Financed emissions 2023

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IKANO BANK

Content

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 2023 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 and 3
- data collected and processed from 2020
- emission intensity for liquidity portfolio
- weighted data score for the liquidity portfolio.

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.

Note;
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.

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 liquidity 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 2023 the liquidity portfolio accounts for 89% of emissions in the total amount of emissions for the Bank.

We follow regulatory and methodology developments and based on updated PCAF instructions, liquidity portfolio emissions in 2023 are equal to 24,599 tCO_2e which is 18% below the prior reported figure (2022).

Overall the total emissions from Ikano bank have slightly increased, 3.2% since the base year 2020. The development is due to an increase in emissions from the liquidity portfolio with 14%. The emissions from scope 1, 2 and 3 category 1 – 14 have been reduced with 43% since 2020.

	Development 2020 vs 2023	2023	2022	2021	2020 (baseline)
Scope 1					
On-site generation, fuel combustion and refrigerents	-48,0%	154	223	159	297
Scope 2					
Purchased electricity & heating	-99,4%	1	32	49	207
Location-based		*57*	*101*	*112*	*191*
Market-based		*1*	*32*	*49*	*207*
Scope 3					
1. Purchased goods and services	-48,9%	1109	2437	2730	2172
2. Capital goods	-15,4%	22	48	39	26
3. Fuel- and energy related activities	-57,2%	44	58	41	102
4. Upstream transportation and distribution	-	0	0	0	0
5. Waste generated in own operations	5,9%	1	1	4	1
6. Business travel	760,9%	638	339	13	74
7. Employee commuting	-60,7%	671	696	1493	1707
8. Upsteams leased assets	-37,4%	213	206	278	340
9. Downstream transportation and distribution	-59,1%	97	86	264	238
10. Processing of sold products	-	0	0	0	0
11. Use of sold products	-	0	0	0	0
12. End-of life treatment of sold products	-	0	0	0	0
13. Downstream leased assets	-	0	0	0	0
14. Franchises	-	0	0	0	0
15. Investments	14,2%	24599	30061	23047	21539
Total scope 1, 2 & 3 excluding investments	-42,9%	2950	4127	5069	5163
Grand total	**3,2%**	27550	34188	28116	26702

(for scope 2 emissions, the market-based value is used for purchased electricity and heating)

Initiatives reducing our emissions;

- Evaluate what it will take to commit to Science Based Target Initiative
- Increase our share of renewable energy including electrical vehicles
- Replace spend data with more qualitative data

Note;
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.

Scope 3, Category 15 – Sovereign debts, an adjustment of the calculation to the PPP-adjusted GDP method has been made. The change drastically reduced the emissions compared to previous method – Gross Government Debt.

IKANO BANK

Liquidity portfolio

Portfolio composition

Based on the GHG assessment, the liquidity portfolio accounts for 89% of emissions in the total amount of emissions for the Bank. 93% of total emissions in the liquidity portfolio are sovereign bonds while the share of sovereign bonds accounts only for 43% of the total investments based on updated PCAF methodology for 2023 data. During 2023 the scope 3 emissions for the investments in the asset classes listed- and unlisted equity have been included, together with the scope 1 and 2 emissions. This improvement is done in line with the recommendation in PCAF. This inclusion has not been done on historical calculations and therefore there is a large increase in emissions when comparing the years.

Investments. Outstanding amounts [1], MSEK	**2023**	**2022**	**2021**	**2020**
Sovereign bonds	2,057	2,764	2,238	1,769
Corporate bonds	2,067	4,318	3,430	2,582
Unlisted equity	612	352	97	23
Listed Equity	51	42	38	42
Total	**4,786**	**7,476**	**5,803**	**4,415**

Investments. Financed emissions [2], tCO2 e	**2023**	**2022**	**2021**	**2020**
Sovereign bonds	22,955	25,250	22,745	19,976
Corporate bonds	1,527	4,784	293	1,560
Unlisted equity	114	27	10	2
Listed Equity	4	0	0	0
Total	**24,599**	**30,061**	**23,047**	**21,539**

Greenhouse gas emission development

Total emissions have increased over the last years due to an increase of the liquidity portfolio in value. In 2023 the size of the liquidity portfolio was reduced and consequently the emissions as well. The size of the liquidity portfolio was reduced by 36% compared with 2022, while the emission reduction only correspond to 18%. The main reason for this is the relatively enlarged share of sovereign bonds in the portfolio, which stands for 93% of the emissions.

Financed emissions	**Unit**	**2023**	**2022**	**2021**	**2020**
Outstanding amount [1]	MSEK	4,786	7,476	5,804	4,415
Financed emissions (excl. LULUCF) [2]	tCO2e	24,599	30,061	23,047	21,539
Emission change [3]	tCO2e	-5,462	7,014	1,508	N/A[4]
Emission change [3]	%	-18	30	7	N/A[4]
Emission intensity	tCO2e / MSEK	5.1	4.0	4.0	4.9
Weighted data score		1.9	2.2	3.4	3.3

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),
LULUCF – Land Use, Land-Use Change Forestry
[3] Emission change compared with previous year.
[4] No comparison available
[5] Share of total outstanding amount of each asset class.
[6] Share of total financed emissions of each asset class.

Milestones

2019

Joined United Nations Global Compact (UNGC)

2020

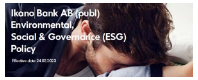
Conducted the first GHG assessment (scope 1, 2 and 3)

Applied the Green Bond Principles framework on our green assets

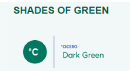
2021

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 liquidity 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.

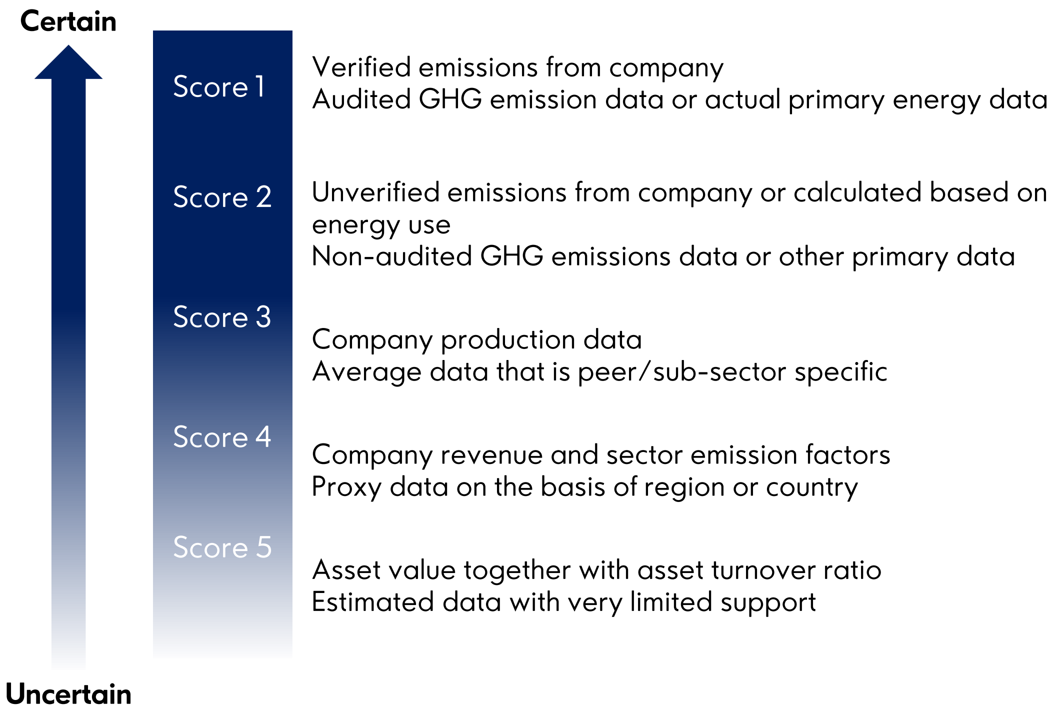
Data quality

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 liquidity 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 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 in the second edition of the PCAF standard, the PPP-adjusted GDP method. The historical emissions, since 2020, in the category have been updated with this method. The change drastically reduced the emissions compared to previous method – Gross Government Debt.

$$Attribued\ emissions = \frac{Exposure\ to\ Sovereign\ Bond\ (USD)}{PPP\ -adjusted\ GDP\ (international\ (USD)} \times Sovereign\ emissions\ (tCo_2e)$$

The calculation method gives a data score of 1 (based on evaluation by PCAF)

To increase completeness in the assessment of debt for municipalities and regions in Sweden were also calculated according to the formula above. Once a methodology for municipal bonds have developed by PCAF, the municipal bonds will be calculated separately.

Sovereign debts	Unit	2023	2022	2021	2020
Outstanding amount [1]	MSEK	2,057	2,764	2,238	1,769
Outstanding amount [5]	%	43	37	38.6	40.1
Financed emissions (excl. LULUCF) [2]	tCO2e	22,955	25,520	22,745	19,976
Financed emissions (incl. LULUCF) [2]	tCO2e	15,922	12,489	9,560	8,954
Financed emissions [6]	%	93.3	84	98.7	92.7
Emission change [3]	tCO2e	-2,295	2,505	2,768	N/A[4]
Emission change [3]	%	-9.1	11	13.9	N/A[4]
Emission intensity	tCO2e / MSEK	11.2	9.1	10.2	11.3
Weighted data score		1	1	1	1

Comments and next steps

As the main focus with the sovereign debt is to have liquid assets, and the methodology for financed emissions from sovereign debt still emerge, we will review how best combine the GHG ambitions and liquidity needs for these investments.

Secondly, once a calculation method is developed for municipal bonds, the municipal bonds will be separated from the sovereign debt.

Corporate bonds

The emissions from corporate bonds were calculated using two different methods. In 2023 the scope 3 emissions are included for the first time. This inclusion has not been done on historical calculations and therefore there is a large increase in emissions comparing the years.

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:

$$Financed\ emissions = \sum_c \frac{Outstanding\ amount_c}{Total\ equity + \ debt_c}\ x\ Company\ emissions_c$$

As of all of the companies in Ikano Bank's liquidity portfolio of corporate bonds with company emissions provides unverified emission data, the data score of 2 have been applied.

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 GHG emissions per revenue were gathered from PCAF emission factor database for the corresponding sector.

$$\sum_c Outstanding\ amount_c\ x\ Asset\ turnover\ ratio_s\ x\ \frac{GHG\ emissions_s}{Revenue_s}$$

The method gives a data score 5.

Corporate bonds	**Unit**	**2023**	**2022**	**2021**	**2020**
Outstanding amount [1]	MSEK	2,067	4,318	3,430	2,582
Outstanding amount [5]	%	43.2	57.8	59.1	58.5
Financed emissions [2]	tCO2e	1,527	4,784	293	1,560
Financed emissions [6]	%	6.2	15.9	1.3	7.2
Emission change [3]	tCO2e	-3,257	4,492	-1,268	N/A[4]
Emission change [3]	%	-68.1	1,535	-81.2	N/A[4]
Emission intensity	tCO2e / MSEK	0.7	1.1	0.1	0.6
Weighted data score		2.8	2.7	5	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. Finansiell ID-Teknik BID AB do not provide emission data and therefore the financed emissions are calculated based on sector-average emissions with the following equation giving a data score of 5.

$$\sum_{c} Outstanding\ amount_c\ x\ Asset\ turnover\ ratio_s\ x\ \frac{GHG\ emissions_s}{Revenue_s}$$

Borgo do, for the first year, provide emission data. As a result, the company emissions have been used to calculate the emissions, giving a data score of 2 (non-verified calculations). The following equation have been applied;

$$Financed\ emissions = \sum_{c} \frac{Outstanding\ amount_c}{Total\ equity + debt_c}\ x\ Company\ emissions_c$$

During 2023 the scope 3 emissions for the unlisted equity have been included together with scope 1 and 2 emissions. This improvement is done in line with the recommendations in PCAF. The adjustment has not been done historically and therefore it looks like a large increase in emissions when comparing the years.

Comments and next steps

The data quality in the asset class have been largely improved between 2022 and 2023, as one of two companies now provide primary emission data. However this represent a small impact on Ikano Bank's total emissions.

Unlisted equity	Unit	2023	2022	2021	2020
Outstanding amount [1]	MSEK	612	352	97	23
Outstanding amount [5]	%	12.8	4.7	1.7	0.5
Financed emissions [2]	tCO2e	113.6	26.7	9.9	2.2
Financed emissions [6]	%	0.462	0.089	0.043	0.01
Emission change [3]	tCO2e	86.9	16.8	7.7	N/A[4]
Emission change [3]	%	325	169	348	N/A[4]
Emission intensity	tCO2e / MSEK	0.19	0.08	0.1	0.1
Weighted data score		2	5	5	5

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;

$$Financed\ emissions = \sum_{c} \frac{Outstanding\ amount}{Enterprise\ Value\ Including\ Cash_c}\ x\ Company\ emissions_c$$

Since VISA provides verified emissions, in this case verified by Carbon Disclosure Project (CDP), the data quality is scored with 1, the highest score. During 2023 VISA's scope 3 emissions have been included together with their scope 1 and 2 emissions. This improvement is done in line with the recommendations in PCAF. The adjustment has not been done historically and therefore it looks like a large increase in emissions when comparing the years.

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.

Listed Equity	Unit	2023	2022	2021	2020
Outstanding amount [1]	MSEK	51	42	38	42
Outstanding amount [5]	%	1.1	0.6	0.7	1
Financed emissions [2]	tCO2e	4.1	0.1	0	0.2
Financed emissions [6]	%	0.0166	0.0002	0.0002	0.0008
Emission change [3]	tCO2e	4	0	-0.1	N/A[4]
Emission change [3]	%	6,034.8	59.5	-76.2	N/A[4]
Emission intensity	tCO2e / MSEK	0.08	0.002	0.001	0.004
Weighted data score		1	1	1	1

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