest in. We have chosen to act on sustainability and corporate governance issues on behalf of our investors. We invest in a large number of companies in Sweden and abroad. As part of the financial analysis, we identify their sustainability risks and opportunities for improvement. Certain companies are excluded for sustainability reasons, but our main principle is to remain an owner and try to have an influence.

Climate change affects our product and service development. Our Ethica sustainability funds do not invest in companies that produce coal, oil and gas. Moreover, we have signed the Montreal Carbon Pledge and committed to disclose the carbon footprint of our equity funds and during the year Swedbank Robur was one of the first fund managers to report the carbon footprint of all its equity and blend funds, which it did on two occasions. This provides a level of transparency for the companies that our funds invest in. Green bonds, which are earmarked for sustainable development, have grown strongly in Sweden and internationally in recent years. We work with several independent institutions specialised in analysing and classifying green bonds. Through green bonds we helped to finance international environmental projects. In addition to funds, Swedbank offers savings in the form of structured investments with or without capital protection, where the return is tied to various asset classes and

markets, so called SPAX equity-linked bonds. A number of structured investments have special ethical requirements.

Swedbank has zero tolerance for financial services that support nuclear weapons. Swedbank has adopted a Group-level policy on defence materiel that prohibits investments in and financing of nuclear weapons and applies to all markets where we operate. In addition, Swedbank never finances or facilitates exports of defence materiel or services to any country that is subject to the EU's or UN's sanctions.

Anti-corruption work is an important part of our commitment to financial stability and a sound financial market. Given the nature of our business, we face a number of corruption risks, for which we maintain a Group-wide anti-corruption programme. All employees receive mandatory training to learn to recognise transaction patterns, behaviours and situations that constitute or are associated with money laundering. Suspicions of bribes or corruption are reported directly to the compliance department through a whistle blower system that guarantees anonymity. The signing of the UN Global Compact strengthens the commitment to participate in the fight against corruption.

The financial industry plays a central role in stopping payments for child pornography. To prevent financial systems from being exploited for such purposes, Swedbank has been collaborating with other banks since 2009 in the Financial Coalition Against Child Pornography.

Digitalisation is changing products and services as customers demand more digital solutions and the accessibility they offer. Swedbank has therefore made it a priority. Increased digitalisation and less cash handling in society also pave the way for efficient resource utilisation.

Sustainability is integrated into our procurement process, that way we can influence suppliers to improve their sustainability management.

To facilitate the integration of sustainability consideration in business and operations we have a group wide sustainability framework including:

- Purpose, values, vision
- Code of Conduct
- Sustainability policy
- Environmental policy
- Policy on human rights and transparency
- Anti-corruption policy
- Position paper defense equipment industry
- Supplier code of conduct
- Sector guidelines

Sustainability is integrated in to our core processes as described below:

Save/invest

Our ability to assess a company's value today and in the future is an important part of our savings offering, which largely consists of funds. In our fund management, sustainability risks are seen as financial risks. Our strategy is also to be an active owner that exerts influence.

Sustainability assessments are integrated in asset management in three stages:

1. Risk assessment – Sustainability risks are analysed before an investment is approved
2. Exclusion – Areas we do not invest in include cluster bombs, mines, chemical or biological weapons, and nuclear weapons companies
3. Impacts – We encourage companies to act more sustainably e.g. by actively participating in annual general meetings and nomination committees

Pay

To ensure that Swedbank complies with laws and regulations, we have to know our customers and understand where their money comes from and what they want from their relationship with the bank. This makes it easier to detect suspicious behaviour. Through our system support for monitoring transactions and by screening customer databases against sanctions lists, we reduce the economic risk in our business and the risk tied to the brand. In pace with increased digitisation and less use of cash in society, better opportunities open up for efficient use of resources.

Five stages in our efforts to counter money laundering:

1. Risk assessment
2. Know the customer
3. Continuous monitoring
4. Audits
5. Reporting

Internal sustainability work

Our goal, based on the 2010 emissions level, is to cut our greenhouse gas emissions in half by 2018. The main activities to achieve this are to increase the amount of renewable energy we purchase, reduce our air travel, cash handling and security transports, and promote digitisation through projects that focus on electronic storage and digital distribution of information.

Our new head office is built with the very latest environmental technology and has received the Sweden Green Building Council's highest certification. Sedum has been planted on the roof to soak up rainwater and clean the air of pollutants. By using geothermal heating and cooling, the building is extremely energy efficient. Some of the surplus heat generated by our computers is used for heating purposes as well. To further reduce energy consumption, automatic lighting and ventilation, which turn on when motion is detected, are used in the building.

Finance

Sound, responsible lending is our core business. A customer's payment ability, solidity and collateral are always the decisive factors in the lending process. This ensures that they can handle economic slowdowns and avoid excessive debt.

Before approving any business loan, an assessment is made of sustainability risks as follows:

1. General sustainability risks are evaluated based on a risk assessment model
2. Industry-specific risks and critical issues are analysed based on industry guidelines
3. If the company has sustainability risks, the case is forwarded to a credit committee for final decision
4. If additional support is needed, the case can be taken up by Swedbank's Sustainability and Ethics Council

Procure

The central procurement process ensures that all reported purchases exceeding EUR 50 000, aggregated on an annual basis, are managed with the support of the bank's central procurement unit. Sustainability is integrated into the procurement process in agreements, risk assessments and monitoring.

Responsible sourcing is comprised of the following steps:

1. Code of conduct binding for all suppliers
2. Self-assessments by suppliers based on our code of conduct
3. Supplier audits and monitoring
4. Look-arounds

In 2003 Swedbank in Sweden became the first publicly listed bank in the Nordic region to receive international environmental management certification according to the ISO 14001:2004 standard.

We offer sustainability training for employees and managers and assure tools and competence support within the area of sustainability.

All managers in Sweden including the top management team and many Baltic managers received gender and diversity training during the year in order to provide insight on their personal prejudices and highlight unfavorable conditions. The trainings focuses on unconscious biases, norm awareness, real life cases and how to work proactive as a manager in order to extinguish discrimination in all forms.

Local commitment to integration and growth

Swedbank has a tradition of educating the public. We have 200 employees who lecture and inspire high school students on personal finances. In Estonia we have been a partner in starting the portal "Back to School", which encourages Estonians to donate their time and knowledge as guest lecturers in schools for a period of one year. Swedbank also actively participates in similar projects to promote knowledge transfers in Latvia and Lithuania.

Together with the Swedish Public Employment Service and savings banks we are working on a project called "Young Jobs" to help the unemployed break into the job market. The "A Job at Last" initiative together with the Swedish Public Employment Service and savings banks has provided over 150 people a six-month traineeship with the bank, which includes validating their qualifications to match them with the right positions

During the year Swedbank committed to helping asylum seekers in Sweden. An important aspect for those who have come to Sweden is access to a bank account and banking services. We therefore worked during the year with industry colleagues and authorities to make it easier for new arrivals to obtain information.

Looking forward

We acknowledge that climate change is amongst society's greatest challenges. For us sustainability means building our business for the long term by balancing social, environmental and economic considerations in business decisions and operations. This enables us to help businesses thrive and contribute to the health and growth of communities. Hence, going forward we will take additional steps in our sustainability work. We will, for example, reduce our exposure to coal in both investments and financing, continue to encourage portfolio companies and corporate clients to improve their climate management as well as measure and disclose the carbon footprint of investment portfolios.