

Capital adequacy and Liquidity

2018-03

Periodic information, 31 March 2018 – Capital adequacy and Liquidity

This information regarding capital adequacy requirements and liquidity for Ikano Bank AB (Publ), corporate identity number 516406-0922, refers to such periodic information which shall be submitted in accordance with the capital requirements regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers (FFFS 2014:12 including amendments).

Operations

Ikano Bank conducts banking operations in Sweden, the UK, Norway, Denmark, Finland, Germany, Austria and Poland under the supervision of the Swedish Financial Supervisory Authority. There are three business lines: Corporate, Sales Finance and Consumer. The operations in Denmark, Norway, Finland, the UK, Germany and Poland are operated as branches, while Austria is conducted as cross-border operations.

Capital adequacy

The capital requirements regulations help to strengthen resilience against financial losses and thereby protect the Bank's customers. The regulations state that the Bank's own funds shall cover the minimum statutory own funds requirements, which for Ikano Bank include the requirements for credit risks, CVA risks, operational risks and foreign exchange risks. In addition, the own funds requirements include further identified risks in the operation in accordance with the Bank's internal capital adequacy assessment process and the requirements stipulated by the Board of Directors, also referred to as Pillar 2 requirements and statutory requirements for capital buffers.

To ensure that the own funds of Ikano Bank are adequate, the internal capital adequacy assessment (ICAAP/ILAAP) is performed. This process is a tool used by the Board of Directors to assess the need for changes in the own funds requirement in the event of changed circumstances. This might involve strategic commercial decisions or events in the market impacting the operations and their development. The Bank performs stress tests and scenario analyses to assess the need for further capital. The risk control function is responsible for monitoring the process of the Bank's capital planning. This is done annually and is integrated with the Bank's budget and strategic planning. The plan is monitored continuously and a comprehensive risk analysis is conducted annually to ensure that risks are properly assessed and reflect the Bank's true risk profile and capital needs. The capital requirements according to the capital adequacy assessment process are reported regularly to the SFSA. The capital requirement of the ICAAP in addition to Pillar 1 requirements for 31 March 2018 totalled SEK 1165 m.

Ikano Bank has quantified tolerance levels for the CET 1 ratio and total capital ratio above regulatory requirements. The margins represent buffers adapted to the Bank's risk profile in order to cover identified risks based on probability and financial impact. To meet the anticipated expansion of loans, maintain strategic freedom of action and

also handle external changes, the Board of Directors has also expressed target levels for the Bank's capital ratios as part of the risk appetite framework.

As of 31 March 2018, the Bank had own funds of SEK 6.2 bn (6.0) compared with the statutory own funds requirement for Pillar 1 risk of SEK 3.0 bn (2.9). The total capital ratio was 16.5 percent with a Tier 1 capital ratio of 14.3 percent. Consequently, the Bank has a good capital adequacy that meets both statutory and internal requirements. The Bank's common equity Tier 1 capital amounted to SEK 5.3 bn. After a statutory minimum for common equity Tier 1 capital has been allocated to cover 75 percent of the total own funds requirement calculated in accordance with Pillar 1, a further SEK 3.1 bn remain available as common equity Tier 1 capital.

The combined buffer requirement for Ikano Bank consists of the capital conservation buffer and the countercyclical capital buffer. According to the law (2014:966) regarding capital buffers, the capital conservation buffer shall consist of a common equity Tier 1 capital equivalent to 2.5 percent of the Bank's total risk exposure amounts. For Ikano Bank, the capital conservation buffer totals SEK 934 m and is covered well by the available common equity Tier 1 capital. The countercyclical buffer is determined by multiplying the total risk exposure amount with the weighted average of the countercyclical buffer rates applicable in those countries where the relevant credit exposures of the institution are located. The institution-specific countercyclical buffer for the Bank has been determined at 1.0% or SEK 374 m after weighting the applicable geographic requirements, which for the Bank means Sweden and Norway. Ikano Bank's combined buffer requirement is SEK 1,308 m.

Per 1 January 2018, the new accounting standards IFRS 9 Financial Instruments became effective. As mentioned in the Annual Report 2017, Ikano Bank has notified the SFSA of its decision to apply the transition rules introduced with article 473a capital requirements regulation (EU) No 575/2013 regarding the one-off effect. For the Bank, this effect was SEK 222 m after tax that will be a gradually phased in into the capital adequacy over five years. The table on page 3 includes a comparison of Ikano Bank's own funds as well as capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 as introduced by the EBA guidelines 2018/01.

Summary of own funds and risk exposure amount

SEK m	31 Mar 2018	31 Dec 2017
Tier 1 Capital	5 329	5 212
Tier 2 Capital	849	820
Own funds	6 178	6 031
Total risk exposure amount	37 365	36 516
Total own funds requirements	2 989	2 921
Total Capital ratio	16.5%	16.6%
Tier 1 Capital ratio	14.3%	14.3%
Common equity Tier 1 ratio	14.3%	14.3%
Available common equity Tier 1 capital	3 087	3 021
Available common equity Tier 1 capital in relation to total risk exposure amount	8.3%	8.3%
Capital conservation buffer	934	913
Countercyclical capital buffer	374	368
Combined buffer requirement	1 308	1 281

Specification of own funds

SEK m	31 Mar 2018	31 Dec 2017
Own funds		
Common equity Tier 1 capital		
Equity reported in the balance sheet	5 060	5 070
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	258	243
Fund for fair value	281	166
Retained earnings	4 168	4 105
Net profit for the period	80	284
Adjustment for IFRS 9 one off effect according to transitional arrangements	211	-
Untaxed reserves (78% of which)	545	545
Less:		
- Intangible assets	-399	-395
- Cash flow hedge	-8	-8
- Unaudited profit	-80	-
Total Common Equity Tier 1 capital	5 329	5 212
Total Tier 1 capital	5 329	5 212
Tier 2 capital		
Subordinated liabilities	849	820
Total Tier 2 capital	849	820
Total own funds	6 178	6 031

Specification of risk exposure amount

SEK m	31 Mar 2018		31 Dec 2017	
	Risk exposure amount	Own funds requirements	Risk exposure amount	Own funds requirements
Credit risk according to the standardised approach				
Exposures to states and central banks	34	3	33	3
Regional governments or local authorities	11	1	11	1
Exposures to public sector entities	0	0	0	0
Exposures to institutions	443	35	417	33
Corporate exposure	3 686	295	1 833	147
Retail exposure	23 786	1 903	24 885	1 991
Exposures in default	820	66	774	62
Covered bond exposure	115	9	113	9
Equity exposure	19	2	32	3
Other items	492	39	620	50
Total credit risk	29 407	2 353	28 717	2 297
Operational risk according to the basic indicator approach	5 057	405	4 841	387
Foreign exchange risk according to the standardised approach	2 898	232	2 949	236
Credit valuation adjustment (CVA) according to the standardised method	4	0	9	1
Total	37 365	2 989	36 516	2 921

Leverage ratio

The leverage ratio is a measure that provides an alternative to the risk-based capital requirement. The aim is that there should be a clear and simple measure of capital strength. The measurement shows capital as a percentage of asset size, without the actual risk level of the assets being taken into consideration. To this date there is no legal minimum level of the Leverage ratio. The EU commission has proposed a Leverage ratio of 3 per-

cent to be introduced in connection with the proposed revised Capital Requirements Regulation.

The leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. For the Bank, the leverage ratio per 31 March 2018 is 10.9 percent (10.9) and thus well above the proposed binding measure.

Comparison of own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9

SEK m	31 Mar 2018
Available capital	
Common Equity Tier 1 (CET1) capital	5 329
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5 118
Tier 1 capital	5 329
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	5 118
Total capital	6 178
Total capital as if IFRS 9 transitional arrangements had not been applied	5 967
Risk-weighted assets	
Total risk-weighted assets	37 365
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	37 112
Capital ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.3%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	13.8%
Tier 1 (as a percentage of risk exposure amount)	14.3%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	13.8%
Total capital (as a percentage of risk exposure amount)	16.5%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	16.1%
Leverage ratio	
Leverage ratio total exposure measure	49 006
Leverage ratio	10.9%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	10.5%

Liquidity

Ikano Bank's liquidity is managed within the framework of the Bank's liquidity portfolio. The liquidity portfolio consists of deposits with banks, short-term lending to credit institutions and also investments in liquid interest-bearing securities, which can be sold and converted into cash on short notice. The Bank also has other liquidity creating measures at its disposal, such as immediately accessible overdraft facilities as well as committed credit facilities accessible within 1-3 days. The composition and size of the Bank's liquidity portfolio and the liquidity reserve is regulated in the Bank's steering documents, which are adopted by the Bank's Board of Directors. To ensure that the capital and liquidity of Ikano Bank is adequate, the internal capital and liquidity adequacy assessment (ICAAP/ILAAP) is performed. This process is a tool used by the Board of Directors to assess the need for changes in the liquidity requirement in the event of changed circumstances.

The liquidity portfolio is divided into three categories: Intra-day liquidity, liquidity reserve and an operational portfolio.

The Bank's liquidity reserve, in accordance with the steering documents, shall always total at least 10 percent of deposits from the public. In addition to the liquidity reserve, the Bank shall maintain an intra-day liquidity of at least 4 percent of deposits from the public. Therefore, in accordance with this policy, the liquidity portfolio shall always amount to at least 14 percent of deposits from the public.

The liquidity reserve, along with other operating liquidity, is invested in interest-bearing securities in the markets where the Bank operates. Steering documents define that quality levels of securities included in the Bank's liquidity reserve in line with the LCR Delegated Act. Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio is to be available within one day, and is to consist of funds in bank ac-

counts, investments available the next banking day (overnight) and bank overdraft facilities, granted in writing, in the Bank's cash pool.

The liquidity reserve is to constitute a separate reserve of high-quality liquid assets, which are to be quickly convertible in case of market stress situations that affect the Bank's financing options. The liquidity reserve is invested in interest-bearing securities with a high credit rating on the Swedish market. The assets are to be available for realisation and conversion into cash at short notice. Unused bank overdraft facilities are not included in the liquidity portfolio.

The Bank's operating liquidity is managed in the investment portfolio. The assets in the portfolio consist of interest-bearing securities on the Swedish market. Investments in this portfolio are to have a minimum rating of BBB+ (rating according to Standard and Poor's).

The Bank's liquidity reserve amount to SEK 2.4 bn and consists of high quality assets, liquid in private markets and eligible as collateral with the Swedish Central Bank.

The liquidity portfolio as of 31 March 2018 totalled SEK 5.4 bn excluding overdraft facilities and constitutes 21 percent of deposits from the public. It includes Cash and balances with banks, the liquidity reserve and other interest-bearing securities with a value of SEK 1.1 bn. None of the assets are being utilised as collateral and no non-performing loans exist. Valuation was carried out at market value.

In addition to the liquidity portfolio, committed credit facilities for a total of SEK 2.8 bn are available.

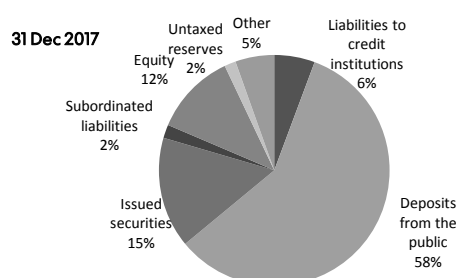
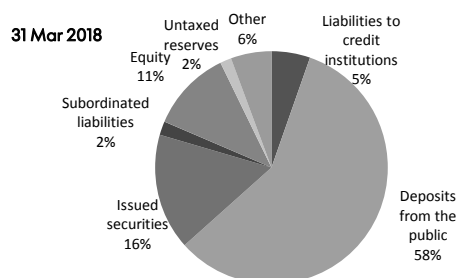
As of 31 March 2018, the Bank's LCR totalled 224 percent. This measure shows how the Bank's highly liquid assets are related to net outflows over a thirty-day period under strained market conditions. A statutory limit for the liquidity coverage ratio of 100 percent is applied since 1 January 2018.

Summary of the liquidity reserve

SEK m	31 Mar 2018	31 Dec 2017
Securities issued by regional governments and governments	1 151	1 173
Securities issued by financial companies	155	149
Covered bonds	1 137	1 124
Liquidity reserve	2 444	2 445
Operating liquidity invested in securities	1 152	831
Cash and balances with banks	1 839	1 781
Total liquidity portfolio	5 435	5 058
Other liquidity creating measures		
Unused committed credit facilities	2 774	2 954

Summary of funding sources

SEK m	31 Mar 2018	31 Dec 2017
Liabilities to credit institutions	2 401	2 504
Deposits from the public	25 895	25 617
Issued securities	7 204	6 825
Subordinated liabilities	849	820
Equity	5 060	5 070
Untaxed reserves	698	698
Other	2 522	2 548
Total	44 629	44 082



Other information

SEK m	31 Mar 2018	31 Dec 2017
Total assets	44 629	44 082
Loans to the public	27 786	27 799
Deposits from the public	25 895	25 617
Ratio Deposits/Total assets	58%	58%
Ratio Liquidity portfolio/Deposits	21%	20%

The long-term financing plan aims at a well-diversified funding, taking into account the allocation of risks and financing costs.

Deposits from the public are regarded as the main funding source and the Bank has set a minimum ratio of deposits to total assets of 50 percent.

Additional information about the Bank's capital adequacy and liquidity risk management can be found in the Annual Report for 2017 and the information on capital adequacy and risk management for 2017. The documents are published on the Bank's website www.ikanobank.se.