

Financed emissions 2022

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Introduction

Ikano Bank, started by the founder of IKEA, is in the middle of a large-scale transformation, re-inventing every aspect of our business to become a bank with an edge in technology, and a foundation in sustainable banking. We work every day to make a difference, by offering financial services on fair terms and contributing to a better future through accessible financing that supports sustainable living for our customers.

Our sustainability work 2022 has focused on improving our processes and gathering data for reporting to give us a better base for making informed decisions. We have chosen three established frameworks: the UN Global Compact (UNGC) from 2019, the Greenhouse Gas Protocol (GHG) from 2020, and the Partnership for Carbon Accounting Financials (PCAF) from 2021 to achieve clarity and enable comparability in our work moving forward.

Based on the above frameworks the Bank successfully implemented the Greenhouse Gas Protocol (GHG) level of emissions reporting tool including;

- total scope 1,2,3
- data collected and processed from 2020
- emission intensity for investment portfolios
- weighted data score for the investment portfolios.

Our long-term mission is to be a trusted and sustainable bank, making us the natural choice for the many people and businesses. With the commitment throughout the organisation we will continue moving forward, gathering data, creating insights and delivering results.



Our carbon footprint

Since 2020, Ikano Bank has conducted a GHG assessment for scope 1, 2 and 3. In 2021 we became a member of Partnership for Carbon Accounting Financials (PCAF), guiding our work to reduce emissions within the investment portfolio.

Scope 3 emissions include all relevant emissions including category 15 investments

Ikano Bank's assets are covered by three of the seven asset classes that PCAF currently includes in its standard. The emissions have been calculated with the operational control approach – meaning that operations are classified as direct or indirect emissions based on operational control. Full-scope emissions and all the relevant categories are included in the assessment.

Based on GHG assessment using the PCAF methodology for 2022 the investment portfolio accounts for 96% of emissions in the total amount of emissions for the Bank.

We follow regulatory and methodology developments and based on updated PCAF instructions investment portfolio emissions in 2022 are equal to 93 413 tCO₂e which is 10.3% above the prior reported figure.

Greenhouse gas (GHG) protocol (tCO ₂ e)	Development (%) 2021 vs 2022	2022	2021	2020 (baseline)
Scope 1				
Cars	53%	214	140	207
Stationary combustion	-55%	9	20	86
Total Scope 1	39%	223	160	293
Scope 2				
District heating	-	-	-	-
Electricity	-35%	32	49	114
Total Scope 2	-35%	32	49	114
Scope 3				
Indirect emissions from fuel and energy	38%	58	42	93
Business travel	2508%	339	13	46
Employee commuting	-53%	696	1 493	1 606
Purchased goods and services	-11%	2 437	2 730	2 078
Other	-42%	341	585	601
Total scope 3	-20%	3 871	4 863	4 424
Total scope 1, 2 & 3	-19%	4 126	5 072	4 831
Investments	10%	93 413	84 679	60 822
Total Scope 1, 2 & 3 (incl. investments)		97 539	89 751	65 653

Investment portfolio

Portfolio composition

Based on the GHG assessment, the investment portfolio accounts for 96% of emissions in the total amount of emissions for the Bank. 95% of total emissions in the Investment portfolio are sovereign bonds while the share of sovereign bonds accounts only for 37% of the total investments based on updated PCAF methodology for 2023 data. The calculation method for Sovereign debts is based on the Debit method which will be changed for 2023 calculations to the Purchase Power Parity (PPP) adjusted Gross Domestic Product (GDP) method consequently lowering our emissions.

Outstanding amounts	Unit	2022	2021	2020
Sovereign debts	MSEK	2 764	2 400	1 800
Corporate bonds	MSEK	4 318	2 410	2 546
Unlisted equity	MSEK	352	97	23
Listed equity	MSEK	42	42	38
Total	MSEK	7 476	5 949	4 407
Financed emissions	Unit	2022	2021	2020
Sovereign debts	tCO ₂ e	88 601	83 098	59 290
Corporate bonds	tCO ₂ e	4 784	1 571	1 529
Unlisted equity	tCO ₂ e	27	10	2
Listed equity	tCO ₂ e	0	0	0
Total	tCO₂e	93 413	84 679	60 822

Table references

- ¹ Outstanding amount invested in each category (total financed emissions and asset class)
- ² Financed emissions based on outstanding amount in each category (total financed emissions and asset class)
- ³ Emission increase compared with previous year.
- ⁴ No comparison available
- ⁵ DI:s Klimatindex (2022), <https://www.di.se/bors/klimatindex/>
- ⁶ Share of total outstanding amount of each asset class.
- ⁷ Share of total financed emissions of each asset class.
- ⁸ Increase in financed emissions compared with previous year.

Greenhouse gas emission development

Total emissions have increased over the last years due to an increase of the investment portfolio in value. The outstanding amount has increased with 26% between 2021 and 2022. In the same period, the financed emissions have increased with an additional 10%.

Financed emissions	Unit	2022	2021	2020
Outstanding amounts ¹	MSEK	7 476	5 949	4 406
Financed emissions ²	tCO ₂ e	93 413	84 679	60 822
Emission increase ³	tCO ₂ e	8 733	23 857	N/A ⁴
Emission increase ⁸	%	10.3	39.2	N/A ⁴
Emission intensity	tCO ₂ e / MSEK	12.5	14.2	13.8
Weighted data score		3.7	4.9	4.9

Comments and next steps

While performing the analysis, a number of improvement areas have been identified;

1. Data quality
2. Adjustment of the calculation method of Sovereign debts from Debt method to PPP adjusted GDP method
3. Review investment strategy

Milestones



2019

Joined United Nations Global Compact (UNGC)

2020



Conducted the first GHG assessment (scope 1, 2 and 3)



Applied the Green Bond Principles framework on our green assets

2021



Joined Partnership for Carbon Accounting Financials (PCAF)



2022

Issued Environment, Social and Governance (ESG) policy



Issued Green Bond Framework

2023



Published our financed emissions according to PCAF

General methodology

Since 2020, Ikano Bank has conducted a GHG assessment for scope 1, 2 and 3. In 2021 we became a member of Partnership for Carbon Accounting Financials (PCAF), guiding our work to reduce emissions within the investment portfolio.

The emissions have been calculated with the operational control approach – meaning that operations are classified as direct or indirect emissions based on operational control. Emissions for all scopes and relevant categories are included in the assessment.

Scope 1

Covers emissions from sources that an organisation owns or controls directly e.g. from burning fuel in company cars.

Scope 2

Covers emissions that a company causes indirectly when the energy is purchased from a utility provider e.g. electricity, heating, cooling.

Scope 3

Emissions are all other indirect emissions that occur in the value chain of a company and are not included in scope 1 or 2. These emissions are a consequence of the company's business activities but occur from sources the company does not own or control. In Scope 3 category 15 – Financed emissions, the main part of the emissions from a bank is included.

Scope 3 category 15 – Financed emissions

The emissions from Ikano Bank's assets are calculated in line with PCAF, and they are covered by three of the seven asset classes that PCAF currently includes in its standard:

Asset class	Applicable for Ikano Bank
Listed equity and corporate bonds	Yes
Business loans and unlisted equity	Yes
Project finance	No
Commercial real estate	No
Mortgages	No
Motor vehicle loans	No
Sovereign debt	Yes

In addition to the included asset classes, Ikano Bank provides unsecured loans to private customers and leasing to corporate customers. The methodology for lending and leasing is not yet included in the PCAF standard. Emissions from lending and leasing are therefore excluded from this assessment.

Ikano Bank has developed a base year emissions recalculation policy to ensure that the current year calculations are comparable to the base year. The policy clearly describes when a recalculation of the base year (2020) is required to be made.

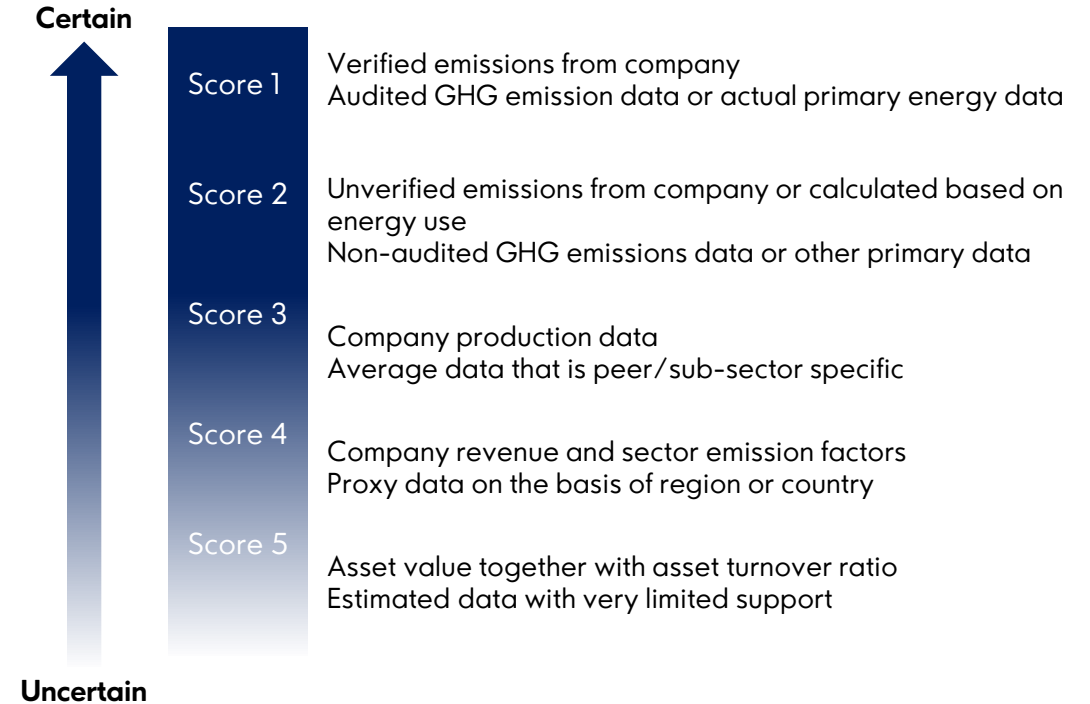
Data quality

The calculations for each asset class are done with the best possible available data. PCAF has defined a methodology to calculate a data score that shows the quality of the data used. According to PCAF, the data quality is scored from 1 to 5, where 1 is the best possible available data quality (primary and verified data) and 5 is the lowest data quality (general data).

The access to primary data is the main obstacle for calculations of financed emissions. Ikano Bank have for 2022 managed to calculate emissions for 100% of the investment portfolio, the non-included part of the portfolio mainly derives from the unsecured loans and leasing. Ikano Bank intend to increase the data score over time.

The data scoring model below is a simplified version of the data scoring model referred to in the global GHG accounting and reporting standard for the financial industry issued by PCAF.

Data scoring model



Sovereign debt

Detailed methodology

Ikano Bank started to assess the financed emissions from sovereign bonds before the second edition of the PCAF standard was released. The second edition specifies how sovereign bonds should be calculated. Due to comparability with previous years, mentioned limitations with the methodology in the PCAF-guidelines, and the potential of emerging alternative attribution factors Ikano Banks calculation differs from the recommended method in the second PCAF edition. Ikano Bank does not use the PPP-adjusted GDP as the denominator in the attribution factor and is instead using the Gross Government Debt in the attribution factor.

The calculations have used the following formula, which is the debt attribution method;

$$\text{Financed emission} = \sum_s \frac{\text{Outstanding amount}_s}{\text{Gross Government Debt}_s} \times \text{Sovereign Production Emissions}_s$$

The calculation method gives a data score of 5.

To increase completeness in the assessment of financed emissions the bonds for municipalities and regions in Sweden were also calculated according to the formula above.

Sovereign debt	Unit	2022	2021	2020
Outstanding Amounts ¹	MSEK	2 764	2 400	1 800
Outstanding Amounts ⁶	%	37.0	40.3	40.8
Financed Emissions ²	tCO ₂ e	88 601	83 098	59 290
Financed Emissions ⁷	%	94.8	98.1	97.5
Emission increase ³	tCO ₂ e	5 503	23 808	N/A ⁴
Emission increase ⁸	%	6.6	40.2	N/A ⁴
Emission intensity	tCO ₂ e / MSEK	32.1	34.6	32.9
Weighted data score		5.0	5.0	5.0

Comments and next steps

Ikano Bank will continue to follow how the attribution factor develops and assess when and how to fully align the calculation with the specification and recommendations in the PCAF standard. As the main focus with the sovereign bonds is to have secure assets, and the methodology for financed emissions from sovereign bonds still emerge we will in the near future continue to follow the development and evaluate how to best combine the GHG ambitions and liquidity needs for these investments.

A re-adjustment of the calculation method will be made for 2023 using the PPP-adjusted GDP method which is a more accurate calculation method. (currently the Debt method has been used)

Corporate bonds

The emissions from corporate bonds were calculated using two different methods:

With known company emission

If the company emissions for the bond are publicly known, these are then used. The emissions for bonds are calculated according to the following equation:

$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c} \times \text{Company emissions}_c$$

The data quality is scored with 1 – the highest score if the company can provide verified emissions. If the company provides unverified emissions data, the data score of 2 have been applied (re Data quality, please see Appendix for further information).

The total equity and debt have as well as the company emissions data mainly been collected from the annual and/or sustainability report from the issuing company.

Without known company emission

In cases when the company of the bond does not provide emissions data, the following method have been applied.

The asset turnover ratio for each sector was calculated based on a weighted average (based on the stock market value) for listed companies in the relevant sector and the ratio has then been applied to the companies in each sector. The greenhouse gas emissions per revenue were calculated from data collected from DI:s klimatindex⁵ for each sector of Ikano Bank's bonds and applied to the respective company.

$$\sum_c \text{Outstanding amount}_c \times \text{Asset turnover ratio}_s \times \frac{\text{GHG emissions}_s}{\text{Revenue}_s}$$

The method gives a data score 5.

Corporate bonds	Unit	2022	2021	2020
Outstanding amounts ¹	MSEK	4 318	3 410	2 546
Outstanding amounts ⁶	%	57.8	57.3	57.8
Financed emissions ²	tCO ₂ e	4 784	1 571	1 529
Financed emissions ⁷	%	5.1	1.9	2.5
Emission increase ³	tCO ₂ e	3 213	41	N/A ⁴
Emission increase ⁸	%	204.6	2.7	N/A ⁴
Emission intensity	tCO ₂ e / MSEK	1.1	0.5	0.6
Weighted data score		2.7	4.9	4.9

Comments and next steps

As more companies will share their emissions information and have it verified by a third party, the accuracy of the data in bonds will improve.

Unlisted equity

Detailed methodology

Ikano Bank has limited exposure to unlisted equity in the portfolio as there are only two companies (Borgo AB and Finansiell ID-Teknik BID AB) invested in as unlisted equity. Since the unlisted equity companies have not yet been able to provide emissions data, the financed emissions are calculated based on sector-average emissions with the following equation;

$$\sum_c \text{Outstanding amount}_c \times \text{Asset turnover ratio}_s \times \frac{\text{GHG emissions}_s}{\text{Revenue}_s}$$

The calculation method gives a data score of 5.

Comments and next steps

As the data is fully based on sector-average data, several improvements in terms of data quality can be done. It is a risk that the sector average data is misleading for small companies that may have different operations than the average sector companies.

Result

Unlisted equity	Unit	2022	2021	2020
Outstanding Amounts ¹	MSEK	352	97	23
Outstanding Amounts ⁶	%	4.7	1.6	0.5
Financed Emissions ²	tCO ₂ e	26.7	9.9	2.2
Financed Emissions ⁷	%	0.03	0.01	0.01
Emission increase ³	tCO ₂ e	16.8	7.7	N/A ⁴
Emission increase ⁸	%	169.7	350.0	N/A ⁴
Emission intensity	tCO ₂ e / MSEK	0.08	0.10	0.10
Weighted data score		5.0	5.0	5.0

Listed equity

Detailed methodology

Ikano Bank has limited exposure to listed equity in the portfolio as Ikano Bank only invest in one listed equity, namely VISA shares. As VISA have done a GHG assessment, the financed emissions were calculated by the following equation;

$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}}{\text{Enterprise Value Including Cash}_c} \times \text{Company emissions}_c$$

Since VISA provides verified emissions, in this case verified by Carbon Disclosure Project (CDP), the data quality is scored with 1 – the highest score.

Comments and next steps

Ikano Bank will keep track of the development of the emissions for the listed equity and continue to follow up how the emission trend develops.

Result

Listed equity	Unit	2022	2021	2020
Outstanding Amounts ¹	MSEK	42	42	38
Outstanding Amounts ⁶	%	0.6	0.7	0.9
Financed Emissions ²	tCO ₂ e	0.07	0.05	0.16
Financed Emissions ⁷	%	0.01	0.01	0.01
Emission increase ³	tCO ₂ e	0.02	-0.11	N/A ⁴
Emission increase ⁸	%	40.0	-68.8	N/A ⁴
Emission intensity	tCO ₂ e / MSEK	0.01	0.01	0.01
Weighted data score		1.0	1.0	1.0

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