

Nordea



ESG at Nordea

Environmental Social Governance

Sustainable Finance at Nordea

– Enabling the transition towards a sustainable future

Nordea is the largest financial services group in the Nordic region and one of the biggest banks in Europe. We are a full-service universal bank with a total operating income of EUR 9.5 billion and total assets of EUR 581.6 billion in 2017.

We want to make a real difference - for our customers and for the communities in which we operate - by sharing our broad expertise based on 200 years in the banking business. Sustainable Finance at Nordea is about integrating sustainability into all our business activities and products within our core areas investment, financing and customer advice. Together with partners and customers Nordea enables the transition to a sustainable future.

We are constantly facing global challenges and in relation to our business it means that we work integrated with **environmental, social and governance** (ESG) issues in all relevant our fields. We also engage our clients, partners and other stakeholders by providing information about relevant sustainability issues.

By acting on behalf of our clients we can contribute to economic growth and prosperity, through capital allocation and interaction with companies. This is not only a business opportunity, but a part of our fiduciary responsibility.

“Together with partners and customers Nordea enables the transition to a sustainable future.”



ESG
stands for
*environmental, social
and governance.*



ESG Analysis

– Integrated into investments & financing

Our commitment

Nordea is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practices. We are taking relevant ESG principles into consideration when evaluating business risks and opportunities in connection to investment and financing as we believe this will add value to our customers. This belief is underpinned by research. Aggregated findings from more than 2,000 empirical studies show that integration of ESG factors provides equal or better returns.¹

Why you cannot afford to not care

In September 2017, Nordea published the study “Cracking the ESG code” concluding that strong ESG performance contributes to risk mitigation, as well as being an indicator of strong operational and share price performance. The relative performance between the top and the bottom ESG rated companies differed by as much as 40 percentage in the period between 2012 and 2015. The report concluded that ESG ratings can be a leading indicator of future earnings stability and predictor of share price volatility, suggesting that ESG research should rightfully be a component of company valuations.

1) Khan, Serafeim and Yoon (2015). *Corporate Sustainability: First Evidence on Materiality*, Harvard Business School Working Paper No. 15-073. Friede, Busch and Bassen (2015), *ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies*. Journal of Sustainable Finance & Investment. Richard Hitchens, Sandra McCullagh and Chris Parks (2014) *Finding Alpha in ESG*. Credit Suisse ESG-a Series, 19 June 2015. Northern Trust (2014), *Doing Good and Doing Well – How Quality Can Enhance Your ESG Strategy*.



What is ESG?

Relevant ESG topics are industry specific and these are example of topics that may be addressed in the analysis:

Environment

- Climate Change & Carbon Risk
- Use of Raw Materials, Water & Energy
- Biodiversity & Land-use
- Generation of Wastes & Noise

Social

- Human Rights
- Labour Rights, Equal Opportunities
- Occupational Health & Safety
- Government and Community Relations
- Consumer Protection, Product Safety
- Personal Data Safety & Privacy

Governance

- Transparency, Reporting on Material Issues & Audited Reports
- Board Composition and Independence
- Accounting risk, & Audit Committee Structure
- Bribery and Corruption
- Aggressive Tax Planning

ESG analysis integrated into Investments

Nordea bases its investment approach on internationally recognized principles for sustainable investment and active ownership. Nordea has developed its policies, procedures and investment products to ensure that the companies we invest in all live up to various criteria of sound environmental, social and governance performance.

We have developed an internal ESG database available to all investment professionals. This way we assure that investment and portfolio development decisions are based on a fuller set of information – key factors to improve risk management and thereby risk-adjusted returns for our clients.

After years of dedicated work with ESG analysis, Nordea has extensive experience in sustainable investments. We have developed our policies, procedures and investment products to ensure that the companies we invest in live up to a wide range of criteria for sound environmental, social and governance performance. We believe that by engaging and investing in ambitious companies, we can make a considerable difference; selecting companies with high sustainability performance and potential of generating economic value with low risk for our clients.



In 2017 for the fourth year in a row, Nordea received the *Best ESG Investment Process Europe Award* from the European magazine *Capital Finance International* (CFI). We are honored to receive this award as it confirms that Nordea continuously improves the integration of ESG in all parts of our fund management business.

ESG analysis integrated into Financing

We have built up a strong in-house ESG analysis team that supports our credit analysts and client executives to integrate ESG aspects in financing. Nordea is committed to engaging with customers on ESG matters and to understand the challenges and opportunities customers have in their respective businesses and industries.

The ESG analysis conducted in relation to our customers concludes in an ESG risk rating which is included in credit memorandums. In total, we have five ESG risk categories, ranging from low to high risk. Companies assigned a high ESG risk is escalated to a group-level credit committee which can if deemed necessary consult our Business Ethics and Values Committee (BEVC) – a committee that has overall responsibility for conduct and sustainability in Nordea. For companies rated in the highest risk category, long-term financing is typically offered only on specific terms.



ESG analysis

ESG analysis is an integrated part in our financing and investment processes. Our proprietary ESG analysis methodology has been internationally awarded several years in the row. When we analyse companies, we use a two -step approach:

First, companies are assessed on how responsibly they conduct their business in relation to stakeholders – employees, suppliers, customers, investors, the environment and society at large. As part of this we assess to what extent companies have developed robust strategies and demonstrated a strong track record of performance in managing its specific level of risks.

Second, we assess how well companies position their products or services in relation to broader sustainability megatrends such as climate change or changing demographics.

Dedicated ESG teams

We also continuously assess and evaluate transformative themes and areas which we believe shape the future landscape of businesses, since social and technology change as well as climate change and other environmental issues impact business models.

We have two dedicated ESG teams to support the organization with research and analysis based on the Nordea ESG methodology. One team works within responsible investments and the other within lending and financing. We underpin our approach with externally sourced ESG research and ratings. This provides coverage of over 4,000 companies globally both in terms of their practices and tracking controversial issues.

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Our products and capabilities

Stars funds

We have created a family of investment funds under the Stars brand, which is a unique world-winning investment concept. The Stars funds are about positive selection and selecting quality companies with well-managed ESG profiles that generate long-term economic value.

All investments in our Stars funds undergo thorough financial analysis as well as the proprietary in-house ESG analysis described above. This enables us to create customer value by identifying companies who integrate ESG metrics, along with financial metrics, into their business model and strategic decisions. Active ownership is an important part of our investment approach for the Stars funds and we have long-term productive dialogues with several companies, especially companies in which we are large long-term shareholders. We actively engage with companies when we see material risks that may not be adequately managed or opportunities that may not be fully capitalized.

Green Bonds

We encourage companies to start the transformation process towards a low carbon economy and implement more resilient business models. One way to support this process is to provide relevant products which companies and investors can use to demonstrate how they address climate change. In June 2017, Nordea issued its first green bond and during 2017 we were the facilitator of another 20 green bonds amounting to almost USD 4bn – more than doubling the volume from 2016. Our ambition to be a leader in sustainable finance moved us up from number nine among our Nordic peers to a lead position as an arranger of green bonds.

Green Loans

As the demand for green bonds is steadily rising, we have seen an increase in demand from our corporate customers to diversify their funding base to include green financing. The number of bilateral meetings and events where green financing has had a central role, is clearly growing. Like green bonds, green loans are used to finance specific investments with environmental benefits and provide customers with an opportunity to demonstrate their green credentials in financing.

In September 2017, we launched an initiative aimed at developing a green purpose-based loan product. With these financing products, we aim to support our corporate customers' transition to a sustainable future.

For more information about responsible investments and sustainable finance at Nordea please visit our website: nordea.com/sustainability and sustainablefinance.nordea.com/