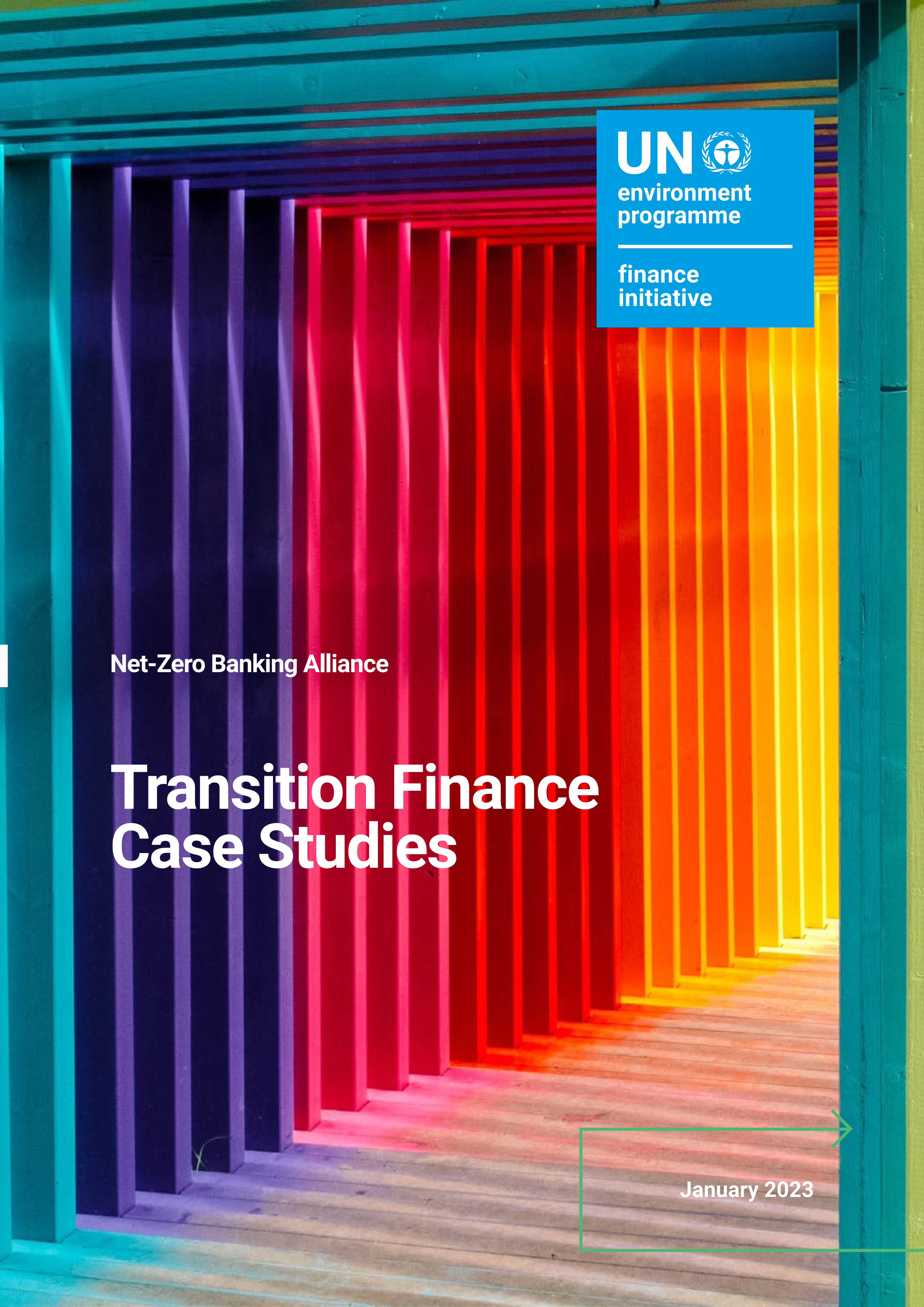

UN environment programme
finance initiative

Net-Zero Banking Alliance

Transition Finance Case Studies

January 2023

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CASE STUDY 1:

First Abu Dhabi Bank

How do you define "transition finance" internally?

First Abu Dhabi Bank ("FAB")'s approach to Transition Financing is aligned with our long-term net-zero commitments to position lending and investment portfolios with net-zero emissions by 2050. For projects and activities to have a 'transition' label applied, the net proceeds of the transaction should be used to fund or refinance projects and activities that fall within the scope of qualifying categories stated in our Sustainable Finance Framework. The qualifying categories for transition finance are in alignment with the EU Taxonomy, ICMA Principles and the CBI Transition Finance White Paper.

In addition to these requirements, the activities should be aligned with the principles of 'Do No Significant Harm' (DNSH) and we require the entity or client to have developed, or be in the process of developing, a credible climate transition strategy that is established by climate science in alignment with net-zero emissions by 2050.

Currently, our framework is exclusively for project/activity-based financing transactions. FAB will seek to expand the framework in the future to assess the eligibility of transition finance given to customers for general business purposes who have a credible, science-based transition strategy in place.

What strategy did you develop for Transition Finance-related goals?

In 2021, we defined our new ESG Strategy with the goal of ensuring that the bank stays ahead of the curve as stakeholder expectations evolve. Our approach to sustainability is guided by three pillars: transforming our governance model, transitioning to a low carbon future and positive social impact. At the heart of our strategy lies FAB's commitment towards the transition to a net-zero economy in line with the UAE 2050 Strategic Initiative for net zero. FAB is the first bank in the UAE and Gulf Cooperation Council (GCC) to join the United Nations Environment Programme Finance Initiative's (UNEP FI) Net-Zero Banking Alliance (NZBA). As part of our commitment, we will assist our clients to transition towards a climate-neutral economy through innovative financing and advisory services.

Our strategy towards transition finance is linked to our NZBA target setting, where we deep dive on high GHG emitting sectors across our portfolio, understand the decarbonization pathways and levers and set targets. For example, low carbon hydrogen is a transition lever for energy sector decarbonization.

What targets have you set/are you developing?

FAB has set targets for sustainable finance at a Group level of greater than US$75 billion by 2030. This target is cascaded to business units within the Bank and each unit is strengthening their products and services offering to support the target and our net-zero financed emissions commitment.

We have not defined specific targets for transition finance. As part of our deliverables towards NZBA, we are setting interim emission reduction targets for our highest GHG emitting sectors for 2030. To meet these targets, we have identified business levers and financing opportunities for each sector and transition finance will play a key role in meeting our targets.

What stakeholders did you need to engage with internally in order to get sufficient buy-in to make it feasible to meet your transition finance objectives?

Our ESG strategy and ambitions, along with our commitment to NZBA were endorsed by the Group Executive Committee (EXCO), which has representation from all key business and enablement units across the Bank, and it was approved by the Board of Directors.

As part of transforming our Governance model, we have defined ESG roles and responsibilities across Board and Management Committees and have defined our ESG organizational structure, which includes a specialized Group ESG and ESG Risk team.

Our Sustainable and Transition finance objective are linked with our NZBA commitment, for which we have a dedicated steering committee and working group that includes Business, Credit, Risk, Finance and ESG as the key stakeholders engaged. The emission reduction targets, and financing objectives are endorsed by the Management Committee and approved by the Board.

Were there challenges in terms of integrating the strategic transition finance-related decisions into ongoing business processes?

The reduced maturity of climate strategy among the bank's clients in the region represents one of the strongest barriers to tackle for a successful integration of any strategic transition finance-related decision into ongoing business processes. We acknowledge that raising awareness of such topics is key to enhance transition finance practices in our geographic area to align the region with best practices at a global level.

We note a heavy lack of regional understanding of how to address key sectors under transition finance efforts, as the region's economy has been historically supported and tied to the fossil fuel industry.

Also, we identified the low quality and reduced availability of ESG or sustainability data as a large challenge to overcome when aiming to implement transition finance strategies into business, as they can cloud proper assessments and create hurdles to a successful implementation.

Is there anything specific to your size, business model or geographic region which you'd like to highlight?

The UAE became the first MENA country to announce a commitment to reach net-zero emissions by 2050, the first nation in the Gulf to ratify the Paris Agreement in 2015 and the first Arab country to set voluntary clean energy targets. The UAE announced in September 2022 an updated version of the country's second Nationally Determined Contribution (NDC) with an improvement of the national greenhouse gas emissions reduction target from 23.5% to 31% by 2030. Since its first National Determined Contribution (NDC), the UAE has been flagging sustainable finance as a key sustainability driver and a main enabler of any green transition.

Although the UAE's economy is very exposed to hard to abate sectors such as oil and gas, aviation or cement and steel, encouraging progress has been noted within the decarbonization process of all these industries. Under the form of carbon footprint reductions and renewable energy record growth, the transition of hard to abate sectors benefited from the right push by public and private finance which backed groundbreaking projects like a carbon-capturing plant in the steel sector, the deployment of sustainable aviation fuel or the construction of the world's largest solar energy facility.

The UAE plays a key role in a just energy transition worldwide. The world was already facing a profound energy-supply crunch as economies began to bounce back from the COVID-19 pandemic and the Russia-Ukraine conflict made a tight market even tighter, while forcing countries to reassess their urgent near-term strategic energy needs. The country is aware of its privileged position within energy resources and acknowledges that policies aimed at divesting from hydrocarbons too soon, without adequate viable alternatives, would be self-defeating and undermine energy security, erode economic stability, and leave less income available to invest in the energy transition. These realities are guiding the UAE's approach to the energy transition, which involves continuing to meet global needs while investing in the new energy systems. While the UAE remains a reliable supplier of some of the world's least carbon-intensive oil and gas, the country will reduce its intensity by a further 25% before the end of this decade, while investing heavily in renewable energy assets.

CASE STUDY 2:

Intensa Sanpaolo

How do you define “transition finance” internally?

The Group, as a large financial player, has a key role in orienting capital towards a sustainable economy both in the short, medium and long term by addressing, amongst others, the environmental impacts that might derive from its business.

In line with the definition of the NZBA Guidance that identifies Transition Finance as financing that supports and enables a global transition towards a 1.5°C-aligned economy, through a range of means, Intesa Sanpaolo aims to mobilise capital where it is most needed to facilitate the transition. Broadly, this includes financing, advisory and training services for the development of climate solutions offered to retail and corporate customers with a focus on carbon-intensive companies which are gradually transitioning towards net zero but where further acceleration is necessary.

What strategy did you develop for Transition Finance-related goals?

ESG is one of the four Pillars of the Intesa Sanpaolo 2022–2025 Business Plan, with qualitative and quantitative targets set both for social and environmental issues, fully integrated in the Group’s overall strategy. Intesa Sanpaolo pursues the “net-zero” goal for loans and investments portfolios (as well as asset management and insurance) by 2050, as well as for its own emissions.

Sector strategy	
Blue	Positive Engagement
White	Neutral
Yellow	Transition selective engagement
Orange	Prevalent disengagement through credit process
Red	Disengagement through policy

The new Business Plan also aims at supporting the Green, Circular Economy and ecological transition with €88 billion of new lending, a wide range of training initiatives dedicated to client companies on ESG issues, the offer of sustainable investment products and, on the funding side, the issue of Green, Social and Sustainable Bonds within a broader funding plan.

To correctly address the lending strategy, the Bank has developed a holistic approach for the integration of ESG/Climate factors within the credit framework.

Key elements to the new credit framework comprise:

- a sectoral assessment that includes ESG/Climate risk assessments for each business sector in which the bank customers operate; the ESG Sectoral scoring constitutes one of the methodological drivers for the identification of specific credit portfolio strategies (engagement, selective engagement, disengagement, etc...) identified through a color-code clustering of sectors. Sector strategies also take into consideration risk and opportunity aspects;

- an ESG score defined at counterparty level with nowadays approximately 200,000 companies scored;
- a sustainability attribute to the single product/transaction.

What targets have you set/are you developing? Intesa Sanpaolo's 2022–2025 Business Plan provides for a number of targets, from reduction for own emissions and financed emissions, to transition finance objectives, as well as other environmental goals. In particular:

- net-zero aligned financed emissions reduction targets were set for 2030 in the oil&-gas, power generation, automotive and coal mining sectors, representing over 60% of the non-financial corporates portfolio financed emissions in the sectors identified by the NZBA;
- strong support to the green and circular economy, as well as the ecological transition is to be underpinned by €88 billion of new lending made available as follows:
  - €76 billion, out of a total of over €400 billion, in relation to the National Recovery and Resilience Plan[1] (29 billion already granted in 2021 and nine first months of 2022). A total of 8 billion was specifically dedicated to finance the Circular Economy (2.6 billion disbursed in nine months of 2022)
  - €12 billion to individuals[2] (mainly green mortgages);
- a commitment was taken to environmental protection, with the planting of 100 million trees, directly and through dedicated financing to clients and the adoption of a specific policy on biodiversity.

Furthermore, in October 2022, as a follow up to the adhesion to the NZAMI and to the NZAOA, the asset management and the insurance companies of the Group published their first targets, along the path of the Group's "net-zero" commitment.

What stakeholders did you need to engage with internally in order to get sufficient buy-in to make it feasible to meet your transition finance objectives? Internal stakeholder engagement has been extensive, both to set targets, approved by the Board of Directors, and to ensure correct implementation and monitoring. Transition finance targets were defined involving all Business Units and Governance Areas such as, among others, the Chief Risk Officer, Chief Financial Officer, Chief Lending Officer and Strategic Support.

Within Business Units and Governance Areas, transition finance objectives are also enabled through the role of the 17 Sustainability Managers, one for each Unit/Area, retained by the ESG Control Room, in charge of guaranteeing an overall and integrated supervision of ESG initiatives and contributing to the Group's strategic proposition on these issues.

1 2021–2026
2 2022–2025

Were there challenges in terms of integrating the strategic transition finance-related decisions into ongoing business processes?

Since financial resources alone are not enough to enable the sustainable transformation of businesses, knowledge and culture are among the most relevant objectives on which Intesa Sanpaolo has been working in the recent years.

The engagement of all Group employees is crucial. For this reason, a large number of learning tools have been made available through multimedia platforms, of which 180 dedicated to the environment. These include learning tools on the Circular Economy, CO_2 Market, Green Bonds, the Challenge of climate change, and environmental protection.

For the development of a new business culture focused on sustainability, client engagement is also needed. The ESG Lab initiative was launched in 2021, consisting in physical and virtual meeting points to guide Italian businesses through the sustainable transition; it provides for the gradual implementation of 12 Labs (6 of which already operational) in the 12 operating areas of the Group.

Customer training at different levels of seniority may be obtained by subscribing to the Skills4ESG Platform, specifically created for enterprises, an initiative aimed at promoting awareness of ESG topics through a single access point and dedicated contents (468 learning objects available, of which more than 100 dedicated to ESG issues).

Action to raise awareness of environmental issues and related to data collection is ongoing. As an example, in 2021 a wide Climate Change Survey was launched mainly for SMEs though this also covered corporate customers. The goal was in particular to analyse issues such as exposure to climate change, adaptation strategies and mitigating actions, the positioning of companies at a national level, as well as other quantitative data, to identify solutions to accompany companies in their management of climate issues. The results show that 30% of companies believe that the integration of climate change into their business model will significantly impact their operations over the next three years, and 45% declare they aim to increase their investments in climate solutions.

Questionnaires are also used as a mean of collecting data from customers, both to be integrated in the counterparty ESG Score and within the Bank's procedures, and, on the other hand, to understand customer needs in the definition of the product offer.

The importance of monitoring actions is paramount in determining whether strategic transition finance-related decisions are successfully carried out through the ongoing business processes. ESG Business Plan targets are monitored over more than 180 KPIs (28% closely related to climate/environment) many of which subject to quarterly reporting.

All ESG initiatives within the Group are overseen and coordinated since 2019 within the ISP4ESG programme, a wide-ranging and high impact initiative led by the CFO area in coordination with the Strategic Support Department, which involves all the different Group structures and aims to integrate ESG logics into the Bank's business model and strategy.

Is there anything specific to your size, business model or geographic region which you'd like to highlight?

Two of the distinctive drivers of Intesa Sanpaolo's role in the green and environmental transition are:

- the promotion of the Circular Economy, fundamental for an economic development that generates positive environmental and social impact
- the support to Italian SMEs

Since 2015, Intesa Sanpaolo Group fosters the spread of the Circular economy business model, drawing on the support of the Ellen MacArthur Foundation, the main promoter of the global transition towards the Circular Economy. The collaboration with the Foundation, of which Intesa Sanpaolo is Strategic Partner, continues through a three-year agreement renewed again for 2022–2024. Intesa Sanpaolo will continue to redefine business strategies in an innovative way, ensuring financial support for investments to facilitate the redesign of the industrial system. The activity is considered of distinctive and of primary importance also in the 2022–2025 Business Plan.

On the other hand, one challenge Intesa Sanpaolo is facing concerns how to engage with, and support, SME clients in the context of their transition strategy. SMEs represent an important part of the real economy in Italy, the country where the Group mainly operates, and more than 20% of its loans to customers.

Therefore, Intesa Sanpaolo, within an articulated offer of lending products (including those for the development of renewable energy, green mortgages, etc.) devised a specific line of ESG-linked loans for SMEs, the S-loans (~€3.2 billion granted since the launch in July 2020). These offer subsidized interest rates subject to the annual monitoring of two ESG KPIs, to be reported in the borrower's financial statements. This highly successful line of products, which fosters the transition of SMEs towards a sustainable economy, now offers a range of six different options with different ESG KPIs for companies to choose from, and includes environment related S-loans such as S-Loan Climate Change, S-Loan Tourism and S-Loan Agriculture.

CASE STUDY 3:

La Bank Postale

How do you define “transition finance” internally?

La Banque Postale (“LBP”) is committed to support all of its customers in the ecological transition.

In 2021, LBP set up a strategic plan—Horizon 2030—to make its banking/insurance business model evolve towards a just transition. A new central purpose was defined:

> **“Because it was born with a civic vocation, La Banque Postale is convinced that there is no creation of sustainable value without sharing, no economic dynamism without vitality of the territories, no sustainable development without respect for global limits”.**

The “Citizen Engagement Department” was created. It is managed by the Chief Sustainability Officer, who is responsible for all sustainability issues (in the meantime, focus is mainly made on climate, biodiversity and social issues).

The role of this Department is to put the Just Transition into action. Its missions consist in building an innovative and differentiating offer, setting the best standards in terms of social responsibility and enabling employees to be actors of the just transition on a daily basis.

In February 2022, LBP entered a new phase of its transformation by becoming a mission-led company. It confirms LBP’s commitment to ensure a just transition by including social and environmental targets at the heart of its governance. This approach is in line with La Poste Group’s commitment, as it also became a mission-led company in June 2021.

What strategy did you develop for Transition Finance-related goals?

To develop transition finance goals, LBP has set up products and tools to support all its customers in the ecological transition. For instance, its main commercial offers are:

- **Green Loans:** LBP offers the French local authorities and companies access to green dedicated project finance solutions. The green loans enable them to have access to a green project finance solution that is aligned with the EU taxonomy.
- **Positive incentive loans:** LBP offers bilateral or syndicated loans which include ESG criteria that can impact the credit rating. Once the loan is granted, the company has to communicate the ESG criteria accordingly to the documentation.
- **The Green Range offer:** dedicated to individuals, this product range provides home financing solutions (energy efficiency renovations with the zero-percent eco-loan and the “green works” loan) and eco-mobility (personal loan for a green vehicle).

To measure the impact of its activities on environmental, societal and territorial dimensions, LBP is currently developing an unprecedented proprietary indicator, the Impact Weighting Factor. It will be taken into account in the Bank’s decisions to grant loans and will enable customers to channel their savings towards more sustainable investment solutions.

LBP is also investing in the international community to address climate and biodiversity challenges.

LBP has bees involved for several years in the fight against climate change.

- In 2015, it launched its first "Carbon Fund" to take concrete action to mitigate its GHGs emissions. The Carbon Fund is an internal mechanism that monetizes LBP's carbon footprint and allows to finance internal decarbonization projects but also to finance external off-settings programs.
- In 2018, LBP achieved carbon neutrality within its operating scope.
- In 2021, LBP set itself the goal of reducing its net emissions to zero for all its banking activities by 2040, or ten years before the deadline set by the Paris Agreement. To facilitate the net-zero journey, LBP is working on decarbonization trajectories and set up of sectorial policies.

In terms of sectoral policies, LBP started with fossil fuels. In October 2021, LBP introduced a self-imposed ban on financing the coal as well as the oil and gas sectors beyond 2030, except for companies that adopt a plan before 2030 to withdraw completely from these sectors by 2040. LBP keeps working on sectoral policies on other carbo-intensive sectors as well as on a biodiversity.

In terms of decarbonization pathways, LBP started a few years ago to work on methodologies based on the Science Based Targets to measure its climate-related exposure. In October 2021, the SBTi validated its decarbonization pathways for several asset classes (Mortgages, Corporate Real Estate, Corporate Loans, Listed equities and bonds, Project finance (Electricity generation)).

In the frame of its commitment within the NZBA, LBP set up targets with a 2030 intermediary target for several carbon-intensive sectors: Mortgages, Corporate Real Estate, Cement, Aviation, Automotive.

LBP is already 1.5°C aligned in the coal sector (no more exposure based on B5 Nace Code) and in electricity generation (LBP is only financing project based on renewables)

In parallel, the Climate and Environmental Risk Department monitors several ESG indicators. Transition risk is monitored through the level of alignment with the SBT decarbonization trajectory, the carbon intensity and temperature of portfolios, the eligibility rate for the European Green Taxonomy and sectoral exposures analysis. The Risk Department also makes stress-tests on climate related issues. These stress-test are mandatory and are addressed to the French Regulator.

What targets have you set/are you developing?

The targets discussed above have been validated by the SBTi framework and were developed for several asset classes:

- **For Mortgages and Corporate Real Estate portfolios:** Emissions are calculated based on the SDA Real Estate Methodology as follows: (kWhef/m^2/year) × (corrective climate coefficient) × (energy consumption per source of energy) × ($kgCO_2e$/kWh) = $kgCO_2/m^2$/year

- **For Corporate loans, and Listed Equities and Bonds:** LBP used the SBTi Temperature rating methodology (EOTS and ROTS where the temperature score at corporate level is weighted by investment and carbon intensity of the company (by revenue or enterprise value). This methodology has allowed LBP to define a Temperature rating at portfolio level and fix alignment trajectories.
- **Project finance—Electricity generation:** the bank used the SDA methodology to calculate the portfolio carbon intensity (gCO_2/kWh) as follow: intensity = (tCO_2e of the portolio)/(MWh of energy generated and attributed). As La Banque Postale only finances renewable energy, the intensity of the portfolio is 0 KCO_2e/kWh (Scope 1+2).

In the context of its commitment within the NZBA, LBP delivered some sectoral decarbonization trajectories. GHG emissions data expressed in physical intensity (sector-specific quantity of CO_2e/metric). These trajectories set intermediate targets for 2030.

Sector	Metric used	Starting Point 2020	Objective 2030	Reduction rate 2020–30	Scopes	Scenario
Mortgages	$kgCO_2e/m^2$	22,19	11,98	46%	1 & 2	IEA 2017WB2D—Validation SBTi
Commercial Real Estate	$kgCO_2e/m^2$	23,63	15,02	36%	1 & 2	IEA 2017WB2D—Validation SBTi
Automotive	gCO_2e/v.km	111	103	7%	3	IEA NZE2050
Aviation	gCO_2e/v.km	143	63	56%	1 & 2	IEA NZE2050
Cement	$kgCO_2e$/t of cement	511	357	30%	1 & 2	IEA NZE2050

Other targets include :

- Climate change features amongst the collective KPIs assigned by the board to all employees. These collective targets account for 10% of the variable remuneration.
- Two selected in-house commitments are being monitored under the strategic plan (quarterly monitoring): achieve a €2 billion financing target for green loans to local authorities in 2023 and a €3 billion financing commitment target for renewable energy projects in 2023.

What stakeholders did you need to engage with internally in order to get sufficient buy-in to make it feasible to meet your transition finance objectives?

Our strategy, sponsored by the CEO and the COMEX of LBP is based on a Just Transition, which means that the top management is engaged. This is the starting point and a key point to then engage all the company.

A part of this, each employee, including those on the COMEX, has incentives based on extra-financial objectives.

We created an ambassador network to diffuse and accelerate the integration of the just transition in the business.

To meet our objectives, we have also been developing sustainable services and financial products as already mentioned above.

In terms of the design of these services and products, we want to make sure that our high standards are exemplary and, as such, have been working with external stakeholders like NGOs (WWF) and consulting firms like Utopies or Carbone 4 to build our internal and external tools like our Green, Social and Sustainable Bonds Framework or our eco-design grid to qualify the sustainability of our products and services.

Were there challenges in terms of integrating the strategic transition finance-related decisions into ongoing business processes?

Our 2030 strategic plan aims for development based on the just transition and the current update of this plan makes this an even stronger mission-driven focus. This strategy is completely relevant to the strategy of our shareholder La Poste Group, whose social commitment is at the heart of its business model.

Developing the understanding and the culture of just transition among the different departments of LBP has been and remains one of the main challenges. As such, different training courses on climate change, sustainable finance and climate risks have been conducted. In addition, LBP aims to have a majority of its employees participating in the "Climate Fresk" programme and all employees interested are encouraged to become "Climate Fresk" animators.

Data is another important challenge: an ambitious ESG Data project is conducted to meet our objectives on that topic. It includes the Impact Weighing Factor project, which is an internal tool to measure the impact of its transactions and clients. These projects will be decisive in the integration of transition finance in the ongoing business.

Is there anything specific to your size, business model or geographic region which you'd like to highlight?

On its banking activities, LBP is mainly focused on France. Residential and Commercial Real Estate represent an important part of its balance sheet.

LBP mainly finances individuals, which is why the Impact Weighing Factor will also involve residential real estate and then contribute indirectly to the transition of that sector.

LBP is also a young bank, as it is only 16 years old and has developed from the beginning in a sustainable way and aims to be exemplary on that topic.

LBP also has a specific positioning as a citizen bank, part of the French public finance group, with a public service mission on a part of its activities.

Finally, its excellent ESG performances (1st bank according to Moody's ESG Solutions) give LBP a strong legitimacy to support companies in their efforts towards transition.

CASE STUDY 4:
SMBC

How do you define “transition finance” internally?

We define transition finance as financial services provided to clients aiming to support them in aligning their business and/or operations with pathways in line with the objectives of the Paris Agreement.

SMBC recognizes that transition pathways to net zero should be tailored to our clients' sector and operating geographies, noting that clients may be at different starting points of their journey towards net zero and that pathway curves may also differ depending on industry or regional characteristics.

What strategy did you develop for Transition Finance-related goals?

SMBC focuses on contributing to the decarbonization of the real economy. As such, supporting the transition of clients who have a credible transition strategy is essential. Lack of support for the transition of these clients may lead to an end-result of not being able to achieve the Paris Agreement objectives. SMBC also recognizes that transition pathways to net zero may require to increase our Financed Emissions (FE) to support clients investing in transactions that will enable them to reduce GHG emissions and our FE in the long-term. Thus, we plan to be transparent on our strategy towards transition finance.

What targets have you set/are you developing?

Targets related to transition finance are under consideration.

What stakeholders did you need to engage with internally in order to get sufficient buy-in to make it feasible to meet your transition finance objectives?

Senior Managements including the CEO and relevant departments such as front office, risk department, credit department, planning department, research department, etc.

Were there challenges in terms of integrating the strategic transition finance-related decisions into ongoing business processes?

We find various challenges related to knowledge, data, procedure, and IT systems. For example, we need to enhance knowledge and skills to understand our customers' transition strategy to assess individual transactions if they are eligible to transition finance. New data are also required for the analysis.

Is there anything specific to your size, business model or geographic region which you'd like to highlight?

While we do recognize the importance of analyzing the borrower's climate transition strategy based on science-based pathways, it is also important to highlight that many companies in Asia face challenges following the IEA NZE pathway. Likewise, some countries in the region are aligned to net zero after 2050 (2060–2070), and do not align yet with our commitments. However, we believe that supporting these countries in their transition is essential to achieve the objectives of the Paris Agreement. Bridging this gap is a significant challenge.

CASE STUDY 5:
Swedbank

How do you define "transition finance" internally?

Transition Finance is not defined as concept in itself, but rather incorporated under Swedbank's existing policies, such as Swedbank's Position Statement on Climate Change.

- Point 5.2. of our position statement describes how the bank is supporting customers in their sustainability transition.
- Swedbank advocates that companies we provide financial services to adopt a 1.5°C-aligned climate strategy.
- While Swedbank has a restrictive policy on financing and investing in fossil fuels companies, the bank can finance existing customers that have a Paris-aligned climate strategy.

What strategy did you develop for Transition Finance-related goals?

Following its commitments to the Science-Based Targets initiative (SBTi) and the Net-Zero Banking Alliance (NZBA), the bank has adopted decarbonization targets for its lending portfolio for 2030 in line with the global 1.5°C target. The current targets cover five sectors: Mortgages, Commercial real estate, Oil & gas, Power generation and Steel. We have chosen the sectors based on their contribution to climate change, the bank's portfolio exposure and data availability.

In our client advisory, we are encouraging all our corporate clients to set transition targets in line with the 1.5°C target. Swedbank provides various sustainable finance products, which can be used by our corporate clients to finance their sustainable transformation journeys. In the context of transition finance, we find that green and sustainability-linked loans and bonds are most relevant for our clients' transition agendas.

Swedbank has a large exposure to the real estate sector, both in terms of household mortgages and commercial real estate. Therefore, the bank has a particular focus on the real estate sector in terms of developing products and advisory services that support our customers in the transition.

What targets have you set/ are you developing?

Swedbank has adopted Group-wide environmental targets, including, but not limited to, achieving net-zero emissions by 2050 at the latest, and aligning our lending and investment activities with the 1.5°C target:

- Targets for Swedbank's own operations
  - Reduce Swedbank's direct greenhouse gas emissions by 60% in 2019–2030 (Scope 1, 2 and 3[3]).
- Targets for the lending portfolio:
  - For mortgages, the target is to reduce the financed emission intensity ($kgCO_2e/m^2$) by 39%.
  - For commercial real estate, the target is to reduce the financed emission intensity ($kgCO_2e/m^2$) by 43%.

3 Excluding Scope 3 emissions related to financing and investing activities

    - For oil & gas (exploration, production and refining), the target is to reduce the absolute financed emissions (tCO_2e) by 50%.
    - For power generation, the target is to reduce the financed emission intensity (tCO_2e/MWh) by 59%.
    - For steel, the target is to reduce the financed emission intensity (tCO_2e/tonne) by 29%.

All targets have been set against a 2019 baseline, and they have been sent to the Science-Based Targets initiative for external validation. More information on Swedbank's decarbonisation targets for the lending portfolio can be found on our website.

- Targets for investments:
    - Combined fund capital will be aligned with the Paris Agreement's goal to limit the global temperature increase to 1.5°C by 2025.
    - Combined fund capital will be carbon-neutral by 2040.

More information on Swedbank's climate strategy for investments can be found on our website.

Report on progress will be made annually in the bank's Annual and Sustainability Report.

Swedbank also has an overall target of increasing the volume of sustainable financing (loans included in the Sustainable Funding Register and sustainability-linked loans). Please refer to our website for metrics on this and other targets.

What stakeholders did you need to engage with internally in order to get sufficient buy-in to make it feasible to meet your transition finance objectives?

- Sustainability-related objectives and strategies are set following the same process as other strategy development in the bank. The Board of Directors is responsible for group-wide policies such as the environmental policy and the sustainability policy. The CEO is responsible for the bank's position statements, such as the position statement on climate change.
- The decarbonisation targets for the lending portfolio have been approved by the Group Executive Committee. Prior to the approval decision, the different business areas have been involved in the process of developing target levels, assisting with data, and assessing key levers and actions to reach the targets.

Were there challenges in terms of integrating the strategic transition finance-related decisions into ongoing business processes?

Data availability

- In order to set targets (such as GHG targets), measure progress, and follow up on it, large amounts of granular data is needed. Not all data factors are being collected internally, and data available through external providers is often insufficient (especially due to in many cases limited research universe, covering only a small share of our portfolio).

Culture

- Our region is relatively mature in terms of climate-related considerations. While sustainability is generally acknowledged as an important topic, not all stakeholders put climate transition on the top of their agenda (and prioritize short-term financial performance instead).

Business steering and internal processes

- Group-level strategies need to be “translated” by our business areas into specific activities to be taken up. Development of proper incentives for client teams to offer transition finance is also a challenge for a bank. It takes time to develop internal processes that allow proper integration of transition considerations into every-day business activities.

Competence

- Strategy development, such as setting of climate targets, requires specific competence, including general climate expertise, sector-specific knowledge, and detailed understanding of our markets and our clients. Expert knowledge (also sector-specific) is also needed internally in client teams to be able to advise our clients on their transition journeys.

Is there anything specific to your size, business model or geographic region which you’d like to highlight?

- Swedbank’s four home markets, Sweden, Estonia, Latvia and Lithuania, differ substantially in terms of the countries’ energy mix. Decarbonising the real estate sector will therefore depend on different factors in the respective markets.
- In Sweden, energy efficiency improvement measures are important levers. In the Baltic countries, changes towards a greener energy mix will have a substantial effect on the emissions from the real estate sector.
- Data quality on buildings’ emissions is currently insufficient. Improving data availability is of highest importance to be able to limit the use of estimates and hence improve steering and monitoring of the portfolios.

UN environment programme

finance initiative

UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. We've established the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges.

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