

Communication on Progress – Swedbank

Swedbank has its roots in the Swedish savings bank movement, whose history dates back to 1820. This means 200 years of banking during a time of fantastic change, when poor farming villages have developed into communities whose prosperity in many cases is dependent on technology.

Background

Swedbank works actively to integrate sustainability throughout the company, to create lasting value for all our stakeholders and contribute to a more sustainable society. The bank's vision is to enable people, businesses and communities to grow. To create a society as defined by the UN's Sustainable Development Goals (SDGs), and where the bank's operations, products and services contribute to achieving the goals.

Commitment to UN Global Compacts 10 principles

Swedbank remains committed to upholding the United Nations Global Compacts Ten Principles on human rights, the environment, labour and anti-corruption. Guided by the principles we integrate sustainability in our business by implementing responsible business practices and develop innovative solutions to support a sustainable development in society.

With a long heritage in the savings bank movement, Swedbank continues to build on the core idea of making the lives of ordinary people and companies in our home markets of Sweden, Estonia, Latvia and Lithuania easier through saving. Swedbank signed the UN Principles for Sustainable Banking during 2019 and by doing this, we pledge to play a leadership role in creating a sustainable future. We know that the biggest difference we can make is by helping our corporate and private customers find sustainable choices. Two of the focus areas will be financing solutions with concrete sustainability parameters in their terms and the mutual fund area, where companies with sustainable strategies will be given priority.

The work to address the shortcomings found in our routines, systems and processes to combat money laundering and other financial crime is progressing and we will continue to rapidly implement improvements. The fight against financial crime never ends, and we will do everything we can together with the authorities and other banks to fight it.

Jens Henriksson, CEO Swedbank

Responsible banking

The UN's Principles for Responsible Banking were introduced in autumn 2019. Swedbank was one of the 132 banks to sign the principles, a shared commitment to adopt the Paris Agreement and SDGs in their businesses and do more to deliver on them. The principles are supported by a strong framework for implementation and accountability. By signing them, Swedbank pledges to be transparent in reporting its impacts, both positive and negative, on people and the planet. The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the EU's action plan for financing sustainable growth are important steps in the development of an international regulation where the banks can play a clear role in financing the investments needed to achieve the goals in the Paris Agreement and SDGs. Swedbank follows these recommendations and is working with the Science Based Targets Initiative to develop a credible methodology to set climate targets in the financial sector.

Anti-money laundering and combat financial crime

Swedbank's Board of Directors has adopted a Group-wide anti-corruption policy and a policy on anti-money laundering and counter-terrorist financing (AML), which are revised each year. In 2019 the anti-corruption policy was clarified regarding the bank's whistle-blower process. In the AML policy clearer information was provided on the bank's Know Your Customer process and risk processes to ensure compliance with current rules. A code of conduct explains Swedbank's values and principles of conduct in terms of the bank's commitments, role and the way we work internally and in relation to customers and partners.

Addressing the deficiencies that have been identified in the routines, systems and processes to combat money laundering and other financial crime was a priority in 2019. As part of this work, Swedbank has established a special Anti-Financial Crime unit (AFC) to strengthen the fight against money laundering and financial crime as well as a Special Task Force to work with the ongoing money laundering investigations.

The new AFC unit focuses on various aspects of financial crime such as prevention of money laundering, counter-terrorist financing, fraud detection, cybersecurity, information security and physical security – and in the process has consolidated the bank's expertise to create robust routines to fight financial crime. The AFC has also worked on a new framework that provides a better overview and compliance control. The framework will be implemented throughout the bank. New scenario-based methods have been introduced to more accurately identify suspicious transactions. During the year the bank also strengthened important functions with new competence and resources and provided targeted training to improve the knowledge of the bank's employees. The digital part of the KYC process has been made more efficient through among other things shorter lead times.

Risk management in sustainability

Sustainability risks as described in the risk management framework are related to the impacts on, or the impacts of, climate change, globalisation, human rights, resource scarcity, population growth, etc., which have the potential to impact the bank's operations, income or expenses. Sustainability risks include, but are not limited to, strategic, reputational, credit and legal risks. Managing sustainability risks in a responsible way is important to Swedbank's success and trust in our brand.

At Swedbank, risk management and sustainability are integrated in the business, and the framework for risk and governance provides support in managing sustainability risks. Swedbank is working on several fronts to identify and manage sustainability risks, especially climate related risks, that the bank can be exposed to through its portfolio and products. In the future, climate change will probably cause more frequent and/or serious weather events such as floods, droughts and storms, which could pose a potential risk for the bank's credit portfolio. In the transition to a climate neutral society, political actions such as the introduction of carbon taxes, or technological progress such as new production processes, will affect us and our customers, giving rise to transition risks. Changes in policies and laws and social activism directed at unsustainable business models could also impact the bank's reputation and become a potential credit risk. Over time it is likely that physical assets will also be exposed to greater risk due to changing weather patterns, which could potentially impact credit risk in sectors such as property management, agriculture and forestry.

Sustainable financing solutions

Lending is one of the bank's core businesses and an important component in the business model, i.e. to finance investments by private customers and businesses. There is a growing interest in making sustainable choices, and in this respect the bank supports its customers by offering sustainable financial and investment solutions, advice and analysis. A big responsibility rests on the bank's officers, who perform the sustainability assessment. It is important to know the customer, their business, its future prospects and the impact on society. Swedbank conducts a more comprehensive sustainability analysis when the credit limit exceeds SEK 5m in Sweden and EUR 0.8m in the Baltic countries based on social and environmental aspects.

Positive impact finance, where loans are evaluated based on their contribution to one or more areas of sustainable development, is another product area that Swedbank offers its customers and that promotes more sustainable financing. Since 2017, Swedbank has issued green bonds and, based on this business, can target and support financing for sectors that are in transition to a sustainable society. Swedbank Debt Capital Markets also provides advice on green, social and sustainability bonds. In May 2019, the bank began offering low-interest consumer and business loans for installation of solar panels, which is positive for the sustainability of their finances and for society's energy transformation. Green mortgages and car loans had already been available as well.

Long-term asset management

Swedbank Robur is one of the leading asset managers in the Nordic region, with a vision to be a world leader in sustainable value creation. During the year, its funds have had holdings in over 3 000 companies in and outside Sweden. This represents a big responsibility and at the same time an opportunity to impact and drive development forward. An important part of the fund management company's work with sustainable companies is its participation in nomination committees and voting at annual meetings.

One way to work with sustainability, in addition to advocacy work with the companies, is to join various initiatives. Since 2009, Swedbank Robur has embraced the Principles for Responsible Investment. In 2015, it began to report the carbon footprint of its equity and mixed funds. Swedbank will apply the TCFD's recommendations to calculate how the companies in the funds are affected financially by climate change. In November, climate targets were adopted as well: that asset management be aligned with the Paris Agreement's 1.5°C goal by 2025 and that the entire business be carbon neutral by 2040.

Sustainability requirements in the supply chain

Swedbank has many suppliers and therefore has a big responsibility but also good opportunities to influence them based on sustainability specifications and expectations. The supplier code of conduct is the basis for the requirements and expectations that Swedbank advocates and is the starting point for contracts with the bank's suppliers. The code sets requirements on the suppliers' work in areas such as human rights, labour rights, business ethics and the environment. It clarifies the bank's vision and position on these issues and distinguishes between mandatory and voluntary criteria. This facilitates a dialog and development together with the suppliers. To ensure that the procurement process supports Swedbank's overarching sustainability strategy, a digital platform is used to effectively manage sustainability related data, analysis and monitoring based on the supplier code. Compliance is obviously important. Additional follow-ups are conducted as needed in the form of site visits and inspections. Cases can be escalated to the Business Ethics Committee, which will decide on actions against the supplier or whether the contract should be terminated. Swedbank's Business Ethics Committee can also be consulted if ethical dilemmas arise.

Digitisation requires increased security

In a world where digitisation and use of cloud services are a natural part of business, secure network access, IT systems and data are critical. Disruptions to the bank's systems that affect the stability and availability of the bank's products and services not only cause problems for customers and higher costs, but also damage confidence in the bank. Fraud and hacking attempts are increasing in society in general and require greater awareness and increased investment in information and cybersecurity by the financial industry. It is critical for Swedbank to protect its customers' and its own data and other sensitive information. This is a continuous process and involves a wide range of measures to prevent and limit harm to our services. The bank's services and IT systems are monitored to detect new types of threats, fraud and hacking. To prevent the bank's payment systems from being exploited for criminal activity, there is a set of internal rules, processes, collaborations and support functions. This is also done to comply with applicable laws and regulations in the area.

Focus on the climate

Climate change is an issue affecting every company today. The financial sector has a big responsibility in the transition that businesses face, with sustainability naturally integrated in the business model. Through its operations, Swedbank is able to have both a direct and indirect impact, i.e. directly through its own operations – mostly travel and heating of premises – and indirectly through customers, their businesses and their choice of products and services.

Swedbank has pledged to set climate goals in line with the Science Based Targets Initiative. Today there is no established method for exactly what this process should look like for the financial sector, and Swedbank therefore took part during the year in developing a methodology as part of the initiative. Swedbank's focus has been to identify where emission reductions must be made in its mortgage business and commercial real estate lending to ensure that the bank's climate targets for these holdings are aligned with the Paris Agreement.

For its own operations, Swedbank has set targets to reduce consumption of the Earth's finite resources and promote a stable climate and energy transformation. In the period 2010-2019, Swedbank's direct greenhouse gas emissions were reduced.

A structured approach based on an environmental management system is used to reduce the bank's own, as well as its customers' and suppliers', environmental impacts. Environmental policies, goals and strategies are integral to the work that the bank has committed to. Since 2003, Swedbank's environmental

management system is certified according to ISO 14001, where compliance is reviewed annually through internal and external audits.

A corporate culture based on the bank's values

Swedbank's biggest strength is its engaged and competent employees. A strong, values-based corporate culture with openness, simplicity and caring as its watchwords contributes to an environment where every part of the company is strongly focused on the customer with the goal of delivering a high level of satisfaction. Diversity and gender equality are cornerstones of the business and apply to employees and external stakeholders. Swedbank is an inclusive bank where everyone, regardless of background and ethnicity, has the right to financial services and to be treated with respect. The bank wants its employees to reflect our customers in terms of gender, age and ethnicity. A goal for many years has been gender equality according to the 40/60 model in both the highest management and the entire organisation.

Human Rights

Swedbank shall always act in accordance with universal human rights. This commitment extends to every market where Swedbank is active and in relation to all its business relationships. As a basis for its responsibility to respect human rights, Swedbank follows the UN's Guiding Principles Reporting Framework and the UN's Global Compact. The principles encourage companies to be aware of human rights risks and to strengthen human rights in their businesses. Swedbank Robur has signed the Principles for Responsible Investment (PRI), an open global initiative for institutional investors supported by the UN, which addresses among other things respect for human rights in investments.

A Group policy on human rights clarifies Swedbank's responsibility to take precautionary measures and prevent human rights violations. Swedbank's code of conduct also requires all employees to abide by Swedbank's values and show equal respect for everyone. On this basis, Swedbank continuously assesses human rights risks in its processes and business decisions.

Knowledge is critical to successfully integrate sustainability aspects and work systematically with improvements. All employees of the Swedbank Group receive basic mandatory training on sustainability covering topics such as gender equality and human rights.

Gender equality and diversity are important to the bank's work environment and corporate culture. The work is based on a central diversity and gender equality plan, and every manager is graded based on diversity and equality goals as part of their performance. The Group Executive Committee has focused for several years on and accelerated development in these issues. This also means a stronger focus on integrating gender equality and diversity in the business. Every unit is involved and sets goals for the area in its business plans.

Strong commitment to social issues

To this day the heritage is alive with the savings banks and savings bank foundations as engaged owners. The foundations have as their main purpose to promote savings in Sweden and to safeguard and develop the savings bank movement's foundational ideas and values. Part of Swedbank's profit goes to the foundations in the form of dividends and is invested in various civic endeavors, mainly local and regional but also national. Swedbank remains active on these issues and works for change and development. Swedbank initiated and is involved in several constructive programmes and initiatives, mainly aimed at children and young adults. Financial literacy, entrepreneurship and innovation are the main areas that the bank is engaged in. This applies to all four home markets.

Policies and Guidelines

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](#)

- [Anti-corruption Policy](#)
- [Tax Policy](#)
- [Position Statement Defence Equipment](#)
- [Position Statement Climate Change](#)
- [Supplier Code of Conduct](#)
- [Sector Guidelines](#)
- [Exclusion list](#)
- ISO14001 – Environmental Management System (EMS)

Focus areas

During the year Swedbank signed the UN's Principles for Responsible Banking and thereby endorsed the Paris Agreement and the UN's Sustainable Development Goals and pledged to greatly increase its contribution.

In 2017 Swedbank performed an analysis of its contributions to the SDG's. The results show that the bank is contributing to all the goals, but to varying degrees. Swedbank has chosen to focus on the following goals from the perspective of where the bank can contribute the most:

- Goal 4 – Quality education
- Goal 8 – Decent work and economic growth
- Goal 12 – Sustainable consumption and production
- Goal 16 – Peace, justice and strong institutions

In addition, the bank has two complementary focus areas comprised of several goals that affect Swedbank's strategy and goal-setting:

- Sustainable employees (e.g. Goals 3, 5 and 10)
- Fossil-free society (e.g. Goals 7, 9, 11 and 13).

Moreover, we will continue to focus on further integration of sustainability into our business processes and business decisions, to monitor and report on sustainability activities in a clear and transparent manner and to continue our efforts to be an inclusive bank. We want to contribute to a society where everyone has equal opportunities to gain access to financial services.