


# HALKBANK

## NZBA Target Report

*Move to Net Zero*



"For the world to be habitable,  
for the life to be sustainable..."

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# Introduction

In May 2022, Halkbank has joined Net Zero Banking Alliance of UNEP-FI (NZBA) and committed have a net-zero emission portfolio by 2050. The NZBA also requires its members to set interim targets for every 5 years to reach net zero emission in 2050.

Accordingly, Halkbank is announcing its near-term portfolio emission reduction targets with this report, which is within the first 18 months of committing to NZBA, as shown in figure 1.

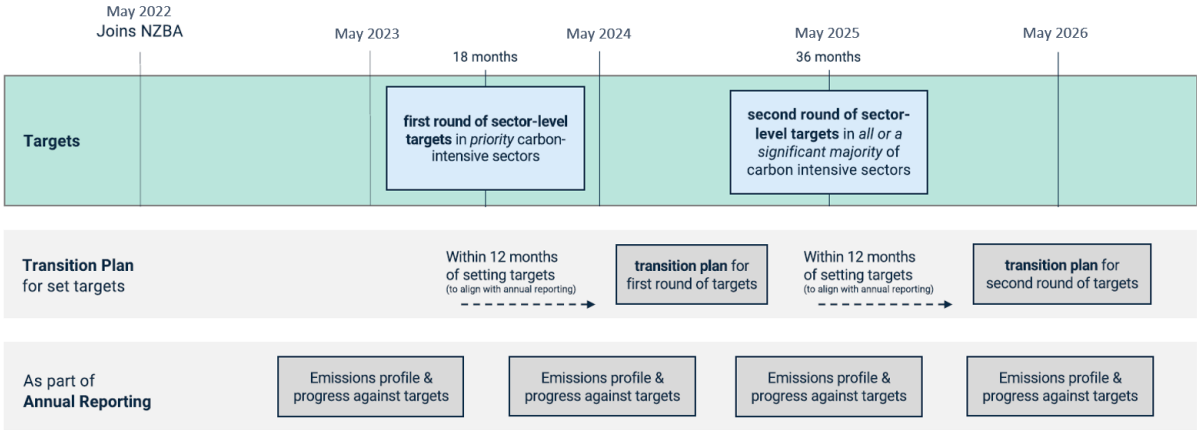


Figure 1 NZBA Guideline Timeline for Halkbank

For Halkbank, the process can simply be examined under three main captions: emission calculations, scenario analysis, target setting.

This report includes the information regarding the portfolio emission calculations, assumptions and approaches used, difficulties encountered, attribution of emissions to Halkbank, scenario analysis and target setting process in line with NZBA guidelines and timelines. The target setting process is explained in this report in line with the comply-or-explain basis of NZBA guidelines.

Halkbank will also continue to further develop emission reduction targets for other high emissions sectors in its portfolio and review and the coverage of its current targets in line with the most recent NZBA guidelines.

## Emissions profile

The portfolio emissions have been calculated in line with Partnership for Carbon Accounting Financials (PCAF) which is also recommended by GHG Protocol and Science Based Targets Initiative (SBTi).

Halkbank has started to calculate its portfolio emissions in 2022 and 2021 was chosen as base year for its financed emissions. 2021 is also the base year of its NZBA portfolio targets.

Halkbank calculated its portfolio emissions of its on-balance sheet customers, in line with the asset classes provided by PCAF for the high emission sectors, where activity data is available and PCAF methodologies allow.

The emissions of customers have been estimated via their physical activity data such as energy consumptions or power generation amounts, or their economic activity data such as asset values. As specified in PCAF for each of the asset classes, companies' emissions then attributed to Halkbank using outstanding values of customers.

This way, emission of the 16% of the on-balance sheet has been estimated. This includes corporate loans and project finance for carbon intensive sectors where data available. The estimation excludes consumer loans, government bonds, cash, SME loans and short-term debt. It is planned to increase the coverage of emission calculations to include SME loans in the next target setting round of NZBA.

### Power Generation Emissions

Activity data of customers with power generation activities has been gathered from customer-reported data as MWh electricity generated. The scope 1 and 2 emissions are then estimated via the production data and energy sources. The project finance and business loans' asset class methodologies has been used from PCAF for emission calculations.

The data quality score is assigned as Score 3, according to PCAF table 5-10.

The customers and projects in the power generation sector makes nearly 28 billion TRY of total balance sheet as of 2021 base year.

### Commercial Real Estate

Since the customer-reported emissions data is not available, sqm activity data of customers from Halkbank's systems were gathered. Then GHG emissions has been estimated using the "Public Commercial and Service Buildings Energy Consumption Statistics" by Türkiye Ministry of Energy and Natural Resources. These statistics provide energy consumptions per sqm for different types of real estate buildings. Then each of the customers emissions per sqm has been attributed to Halkbank using attribution factors as mentioned by PCAF. The commercial real estate asset class methodology has been used from PCAF for emission calculations.

The data quality score for commercial real estate sector emission calculations is assigned as Score 4 according to PCAF table 5-14.

The customers in the real estate sector makes 3.4 billion TRY of total balance sheet as of 2021 base year.

### Others, Including Fossil Related Sectors

The commercial loans include the power generation, commercial real estate, fossil related financings, SME loans and short-term debts. SME loans and short-term debts were excluded from the calculations due to insufficient data and incomplete guidance. The other project finance, which doesn't include electricity generation project finance, is also excluded from the calculations due to insufficient data and incomplete guidance.

After the exclusions and the emission calculations of power generation and commercial real estate customers separately, the rest of the commercial loan portfolio has been reviewed to estimate emissions. These are classified as "other long term corporate loans" according to SBTi's Financial Sector Science-Based Targets Guidance Table 5.2.

These loans include financing to customers from a wide variety of sectors including cement, metals, coal extraction, oil and gas, manufacture, retail, and wholesale. Due to data limitations for activity and emissions data reported by customers, a sector specific emission intensity value is not available for the first round of NZBA target setting.

Nevertheless, emissions of the other long term corporate loans were estimated using the companies' total asset values and NACE sector emissions per million of assets. This estimation utilizes the sectoral GHG emissions data provided by Turkish Statistical Institute (TUIK) and sectoral balance sheet values again provided by TUIK.

The data quality score for other long term corporate loans emission calculations is assigned as Score 5 according to PCAF table 5-7. As Halkbank improves the activity and emissions data reporting requirements from customers, these sector specific intensity targets will be set in the next round of NZBA timeline.

However, Halkbank has also set SBTi targets for the other long term corporate loans which complies with SBTi's Temperature Rating methodology. These targets include achieving a portfolio temperature score of 2.67°C for Scope 1 & 2 of customers and 2.76°C for Scope 1 & 2 & 3 of customers by 2028 from 3.2°C in 2021.

The customers in the other long term corporate debt makes 108 billion TRY of total balance sheet as of 2021 base year and 4.1% of this are financings to the fossil related sectors.

## Targets and Scenarios

Halkbank commits to have a net zero emissions portfolio by 2050. To support this long-term target according to NZBA guidance's, Halkbank also set intermediate targets to achieve in near term as follows:

- Halkbank will reduce power generation emissions in its portfolio 46% from 0.706 tCO<sub>2</sub>eq per MWh generated from 2021 base year to 2030.
- Halkbank will reduce commercial real estate emissions in its portfolio 53% from 0.059 tCO<sub>2</sub>eq per sqm area from 2021 base year to 2030.
- Halkbank commits to align its scope 1 + 2 portfolio temperature score by loan value within the other long-term corporate loan portfolio from 3.2°C in 2021 to 2.67°C by 2028.
- Halkbank commits to align its scope 1 + 2 + 3 portfolio temperature score by loan value within the other long-term corporate loan portfolio from 3.2°C in 2021 to 2.76°C by 2028.

Sectors included in near term targets	Target Year	Emission reductions to be achieved	Scope of target	2021 base year values	Unit	Climate Scenario
Power generation	2030	46%	Scope 1 & 2	0.706	tCO <sub>2</sub> eq/MWh	IEA ETP WB-2D
Commercial Real Estate	2030	53%	Scope 1 & 2 & 3	0.059	tCO <sub>2</sub> eq/m <sup>2</sup>	IEA ETP WB-2D
Others, including fossil related sectors	2028	-	Scope 1 & 2	3.2	°C	IEA ETP WB-2D
Others, including fossil related sectors	2028	-	Scope 1 & 2 & 3	3.2	°C	IEA ETP 2D

The base year for portfolio emission reduction targets is 2021; which is no more than two full reporting years prior to the year targets set, which is 2023.

During the target setting process, several sources of emission predictions, climate scenarios, global and national commitments have taken into consideration. The tools of SBTi are also used to see science-based modelling of the portfolio emission reduction targets. Customers scope 1 and 2 GHG emissions has included in the target coverage and where possible, their scope 3 emissions also included.

Customers with more than 5% revenues from thermal coal mining and electricity generation is covered under these targets.

The climate scenario of well below 2 degrees currently provides the most possible outcomes for Halkbank, given that Halkbank is a state bank. This considers the country wide-expectations and Nationally Determined contributions pledged under the Paris Agreement.

While policy support would be needed to increase beyond the past ambitions, this push could result in greenhouse gas emission levels that are consistent with the mid-point of the target temperature range of the global Paris Agreement on climate change.

This scenario ambition is currently not aligning with 1.5°C ambition due to future predictions beyond the scenario. However, as Halkbank will be reviewing its targets and setting new targets for other carbon intense sectors, the ambition of targets will increase and align to limit global warming to 1.5°C by 2100 with low or no overshoot.

The scenario assumptions for the power sector are:

- the energy sector reaches the net zero emissions before 2060 this limits the global warming to 1.75°C by 2100.

- The share of electricity in the final energy demand across all end use sectors would increase to 26% by 2060, being the largest relative increase of all energy carriers.
- The scaled-up deployment of the portfolio of technologies is also required for the decarbonization of the electricity including 74% of electricity generation from renewables, 7% from fossil fuelled power plants with Carbon capture and storage (CCS), and the rest is from natural gas-fired generation.
- Negative emissions also have a significant input to the scenario's assumptions that there could be up to 5 giga tonnes of "negative emissions" by 2060 due to Bioenergy with carbon capture and storage (BECCS)

The scenario assumptions for the real estate sector are:

- Heating and cooling in buildings accounts for 40% of total end use energy consumption and 65% of this demand depends on fossil related energies. Due to the electrification and decarbonization of energy systems, the fossil fuel-based energy need can be halved in buildings by 2060.
- Rapid deployment of high-efficiency lighting, cooling, and appliances would save the equivalent of nearly three-quarters of today's global electricity demand until 2030, which would allow greater shifts to electricity.

## Governance of Targets

Halkbank has implemented the climate change related risk and opportunities, target setting and its long-term strategy studies to its governance system. The highest executive for climate change issues at Halkbank is the Board Level Sustainability Committee and the Chairman of this committee serves as independent board member. Therefore, emission reduction targets of Halkbank are approved by the highest executive responsible for climate related issues at the bank.

Assurance of targets is not yet obtained by third parties as Halkbank is not a signatory of UNEP-FI Principles of Responsible Banking however assurance will be considered in the upcoming years in line with the increased scope of targets.

## Revision and Achievement of Targets

Halkbank will review and if necessary, revise its emission reduction targets at least every five years to ensure consistency with the latest climate science and calculation methodologies.

In line with the most recent climate related updates, Halkbank will continue to broaden its climate strategy and increase the ambition of its emission reduction targets to achieve absolute net zero emissions by 2050.

Carbon offsets are also an important part of the net zero strategy. Although the emissions offsets play a significant role in the decarbonization pathway, Halkbank will not use carbon offsets as a first step to achieve net zero emissions. The use of offsets will be limited to balance the residual emissions after notable emission reductions or where there are limited options to apply emission reduction strategies. Also, the use of offsets will only include carbon removal projects.