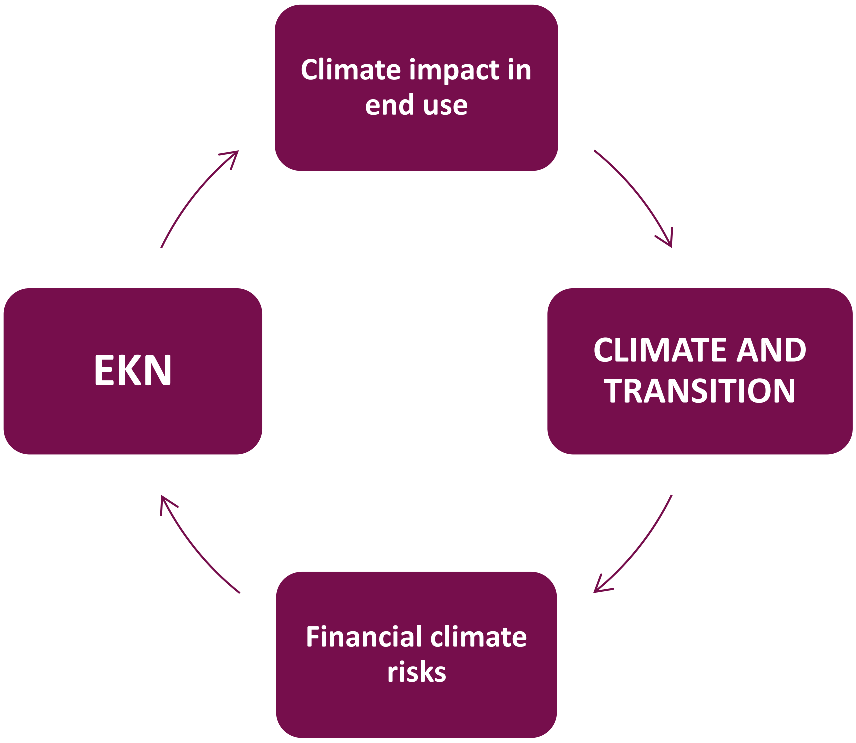
TCFD reporting – pilot report for the 2021 financial year



1. INTRODUCTION

This pilot report is EKN's first report on climate-related risks and opportunities according to the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). It describes the results of EKN's TCFD work from August 2021 to May 2022.

By analysing and reporting according to the TCFD's recommendations, EKN aims to:

1. Increase understanding of (i) EKN's vulnerability to climate-related financial risks and (ii) how the organisation can be strengthened by maximising opportunities in the green transition in various climate scenarios and as the portfolio is aligned in line with the Paris Agreement.
2. Ensure that the credit assessment of new and ongoing transactions takes climate-related financial risks and opportunities into consideration.
3. Measure and over time decrease the climate impact of EKN's guarantee portfolio to be in line with the 1.5°C goal of the Paris Agreement.
4. Contribute to a more transparent financial market and describe to stakeholders how climate-related risks and opportunities are managed in the organisation.

2. AN EXPORT FINANCE SYSTEM THAT CONTRIBUTES TO THE CLIMATE TRANSITION

In March 2020, the Swedish government tasked EKN to review how the Swedish export finance system can support the climate transition and reduced GHG emissions. In September 2020, EKN and AB Svensk Exportkredit (SEK) submitted a report with conclusions and proposals. The report describes how EKN's guarantees can be aligned with the goals of the Paris Agreement by ceasing to support exports for the extraction of fossil fuels, by providing stimuli to transactions that promote the climate transition and by considering lock-in effects and transition opportunities in export transactions. In 2021 and 2022 EKN took steps towards realisation of this proposal. This report describes one part of the process, analysing and reporting based on the TCFD's recommendations.

3. HOW MUCH PROGRESS HAS EKN MADE IN MEETING THE TCFD'S RECOMMENDATIONS?

To assess how much progress EKN has made in its analysis and reporting of climate-related risks and opportunities, KPMG has performed a gap analysis of EKN based on the TCFD's recommendations. It showed that in 2021, EKN took steps towards working in line with the recommendations. All recommendations were deemed to have been "partially fulfilled." When work started in September 2021, only four of the recommendations were deemed "partially fulfilled," while the rest were "not fulfilled."

More analyses are needed to describe in detail which climate-related risks and opportunities EKN is exposed to. Additional scenario analyses are needed to investigate the organisation's resilience to different climate scenarios.

Fulfilled (green) | Partially fulfilled (yellow) | Not fulfilled (red)

	TCFD's recommendation	Current situation	Status	Section
Govern-ance	*a) Describe the board's oversight of climate-related risks and opportunities*	The Board's overall responsibility connected to climate-related risks and opportunities has been established.	Partially fulfilled	4.1
	b) Describe management's role in assessing and managing climate-related risks and opportunities	Management's role connected to climate-related risks and opportunities has been established.	Partially fulfilled	4.1
Strategy	*a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term*	EKN's overall exposure to climate-related risks was analysed based on country, industry and three specific counterparties that were evaluated. Climate-related opportunities were proposed.	Partially fulfilled	4.2
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	The overall effect on EKN's operations, strategy and financial planning were discussed based on the completed analyses.	Partially fulfilled	4.2
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	A scenario analysis has been carried out in the form of case studies of three different transactions in the portfolio.	Partially fulfilled	4.2
Risk manage-ment	*a) Describe the organisation's processes for identifying and assessing climate-related risks.*	EKN's risk assessment process classifies companies based on credit risk. The process takes environmental factors into consideration.	Partially fulfilled	4.3
	b) Describe the organisation's processes for managing climate-related risks.	Climate-related risks are managed to a certain extent within the framework of the current risk management processes, including Företagsmodellen (Eng: Credit Risk Model).	Partially fulfilled	4.3
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	EKN's process for assessing and classifying a company's ability to serve its debt, including Företagsmodellen, covers environmental and social risks and is included in the report. However, the model is not specifically designed for this purpose and is only one part of the organisation's overall risk management.	Partially fulfilled	4.3
Metrics and targets	*a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.*	Proposals for climate-related commitments have been developed but will be established in connection with developing a joint climate strategy for EKN and SEK.	Partially fulfilled	4.4 (see also 4.2)
	b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Emissions from own operations were reviewed (Scopes 1 and 2). A statement on reviewing Scope 3 emissions was issued.	Partially fulfilled	4.4
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Targets connected to the strategy are not yet established, but will be set together with SEK.	Partially fulfilled	4.4 (see also 4.2)

Table 1: Summary of KPMG's gap analysis.

4. TCFD – A FRAMEWORK FOR ANALYSING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Climate-related risks and opportunities are explained from a double materiality perspective. This means, for one, that EKN's guarantees have an impact on the global climate (impact out). This includes GHG emissions from guaranteed projects and operations, in Sweden as well as countries that import Swedish products. It also means that climate change and the climate transition have a financial impact on EKN (climate-related financial risks). Guarantees directed to climate transition and climate adaptation projects have a positive impact. Using the TCFD's framework, EKN will annually review climate impact as well as climate-related financial risks.

4.1. Governance – The role of the Board and management

The Board and management's overall responsibility connected to climate-related risks and opportunities has been established. While work remains to clarify governance, as a first step the relevant governing and policy documents have been reviewed.

The Board establishes policies and guidelines, including the sustainability and credit policies. The management group is responsible for analysing and managing all of the overall organisational risks, including climate-related risks and opportunities.

Responsibility for climate-related issues is expressed in EKN's sustainability policy. The policy will be updated and will include, in addition to how EKN's operations impact the environment, how a changed climate can impact EKN's operations. The climate-related financial risks that EKN is exposed to are expressed as a credit risk and are managed within the framework of EKN's credit policy and the ordinary risk management process.

4.2. Strategy – the impact of climate-related risks and opportunities on EKN's strategy and resilience

EKN's climate-related financial risks and opportunities arise from the guarantees that EKN issues. The climate-related financial risk is part of the repayment risk of the counterparty, who is either a buyer or a guarantor. Counterparty risk therefore constitutes EKN's direct financial risks and opportunities.

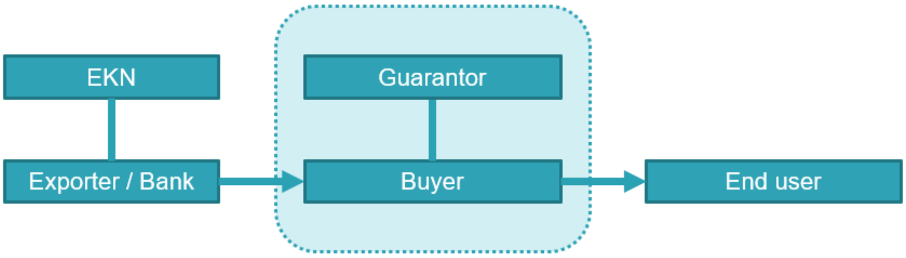


Figure 1: Involved parties in an EKN-guaranteed export transaction, with counterparty risk marked.

To identify climate-related financial transition risks, EKN's guarantee portfolio of SEK 266 billion on 31 December 2021 was analysed based on countries, industries and individual counterparties. The portfolio has been divided into sectors that, according to the Carbon Asset Risk Framework[1], are considered particularly exposed to transition risks due to climate change.

The analysis shows that around one fourth of the guarantee portfolio is exposed to counterparties in fossil-dependent sectors facing transition risk. Exposure to direct fossil assets (oil and gas extraction and production) accounts for only a small percentage of the portfolio and is expected to decrease further as EKN no longer participates in new fossil extraction projects.

Guarantees to fossil-dependent countries that rely on oil and gas exports for their income comprise a relatively large portion of the portfolio. This exposure needs to be further analysed to assess the transition risks in the entire portfolio. Analysis of physical risks, for example the impact of changing weather conditions and temperatures on infrastructure, will be developed to estimate the actual risk that EKN's counterparties are exposed to.

Scenario analyses show that individual guarantee agreements are vulnerable to transition risks and physical risks. EKN's risk assessment needs to be developed to include, to a greater extent, climate-related risks in the analysis of new transactions, especially for large transactions with long tenors. EKN will carry out additional scenario analyses for sectors and countries that are sensitive to transition risks and physical risks in order to analyse how climate-related risks and opportunities can impact EKN in the short, medium and long term.

Launching so called green guarantees is one example of how EKN can support a sustainable export finance system and increase climate-related opportunities in the portfolio. The share of green transactions, where the buyer is deemed to meet the climate requirements in the EU Taxonomy, is nearly seven per cent of EKN's guarantee portfolio and is expected to grow over time.

4.3. Risk management – processes for identifying and managing climate-related risks

Identifying, assessing and managing end users with significant climate impact

Environmental and sustainability reviews have been part of EKN's business assessment since 2012. All transactions are screened to identify those with high risk for impacting the environment or human rights, which are then subjected to in-depth examination. Climate impact is included in the definition "environmental."

Regarding climate, the screening first identifies transactions where the export product is destined for end use within industries and operations where EKN has restrictions. One example is the entire value chain for coal, transactions for new oil-fired power

[1] The Carbon Asset Risk Framework was developed by the World Resources Institute and UNEP Finance Initiative to guide financial institutions in evaluating their exposure to climate-related transition risks.

plants and (with few exceptions) extracting oil and gas. It also sorts out transactions where the policy does not have any hard restrictions, but that have a potentially high impact on the climate and that require further review to see if they are acceptable for EKN.

For new projects and operations, the review focuses on analysing how high GHG emissions are expected to be during the life cycle of the project or operation – in accordance with the OECD's guidelines for export credit institutions – and whether there are transition plans to reduce these emissions during the coming years.

The transaction is given a classification of A, B or C based on its risk for negative environmental or social impact. In 2021, all transactions in fossil extraction, power generation and refinery as well as transactions with potentially high climate impacts fell in the highest risk classification group, class A.

Identify, assess and manage climate-related financial risks and opportunities in credit assessment

The primary climate-related financial risk that applies to EKN is credit risk, meaning climate-related factors that impact debtors' repayment ability. Climate-related risks are part of EKN's risk assessment for counterparties as a part of the credit risk model. The model has three parts: industry, operations and financial profile. Each industry is assessed based on transition risk according to the credit rating agency S&P Global. Higher climate risk may entail a higher guarantee premium.

The credit analysis can be further adjusted if the counterparty, in addition to the overall industry risk, is directly exposed to climate-related, environmental or social risks that can impact repayment ability and credit risk.

EKN's credit analysis method will be developed with clearer guidance regarding credit-impacted sustainability and climate-related risks and opportunities. The goal is to include climate-related financial risks in the credit risk assessment of new transactions in a more systematic way.

4.4 EKN's climate targets and impact

EKN and SEK have committed to align financial flows to meet the Paris Agreement 1.5°C goal, with global net zero emissions by 2050. EKN currently lacks a comprehensive climate strategy, but will continue to work with SEK in 2022 and use science-based methods in line with the Paris Agreement 1.5°C goal to establish targets and strategies to meet the commitment and to develop methods of measuring climate impact and contributions to climate transition and climate adaptation.

EKN has a restrictive approach in transactions with a negative impact on the climate, for example by eliminating guarantees to new fossil extraction projects[2]. At the end of 2020, EKN and SEK ceased to finance transactions pertaining to the extraction and transportation of coal. In accordance with the government's export strategy, all export financing for the extraction and exploration of fossil fuels will cease after 2022.

EKN's GHG emissions from offices and business travel

EKN's emissions from own operations are reported every year in a public report. Emissions stem primarily from office heating (Scope 2) and business travel (Scope 3), which amounted to 4.5 and 34.6 tons of CO_2, respectively, in 2021. Of total emissions from business travel, over 90 per cent came from flights. Due to the pandemic, emissions from flights in 2020 and 2021 were significantly lower than 2019. EKN's travel policy recommends the use of eco-friendly travel alternatives to limit emissions from business travel.

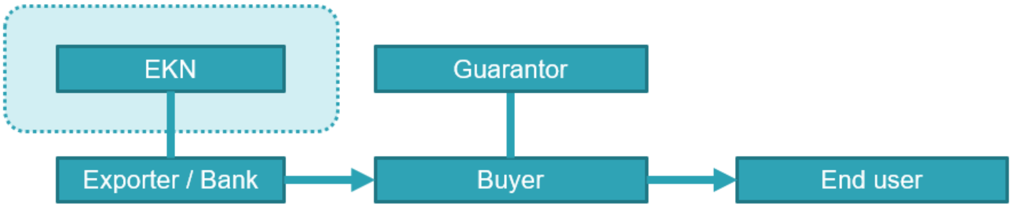


Figure 2: Involved parties in an EKN-guaranteed export transaction, with EKN's own emissions marked.

Energy consumption in office premises comes from renewable energy and the share of energy consumption from district heating had a climate impact of 4.5 tons of CO_2.

Carbon footprint of offices and business travel in tons of CO_2	**2021**	**2020**	**2019**
Total GHG emissions	39.1	148.9	266.4
Direct GHG emissions (Scope 1)	–	–	–
Energy consumption (Scope 2)	4.5	5.5	8.5
Business travel (Scope 3)	34.6	143.4	257.9
Emissions per employee (workforce for the year)	0.3	1.1	2.0
Carbon offsetting	147	78	404

Table 2: EKN's GHG emissions from own operations.

[2] EKN's approach to fossil fuels is set out in Appendix 1 of EKN's sustainability policy: https://www.ekn.se/globalassets/dokument/styrning/ekn_hallbarhetspolicy_2022.pdf/

EKN’s transactions where end users have high climate impact risk

EKN classifies end users according to 15 different environmental risk industries. To provide an initial indication of the climate impact in the portfolio, end users have been categorised according to the sectors that are at high risk of impacting the climate through GHG emissions, as deemed by Carbon Asset Risk Framework [3].

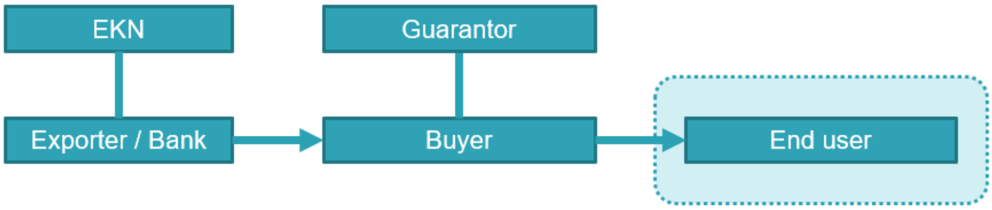


Figure 3: Involved parties in an EKN-guaranteed export transaction, with end users’ emissions marked.

Analysis shows that a significant portion of EKN’s guarantee portfolio, around one third, consists of transactions with end users in fossil or fossil-dependent sectors at risk of high GHG emissions. Transactions related to fossil extraction and power plants comprise a small portion of the portfolio but are the most risk-filled sectors with the greatest climate impact. The largest fossil-dependent sector in the portfolio is the defence sector.[4]

The climate impact of the guarantee portfolio can be reduced over time by continuing to reduce the share of transactions with a high climate impact and investigating whether there are opportunities to reduce climate impact and support a transition to the transactions EKN already has in its portfolio. Methods for measuring the climate impact from end use and supporting the transition in existing large transactions with high GHG emissions will be developed in collaboration with SEK.

[3] In the Strategy section, the Carbon Asset Risk Framework is used to identify transactions where EKN’s counterparty (buyer or guarantor) faces a high level of climate-related transition risk, while here it is used to show which end users are at a high risk of impacting the climate.
[4] The climate-related financial risks and climate impact for transactions in the defence sector differ. The financial risk is with the government in the purchasing countries. The end user, however, is the defence sector, which is associated with high GHG emissions.