

# Handelsbanken's Transition Plan

Towards net zero 2040



Handelsbanken

# CEO Foreword

Climate change is quite possibly the biggest challenge of our time and its consequences are increasingly severe and felt worldwide as heatwaves, droughts, wildfires and floods are becoming more common and widespread. The latest round of IPCC reports has made it clear that there is little left to discuss - climate change is happening and human beings are causing it. Unfortunately, we also know that things will get worse – how much worse will be determined by the collective efforts of all stakeholders including governments, the private sector and the financial sector. We will succeed or we will fail together.

The good news is that we know how to stop climate change. The world has the solutions to transform our economy into a cleaner, healthier, more efficient and resilient system to the benefit of both people and planet and we at Handelsbanken are determined to do our part and become a net zero company by 2040. We recognise that achieving our climate ambition is dependent on a number of factors, some of which are beyond our direct control, including technological innovation, changes in consumer behaviour and policy development. However we will move ahead towards net zero hoping and believing that relevant pieces of the puzzle will fall into place. We are moving ahead because we are convinced that a rapid and orderly transition with the aim of limiting global warming to close to 1.5°C is best for the community in which we operate, our customers and thus also for Handelsbanken.



**Carina Åkerström**

*President and Chief Executive Officer, Handelsbanken  
Stockholm, 20 December, 2023*

Our net zero 2040 target covers the entire Handelsbanken Group including lending, leasing and investments as well as emissions from Handelsbanken's own operations, such as energy consumption and business travel. As part of this ambition, the Bank has set interim targets for its investment and lending portfolios in line with 1.5°C. The interim targets are an important part of our journey, as they help us to set the necessary pace to achieve our long term targets.

We will achieve our targets the Handelsbanken way - through trust in the individual, a strong local commitment and a decentralised way of working. Handelsbanken's sustainability work is carried out wherever the Bank's business and operational decisions are made. Our decentralised approach means that each home market and Group department bears the responsibility for integrating Group targets and the Transition Plan into their business plans.

This Transition Plan represents an important step on our journey towards net zero and achieving our targets. It will be revised over time to align with business development and developing best practice.

Climate change may well be the biggest challenge of our time, but the transition to a sustainable economy may represent one of the greatest opportunities we have as a Bank. With our local presence, low risk tolerance, long-term approach and deep understanding of our customers, we are well positioned to support and help our customers navigate this change, and transform a challenge into an opportunity.

# Foundations

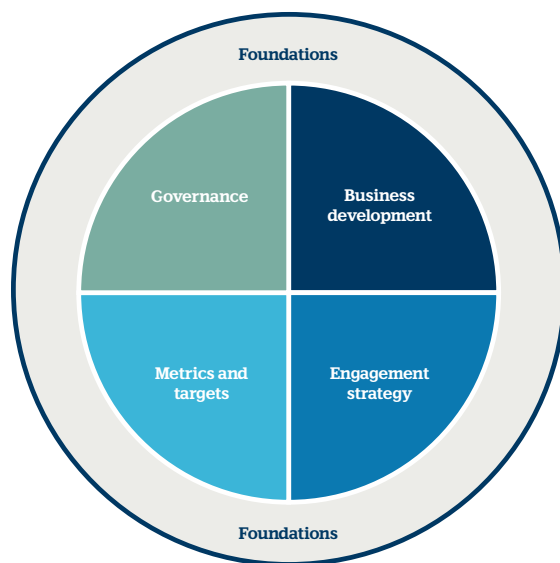
Handelsbanken's Transition Plan builds upon our unique corporate culture and is guided by clear emission reduction targets in line with the 1.5°C target in both the short and long term.

Handelsbanken's overarching sustainability goal is to be, and to be recognised as, the most sustainable bank among peer competitors and our ambition is to align all our operations with the 1.5°C target. In 2021, we set several Group-wide sustainability targets, including an overarching climate goal to become a net-zero emissions company as soon as possible and no later than 2040. This target covers the entire Group and includes lending, leasing and investments, as well as emissions from Handelsbanken's own operations, such as energy consumption and business travel.

The rationale behind climate transition stands on its own, but it is also the Bank's conviction that the transition presents business opportunities and alleviates risks for the Bank and its business. The Transition plan describes the Handelsbanken Group's overarching strategy on how it aims to reduce risks, seize opportunities and achieve net zero. It is based on the Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector by the Glasgow Financial Alliance for Net Zero.

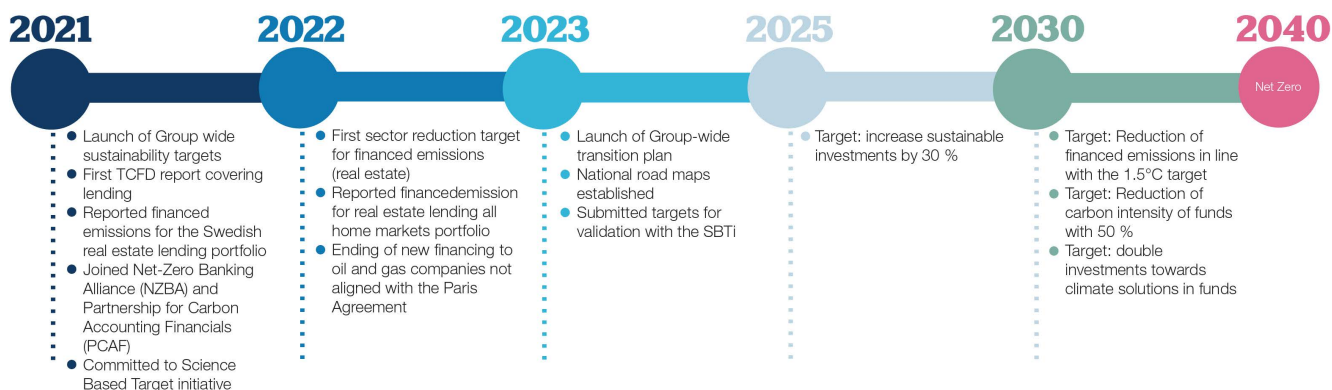
In order to set the necessary pace, build momentum and ensure that our emission reduction targets are based on a solid scientific footing, Handelsbanken has set interim reduction targets using methodology from the Science Based Targets initiative (SBTi). The targets cover over 80 per cent of the Bank's total assets under management and lending to the public. The targets were submitted to the SBTi for validation in 2023 and are expected to get validated early in 2024.

In addition to emission reduction targets, Handelsbanken also aims to increase its contribution to a rapid and orderly transition and sustainable development while identifying business opportunities through green and sustainable financing. Handelsbanken Fonder has set a target to double investments in environmental and climate solutions by 2030 and to halve emissions intensity by 2030.



Handelsbanken's overall strategy regarding sustainability is integration into normal operations. Building on the Bank's decentralised way of working, all home markets and affected business areas shall integrate Group targets and the Transition Plan into their annual business plans and normal operations. Each home market co-ordinates work with implementing the Transition Plan through national Net Zero Steering Committees and develops and decides on national road maps containing the activities for the upcoming years. Work with identifying and prioritising activities takes an impact approach, meaning that priority shall be given to maximise positive impact in the real economy such as greenhouse gas emission reductions.

Our key approach to achieve our targets is to support our customers on their transition journey. Customers and investee companies all have different starting points, but we are convinced that an overwhelming majority of them will be able to reduce their climate impact in line with 1.5°C. In the event of a corporate customer or investee company being reluctant or unable to transition their business operations in line with the Bank's stated ambitions and targets, despite being given reasonable time and support to do so, this will be reviewed in line with the Bank's low risk tolerance and may lead to a managed phase out of that business relationship. Follow-up is essential to a successful transition and the Transition Plan as well as national road maps, will be revisited annually and developed over time.



# Business development

## Products and services

Aligning Handelsbanken's existing, and new, products and services with a 1.5°C net zero pathway will be key to achieving our targets, allowing the Bank to be an effective partner in our customers' and investee companies' transition.

Handelsbanken aims to work alongside our customers and investee companies on their journey towards net zero emissions of greenhouse gases. Products and services that help and support them in their transition are key if Handelsbanken is to achieve its targets. Central to this is the alignment of new and existing products and services with a 1.5°C net zero pathway. The Bank has already come a long way and many products and services are aligned with the Bank's ambitions and targets and specific sustainability products such as green loans and fossil free mutual funds are important parts of the Bank's current operations.

Sustainable lending products such as green loans and sustainability linked loans receive internal interest rate discounts, allowing business units to give favourable conditions to such projects. By doing this, the Bank aims to grow its green and sustainable lending, attracting customers and support the transition to a sustainable economy as well as lowering risks in our lending operations. In the coming years, the Bank will further integrate transition related support mechanisms into our lending operations so as to steer the Bank's operations in line with the climate targets.

Remaining products and services in scope shall be reviewed in the coming years and updated so to align with, and support, Handelsbanken's objectives and targets within sustainability and climate change mitigation. Where significant gaps are identified, products and services shall be developed with an aim to enhance our offering and support. This includes, but is not limited to, tools and services to help our real-estate customers improve energy efficiency and lower emissions.



## Activities and decision-making

In order to continuously and effectively transition the Bank to net zero, relevant objectives and targets will be embedded in core evaluation and decision-making tools and processes.

If the Bank is to reach its sustainability targets, they need to be integrated into all relevant evaluation and decision making tools and processes. This includes, but is not limited to, processes related to:

- assessment and granting of credit
- investment analysis and decisions
- customer onboarding and engagement
- procurement
- approval of new products and services.

Work with climate related risks and opportunities is ongoing and has come a long way within key decision processes such as the credit process and investment process within asset management and will continue in the coming years. Encouraging and supporting our customers to develop credible and ambitious transition plans will be key going forward to identify opportunities and evaluate the direction of travel. Increasingly we will require such plans from customers and investee companies, taking an impact approach. Due to their key role in climate change mitigation, the Bank already requires science-based transition plans to align business operations with the 1.5°C target as a prerequisite before providing financing to companies within coal power production and oil and gas extraction sectors<sup>1</sup>.

In the coming year, the Bank intends to further integrate emissions reduction targets into regular processes linked to the Bank's property-related lending focusing on buildings energy label.

## Policies and guidelines

Handelsbanken has several policies and guidelines related to climate change and the environment as well as Group sustainability targets. Specific guidelines and sector framework exist covering for example thermal coal, oil and gas. More sectors will be added when relevant to support the realisation of our net zero transition plan. Priority will be given to issues of particular importance for the global transition to net zero and/or areas of particular importance for Handelsbanken's business operations.

In addition to policies and guidelines, we believe that our corporate culture with its focus on long term business relationships, low risk, and high ethical standards adds significant soft governance that steers our everyday business decisions and actions towards sustainable development.

# Engagement strategy

## Customers and portfolio companies

Our key approach to achieving our targets is to support our customers on their transition journey. Through our operations and the products and services we offer our clients we can facilitate and speed up the transition.

As a financial institution we can influence our customers' and portfolio companies' business decisions, including how they approach the transition to net zero. We are determined to use that influence for positive change and support the transition towards net zero. We have several tools at our disposal to support or influence companies ranging from advising, educating to active shareholder voting and incentives in lending terms and practices. Handelsbanken uses these tools for positive change today and will continue to do so in the future with the aim of increasing their effectiveness.



Handelsbanken will continuously review and develop customer and portfolio company engagement strategies and if necessary update them to align with Handelsbanken's targets and identify business opportunities in the transition. This includes proactively and constructively providing feedback and support to customers and portfolio companies to encourage net zero aligned transition strategies and plans. The Bank will over time implement the necessary engagement tools and support system to effectively manage and keep track of our customers' and portfolio companies' transition plans and journeys towards net zero. In the coming year, one focus area for the Bank will be on developing client support strategies towards real estate clients.

Our key approach to achieve our targets is to support our customers and portfolio companies on their transition journey. We are convinced that an overwhelming majority of our customer and portfolio companies will be able to transition their business operations in line with the 1.5°C target given the right support and conditions. In the event of a customer or portfolio company being reluctant or unable to transition their business operations in line with the Bank's stated ambition and targets, despite being given reasonable time and support to do so, this will be reviewed in line with the Bank's low risk tolerance and may result in a managed phase out of the business relationship.

## Financial sector co-operation

The financial sector play a key role in the transition to a sustainable society, but the challenges we all face require us to join forces and act together. To succeed, collaboration, knowledge-sharing and collective effort with other like-minded financial institutions is important.

Solving the climate crisis will require international co-operation on all levels. Handelsbanken proactively engages with peers in the industry and actively contributes to development on common standards, approaches and solutions. Due to Handelsbanken's decentralised working methods, the Bank also has a strong connection to the local community and we consider it essential to contribute in various ways to the communities where the Bank operates.

In 2009, Handelsbanken signed the UN Global Compact and this represents a starting point for Handelsbanken's engagement with global collaboration around business and sustainability. Since then we have joined several international initiatives that collectively aims to increase the pace of sustainable development such as Principles for Responsible Banking (PRB), Global Compact, Net-Zero Banking Alliance (NZBA), Net Zero Asset Managers Initiative (NZAM) and Principles for Responsible Investments (PRI).

## Government and public sector

Without a fit-for-purpose public policy framework and pricing of, or restriction on, greenhouse gas emissions the world will not achieve the goals of the Paris Agreement and Handelsbanken is unlikely to achieve its climate targets.

Handelsbanken does not take part in lobbying activities aimed at weakening international climate-related activities, and we expect the same approach to be taken by the companies with which we have business relations. Handelsbanken will over time analyse, and if necessary, update processes and routines so that direct and indirect lobbying and public sector engagement advocates for policies that support or enable an accelerated and orderly transition to net zero in line with the 1.5°C target.

Handelsbanken will over time and on a best-effort basis increase our review of customers and investee companies' lobbying and advocacy efforts and utilise engagement levers to encourage consistency with our own net zero objectives.

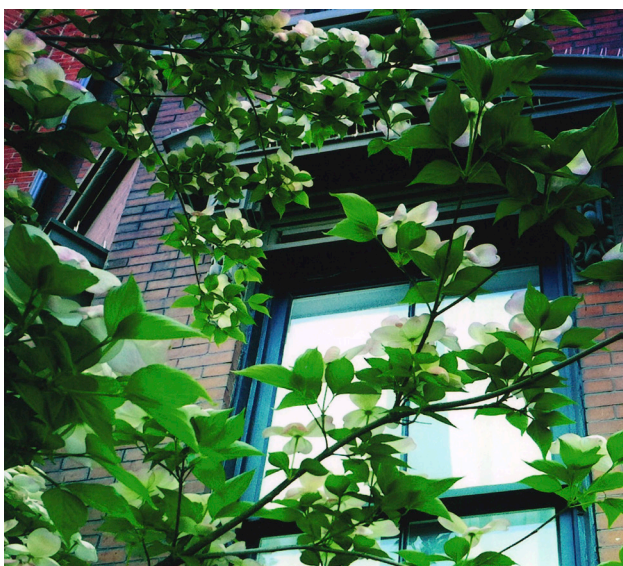
Handelsbanken will not achieve its climate targets without a fit for purpose public policy framework. Handelsbanken joined a number of other companies in signing an open letter to participants at COP27. The letter was co-ordinated by the global "We Mean Business" collective and urges governments to maintain their undertaking and renew their plans to limit the global temperature increase to 1.5°C, and Handelsbanken will continue to advocate for 1.5°C aligned policies and support mechanisms.

# Metrics and targets

Ambitious targets are key to build momentum, steer work-streams and communicate organisational ambition. Handelsbanken has set several targets within sustainability and aims to get relevant emission reduction targets validated by the Science Based Targets initiative (SBTi).

## Net zero by 2040

In 2021, Handelsbanken published Group-wide sustainability targets, addressing not only the Bank's long-term climate ambition, but also our determination to further and fully integrate sustainability into our core business – financing, asset management and advisory services. This included an overarching climate target to achieve net zero emissions of greenhouse gases as soon as possible, and by 2040 at the latest. Handelsbanken will apply the SBTi definition of net zero and set targets using SBTi methodology.



According to the IPCC and IEA, the top priority should be significant reductions in greenhouse gas emissions, and next substantial negative emissions will be required if the world is to meet its climate targets. The construction of the required infrastructure for the necessary Carbon Dioxide Removals (CDR) will take time, resources and significant investments by companies and governments as well as a fit-for-purpose policy framework. Most of this is beyond the control of Handelsbanken, however we aim to support the deployment of CDR by increasing our purchases of CDR-certificates over time related to emission from our own operations.

Beyond value-chain mitigation in the form of carbon offsets will not be used as replacement of emission reduction within our value-chain, or counted towards achieving our emissions reduction targets, but may be used as an additional contribution in order to increase the speed of the global transition.

Handelsbanken's work towards net zero 2040 will not be linear and interim targets, such as sector specific 2030 targets, will be set in line with the 1.5°C target. Up until 2030, the Bank will make the necessary changes and developments so as to allow the Bank in the next decade to increase the pace of emission reductions and achieve net zero by 2040.

## Interim targets

If the world is to have a realistic chance of achieving the 1.5°C target, net zero is not enough. Emissions need to reduce significantly up until 2030 and interim targets are therefore key to set the necessary pace and build momentum. Handelsbanken has developed interim targets using methodology from the SBTi and following the NZBA guidelines for target setting. Targets have been developed for the Bank's own emissions in Scope 1 and 2 as well as our financed emissions, covering both investments and lending.

For Handelsbanken's lending portfolio, targets have been developed depending on the available target setting methods from the SBTi as well as on the Bank's exposure to different sectors. As a bank with a significant exposure towards real estate, representing more than 80 per cent of the Bank's total lending, it is a sector where Handelsbanken can have a big impact. The Bank has therefore set both sector intensity targets for real estate as well as targets covering real estate companies wider operations, aiming to encourage real estate companies to set ambitious climate targets aligned with 1.5°C themselves. In addition to targets for the real estate sector, the Bank has developed targets based on where it can have the greatest impact, with a focus on high-emitting sectors and large corporates. The targets developed in 2023 comprise a total of 84 of the Bank's lending to the public as of the base year of 2021. The targets were submitted to the SBTi for validation in 2023 and are expected to get validated early in 2024.

In investments, Handelsbanken Fonder has developed targets using methods from the SBTi to align its funds with a 1.5°C trajectory by 2028. The targets are based on the portfolio companies' climate targets and cover both direct and indirect investments and is one part of the overall strategy of achieving net zero by 2040 at the latest and 1.5°C alignment. Handelsbanken Fonder have also set targets to both decrease the carbon intensity of its funds with 50 per cent by 2030 and simultaneously double its investments towards environmental climate solutions by 2030. By investing in the breadth of sectors that drive societies' transition forward and use our influence to help companies reduce their emissions, Handelsbanken can make a larger real life impact.

Handelsbanken will develop additional targets and metrics if needed in order to ensure good progress towards net zero and 1.5°C alignment. One focus area for the coming years will be to establish internal metrics and feedback loops to allow branches and business operating units to see how they are progressing and contributing towards the Group targets.

# Governance

## Roles and responsibilities

We will achieve our targets the Handelsbanken way - through trust in the individual, a strong local commitment and a decentralised way of working.

Handelsbanken's sustainability work is decentralised and carried out wherever the Bank's business and operational decisions are made. Handelsbanken's overall strategy regarding sustainability is integration into normal operations. Building on the Bank's decentralised way of working, all home markets and affected business areas shall integrate Group targets and the Transition Plan into their annual business plans. The work to achieve our sustainability targets and the prioritising of activities applies an impact approach, meaning that priority shall be given to activities that maximise positive impact in the real economy such as greenhouse gas emission reductions.

Each home market has a Net Zero Steering Committee that will gather relevant decision makers as well as local sustainability experts. The committees develops the national road maps and steer and co-ordinate implementation. Just as on a Group-level, national road maps shall take an impact approach. The national road maps set out which activities, business development, training and customer groups will be in focus for the national transitional journey as well as suitable metrics and targets for such transition. National implementation, business-integration and decentralised development and ownership are key to a successful transition for Handelsbanken. The activities identified and expressed in the national road maps shall be integrated into relevant units business plans. Road maps will be updated regularly.

The work with implementing the national road maps is co-ordinated by Group Sustainability through the Group-wide Task force on Net Zero 2040, which gathers representatives from each home market. The Task force is chaired by Handelsbanken's Chief Sustainability and Climate Officer, who is part of the Bank's executive management and reports on progress regularly to Handelsbanken's Board, Chief Executive Officer and executive management.

## Skills and culture

Sustainability and a long term perspective are key aspects of our idea of running a bank and corporate culture.

Handelsbanken's values and strong corporate culture are vital to the Bank's success. The Bank's idea is based on trust and respect for the individual, both customers and employees. The Bank's decentralised way of working creates commitment and gives every employee both the responsibility and opportunities to make an impact on the Bank's operations, including our sustainability and climate targets.

Sustainability training is mandatory for all employees in Handelsbanken. The training course Sustainability in the financial industry works as an introduction for professionals in the banking, financial and insurance industries to sustainability. The overall goal is to build knowledge and awareness of the activities required to achieve a transition to a sustainable future. The course includes sections on international and European initiatives and regulations, climate risks, the EU taxonomy and Disclosure Regulation, and on rules relating to advisory services and product oversight governance.

Handelsbanken will continue to build upon our strong corporate culture and develop and provide the necessary training and support to the teams and individuals involved in the achievement of the Group's sustainability and climate targets. One focus area for the next year is to improve employee training and understanding on climate relevant topics within real estate such as emissions and energy efficiency.

## Remuneration

Handelsbanken's principles for remuneration to employees are long-established and do not allow the tying of executive variable performance based remuneration to the achievement of targets in any area, including, but not limited to sustainability. In the policy for remuneration in the Handelsbanken Group, the Board has established that the Bank's remuneration system must be consistent with the Bank's business objectives and business culture, which are based on sound, sustainable operations. Remuneration must also be structured in a manner that promotes a healthy and efficient management of sustainability risks. In addition, the remuneration policy states that fixed remuneration is fit-for-purpose for sound, sustainable operations, and is therefore applied as a basic principle. Variable performance based remuneration, is applied with great caution and never to executive officers.



