

Ms. Jeanne Martin
ShareAction

2021-08-13

Regarding your letter on alignment with the Paris Agreement

Dear Jeanne,

Thank you for your interest in Swedbank's climate strategy agenda. Below we describe Swedbank's strategy and comment on the five issues that are highlighted in your letter.

Swedbank's vision is a financially sound and sustainable society where Swedbank empowers the many people and businesses to create a better future. With a large customer base in all our home markets we can drive change together with our customers and have a large impact on society. We envision a sustainable society, considering environmental, social, financial, governance and ethical aspects.

We are committed to support both the Paris Agreement on climate change and the UN Sustainable Development Goals (the SDGs). This twofold commitment will guide our work and impact towards 2030 and beyond. In 2019 Swedbank also became one of the 130 Founding Signatories to the UN's Principles for Responsible Banking: a shared commitment to align our business strategy with the Paris Agreement and contribute to the fulfilment of the SDGs.

Swedbank aims to take a leading position in the sustainability transformation and we have the continuous opportunity to drive change in our home markets and create long-lasting impact. We believe that a sustainable bank with sustainable customers will contribute to a long-term sustainable society.

Swedbank's climate strategy and vision

As part of the financial system, Swedbank plays an important role in society. By promoting savings and lending money to households and businesses, we contribute to our customers' financial security and support the national economy. Our business is affected by a number of factors, the most important of which are customer behaviour, competition, macroeconomic development, regulation and financial crime. Sustainability matters, and climate issues in specific, are impacting these factors to varying degrees. For example, customers place an

increased demand on banks within the sustainability area and requests offers such as sustainability linked products and services but also that the banks conduct sustainable financing e.g. by excluding lending to carbon-intensive sectors and companies. At the same time EU develops an increased number of regulations within the area of sustainable finance to ensure that the financial markets support and promote this shift by integrating environmental, social and governance factors across its core activities. In addition to the legislative regulations from EU there are also an increased number of voluntary frameworks focusing on climate risks such as Task Force on Climate related Financial Disclosures (TCFD) and Climate Disclosure Standards Board (CDSB).

Climate change affects Swedbank in different ways. The business model, risk management and reporting/disclosure are only a few areas that are and will be affected. Sustainability has gradually become more important for Swedbank as a financial institution, both in our own investment decisions, but also to Swedbank's shareholders. In order for Swedbank to be able to make long-term profitable investments we need to have processes and competence to be able to assess the GHG impact in our investments and other financial activities. In the same way, we need to have control of and be able to assess our own GHG impact for Swedbank to be an attractive company to invest in and collaborate with. It is therefore of utmost importance that we understand, examine, and mitigate the climate impact of our business processes and activities. We recognize that the financial sector has an important role to play to contribute to the low-carbon transition.

Short-term climate related targets

Swedbank has made the following climate-related target commitments:

- Net-Zero Banking Alliance – Swedbank commits to aligning its investment and lending portfolios with net zero emissions by 2050 and within 18 months of joining setting interim targets. Swedbank joined the Net-Zero Banking Alliance in May 2021.
- Principles for Responsible Banking – Swedbank commits to align its business strategy to the UN Sustainable Development Goals and the Paris Agreement.
- Science Based Targets initiative - In 2018 Swedbank committed to "Science Based Targets Call to Action for Financial Institution" (SBTi) which means that we have committed to set climate targets and verify our scope 1, 2 and 3 emissions.

To help financial institutions align investment and lending portfolios with the climate goals and support the transition to a low-carbon world, the SBTi is developing target-setting methods and implementation guidance for financial institutions to set science-based targets for their investing and lending activities, Scope 3. Methodologies for developing and verifying targets for scope 1 and 2 emissions have been available for several years but scope 3 methodologies for financial institutions were, however, not available at the time of Swedbank's SBTi commitment. During October 2020 methodologies for setting targets for scope 3 emissions, were released by SBTi covering four different asset classes, which means that Swedbank has two years from that date to set and validate scope 3 SBTi-targets for these specific asset classes. In 2021, Swedbank aims to develop targets for the real estate portfolio.

Swedbank has established two overarching short-term targets to continue to contribute positively and limit the negative impacts on the UN SDGs and society as a whole. The targets are:

- In 2021, develop long-term climate targets for the real estate sector aligned with the Paris Agreement. Swedbank continuously follows the development of SBTi methodologies for target setting.
- In 2021, increase Swedbank's sustainable financing. Total sustainable financing volume was SEK 23,7 bn at year-end 2020.

These targets are focused on areas where Swedbank has the biggest opportunity to contribute to sustainable development, using the results of the portfolio impact analysis and with Agenda 2030 as a basis. The real estate sector represents a large part of the corporate loan portfolio. It is through close collaboration with customers that Swedbank can achieve the greatest change. The targets apply to the entire Group and are implemented in each business area and relevant Group Function as part of day-to-day activity and business planning.

Swedbank's fully owned subsidiary, the asset manager Swedbank Robur Fonder AB, has set two climate strategy goals:

- The combined fund capital will be aligned with the Paris Agreement's goal to limit the global temperature increase to 1.5° by 2025
- The combined fund capital will be carbon-neutral by 2040

Swedbank Robur's Climate Strategy is guiding the asset management company in the efforts to reduce climate-related risks and enable a transition to a low-carbon economy. The aim is to stay ahead of policy decisions and to drive investments in technologies and services that promote a healthy climate. Swedbank Robur also supports a broad transition to a low-carbon economy by also investing in companies that contribute to global warming today but can demonstrate a willingness and potential to align their business with the Paris Agreement. Swedbank Robur's Climate Strategy lays the foundation for how Swedbank Robur creates long-term value for the customers, while also taking responsibility for reducing carbon emissions and investing in a sustainable future.

Integration of the IEA Net-Zero scenario and/or another 1.5° scenario in climate strategy

Swedbank has a position statement on climate change and has implemented the decision to not grant new financing for the prospecting of new oil and gas fields or for unconventional extraction of fossil fuels. This position is in line with the IEA's finding in the Net Zero by 2050 Roadmap that there is no need for oil and gas exploration investments.

Swedbank has the ambition to continue to support the renewable sector through financing renewable energy projects and provide advisory to guide our customers towards best practice financing decisions, including energy efficiency and mitigation of climate-related risks.

Swedbank's financing of wind and solar projects supports this transition and promotes the use of affordable and clean energy. In the current Green Asset Register, Swedbank is financing

more than 400 power plants, estimated to produce 1 831 000 megawatt-hours annually. During 2020 Swedbank expanded its portfolio to include solar energy. By year end 2020 Swedbank has financed 13 solar parks covering a solar cell area of more than 80 000 square meters. Swedbank maintains a diverse portfolio including important investments in both wind and solar energy across the Nordic and Baltic countries.

Swedbank continuously evaluates new climate scenario tools and reports, such as IPCC AR6, and only uses robust and recognised scenarios when performing scenario analysis. As we are committed to a 2050 net zero pathway, we welcome the development of the IEA Net Zero by 2050 Roadmap.

Swedbank is currently in the process of setting science-based climate targets according to the SBTi methodology for the financial sector.

Swedbank climate position statement - strategy on fossil fuels

Swedbank does not provide financial services to companies mining and producing coal to more than 5% of its revenue. We will not directly finance coal-fired power production or the establishment of new coal-fired power plants.

Swedbank will not directly finance unconventional fossil fuel production such as shale oil/gas, arctic oil/gas or oil sand. Moreover, we will not directly finance exploration of new oil or gas fields, although we can finance clients with such activities if the business strategy is aligned with the Paris Agreement.

Swedbank encourages portfolio companies and corporate customers to improve their climate management.

Financial statements in line with a 1.5° pathway

Swedbank Group is using TCFD recommendations to track the financial implications that climate change will have for customer businesses and give investors a way to see how the climate issue is being addressed. During the series of scenario analysis workshops each business area is preparing the analysis on physical risks (acute and chronic) as well as transitional (policy, technology, market, reputation) relevant for material sectors for TCFD. Identified risks and opportunities are taken for further discussion of strategic level (during preparation of Credit Strategy and also Strategic Industry Planning), preparation of action list for immediate implementation and necessary improvement of risk management.

It should be mentioned that assessment now is based on qualitative analysis applied to the current portfolios. Findings are disclosed in the Annual Report. The greatest uncertainty is in the area of physical risks, where more knowledge, methodologies, standards and data will be developed and continuously improved.

The ICAAP adverse scenario simulation approach (normative perspective) incorporates a climate-related transition risk in two scenarios spanning three years, where a severity of climate related impact is calibrated based on the targeted severity level of a particular scenario.

The method utilizes the investment need to target RCP2.6 and the economic costs if we target RCP8.5. The method thus takes two main IPCC scenarios into consideration and it is assumed that a successful achievement of the Paris Accord will keep global warming at roughly 2°C (or RCP2.6). The method further utilizes the country specific pledges made to differentiate between countries and economic regions and in practice, the method transforms the need for long term climate change investments and from it makes annual macroeconomic scenario projections. From these projections, client specific credit risk is assessed as the method elaborates on both carbon pricing and regulatory changes.

Going forward, more detailed measures of the impact from climate change risks is needed. In particular, the stress test methodology needs to be developed further such that it can transpose climate scenarios into all financial risks such that both credit and market risks via micro- and macroeconomic transmission channels are considered simultaneously. Furthermore, measures of incorporating the physical risks of climate change needs to be further developed and a value-at-risk analysis is ongoing for the real estate portfolio during 2021. To measure social and governance risks to fully reconcile all ESG risks, the stress testing exercise also needs to be complemented with a rating or a scorecard.

Integration of ESG into the risk management framework is being developed further during 2021. This is to ensure that the potential impact of ESG factors as a driver of other risk types such as credit risk and market risk is adequately identified, assessed, and mitigated. This entails amending risk appetites for existing risk types to better reflect the impact of ESG, and to establish limits, risk monitoring and reporting.

As part of this work, a risk appetite for Sustainability risk has been developed, and the risk appetite for credit risk has been amended to consider ESG factors. Exposure limits have also been set for certain sectors segments with elevated transition risk due to climate change.

A sustainability analysis is mandatory for all corporate exposures where the total group credit limit exceeds SEK 8m in Sweden and EUR 0.8m in the Baltic countries after deducting credits secured by residential mortgages. The analysis is integral to the credit analysis and is designed to evaluate how risks related to these areas impact the bank's reputation as well as the bank's and customer's profitability.

The annual Credit Risk Outlook continuously identifies climate risks and provides recommendations on the credit strategy. The bank regularly analyses how various trends affect lending. These analyses are incorporated in business plans and credit strategies, where climate change is integrated by identifying transition risks and physical risks in various sectors.

Strategy on biodiversity

Swedbank acknowledges the importance of the finance sector in contributing to the protection and restoration of biodiversity. As such, Swedbank Robur, Swedbank's asset management

subsidiary, signed the Finance for Biodiversity Pledge in December 2020. Work is now ongoing to prepare for meeting the commitments, such as cooperation within the industry and setting targets and disclosing biodiversity-related data.

Swedbank is currently evaluating and considering other options to further engage in biodiversity-related issues.

We look forward to continuous contact with our investors on the issues highlighted in this letter. We are at your disposal should you have any questions.

Yours sincerely
Swedbank AB (publ)

A handwritten signature in cursive script that reads "Fredrik Nilzén".

Fredrik Nilzén
Head of Sustainability
fredrik.nilzen@swedbank.com