

Communication on Progress – Swedbank

This year Swedbank can look back at 200 years of sustainability work. An idea to make it possible for everyone to open a bank account and begin saving marked the start of the savings banks and eventually Swedbank. Educating both private and corporate customers to build a stable financial situation has been a consistent theme in the bank's operations since 1820.

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 a financially sound and sustainable society. 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 is committed to align our strategy and operations with the United Nations Global Compacts universal ten principles on human rights, environment, labor and anti-corruption. That means both to do the things right in our own operations, but also to empower our customers doing the right things to support a sustainable development in society.

We have committed to the UN Principles for Responsible Banking (PRB) and its purpose of embedding sustainability across all business areas in the banking industry. We believe the principles are actionable guidance for our industry to make the financial system more transparent, efficient and sustainable. Implementing the principles together with the recommendations from the Taskforce on Climate related Financial Disclosures (TCFD) has helped us to gain a better understanding of our impact as well as risks and opportunities. It will greatly enhance our ability to thrive and have a positive impact in the coming years.

Our ambition is to continue to be a leader within sustainability in our industry. In 2040 the aggregated fund capital managed by our asset management company Swedbank Robur will be placed in carbon-neutral investments. We believe that the long-term sustainable is the long-term profitable and as a bank, we need to empower our customers - making the transition possible through our advisory, products and services.

Jens Henriksson, CEO Swedbank

Responsible banking

Swedbank's pledge to sign the UN's Principles for Responsible Banking and commitment to adopt the Paris Agreement and the UN's Sustainable Development Goals evolved during the year to an operational phase, where the principles are implemented. The principles require among other things an impact analysis of the bank's entire operations, which has therefore been performed to identify and present both the bank's positive and negative impacts on the environment.

Through their operations, banks and other financial institutions have a major opportunity to contribute to the necessary changes by financing the measures needed to meet the goals of the Paris Agreement and the Sustainable Development Goals.

The EU is drafting common rules on sustainability in the financial sector, part of which is a taxonomy to classify which investments are environmentally sustainable and which are not. A taxonomy will provide common guidelines on which investments can be called "green", which can be important from a customer perspective. It will make it easy to identify and compare the investments required to achieve a sustainable economy and benefit the bank's stakeholders.

The common rules create greater transparency and insight into the bank's operations in general and is something Swedbank supports. In business, the concept of transparency is used as a measure of a company's openness towards various external shareholders. GDPR, MiFID and PSD2 are other examples of rules that set concrete requirements for corporate openness and accounting.

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.

Preventive work to detect and report suspected money laundering and terrorist financing has remained the highest priority at Swedbank during the year. We are remedying the shortcomings identified by the Swedish and Estonian FSAs. Our action plan to strengthen the bank's capacity and capabilities to detect money laundering risks is progressing as scheduled with slight adjustments due to the coronavirus pandemic.

Know Your Customer (KYC) work is one of the bank's contributions to a safe and well-functioning society, while also preserving our reputation among shareholders and customers. The fight to stop criminals from exploiting banks' platforms starts with the information we have on our customers. The bank's many questions on transactions, counterparties and where the money comes from are of value to society's efforts to stop crime.

Risk management in sustainability

Sustainability risks as described in the risk management framework as risks that arise due to an inability to identify and manage environmental, social or governance related aspects that, if they were to occur, would have a significant economic impact and/or a significant impact on the Group's brand and reputation. Sustainability risk also affects several other types of risks, mainly compliance, credit, operational and strategic risk.

Managing sustainability risks responsibly is important to Swedbank and to maintaining trust in the brand. At Swedbank, risk management and sustainability are integrated in the business, and the framework for risk and governance provides support to manage sustainability risks.

Swedbank is working on several fronts to identify and manage sustainability risks, especially climate related risks that the bank may be exposed to through its credit portfolio and products. In the future, climate change is likely to cause more frequent and serious weather events such as floods, droughts and storms, which could pose a potential risk to the bank's credit portfolio. Over time, physical assets are also likely to 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. 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 against unsustainable business models could also impact the bank's reputation and become a potential risk.

Sustainability risk assessment is integrated in existing processes such as the New Product Approval Process and the credit process, where corporate loans require a sustainability analysis.

Sustainable financing solutions

Lending is the bank's core business, i.e. financing investments by private customers and businesses. For this core to remain sound long-term, and the bank successful, responsible lending is a key. In recent years, interest has increased in sustainable choices, and here the bank supports its customers by offering sustainable financial and investment solutions, advice and analysis. Doing business more sustainably creates value-added for the individual customer, the company and society, and is the foundation for sustainable financial value creation. 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 their impact on society. Swedbank conducts a more comprehensive sustainability analysis when the credit limit exceeds SEK 8m in Sweden and EUR 0.8m in the Baltic countries based on social and environmental aspects. The analysis addresses sustainability related issues such as human rights, the environment and climate, taxes and corruption. For principles and guidance, Swedbank also has Group-level policies, position statements and sector guidelines. During the year, the bank's sustainability framework was developed and the position statement on climate change was modified. Accordingly, the bank will not finance or invest in companies that generate more than 5 per cent of their revenue from the manufacture or extraction of coal.

In the event an ethical dilemma arises, e.g. related to the bank's sustainability framework, Swedbank's sustainability committee will issue further recommendations. Swedbank encourages sustainable business models and tries to offer financing products and services that contribute to the transition to a more sustainable society. During the year, a green lending offer was developed for private and corporate customers of Baltic Banking. Loans for solar panels, green car loans and green mortgages are now available to private customers in all of Swedbank's home markets.

Since 2017, Swedbank has issued green bonds and, based on this business, can target and support financing for sectors that are adapting to a more sustainable society. Swedbank Debt Capital Markets also provides advice on green, social and sustainability bonds. This benefits issuers who are looking for green financing, e.g. companies and municipalities, as well as investors who are seeking sustainable investments e.g. insurance companies and pension managers.

Long-term asset management

Sustainability is also integrated in the investments the bank makes and, in the products, and services we offer. Engagement and interest in sustainability are increasing, and so is demand for sustainable savings. Swedbank's subsidiary 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 around 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 to promote sustainable companies is active ownership by participating 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. Swedbank Robur has issued a number of public statements and supports several initiatives, such as the Principles for Responsible Investment (PRI), the International Corporate Governance Network (ICGN) and TCFD.

In 2019, Swedbank Robur adopted two climate targets to align its asset management with the Paris Agreement's 1.5-degree target by 2025 and make the entire business carbon neutral by 2040. Swedbank Robur will continue to collaborate with other investors and encourage companies and issuers to convert to sustainable solutions through networks such as Climate Action 100+, Green Bond Principles and International Investors Group on Climate Change.

The development of Swedbank Robur's responsible investment policy has continued. It serves as the basis of the sustainability work of all of the fund company's funds and today is an integral part of their management. During the year, a number of innovative and sustainable funds were launched as part of the Access Edge family as well as the Transition Energy fund. Five of Swedbank Robur's funds satisfy Nordic Swan's eco-label criteria, which means they meet stringent sustainability requirements and exclude fossil fuels.

Information security is growing in importance

A high priority for banks and other financial firms is the work with information security and stable IT systems. As society becomes increasingly digital, companies become more vulnerable owing to new types of online and cloud services. Major resources, financial and otherwise, are being invested to prevent violations, misuse of existing and new technology, cyber threats and fraud. The work with information security, with the goal of protecting both customers and the bank's data and other sensitive information, is one of the most important issues for Swedbank. Ultimately it is a question of confidence and economic value for the bank.

In the last year, the bank has worked with a comprehensive action program to improve routines, systems support and processes in order to prevent all types of financial crime. To prevent the bank's payment systems from being used as a tool for criminal activity, internal rules, processes, collaborations and support functions have been put in place. The aim is also to comply with current laws and regulations in this area.

Focus on the climate

Climate change is a major societal challenge affecting every company, though to varying degrees. The financial sector has a big responsibility to redirect capital flows to achieve a more sustainable economy, to help companies make the necessary climate adjustments and to contribute to the transition needed in many companies by encouraging them to integrate sustainability in their business models.

Through its operations, Swedbank has 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 the choice of products and services.

It is important for Swedbank to channel capital to sustainable investments and promote creative solutions that can meet society's challenges, as well as to integrate sustainability in its risk assessment processes in a structured way. Progress was made during the year in implementing TCFD's recommendations based on climate risks and opportunities, and the bank scenario-tested all the key TCFD groups for the lending and investment portfolio. Transparency on climate related information is important as it increases understanding of which measures are needed in governance, risk management and business models for the necessary transition.

Swedbank has pledged to set climate goals in line with the Science Based Targets Initiative. The method for setting science-based climate targets for the financial sector's exposures to selected asset classes was finalised during the year and Swedbank is now developing climate targets related to its mortgage business and commercial real estate lending which are aligned with the Paris Agreement.

For its own operations, Swedbank has set targets to reduce resource consumption and promote a stable climate and energy transformation. In the period 2010-2020, Swedbank's direct greenhouse gas emissions have been drastically reduced. Behind these numbers lie active efforts to reduce travel and energy consumption in the branches. The aim of Swedbank's climate related target is to further reduce direct emissions. To complement these efforts, Swedbank buys carbon offsets for all its direct greenhouse gas emissions.

Environmental work is done using a structured approach based on an environmental management system that has been ISO 14001 certified since 2003 in order to reduce the bank's own environmental impacts as well as those of customers and suppliers. Compliance with the environmental management system is monitored annually through internal and external audits.

A corporate culture based on the bank's values

Swedbank's most important strength is its employees, who together shape the bank's corporate culture, encompassing every area of operations and every aspect of the bank's business. The aim is to drive the bank forward in an effort to develop successful collaborations and sustainable customer relationships.

Covid-19 - an extraordinary challenge

The pandemic has been a huge challenge during the year, but also a driver of rapid development in several areas such as digitisation and occupational health and safety, where a need has arisen for new technological solutions and working arrangements. A rapid transition has been necessary, along with an adjustment to new changes and regulatory requirements. The focus has been on keeping all employees continuously updated and informed. Because of the critically important role we play, it has been essential to maintain the bank's services for customers with a high level of quality during this turbulent and extraordinary time.

Culture assessment - for a stronger corporate culture

A comprehensive assessment of Swedbank's corporate culture was started during the year to identify strengths and areas of improvement as well as create guidelines to ensure that all of the bank's employees abide by the rules, norms and values that have been set up. This is important not least in challenging times when the organisation is being put to the test. We want a culture that positively affects the bank's employees, customers and those around us. A large number of employees of the Group have given their opinions and participated in surveys and focus groups. The work on corporate culture and assessment are

continuing in a number of identified areas and initiatives, where the bank's HR unit will focus on performance, compensation and leadership.

Occupational health and safety - strategically important area

The strategic importance of occupational health and safety has been especially evident during this challenging time, which has forced us to adjust the ways we work and meet internally, but also how we can safely and securely meet with customers. The flexible work arrangements Swedbank established back in 2014 have facilitated the adjustment. During the pandemic, around half of all employees have worked from home. For those who work in an office, a number of measures have been taken to create a safe place to work and meet with customers.

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.

Swedbank is an inclusive bank - for the many, both customers and employees. Swedbank's goal is to be a leader in gender equality and diversity in all our home markets. A focus that provides new perspective and helps to increase employee competence and understanding for others and the varying needs of all our customers. The goal is to have a staff that reflects the diversity of the local community and thereby meet customers' needs and identifies new business opportunities.

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 in 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](#)

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