

Net-Zero Banking Alliance target setting

First round of target setting

Introduction

Handelsbanken's goal is to be, and to be recognized as, the most sustainable Bank among peer competitors. In 2021, we set several bank-wide sustainability targets, including an overarching climate target to achieve net zero emissions of greenhouse gases as soon as possible but no later than 2040. Now we take another important step on our journey when we publish our first interim greenhouse gas reduction targets in line with 1.5°C, covering our real estate related lending. The reduction of emissions related to buildings require the decarbonization of the entire energy sector, the successful implementation of strong public policy related to increased energy efficiency and investments in more sustainable solutions. We want to be the most sustainable bank among our peers and have set an ambitious target that will require us to develop our work to support our customers on their carbon reduction journey.

The purpose of this document is to summarise our commitment to Net-Zero Banking Alliance, the target that we have set for the first round of target setting and the rationale behind the target. In line with the guidelines from UNEP FI on target setting, Handelsbanken will continue to develop targets as part of our work with Net-Zero Banking Alliance and increase the scope of the targets.

Net-Zero Banking Alliance

Handelsbanken joined Net-Zero Banking Alliance (NZBA) as one of the founding signatories in April 2021. NZBA is a bank-led international association convened by the United Nations representing over 40% of global banking assets, which are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. Signatory banks shall publicly disclose both long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.

The NZBA framework states that 18 months after joining, banks should have completed their first round of target setting, in which banks can priorities setting targets for certain high emitting sectors based on emissions and/or exposure. Another 18 months after the first round of target setting, banks are expected to set targets for the remainder of the high emitting sectors.



Target setting

For the first round of targets setting, Handelsbanken has set targets for its real estate related lending. This includes mortgages to private individuals as well as lending to housing co-operatives and property management. The reason for this is two-fold, (1) buildings are carbon and energy intensive, and (2) this is Handelsbanken's most significant exposure representing 82% of Handelsbanken's total lending to the public. In the coming 18 months Handelsbanken will set targets for the remainder of lending to high emitting sectors.

Financed emissions from real estate

Handelsbanken has calculated the financed emissions from our real estate lending based on methodology from Partnership for Carbon Accounting Financials (PCAF). For asset classes Tenant-owned apartment and Tenant-owner association, which we have in our Swedish and Norwegian portfolio, PCAF provides no methodology. Handelsbanken has therefore developed a model to estimate the financed emissions from these two asset classes. The methodology can be found in our Climate Change Progress report, published at [Handelsbanken.com/sustainability](https://www.handelsbanken.com/sustainability).

As more data become available, data quality improves and our own understanding and methodologies develop, the figures will possibly be revised. Also, as more energy labels become available for more properties, we expect that the calculations for a larger proportion of our real estate portfolio will be based on specific energy performance data and emissions factors, rather than relying on estimates which will impact the total reported emissions of the portfolio. Furthermore, the estimates from PCAF will continuously be updated to reflect the latest data available, which also will affect the results from the calculations when using estimates.

Financed emissions - real estate with an energy label

Asset class	Exposure (SEK m)	Total Financed emissions (tCO ₂ e)	Financed emissions per SEK (kgCO ₂ e/SEK m)	Financed emissions per financed area (kgCO ₂ e/m ²)	PCAF Data Quality Score
Residentials	843,946	268,562	318	8.0	3.30
Non-Residentials	108,526	101,733	937	23.5	3.74
Total	952,472	370,295	389	9.8	3.39

Financed emissions - real estate without an energy label

Asset class	Exposure (SEK m)	Total Financed emissions (tCO ₂ e)	Financed emissions per SEK (kgCO ₂ e/SEK m)	Financed emissions per financed area (kgCO ₂ e/m ²)	PCAF Data Quality Score
Residentials	737,398	251,927	342	9.9	4.15
Non-Residentials	235,602	273,457	1,161	24.0	4.40
Total	973,000	525,384	540	14.3	4.22

Financed emissions - total real estate lending portfolio

Asset class	Exposure (SEK m)	Total Financed emissions (tCO ₂ e)	Financed emissions per SEK (kgCO ₂ e/SEK m)	Financed emissions per financed area (kgCO ₂ e/m ²)	PCAF Data Quality Score
Residentials	1,581,344	520,489	329	8.9	3.80
Non-Residentials	344,128	375,190	1,090	23.9	4.19
Total	1,925,472	895,679	465	12.0	3.89

Rationale behind targets

In order for our targets to best reflect our portfolio, the intermediate target for our real estate lending portfolio has been based on country specific pathways, which then have been aggregated to a combined pathway based on the Bank's exposures to the respective country.

The pathways applied are from the Carbon Risk Real Estate Monitor (CRREM) and based on pathways from Friends of Earth and are so called "no-overshoot" scenarios. The pathways can be found at www.crrem.org/pathways.

Please see table below for the distribution factors applied to construct the aggregated pathway, as of 31 December, 2021.

Country	% of exposure covered	Of which;	
		Residential	Non-residential
Sweden	71 %	89 %	11 %
Norway	13 %	62 %	38 %
UK	12 %	68 %	32 %
Netherlands	4 %	79 %	21 %
	100 %	82 %	18 %

Target for our real estate lending portfolio

Handelsbanken commits to reduce its real estate lending portfolio GHG emissions by **36% per square meter by 2030** from a 2021 base year.

Next steps

By setting a 1.5°C aligned target for our real estate portfolio, Handelsbanken has taken another important step on our journey towards net zero. It is an ambitious target which will require continuous integration of climate aspects into business and product development in order for us to support our customers transition towards net zero. However, it is also important to note that we are not operating in isolation and that climate change is a global problem requiring global solutions and co-operation. If the target of the Paris Agreement of net zero greenhouse gas emissions across the globe is to be achieved, ambitious global climate policies and regulations supporting this will be needed.

In October 2022, Handelsbanken published an overarching transition plan outlining the steps that we will take in order to reach our climate targets, including implementation and engagement strategy and targets. The full transition plan can be found at Handelsbanken.com/sustainability.

For the first round of target setting, we focused on our real estate lending portfolio due to our large predominant exposure towards this sector. Over time, the scope of our targets will increase to cover more sectors, following the guidelines set by both NZBA and SBTi.

2022:

- Further developed financed emissions calculations to cover the entire real estate lending portfolio

- Net Zero Banking Alliance first round of target setting - target covering the Bank's real estate lending portfolio

2030:

- 36 per cent reduction of GHG emissions per square meter in the Bank's real estate related lending from a 2021 base year.

2021:

- Handelsbanken set group wide sustainability targets including Net-zero 2040 target

- Joined the Net-Zero Banking Alliance and the Partnership for Carbon Accounting Financials

- Calculated financed emissions from the Swedish real estate lending portfolio

- Published a first TCFD report covering the Bank's lending portfolio

- Committed to the Science Based Targets initiative

2023:

- Set climate targets for the remainder of the portfolio in line Science Based Targets initiative

- Validate targets through Science Based Targets initiative

2040:

- Net-zero emissions within the Handelsbanken Group