# Annual Report 2020

IKANO BANK

CONTENTS

# The year in brief

- Lending, including leasing, amounted to SEK 34,745 m (37,929)
- Deposits from the public amounted to SEK 26,223 m (25,958)
- Profit before loan losses decreased by 10.4 percent to SEK 799 m (891)
- C/I-ratio before loan losses was 70.2 percent (69.6)
- Operating result decreased to SEK 23 m (189) and was affected by increased provisions for expected loan losses
- Net interest income decreased by 5.5 percent to SEK 1,837 m (1,944)
- Net result for the year, after tax was, negatively affected by tax on translation differences in the branches and amounted to SEK -167 m (465): The comparison is also disturbed by the previous year's dissolution of untaxed reserves of SEK 281 m
- The extensive transformation work has continued according to plan
- In November, our first credit product went into production on a new loan platform
- During the year, we developed an updated sustainability direction for the Bank
- Appreciation shown by our customers through awards such as the Fairness Award in Germany

BUSINESS VOLUME IN SEK BILLIONS

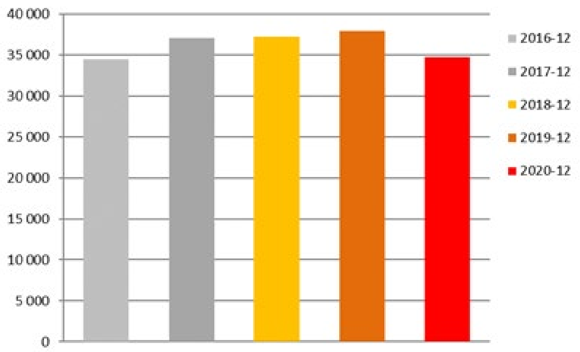
**61**

OPERATING RESULT IN SEK MILLIONS

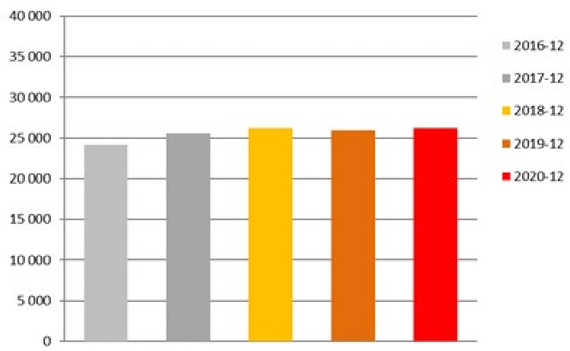
**23**

| KEY RATIOS | 2020 | 2019 |
|---|---|---|
| Total Capital ratio | 17.6% | 17.7% |
| Common equity Tier 1 ratio | 17.6% | 15.4% |
| Investment margin | 4.1% | 4.3% |
| Return on adjusted equity | 0.3% | 2.5% |
| Leverage ratio | 12.7% | 12.1% |
| C/I-ratio before loan losses | 70.2% | 69.6% |
| Loan loss ratio | 2.1% | 1.9% |

LENDING INCLUDING LEASING IN MILLION SEK




DEPOSITS FROM THE PUBLIC IN MILLION SEK



# This is Ikano Bank

Our financing services to consumers and businesses are offered directly and indirectly via partners. We also provide savings for consumers. We operate in Sweden, Norway, Denmark, Finland, the United Kingdom, Germany, Austria and Poland.

Ikano Bank is part of the Ikano Group, which has been an in-dependent group since 1988. The Ikano Group was previously part of IKEA. In addition to finance, the Ikano Group also has real estate, production, analytics, insurance and retail.

In Ikano we are driven by a common vision and our values; working together, common sense and simplicity, and daring to be different. We work together to deliver on our promise to customers, partners and each other; everything we do should be done on fair terms.

Our vision is to create possibilities for better living for the many people.

## BUSINESS LINES

**Consumer**

We offer private customers simple and smart banking services for savings and loans, such as loans for private consumption, credit cards and savings accounts.

**Sales finance**

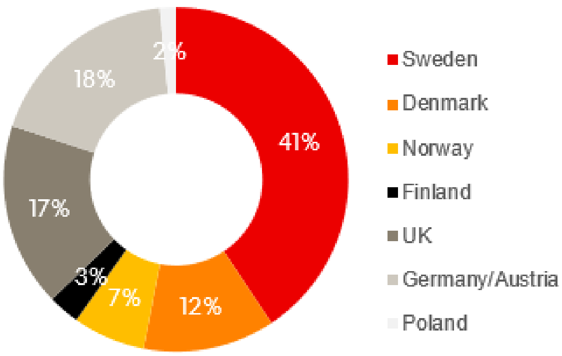
We offer sales supporting finance solutions, including loyalty programmes, loyalty cards and instalment payment solutions, to retail trade partners. Our services enable our partners to increase loyalty and generate additional sales, as well as offer their end-customers increased financial flexibility.

**Businesses**

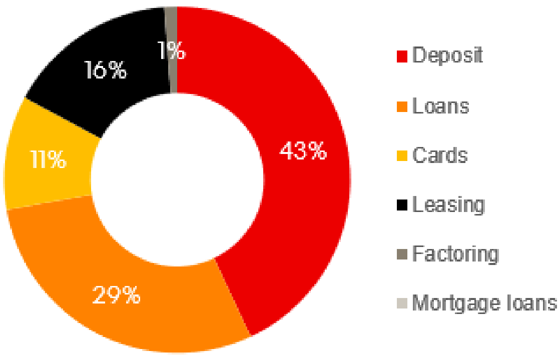
We offer leasing and factoring services to companies through direct sales as well as via partners. Our services give customers greater financial flexibility. Our solutions enable customers to free up capital and finance their growth. In turn, our partners increase their sales.

## GEOGRAPHIC PRESENCE

## LENDING PER COUNTRY




## BUSINESS VOLUME PER PRODUCT AREA



# A new bank emerges

We will all remember 2020 as the year when everything was turned upside down and many things we take for granted changed completely. It is also the year, when Ikano Bank is in the middle of the biggest transformation ever.

With committed employees and innovative solutions, we are launching a new platform, which will make us a fully digitalised, simple and caring bank for the many people. The transformation also brings a change in our culture, back to the entrepreneurial and customer-centric bank Ingvar Kamprad once founded.

Last year, in my CEO-statement, I talked about forming a strategy and preparing for transformation. This year it has been full speed ahead. 2020 is the first year in our two-year strategy to lay the foundation for the new bank, and the work is proceeding according to plan. The goal of our transformation is to become more relevant to our customers, improve our cost efficiency, continue to work for a sustainable society and keep our position as an attractive employer.

### First product on the new platform

The possibilities for flexible digital banking solutions have become increasingly advanced in recent years, something we are truly taking advantage of now. By investing in the latest technology, we develop a completely new platform that enables attractive and flexible financial products with short development time.

In November, our first credit product on the new loan platform went into production. In the coming years, our new retail finance solution, Ikano Pay, built on the new platform will be rolled out in all countries. At the same time, we have excelled at creating new products within existing systems. In June, an e-commerce solution was launched for IKEA in Poland, where customers' loan applications are processed and approved directly at check-out. In addition, in November an e-commerce solution was upgraded and launched for IKEA in Germany helping our customers in times when physical stores are closed.

In addition, we are pleased that increased online sales have driven good growth for our digital invoicing solution, which was launched in 2019 for IKEA in Sweden, Norway and Finland.

### Organisation for transformation

During the spring 2020 we established a new commercially focused digital function responsible for technology and product development, data, and customer experience, and we have implemented new, more agile development models. Approximately 20 teams are now working efficiently together.

### Credit reservations weigh on the result

With the fundamental transformation of the Bank we will improve the customer experience, implement efficient processes and remove old systems, which step by step will improve our results, in terms of growth, operating margin, Cost Income Ratio (C/I), and profitability.

Major changes demand both time and financial resources, which is also reflected in our results, in addition to the effects of Covid-19. We have not yet seen any increase in actual credit losses due to the pandemic, but have chosen a conservative strategy with large loan loss provisions.

The Bank's financial position is strong, with good margins in terms of liquidity and capital. We monitor the situation to secure that we have control of our credit portfolios and the financial strength needed to continue to support our customers, with a long-term business perspective.

### A new sustainability strategy

In our promise "On fair terms" lies a fundamental idea of sustainability, which has been with us from day one. During the year, we developed an updated sustainability strategy for the Bank, in which we express our contribution to a sustainable society. Our starting point is always our core business; to help the many people to a healthy and sustainable economy in everyday life. This means, among other things, simple and fair banking services, responsible lending and financing of sustainable life choices.

**Building a new Bank together**

With our technical development, we create a competitive offer, but the real success factor is our strong brand, our common values and fantastic co-workers.

Despite Covid-19 restrictions, we invested heavily in leadership and competence development during the year. For example, we have given all employees access to a large number of online courses and created digital meetings for knowledge sharing. We have also introduced surveys every month to gather employees' opinions.

I am extremely proud of our employees' commitment and enthusiasm in the transformation we are carrying out. It is especially pleasing to see that a number of former colleagues have come back and want to be part of our new digital journey.

**An exciting year ahead**

In the beginning of February 2021, we shared the news that the Ingka Group intends to become a 49% part-owner of Ikano Bank. Together we will continue to develop accessible digital financial services for IKEA customers, all our other valued partners and end customers.

Finally, I would like to thank all employees, customers and partners for the past year. 2020 has been a year full of challenges and I am proud of everything we have achieved. Together, we continue on our journey to build a fully digitalised bank for the many people based on our strong values and company spirit. I look forward to 2021, when we will start to see the effect of our hard work, and I am curious to find out how our customers will receive the new Ikano Bank.

Malmö, March 2021

Henrik Eklund
CEO, Ikano Bank

# Administration report

*The Board of Directors and the CEO of Ikano Bank AB (publ), corporate registration number 516406-0922, hereby present the annual accounts for the period from 1 January to 31 December 2020.*

## Owner and operating structure

Ikano Bank AB (publ) ("Ikano Bank" or the "Bank") is a limited liability company licensed to conduct banking business with registered domicile in Älmhult, Sweden, and head office in Malmö, Sweden. Ikano Bank is owned by Ikano S.A. with its registered office in Luxembourg. Originally part of IKEA, Ikano S.A. with its subsidiaries (the "Ikano Group") became a separate Group in 1988 with operations in banking, real estate, production, insurance and retail. Ikano Bank has operated its business under a banking license from the Swedish Financial Supervisory Authority since 1995 and is present in Sweden, Denmark, Norway, Finland, the UK, Germany, Austria and Poland. The foreign operations are branches of the Swedish entity. The Bank's Business in UK, after the end of the transitional period 31 December 2020, requires authorisation from the British supervisory authorities. During the processing of the bank's British authorisation application, the bank operates under the so-called Temporary Permissions Regime in the UK.

### Operations

The Bank's operations are followed up based on geographic markets; see note 4, Operating segments.

There are three business lines within the Bank's operations: Corporate, Sales Finance and Consumer.

### Corporate

Within the Corporate business line financial solutions for corporate clients in the form of leasing agreements, object financing, invoice purchasing and factoring are offered. These operations are primarily conducted through partner arrangements. This business line is represented in Sweden, Denmark, Norway and Finland.

### Sales Finance

Services for financing and sales support, mainly to the retail sector, are managed and marketed within the Sales Finance business line. This business line is represented in all geographic markets. The services offered comprise of consumer finance for sales support in the form of store cards and credit cards with Visa and MasterCard, loyalty cards, bonus management and information services for sales support. The largest partner within Sales Finance is IKEA.

### Consumer

The Consumer business line is aimed at private individuals and offers simple, beneficial products and services for savings and loans. The customers carry out part of the work themselves on the internet or by telephone, which enables an efficient handling whereby the Bank can offer customers cost-efficient and competitive products.

Lending is offered as unsecured loans and Visa credit cards. Lending is provided as unsecured loans and card products in Sweden, Denmark, Norway and Germany. Unsecured loans are also offered in the UK market. Deposits are offered in the Swedish, Danish, German and UK markets.

## Significant events during the year

The Covid-19 pandemic has struck the world and, of course, Ikano Bank's operations are also affected. In the short term, we see a decline in the revenue base and increased provisions for future credit losses. The pandemic has accelerated the ongoing transformation towards a strengthened digital offering with an improved customer experience, committed employees and an updated strategy.

Ikano Bank has, together with a number of partners in the Swedish market, continued investments in a fintech company with the purpose of being able to provide competitive mortgage loans to customers in Sweden.

## Total assets and business volumes

The Bank's total assets decreased during the year by SEK 2,990 m and amounted to SEK 42,965 m (45,956). The decrease is explained by a generally declining lending volume in both the consumer and corporate business segment, with the largest losses in the card markets in Germany and Sweden, the consumer loan markets in the UK and Denmark, and in leasing in Denmark and Norway. The Bank's equity decreased by SEK 94 m to SEK 5.851 bn (5.945).

Overall business volumes of loans to the public, deposits from the public and leasing assets decreased by 5 percent to SEK 60,968 m (63.887). The Bank's loans to the public decreased by 10 percent to SEK 25,031 m (27,661) after provisions for loan losses. Decrease varies between the Banks' markets, where loans to the public in the UK and Germany decreased the most during the year.

Leased assets held on customers' behalf decreased by 5 percent to SEK 9,714 m (10,268), mainly driven by decline in the Danish market but also in Norway and Sweden.

Deposits from the public increased by 1 percent to SEK 26,223 m (25,958). Deposit volumes increased in the Swedish market while the deposit volumes decreased in Denmark, Germany and the UK. Deposits are an important part of the Bank's funding. At year-end, deposits from the public corresponded to 61 percent (57) of the Bank's total funding.The Bank regularly obtains funding from the capital markets. The Bank's volume of issued securities decreased by SEK 2,2 bn to SEK 6,4 bn (8,6). Demand for the Bank's short-term commercial paper (CP) programme as well as for the Bank's bond programme (Medium Term Note programme) has been greater than the need as the bank has had reduced lending due to the Covid-19 pandemic. In 2020, 1 (7) new bond with maturity of three years has been issued. The Bank's liquidity portfolio totalled SEK 6.246 m as of 31 December 2020 (6,038), which corresponds to 24 (23) percent of the Bank's total deposits from the public.

The Bank's development over a five-year period is reported on page 9.

## Result

In 2020, the extensive transformation work continued according to plan. 2020 was a challenging year in terms of the results, where the Covid-19 pandemic and subsequent shutdowns had a negative effect on the inflow of new loans. The operating profit decreased by 88 percent to SEK 23 m (189) driven by declining revenues and increased loan losses, only partially mitigated by lower expenses. The underlying profitability of the Bank is deemed to be stable and supported by a well-established loan business. During 2020, revenues decreased, -5.5 percent, faster than expenses, -3.0 percent. The result for 2020 was negatively affected by, above all, lower interest income, but also by a declining net commission income and a slightly lower net leasing income. The result is also affected by increased loan losses.

Net interest income decreased by SEK 107 m to SEK 1,837 m (1,944). The decrease is mainly driven by lower lending volumes, with Norway, the UK and Germany contributing negatively to the development, while Sweden contributes positively.

Net leasing income decreased by 2 percent to SEK 479 m (489), mainly driven by volume declines in the Norwegian and Danish markets, while the Swedish market made a positive contribution.

Net commission income decreased by 8 percent to SEK 329 m (357). The decrease is mainly explained by reduced lending commissions. Operations in Norway, Germany and Denmark contributed to the decrease, while net commissions increased in Sweden.

Operating income decreased by 5.5 percent to SEK 6,098 m (6,451).Operating expenses decreased by 4.7 percent to SEK 5,300 m (5,560). The decrease is primarily attributable to lower depreciation of leased assets on behalf of customers, which follows from a decline in volume within the Corporate business line. The costs for IT, marketing and mail handling are also reduced.

Loan losses measured as a percentage of average total lending increased to 2.1 percent (1.9). Net loan losses increased to SEK 775 m (702). The increase is explained by the Bank in 2020 making extraordinary reservations for future loan losses of SEK 51 m, linked to the Covid-19 pandemic and by adjustments in models which, together with macroeconomic factors, have increased provisions for future loan losses by SEK 134 m. The Covid-19 pandemic has not yet resulted in any significant increase in actual loan losses.

## Employees

The Bank works continuously with competence development. Newly appointed and newly hired managers participate in Ikano's Culture and Leadership Programme. The Bank also has a common introduction programme for all employees.The Works Council, which is the Bank's forum for participation in transnational topics, met on two occasions during the year. The Works Council consists of elected representatives from each country, together with the CEO and the Chief People and Communications Officer. The number of employees, based on full-time workers, totalled 932 (1,067) as an average during the year. Information regarding principles and processes relating to remuneration and benefits to key personnel can be found in note 11 General administrative expenses.

## Management and Board of Directors

There has been no change in the Board of Directors during 2020.

Since April the Bank has a new Chief Legal Officer, Anna Wanby, and Chief Digital Officer, Johan Bjurup, who both took place in the Bank's management team. Chief People and Communications Officer Jenny Hillerström-Schüldt left the Bank end of November 2020 and was replaced by Teresia Palm in January 2021 as a member of the Bank's management team. David Elvström was appointed Chief Transformation Officer in September 2020. Jessica Svantesson was appointed Chief Commercial Officer in October. Both David and Jessica were already part of the Bank's management team.

## Risks and uncertainty factors

The Bank's earnings are affected by external changes that the company has no control over. The Bank's earnings performance is affected by factors including macroeconomic change such as unemployment, as well as fluctuations in interest and exchange rates.

The Covid-19 pandemic is an unexpected event with unforeseen and uncertain long-term consequences. This has caused new risks and put further focus on credit risk. The pandemic forced a lock down on most of the Bank's operating markets and payment holidays were requested by a number of customers, both corporates and consumers. These customers have recovered to an unexpected degree and the effects so far are marginal. Long-term effects are more uncertain, but the Bank expects to see increased actual losses in 2021. The Bank's assessment is that payment holidays is not in itself an individual driver of increased credit risk. On the other hand, the Bank's internal modelling means that a large proportion of these customers nevertheless show a significant increase in credit risk. Payment holidays do not automatically result in any significant modification of the loans.

Risk management is an integrated component of the Bank's daily operations. In its business operations, the Bank is exposed to several risks such as credit risk, operational risk and business risk, but it must also manage liquidity risk, foreign exchange risk and interest rate risk. The Board of Directors and CEO are ultimately responsible for risk management at Ikano Bank. Risk management is intended to ensure that the risks do not exceed the risk tolerances set by the Board of Directors. The Bank's risks are monitored centrally, but the responsibility for risk management rests primarily with local business units. This means that operating businesses own and manage the risk in daily operations. The independent risk control function is responsible for monitoring and evaluating risk management.

Credit risk is the Bank's main risk and is defined as the risk that the counterparty does not fulfil its obligations and the risk that collateral doesn't cover the receivable. Through good management of credit risk, profitability in the lending operations can be optimised.

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, human error, systems or external events. This definition also includes legal risk, but not strategic and reputational risk. The goal is to ensure effective processes and maintain a high level of security and accessibility for the Bank's customers and other stakeholders.

Business risk is the risk that the Bank's earnings deteriorate and are not sufficient to cover operating expenses. Business risk also includes reputation risk, which is the risk of financial loss due to customers, partners and/or lenders losing confidence in the Bank, its brand, or the industry as a whole, for example due to adverse publicity or periods of system stress.

In the various geographic markets in which the Bank operates, there are risk departments that report risks the Bank faces locally to the local management groups. The independent risk control function is responsible for following up and evaluating risk management and reports monthly to the Bank's management team and quarterly to the Board of Directors. The Bank's Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP/ILAAP) are updated quarterly and presented to the management team and Board of Directors. Objectives and policies for the Bank's risk management are further described in note 3, Risks and risk management.

## Capital adequacy and leverage ratio

The common equity Tier 1 capital ratio for 2020 was 17.6 percent (15.4), the same as the total capital ratio (17.7) with transitional arrangements related to the Day one effect of the transition to IFRS 9 applied. The transitional arrangements allow for a gradual phase-in of the accounting effect of increased credit impairment provisions in the capital adequacy. The combined buffer requirement for Ikano Bank is made up of the capital conservation buffer and the countercyclical capital buffer and amounts to SEK 817 m as of 31 December 2020 (1,527). The decrease is explained by authorities, in all markets where the Bank operates, reducing the counter cyclical buffer requirements during spring 2020 as a consequence of the Covid-19 pandemic. The leverage ratio for the Bank was 12.7 percent for 31 December 2020 (12.1) and thus above the upcoming binding minimum level for the leverage ratio of 3 percent. For more information about the capital adequacy calculation, see note 38 Capital analysis.

## Liquidity

At year-end, the Bank's liquidity coverage ratio (LCR) totalled 256 percent (276). This measure shows how the Bank's highly liquid assets relate to net outflows over a thirty-day period under strained market conditions. The statutory limit for the liquidity coverage ratio is 100 percent.

The Net Stable Funding Ratio (NSFR) is a measure of the bank's structural liquidity, defined as the ratio between available stable funding and required stable funding. The EU has issued a minimum requirement of 100 percent to come into effect in June 2021. Net Stable Funding Ratio (NSFR) for Ikano Bank was 107 percent at year-end 2020 (105).

## Corporate Governance Report

Ikano Bank's corporate governance report for 2020 is attached to this Annual Report on page 67.

## Sustainability report

Ikano Bank's sustainability report for 2020 is published on the Bank's website.

## Outlook

Extensive investments will be made to streamline and improve the bank's competitiveness. The goal is to become a fully digitalized bank for the many people, which is also expected to create the conditions for an improved result in the future. By gradually rolling out new digital products, the bank sees good business opportunities in the coming years. Uncertainty about the global pandemic's impact on future results remains high. For more information see note 40 Events after the balance sheet date.

## Proposal appropriation of profits

The following amount is available for distribution by the Annual General Meeting (SEK):

| | |
|---|---|
| Fund for fair value | 312,305,581 |
| Retained earnings | 4,961,236,787 |
| Net result for the year | -167,104,724 |
| Total | 5,106,437,644 |

The Board of Directors proposes that the profits be appropriated as follows (SEK):

| | |
|---|---|
| To be carried forward | 5,106,437,644 |

# 5-year summary

| SEK m | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Net interest income | 1 837 | 1 944 | 1 935 | 1 960 | 2 021 |
| Leasing income | 3 898 | 4 011 | 3 790 | 3 396 | 2 781 |
| Net commission | 329 | 357 | 353 | 328 | 356 |
| Net gains and losses on financial transactions | -24 | 21 | 0 | -6 | 9 |
| Other operating income | 58 | 118 | 152 | 268 | 105 |
| **Total operating income** | **6 098** | **6 451** | **6 230** | **5 946** | **5 273** |
| | | | | | |
| General administrative expenses | -1 631 | -1 749 | -1 749 | -1 670 | -1 689 |
| Depreciation/ amortisation and impairments of tangible and intangible assets | -3 537 | -3 624 | -3 437 | -3 086 | -2 515 |
| Other operating expenses | -131 | -188 | -209 | -200 | -346 |
| Loan losses | -775 | -702 | -476 | -556 | -278 |
| **Other operating expenses** | **-6 075** | **-6 263** | **-5 871** | **-5 511** | **-4 828** |
| | | | | | |
| **Operating result** | **23** | **189** | **359** | **435** | **445** |
| Appropriations | - | 281 | 320 | - | - |
| Taxes | -190 | -4 | -137 | -151 | -166 |
| **Net result for the year** | **-167** | **465** | **541** | **284** | **279** |

| SEK m | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Balance Sheet** | | | | | |
| Cash | 0 | 34 | 36 | 7 | 10 |
| Loans to credit institutions | 1 932 | 1 909 | 2 151 | 1 814 | 1 838 |
| Loans to the public | 25 031 | 27 661 | 27 289 | 27 799 | 26 845 |
| Interest-bearing securities | 4 401 | 4 119 | 3 514 | 3 277 | 3 449 |
| Tangible assets | 9 724 | 10 282 | 9 916 | 9 318 | 7 687 |
| Other assets | 1 877 | 1 950 | 1 825 | 1 868 | 1 708 |
| **Total assets** | **42 965** | **45 956** | **44 731** | **44 082** | **41 536** |
| | | | | | |
| Liabilities to credit institutions | 1 486 | 2 010 | 2 250 | 2 504 | 2 415 |
| Deposits from the public | 26 223 | 25 958 | 26 206 | 25 617 | 24 180 |
| Other liabilities | 793 | 1 003 | 1 000 | 1 128 | 1 035 |
| Provisions | 129 | 160 | 181 | 170 | 172 |
| Subordinated liabilities | 830 | 865 | 839 | 820 | 810 |
| **Total liabilities and provisions** | **37 018** | **39 914** | **38 909** | **38 314** | **36 093** |
| | | | | | |
| Untaxed reserves | 97 | 97 | 378 | 698 | 698 |
| Equity | 5 851 | 5 945 | 5 444 | 5 070 | 4 744 |
| **Total liabilities, provisions and equity** | **42 965** | **45 956** | **44 731** | **44 082** | **41 536** |

# 5-year summary

| SEK m | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Volumes** | | | | | |
| Business volume | 60 968 | 63 887 | 63 394 | 67 863 | 63 501 |
| *Change during the year* | *-4.6%* | *0.8%* | *-6.6%* | *6.9%* | *15.2%* |
| *Customer-related loans and deposits, leasing and mediated mortage loans* | | | | | |
| Loans to the public | 25 031 | 27 661 | 27 289 | 27 799 | 26 845 |
| *Change during the year* | *-9.5%* | *1.4%* | *-1.8%* | *3.6%* | *11.4%* |
| Deposits from the public | 26 223 | 25 958 | 26 206 | 25 617 | 24 180 |
| *Change during the year* | *1.0%* | *-0.9%* | *2.3%* | *5.9%* | *19.6%* |
| **Capital** | | | | | |
| Equity ratio 1) | 13.8% | 13.1% | 12.8% | 12.7% | 12.7% |
| *Taxed equity +78 % of untaxed reserves in relation to total assets* | | | | | |
| Total Capital ratio | 17.6% | 17.7% | 17.2% | 16.5% | 16.6% |
| *Own funds in relation to risk exposure amount* | | | | | |
| Common equity Tier 1 ratio | 16.6% | 15.4% | 14.9% | 14.3% | 14.3% |
| *Common Equity Tier 1 capital in relation to risk exposure amount* | | | | | |
| **Liquidity** | | | | | |
| Liquidity portfolio in relation to deposits from the public | 23.8% | 23.0% | 21.2% | 19.7% | 21.8% |
| Depostis from the public in relation to total assets | 61.0% | 56.5% | 58.6% | 58.1% | 58.2% |
| Liquidity coverage ratio (LCR) | 256% | 276% | 191% | 229% | 283% |
| **Result** | | | | | |
| Investment margin | 4.1% | 4.3% | 4.4% | 4.6% | 5.2% |
| *Net interest income in relation to average total assets* | | | | | |
| Return on adjusted equity 1) | 0.3% | 2.5% | 4.9% | 6.2% | 7.2% |
| *Operating result after standard tax rate in relation to average adjusted equity* | | | | | |
| C/I-ratio before loan losses | 70.2% | 69.6% | 71.1% | 66.3% | 74.2% |
| *Operating expenses in relation to operating income with lease operations offset in operating income* | | | | | |
| Return on total assets | -0.4% | 1.0% | 1.2% | 0.6% | 0.7% |
| *Net result as % of total assets* | | | | | |
| **Credit quality 2)** | | | | | |
| Provision for non performing loans | 59.3% | 55.6% | 50.0% | 48.1% | 58.6% |
| *Total provision for probable loan losses in relation to non performing loans, gross* | | | | | |
| Share of non performing loans | 0.8% | 0.9% | 1.5% | 1.8% | 1.7% |
| *Non performing loans, in relation to total loans to the public, credit institutions (excluding banks) and lease receivables* | | | | | |
| Loan loss ratio | 2.1% | 1.9% | 1.3% | 1.6% | 0.9% |
| *Loan losses in relation to average loans to the public, credit institutions (excluding banks) and lease receivables* | | | | | |
| **Other information** | | | | | |
| Average number of employees | 932 | 1 067 | 846 | 901 | 967 |

1) Calculated according to each year's applicable tax rate.
2) Accounting and valuation are according to IFRS 9 from 1 January 2018. Previous periods are in accordance with IAS 39.

# Income statement

| SEK 000 | Note | 2020 | 2019 |
|---|---|---|---|
| Interest income | 5 | 2 182 414 | 2 341 779 |
| Interest expense | 5 | -345 546 | -397 967 |
| **Net interest income** | | **1 836 868** | **1 943 812** |
| Leasing income | 6 | 3 898 213 | 4 011 000 |
| Commission income | 7 | 581 523 | 659 093 |
| Commission expense | 7 | -253 007 | -301 860 |
| **Net commission income** | | **328 516** | **357 233** |
| Net gains and losses on financial transactions | 8 | -23 828 | 21 196 |
| Other operating income | 9 | 58 418 | 118 200 |
| **Total income** | | **6 098 187** | **6 451 441** |
| General administrative expenses | 11 | -1 630 887 | -1 749 289 |
| Depreciation/amortisation and impairments of tangible and intangible assets | 21, 22 | -3 537 386 | -3 623 661 |
| Other operating expenses | 12 | -131 407 | -187 531 |
| **Total expenses before loan losses** | | **-5 299 680** | **-5 560 481** |
| **Profit before loan losses** | | **798 507** | **890 960** |
| Loan losses, net | 13 | -775 469 | -702 289 |
| **Operating result** | | **23 038** | **188 671** |
| Appropriations | 14, 34 | 0 | 281 200 |
| Tax expense | 14 | -190 143 | -4 470 |
| **Net result for the year** | | **-167 105** | **465 401** |

# Report on total comprehensive income for the year

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Net result for the year** | **-167 105** | **465 401** |
| **Other comprehensive income** | | |
| **Items that can be reclassified to net profit for the year** | | |
| Translation difference for the year, foreign branches | -13 754 | 99 452 |
| Changes in fair value through other comprehensive income | 1 356 | -7 861 |
| Change in loss allowance for financial assets valued at fair value via other comprehensive income | 2 483 | 647 |
| Fair value changes for cash flow hedges | -9 323 | 2 917 |
| Tax related to changes in translation differences for the year | 90 949 | -61 229 |
| Tax related to changes in financial assets valued at fair value via other comprehensive income | -205 | 1 681 |
| Tax related to changes in fair value of cash flow hedges | 1 688 | -601 |
| **Other comprehensive income for the year, net of tax** | **73 195** | **35 006** |
| **Total comprehensive income for the year, net of tax** | **-93 911** | **500 407** |

# Balance sheet

| SEK 000 | Note | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 151 | 33 855 |
| Treasury bills | *15* | 1 796 121 | 1 672 613 |
| Loans to credit institutions | *16* | 1 932 483 | 1 909 236 |
| Loans to the public | *17* | 25 030 764 | 27 660 929 |
| Bonds and other interest-bearing securities | *18* | 2 605 234 | 2 446 609 |
| Shares and participations in associated companies | *0* | 20 980 | 0 |
| Shareholdings in other comapnies | *19* | 43 632 | 12 446 |
| Intangible assets | *21* | 493 883 | 352 138 |
| Tangible assets | *22* | 9 723 541 | 10 282 495 |
| *- Leasing assets* | | *9 713 802* | *10 268 260* |
| *- Equipment* | | *9 738* | *14 235* |
| Other assets | *25* | 976 555 | 1 160 042 |
| Deferred tax assets | *14* | 62 218 | 102 455 |
| Prepaid expenses and accrued income | *26* | 279 883 | 279 668 |
| **Total assets** | | **42 965 445** | **45 955 650** |
| | | | |
| **Liabilities, provisions and equity** | | | |
| Liabilities to credit institutions | *27* | 1 485 643 | 2 009 831 |
| Deposits from the public | *28* | 26 223 293 | 25 957 779 |
| Issued securities | *29* | 6 383 642 | 8 595 049 |
| Other liabilities | *30* | 793 442 | 1 003 407 |
| Accrued expenses and deferred income | *31* | 1 172 699 | 1 322 560 |
| Provisions | | 128 687 | 160 244 |
| *- Provisions for pensions* | *32* | *36 957* | *35 886* |
| *- Deferred tax liabilities* | *14* | *63 987* | *92 115* |
| *- Other provisions* | | *27 743* | *32 244* |
| Subordinated liabilities | *33* | 830 357 | 865 187 |
| **Total liabilities and provisions** | | **37 017 763** | **39 914 057** |
| | | | |
| **Untaxed reserves** | *34* | **96 957** | **96 957** |
| | | | |
| **Equity** | *35* | | |
| **Restricted equity** | | **744 289** | **566 574** |
| Share capital | | 78 994 | 78 994 |
| Statutory reserve | | 193 655 | 193 655 |
| Fund for development expenses | | 471 640 | 293 925 |
| **Non-restricted equity** | | **5 106 437** | **5 378 062** |
| Fund for fair value | | 312 307 | 239 111 |
| Retained earnings | | 4 961 236 | 4 673 550 |
| Net result for the year | | -167 105 | 465 401 |
| **Total equity** | | **5 850 726** | **5 944 636** |
| **Total liabilities, provisions and equity** | | **42 965 445** | **45 955 650** |

# Statement of changes in equity

| SEK 000 | Restricted equity<br>Share capital | Restricted equity<br>Statutory reserve | Restricted equity<br>Fund for develop-ment expenses | Non-restricted equity<br>Fund for fair value<br>Fair value reserve | Non-restricted equity<br>Fund for fair value<br>Translation reserve | Non-restricted equity<br>Fund for fair value<br>Cash flow hedge reserve | Non-restricted equity<br>Retained earnings or losses | Non-restricted equity<br>Net result for the year | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance 2019-01-01** | **78 994** | **193 655** | **276 316** | **8 492** | **182 991** | **12 622** | **4 149 952** | **541 208** | **5 444 229** |
| Appropriation of profits | - | - | - | - | - | - | 541 208 | -541 208 | - |
| Change in fund for development expenses | - | - | 17 610 | - | - | - | -17 610 | - | - |
| Net result for the year | - | - | - | - | - | - | - | 465 401 | 465 401 |
| Other comprehensive income for the year | - | - | - | -5 533 | 38 223 | 2 316 | - | - | 35 006 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-5 533** | **38 223** | **2 316** | **-** | **465 401** | **500 407** |
| **Closing balance 2019-12-31** | **78 994** | **193 655** | **293 925** | **2 959** | **221 214** | **14 938** | **4 673 550** | **465 401** | **5 944 636** |
| **Opening balance 2020-01-01** | **78 994** | **193 655** | **293 925** | **2 959** | **221 214** | **14 938** | **4 673 550** | **465 401** | **5 944 636** |
| Appropriation of profits | - | - | - | - | - | - | 465 401 | -465 401 | - |
| Change in fund for development expenses | - | - | 177 714 | - | - | - | -177 714 | - | - |
| Net result for the year | - | - | - | - | - | - | - | -167 105 | -167 105 |
| Other comprehensive income for the year | - | - | - | 3 634 | 77 195 | -7 635 | - | - | 73 195 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **3 634** | **77 195** | **-7 635** | **-** | **-167 105** | **-93 910** |
| **Closing balance 2020-12-31** | **78 994** | **193 655** | **471 640** | **6 593** | **298 409** | **7 303** | **4 961 237** | **-167 105** | **5 850 726** |

# Cash flow statement

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Operating activities** | | |
| Operating result | 23 038 | 188 671 |
| *Of which interest paid* | *-345 546* | *-397 968* |
| *Of which interest received* | *2 182 414* | *2 341 779* |
| **Adjustment for non-cash items** | **5 354 414** | **4 555 783** |
| Depreciation /amortisation | 3 537 386 | 3 623 661 |
| Loan losses | 1 216 346 | 1 371 692 |
| Other adjustments | 512 605 | -287 681 |
| Income tax paid | 88 076 | -151 890 |
| **Cash flows from operating activities before changes in working capital** | **5 377 453** | **4 744 452** |
| | | |
| **Cash flows from changes in working capital** | **-2 382 963** | **-6 151 422** |
| Changes in loans to the public | 292 984 | -793 871 |
| Changes in securities | -279 984 | -612 856 |
| Changes in deposits from the public | 1 031 538 | -883 096 |
| Changes in leasing assets | -3 214 089 | -3 674 583 |
| Changes in other assets | 95 106 | -38 435 |
| Changes in other liabilities | -308 519 | -148 581 |
| **Cash flows from operating activities** | **2 994 489** | **-1 406 970** |
| | | |
| **Investing activities** | | |
| Investment in financial assets | -8 534 | -12 446 |
| Change of intangible assets | -254 443 | -67 647 |
| Sale of tangible assets | -4 007 | 85 |
| Acquisition of tangible assets | -1 542 | -3 218 |
| **Cash flows from investing activities** | **-268 526** | **-83 226** |
| | | |
| **Financing activities** | | |
| Issuance of interest-bearing securities | 1 530 000 | 6 380 000 |
| Repayment of interest-bearing securities | -3 744 000 | -4 920 000 |
| Borrowing from credit institutions | -434 191 | -297 208 |
| **Cash flows from financing activities** | **-2 648 191** | **1 162 792** |
| | | |
| **Cash flow for the year** | **77 774** | **-327 404** |
| Cash and cash equivalents at beginning of the year | 1 921 393 | 2 169 819 |
| Exchange rate difference in cash and cash equivalents | -79 799 | 78 978 |
| **Cash and cash equivalents at the end of the year** | **1 919 367** | **1 921 393** |

## Additional information about change in liabilities from financing activities

| SEK 000 | 2020-01-01 | Cash flows | Foreign exchange movement | 2020-12-31 |
|---|---|---|---|---|
| Certificates of deposits | 2 187 705 | -1 058 499 | - | 1 129 206 |
| Bonds | 6 407 344 | -1 152 909 | - | 5 254 435 |
| Borrowing from credit institutions | 1 993 069 | -434 191 | -86 504 | 1 472 375 |
| Subordinated loans | 865 187 | - | -34 829 | 830 357 |
| **Total liabilities from financing activities** | **11 453 304** | **-2 645 598** | **-121 333** | **8 686 373** |

All of the above liabilities in the financing activities are valued at amortised cost

The cash flow statement has been prepared using the indirect method. The reported cash flow includes only transactions that involve incoming or outgoing payments. Liquid assets are defined as Cash as well as Loans to credit institutions, SEK 1,933 m (1,943), with deductions for current liabilities to credit institutions SEK 13 m (22).

# Notes

## 1 General information

The annual report is given for Ikano Bank AB (publ), corporate registration number 516406-0922, as of 31 December 2020. Ikano Bank is a limited liability banking company with registered office in Älmhult. The head office is located in Malmö with the address Hyllie Boulevard 27, 200 49 Malmö, Sweden. The Bank operates under a banking license from the Swedish Financial Supervisory Authority to carry out banking business in accordance with the law on banking and finance.

The income statement and balance sheet are subject to approval at the Annual General Meeting which will be held by 25 March 2021 at the latest.

Owner of the Bank is Ikano S.A. with corporate registration number B87.842. The address of the parent company is: 1, rue Nicolas Welter L-2740 Luxemburg. Ikano S.A. prepares the consolidated financial statements for the Group in which the Bank is a subsidiary.

## 2 Accounting principles

The annual report is prepared in accordance with the Annual Accounts Act (1995:1559) for credit institutions and securities companies (AACS), the Financial Supervisory Authority and general advice on Annual Reports in credit institutions and securities companies (FFFS 2008: 25), as well as the Swedish Financial Reporting Board's recommendation, RFR 2, Accounting for legal entities. On this basis, the Bank applies statutory IFRS. This refers to standards adopted for application with the limits and possibilities for exceptions imposed by RFR 2 and FFFS 2008:25. This means that all EU-endorsed IFRS and statements, to the extent possible, within the framework of ÅRKL, RFR2 and FFFS2008:25 have been applied. The following accounting principles have been applied consistently to all periods presented in the financial statements, unless otherwise stated.

Ikano Bank applies the exemption rule for legal entities regarding IFRS 16 in RFR 2.

The accounting currency of Ikano Bank is Swedish kronor (SEK) and all amounts reported in the financial statements are in Swedish kronor, rounded to the nearest thousand (SEK 000) unless otherwise stated.

### Basis for valuation in the preparation of the Bank's financial reports

Assets and liabilities are reported at historical acquisition cost. Financial assets and liabilities are measured at the amortised cost, except for certain financial assets and liabilities measured at fair value or historical acquisition cost.

Financial assets and liabilities reported at fair value are:

- Derivatives
- Financial instruments classified as financial assets or liabilities at fair value through profit and loss
- Financial assets classified at fair value through other comprehensive income

Financial assets valued according to historical acquisition cost are:

- Shares and participations in associated companies

### Foreign branches

The Bank has six foreign operations that are operated as branches. The functional currencies of these foreign entities are Danish kronor, Norwegian kronor, British pounds, Euros and Zloty. Translation of income statements and balance sheets for the foreign branches is done from the foreign branch's functional currency to Swedish kronor. Assets and liabilities are valued at closing rate. Revenues and expenses are translated at the period's average exchange rate. The resulting translation differences are reported in other comprehensive income.

### Transactions in foreign currencies

Transactions in foreign currencies have been translated into the functional currency based on the exchange rate on the transaction date. Monetary assets and liabilities in foreign currencies have been translated into the functional currency using the exchange rate on the balance sheet date. Non-monetary assets and liabilities that are reported at acquisition cost are translated to the prevailing exchange rate on the transaction date. The resulting exchange rate differences are reported in the income statement.

### Assessments and estimations in the financial reports

In order to prepare the financial reports in accordance with IFRS rules, as limited by statutes, the company's management must make assessments and estimations, and also make assumptions that affect the application of the accounting principles and the reported amount of assets, liabilities, income and expenses. Estimates and assumptions are based on historical experience and various other factors, which under current circumstances seem reasonable.

The Bank's management has taken into consideration the development of, and information regarding, the Bank's important accounting principles and taken a position on the selection and application of these. With the exception of models and assessments for calculating provisions for expected loan losses, which are described under the heading Loan losses and impairment losses on financial instruments, no significant changes in the main assessments and estimations have been made compared to 31 December 2019. Significant assessments related to these estimations are detailed in this note as well as note 3, Risks and risk management, Credit risk.

### Provisions for future loan losses

Credit impairment provisions are made based on IFRS 9 which is built on a forward-looking model with expected loan losses from the time of origination of the asset based on the credit risk of the financial asset. Credit loss provisions are also made for all financial instruments based on changes in credit risk since the first reporting date. Assets measured at amortised cost and fair value through other comprehensive income as well as credit commitments are also covered by loan loss models in accordance with IFRS 9.

Models and assumptions applied in the provisioning for future loan losses are regularly checked by the Bank's independent function for risk control.

Of this year’s credit losses, SEK 185 m is increased provisions for expected future loan losses. In 2020, adjustments were made in models and these, together with macroeconomic factors, increased provisions by SEK 134 m. The models the bank uses to calculate expected future credit losses have treated the consumer market in a way the bank has judged to be correct. Increased credit risks for the corporate market, where there are still outstanding volumes with payment holidays, have on the other hand been supplemented with additional provisions at portfolio level. These provisions, caused by the Covid-19 pandemic, amounts to SEK 51 m. The pandemic has not yet resulted in significant increases in realized credit losses and the underlying credit quality has improved during the years as a result of more restrictive lending.

For a detailed description of the Bank’s principles for credit impairment provisioning see section New Loan Losses and impairment of financial instruments as well as note 3 Risks and risk management.

## New IFRS and interpretations implemented

New and amended standards and interpretations with effect from 1 January 2020 are not considered to have had any significant effect on the bank's financial position, results or disclosures for 2020.

The Bank has chosen to prematurely apply amendments in IFRS9 regarding future change of reference rates (interbank offered rates), “Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS7”. This change has no effect on the financial statements.

Since Ikano Bank today applies the exception rule in RFR 2 for legal entities, temporary reliefs in IFRS 16 regarding rental discounts as an effect of the pandemic have not affected Ikano Bank's financial reports. The exception rule allows legal persons to report financial leases in the income statement and balance sheet as if they were operational leases. In 2020, relief rules were also introduced in RFR 2 concerning accounting impact of discounts granted as aa result of the Covid-19 pandemic. Since the Bank has not given or received any discounts due to the Covid-19 pandemic the reliefs in RFR2 have not been applied. Nor are other news assessed to have a significant impact on the bank's financial reports in 2020 or later.

## New IFRS and interpretations not yet implemented

New or amended standards and interpretations that only enter into force in the coming financial year have not been applied prematurely in the preparation of these financial statements

New or amended IFRS standards or interpretations or changes in Swedish regulations issued but not yet applied are not expected to have a material effect on the Group's financial position, results, cash flow or disclosures.

## Segment reporting

Ikano Bank carries out its operations based on seven operating segments coinciding with the geographic markets: Sweden, Denmark, Norway, Finland, UK, Germany/Austria and Poland. Each segment is internally reported on a monthly basis to the Bank's management team and Board of Directors.

The business in Denmark, Norway, Sweden and Finland offers financing solutions to corporate customers with leasing in all four operating areas, as well as factoring in Sweden. In Sweden and Norway Ikano Bank also offers corporate cards via partners. In addition, the operations in Sweden, Denmark, Germany and UK offer loan and savings products to private individuals. Loan products to private individuals are also offered in Norway and Poland. All segments offer sales supporting financing to retailers in the form of credit cards and loan products to consumers.

The operating segments are monitored on the basis of operating results. Income and expenses are attributed directly to the operating segments to which they relate or are distributed based on affiliation. Central expenses that have not been allocated are reported under the Common functions and consist primarily of other expenses. Eliminations relate primarily to the borrowing and lending between the central Treasury function and the segment, IT services and other administrative services. Pricing of internal interest rates is determined based on the Bank's actual cost of funds, administration and financial risk. For IT services and other administrative services, pricing is based on actual costs.

## Income

Revenue recognition takes place for interest in accordance with IFRS 9, for leasing in accordance with IFRS 16 and RFR 2 and for commissions in accordance with IFRS 9.

## Interest income and expenses

Interest income on receivables and interest expenses on liabilities are calculated and reported using the effective interest method. The effective interest rate is the interest rate applied to ensure that the present value of all estimated future payments received and made during the expected fixed interest rate period are equal to the reported value of the receivables or liabilities.

Interest income and interest expenses include, when applicable, fees received, allocated over a period, which are taken into account in the effective interest rate, transaction costs and other differences between the original value of the receivable or liability and the amount settled on maturity. Interest expenses include direct transaction costs allocated over a period of time.

## Income from commissions and fees

Income not treated as interest is included here and consists primarily of services, commissions and fees related to leasing, payment settlements, clearing transactions and account administration. Income from commissions and fees is reported in line with IFRS 15. Income is reported when the performance commitment or commitments are fulfilled by performing the promised service. The income can be reported at a given time, for example payment commissions, or over time as the service is performed, for example brokerage commissions.

Estimated variable remuneration is only included to such an extent that it is very probable that a material reversal of accumulated income that is reported does not arise when the uncertainty associated with the variable remuneration subsequently ceases.

## Commission expenses

Commission expenses are reported as costs for services received, such as the cost of credit information and the cost of cards and transactions to the extent that they are not to be regarded as interest. Transaction costs that are taken into account when calculating the effective interest rate are not reported here.

## Net result from financial transactions

The item Net result on financial transactions includes the realised and unrealised changes in value arising due to financial transactions. Net result on financial transactions consists of:

- realised results from financial assets measured at fair value through other comprehensive income
- credit impairment provisions for financial assets measured at fair value through other comprehensive income
- realised and unrealised changes in the value of derivatives which are economic hedging instruments but where hedge accounting is not applied
- unrealised changes in fair value of derivatives where hedge accounting to fair value is applied
- unrealised changes in fair value of a hedged item in relation to a hedged risk in hedging of fair value
- the ineffective portion of value changes in hedging instruments in cash flow hedges
- exchange rate fluctuations

## Classification of leasing agreements and reporting of leasing income

Leases are classified as operating leases or financial leases based on an assessment of the economic substance of the contractual agreements. If the economic substance of the contractual agreement is that the contract involves financing of an acquisition or an asset, the contract is classified as financial. If the economic substance of the contract is equivalent to a rental contract, the lease is classified as operational. The main factor in assessing the economic substance of the contract is an assessment of whether the risks and economic rewards associated with the tangible asset are essentially transferred from the lessor to the lessee. All leases at the Bank have been classified as financial leases.

Financial leases are reported in the income statement and balance sheet as if they were operating leases, in accordance with the regulations in RFR2. In the item Leasing income, leasing income is reported gross, i.e. before depreciation according to plan. Depreciation according to plan is distributed over time and reported according to the annuity method over the term of the lease contract (see also depreciation principles under Tangible assets).

## Taxes

The company’s income tax comprises current and deferred tax. Income tax is reported in the income statement except where the underlying transaction is reported directly in other comprehensive income or equity.

Current tax is the tax payable or refundable for the current year, using tax rates that have been established on the balance sheet date. This also includes the adjustment of current tax attributable to previous periods.

Deferred tax is calculated based on temporary differences between reported and fiscal values on assets and liabilities. The valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated at the tax rates and in accordance with the tax legislation established per the balance sheet date.

Deferred tax assets regarding deductible temporary differences and deficit deductions are only reported to the extent that it is likely that these will result in lower tax payments in the future. The value of deferred tax assets is reduced when it is no longer probable that they can be utilised.

Tax on net result for the year includes current tax, deferred tax and tax for previous years.

## Financial instruments

Financial instruments reported in the balance sheet on the assets side include loans receivable, accounts receivable, accrued income, interest-bearing securities, stocks and shares as well as derivatives. Among liabilities and equity there are deposits, accounts payable, loan liabilities, issued securities and derivatives.

## Recognition and derecognition in the balance sheet

A financial asset is reported in the balance sheet when the Bank becomes a party to the commercial terms and conditions of the instrument.

A financial asset is removed from the balance sheet when the rights in the agreement are realised, expire or the company loses control over them. A financial liability is removed from the balance sheet when the obligation arising from the agreement has been met or has ceased for other reasons.

A financial asset and a financial liability are offset and reported with a net amount in the balance sheet only when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability.

The acquisition and sale of a financial asset is reported on the transaction date, which is the date on which the company commits to acquiring or selling the asset. Loan commitments are not reported in the balance sheet. Loans are reported in the balance sheet when the loan amount is disbursed to the borrower.

## Classification and measurement

A financial instrument is classified at the time of acquisition based on the classification rules of IFRS 9. The classification determines how the financial instrument is measured after its initial recognition.

According the classification and measurement rules in IFRS 9, financial assets are measured at fair value through profit and loss, fair value through other comprehensive income or at amortised cost. Classification of financial assets is determined based on the business model for holding financial assets and to the extent underlying contractual cash flows consist solely of payments of capital amount and interest on the outstanding principle amount. Ikano Bank classifies all financial assets at amortised cost, except for financial assets in the Bank's liquidity portfolio which are classified as financial assets measured at fair value through other comprehensive income.

On the asset side equity instruments are measured at fair value through profit and loss, as long as Ikano Bank does not choose to recognise such instruments at fair value through other comprehensive income at initial recognition. Ikano Bank follows the main rule for existing equity instruments in scope for IFRS 9, i.e. measurement at fair value through profit and loss.

Ikano Bank classifies financial liabilities into two categories: Financial liabilities at fair value through profit or loss and Financial liabilities at amortised cost. Financial liabilities are measured at amortised cost unless initially identified as measured at fair value through profit or loss or when this results in more relevant information. Financial liabilities held for trading or which are designated as such at initial recognition are classified as liabilities to be measured at fair value through profit or loss. Derivatives are always treated as held for trading and are therefore classified as liabilities to be measured at fair value through profit or loss. Other financial liabilities in the balance sheet are valued at amortised cost.

## Financial assets measured at amortised cost

A financial asset shall be measured at amortised cost if the following two conditions are met:

- The financial asset is held within a business model whose object is to hold financial assets in order to collect contractual cash flow.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the balance sheet these assets are represented by the items Cash, Loans to credit institutions, Loans to the public as well as Accrued income and Other assets. These assets are measured at amortised cost. Amortised cost is determined based on the effective interest rate at the time of acquisition. Credit impairment provisions in line with IFRS 9 are recognised in profit and loss under Credit losses, net.

## Financial assets measured at historical acquisition costs

Financial assets valued according to historical acquisition costs are:

- Shares and participations in associated companies
- Unlisted shares included in the financial statement line item Shares and participations in other companies, as this is considered a good approximation of the fair value of this holding.

## Financial assets measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if the following two conditions are met:

- The financial asset is held in within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The category Financial assets measured at fair value through other comprehensive income includes interest bearing securities, i.e. Treasury bills, Bonds and other interest bearing securities. Assets in this category are measured at fair value continuously with changes recognised in other comprehensive income and accumulated in the Fund for fair value in equity.

Credit impairment provisions according to IFRS 9 on interest bearing securities are recognised in profit and loss under Net result on financial transactions. Changes in value related to exchange rate differences on monetary items (interest bearing securities) are recognised in profit and loss. At the point of sale of the asset accumulated profit or loss, which previously was recognised through other comprehensive income, is recognised in profit and loss.

## Financial assets measured at fair value through profit and loss

A financial asset shall be measured at fair value through profit and loss if the conditions for classification at amortised cost or at fair value through other comprehensive income are not met.

Financial assets and liabilities held for sale are always classified at fair value through profit and loss, as well as financial assets that are managed and performance is evaluated based on fair value. Ikano Bank has no financial assets that are managed and where performance is evaluated based on fair value.

This category includes interest – and foreign exchange swaps for which hedge accounting is not applied as well as equity instruments. Financial instruments in this category are measured continuously at fair value with changes recognised in profit and loss.

## Other financial liabilities

This category is constituted of liabilities to credit institutions, deposits from the public, issued securities, subordinated liabilities as well as other financial liabilities. Other financial liabilities are mainly related to other liabilities and accrued expenses. The liabilities are measured at amortised cost.

## Loan commitments and unused credit

Loan commitments refer to a unilateral commitment to provide a loan with predetermined conditions such as the interest rate, in which the borrower can choose to accept the loan.

Non-utilised credit refers to credit facilities granted to our customers. All approved unused credit card accounts can be terminated effective immediately to the extent this is permitted under the Consumer Credit Act. Granted irrevocable loan commitments are valid for a limited time period. Loan commitments and unused credits are not reported in the balance sheet. Loans are reported in the balance sheet when the loan amount is disbursed to the borrower. Credit impairment provisions according to IFRS 9 are recognised in profit and loss under the item Net credit losses as well as in the balance sheet under provisions.

## Derivatives

Derivatives are used to hedge the risk of interest rate and currency exposures that the Bank is exposed to. The derivatives that the Bank uses are interest-rate swaps to manage interest rate risk, and currency swaps to hedge the Bank's exposure to exchange rate fluctuations.

Derivatives are initially and subsequently measured at fair value in the balance sheet. If hedge accounting is not applied, changes in value are reported in the income statement and derivatives are categorised on the basis of the provisions of IFRS 9 as holdings for trading purposes, even in the case that they financially hedge risk, but where hedge accounting is not applied. If hedge accounting is applied, changes in value of the derivative and the hedged item are reported as described below.

## Hedge accounting

The Bank applies hedge accounting in accordance with IFRS 9 for cash flow hedges as well as IAS 39 for portfolio hedges to fair value in those cases where the income effect would be misleading if hedge accounting was not applied. For the Bank's hedging relationships, hedging is applied at fair value hedge (portfolio hedge) and cash flow hedge.

### Fair value hedge

Fair value hedges are recognised according to IAS 39. If an instrument is used for fair value hedge, the derivative is recognised at fair value in the balance sheet and the hedged asset or liability is recognised at fair value with view to the hedged risk. Changes in fair value of hedging instruments and hedged items with respect to the hedged risk are reported in the income item, Net gains and losses on financial transactions.

Hedging instruments consist of interest rate swaps to hedge interest rate risk. Those items that are hedged, and where hedge accounting is applied, are fixed rate deposits (portfolio hedging). The hedged risk is the risk of changes in fair value due to interest rate fluctuations.

The portfolio method applied for hedge accounting of fixed rate deposits means that the deposits are distributed in different time intervals based on expected maturity dates. In each time span, an appropriate amount is allocated to hedging based on the Bank's risk management strategy. An efficiency test of the hedge relationships is performed every month by comparing the change in fair value of the hedged instrument with the change in fair value of the hedged amount in relation to the hedged risk in each time period. If the hedging relationship is discontinued and the hedged item no longer appears on the balance sheet, the previously reported value adjustment of the hedged item is immediately posted to the result. The need for fair value hedges is assessed on an ongoing basis. The Bank has not had any fair value hedges for the reporting period.

#### Cash flow hedge

Cash flow hedging is recognised according to IFRS 9 and recognised as a hedging relationship only if the requirements for hedge accounting are fulfilled, i.e. the following criteria are met:

- The hedging relationship consists only of eligible hedging instruments and hedged items.
- At the inception of the hedge relationship, formal identification and documentation are in place of the hedge relationship as well as the Bank’s objective and strategy for risk management regarding hedging. Documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged as well Ikano Bank’s assessment whether the hedging relationship meets the hedge effectiveness requirements (including analysis of potential sources of ineffectiveness and how the hedge ratio is determined).
- The following effectiveness requirements are fulfilled for the hedge relationship:
    - There is an economic relationship between the hedging instrument and the hedged items.
    - The credit risk effect does not dominate value changes that result from the economic relationship.
    - The hedge ratio is the same as the quantity of the hedged item and hedging instrument that the entity actually uses for hedging purposes.

Cash flow hedging can be applied for borrowings at variable rates as the hedged risk is the uncertainty in future interest cash flows. For hedging, interest rate swaps are used. Interest rate swaps are measured at fair value in the balance sheet. In the income statement, accrued and paid interest is reported as interest expense and other changes in value of interest rate swap are recognised in other comprehensive income and accumulated in the fair value reserve in equity to the extent that the hedge has been effective until the hedged item affects profit or loss. All the ineffectiveness of the hedge is recognised in the income statement in Net gains and losses on financial transactions.

If a hedging relationship no longer fulfils the requirements on hedge effectiveness regarding the hedge ratio, but the objective for risk management for the identified hedging relationship remains the same, Ikano Bank shall adjust the hedge ratio to the extent that it fulfils the qualifying criteria again, called rebalancing according to IFRS 9.

If hedge accounting is discontinued, but the hedged cash flow is still expected, the fair value of the hedging-instrument is accrued and accounted in other comprehensive income and accumulated in the fair value reserve until the hedging relationship last met the criteria for hedge accounting, over the period that the expected cash flow is expected to affect profit or loss.

If the hedging is cancelled but the hedged cash flow is no longer expected, the unrealised changes in value of the derivative recognized in other comprehensive income and accumulated in the fair value reserve are recycled to the profit and loss.

### Methods for determining fair value

Below is a summary of methods for determining fair value.

#### Financial instruments listed on an active market

For financial assets that are listed on an active market, the actual value is determined by the asset's listed bid price on the balance sheet day. A financial instrument is considered to be listed on an active market if the listed prices are easily available on an exchange or with a broker, and if these prices represent actual and regularly occurring market transactions under professional business conditions. For financial liabilities, the actual value is based on the listed offer price. Information about fair value reported in the balance sheet based on prices from an active market (level 1) is provided in note 37, Financial assets and liabilities.

#### Financial instruments not listed on an active market

If the market for a financial instrument is not active, valuation techniques are used to determine fair value. The input data used in valuation techniques are based, to the extent possible, on market information.

The fair value of derivative instruments is calculated using established valuation techniques and observable market interest rates.

Fair value of financial instruments that are not derivative instruments is based on future cash flows and current market rates on the balance sheet date. The discount rate used is the market-based interest rate for similar instruments on the balance sheet date. Information about fair value that is reported in the balance sheet is based on valuation techniques provided in note 37, Financial assets and liabilities. The Bank's valuation of derivatives at fair value is solely based on input data that is directly or indirectly observable in the market.

Instruments that are not listed on an active market can be found in the balance sheet items Treasury bills, Bonds and other interest-bearing securities, Shares and participations in associated companies, Ownership interests in other unlisted companies, Deposits from the public and Other liabilities (derivatives).

### Loan losses and impairment of financial instruments

Credit impairment provisions are made based on IFRS 9, which is based on a forward-looking expected loan loss model in which a provision is made already when new loans are granted, based on the financial asset's credit risk.

Assets measured at amortised cost and fair value through other comprehensive income as well as unused credit limits are in scope for impairment requirement.

A key term of impairment regulations is default which for the Bank is defined as those instruments with indications that the borrower is unlikely to fulfil his payment obligations or where those payment obligations are more than 90 days past due. The timing of when an exposure is declared in default because of days past due differs across Ikano Bank’s markets but is never later than 90 days. Following the settlement of payment obligations more than 90 days past due, the instrument is classified as in default a further 90 days before it can be classified as performing if no other deviations are observed.

In 2020, the Bank has implemented a new model for incorporating forward-looking information in all of the Bank’s markets. If necessary, this is supplemented with expert statements to calculate expected future loan losses. The model has been introduced under exceptional conditions, due to the Covid-19 pandemic, and has been supplemented with manual adjustments where the outcome assessed by the Bank is believed to deviate from the model’s estimate. The expected future loan losses have increased by SEK 114 m in connection with the implementation of the new model and by SEK 20 m as a result of calibrations and adjustments at portfolio level. Increased credit risk for the corporate markets, where there are still outstanding with payment holidays, have led to additional provisions of SEK 51 m, caused by the pandemic. In total, provisions for expected future loan losses increased by SEK 185 m.

### Financial assets measured at amortised cost

Financial assets that are subject to the impairment requirement need to be divided into three stages. The credit loss model makes provisions for 12 months expected loan losses for the majority of the portfolio (stage 1) but requires provisions corresponding to the remaining lifetime of financial instruments where a significant increase in the credit risk has occurred since the initial recognition (stage 2) and for credit impaired financial instruments (stage 3), i.e. exposures in default.

The Bank has chosen to apply paragraph 5.5.10 in IFRS 9 regarding financial assets subject to low credit risk exemption for loan commitments not paid out as these remain open for disbursement for a limited time. As a consequence, these exposures are classified as stage 1, if no other assessment is made on the balance sheet date.

The Bank’s criteria for identification of a significant increase in credit risk are a combination of relative changes and thresholds in probability of default. Ikano Bank has chosen a doubling of probability of default from initial recognition to balance sheet date. Qualitative factors not reflected in the models can, as an exception, also be applied to identify an increase in credit risk for customers within the Corporate segment, for example customer information made available to the Bank through contact with the customer or other stakeholders. In addition, financial instruments past due for more than 30 days are regarded to have had a significant increase in credit risk. This applies to all portfolios and instruments not in scope for paragraph 5.5.10 in IFRS 9 in line with comments above.

Models for assessing the probability of default and consequently a significant increase in risk are constructed per market and segment based on the Bank’s instrument specific information and attributes. To a certain extent external attributes are also used; mainly for the Corporate segment but also for some parts of the Consumer segment. Models to predict the probability of default have been complemented with additional statistical models to calculate expected credit loss. Depending on the stage, expected loss is calculated with either a 12 months or lifetime horizon. For lifetime calculations, models have been based on internal historically available data indicating how portfolios and their risk components have developed. Calculations include also a forward looking component adjusting the model based on the macroeconomic situation in the respective country. Lifetime calculations for credit cards are based on the assumption that losses converge over time and remaining losses can be calculated mathematically. A standard formula to calculate credit losses is: [Probability of default (PD) * Exposure at default (EAD) * Loss given default (LGD)]

Exposure at default calculates the future exposure at the time of default considering contractual payments and payments in excess thereof as well as utilisation of committed unutilised credit limits.

Loss given default calculates the economic loss at the time of default considering expected payments and realisation of collateral or guaranties. The model also considers potential costs arising in connection with the realisation of collateral and guarantees. Expected payments are modelled based on historical data and contractual payments where these are relevant. Expected cash flows are then discounted to derive expected losses.

The table below shows a sensitivity analysis of how credit impairment provisions would change if the threshold for probability of default (PD) increased or decreased based on values per 31 December 2020. Instruments in stage 3 remain unaffected by this criterion and currently account for 37 percent (44) of expected credit losses. A halving of the threshold would result in an increase in expected credit losses of 1.7percent (1.3) or SEK 10.2 m (6.8). Doubling of the threshold would result in a decrease in expected credit losses by 2.0 percent (1.7) or SEK 12 m (8.9).

Corresponding changes with instruments not directly impacted by the criterion include an increase in credit impairment provisions with 0.9 percent (0,7) and a decrease with 1.1 percent (0.9) respectively. Positive amounts represent an increase in credit impairment provisions.

### Sensitivity analysis of changes in thresholds for determining significant increase in risk

| Internal risk classification at initial recognition | PD-band | Impairment provision impact of: Halving of threshold | Impairment provision impact of: Doubling of threshold | Expected credot losses | Share of total portfolio in terms of gross carrying amount |
|---|---|---|---|---|---|
| Low | 0% - 2% | 1.9% | -5.1% | 72 312 | 61% |
| Medium | >2% - 5% | 10.2% | -10.7% | 121 202 | 15% |
| Higher | >5% - <100% | 0.9% | -0.7% | 407 630 | 9% |
| Total | | 1.7% | -2.0% | 601 131 | 86% |
| *Financial instruments subject to the low credit risk exemption* | | | | 4 339 | 11% |
| *Financial instruments in stage 3* | | | | 414 029 | 2% |
| *Manual adjustments* | | | | 84 718 | 2% |
| **Total provisions** | | | | **1 104 217** | **100%** |

The regulatory framework also requires a forward-looking element where macro models have been built for the different markets. Macro variables are collected from official sources and for the Bank include gross domestic product and unemployment. The credit impairment provision in based on three different scenarios, weighted with given and constant probabilities with the most likely scenario assigned a weight of 40 percent and the positive and negative scenarios assigned 30 percent each. The forecast horizon applied to the different scenarios is three years, where after the model regresses to a long term average. The models are based on the Bank's historical data for default or credit losses and for markets without sufficient historical data, time series from official sources have been used as a proxy of defaults.

The macroeconomic model affects probability of default and thereby stage assessment, as well as the resulting expected credit loss. The table below shows the outcome of a positive and negative scenario of macroeconomic variables for the segments, Changes are expressed in relation to the base scenario of credit impairment provisions per 31 December 2020. A positive macro scenario would result in a decrease of existing credit impairment provisions by 5.4 percent (1.5) and a negative scenario would increase the same by 6.5 percent (6.0).

### Incorporation of forward-looking macroeconomic scenarios

| kSEK | Scenarios | Credit impairment provisions resulting from the scenario | Difference from the recognised probability w eighted credit impairment provisions |
|---|---|---|---|
| Corporate | Upturn | 311 262 | -3.9% |
| | Downturn | 339 654 | 4.9% |
| Sales Finance and Consumer | Upturn | 733 737 | -6.7% |
| | Downturn | 836 423 | 7.2% |
| Total | Upturn | 1 044 999 | -5.4% |
| | Downturn | 1 176 077 | 6.5% |

### Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are mainly comprised of bonds and other interest-bearing securities. Impairment is calculated in line with IFRS 9 and recognised in profit and loss on the line item net result on financial transactions.

The Bank has chosen to apply paragraph 5.5.10 in IFRS 9 regarding financial assets subject to low credit risk exemption for the liquidity portfolio. As a consequence, these exposures are classified as stage 1, if no other assessment is made on the balance sheet date. The liquidity portfolio mainly consists of investments in liquid interest bearing securities with high asset quality regulated in the Bank's steering documents and which can be converted into cash at short notice. Asset quality requirements are high and the investments will be divested before it will be regarded to have experienced a significant increase in credit risk.

### Reversal of impairments

Impairment is reversed if evidence of a need for impairment no longer exists. Reversals of impairments on loans are reported as a reduction of loan losses and are specified individually in note 13.

### Write-off of loan receivables

Loan receivables classified as credit-impaired are written off from the balance sheet when the credit loss is considered to be realised. A credit loss is considered to be realised upon bankruptcy or when the debt has been waived or disposed of. After the write-off, the loan receivables are no longer reported in the balance sheet. Reversals of previously reported write-offs are reported as a reduction of loan losses in the income statement item Loan losses, net. Write-offs on loans with forbearance measures have existed only to a very limited extent since loans are written off on most markets when sold externally.

## Intangible assets

Intangible fixed assets are reported at the acquisition cost less accumulated amortisation and impairment. The Bank's intangible assets consist of capitalised expenditures for internally generated and acquired software and IT systems.

An asset is capitalised in the balance sheet only if all of the conditions listed below are met:

- The asset is identifiable
- The Bank has control over the asset in the form of legal rights
- The asset is likely to generate future financial benefits that accrue to the Bank
- The acquisition cost of the asset can be calculated reliably

Expenditures relating to maintenance and investigative work are reported as an expense in the income statement.

The reported acquisition value is reduced by straight-line depreciation over the asset's estimated useful life. Depreciation commences from the date the asset is ready for use. A general depreciation period of four-five years is applied, but the useful life is evaluated for each individual asset. The depreciation methods and residual values that are used are reviewed at the end of each year.

## Tangible assets

Tangible assets consist of equipment and leasing objects. Equipment is reported at acquisition cost less straight-line depreciation over the asset's estimated useful life. The depreciation periods of 3-20 years are applied as shown below.

- IT equipment 3–5 years
- Furniture 5 years
- Building equipment 20 years

The depreciation methods and residual values of the assets that are used are reviewed at the end of each year.

Any profit or loss arising when an asset is sold or disposed of comprises the difference between the selling price and the asset's reported value less direct selling costs. Gains and losses are reported as other operating income or expense.

Leasing agreements are reported in accordance with RFR 2 as operating leases. Assets for which the leasing agreement has been entered into where the Bank is the lessor are reported in the balance sheet under the item Tangible assets. Where the Bank is the lessee, the leasing fee is expensed over the term of the agreement.

Fixed assets which are leased assets in financial leases where the Bank is the lessor are reported in the income statement and balance sheet as operating leases and are depreciated using the annuity method. Office equipment and other equipment are normally financed for 36 months, with a residual value between 0 and 10 percent.

## Assets taken over for protection of claim

Taken over assets are property taken over to protect the claim. In some cases, the bank waives a loan receivable and instead takes over property provided as security for the loan.

An asset that has been taken over to protect the receivable is reported in the balance sheet together with assets of the corresponding type that have been acquired in another way.

All assets taken over to protect the receivable are reported at fair value at the first reporting date and the fair value of the acquired asset is reported under the item Credit losses, net as a recovery. The fair value on the reporting date becomes the asset's acquisition value. During subsequent periods, assets taken over to protect the receivable are valued in accordance with the applicable valuation principles for the asset class.

## Impairment of intangible and tangible assets

The need for impairment of an intangible or tangible asset is tested when there is any indication that the asset's value may have declined. For internally developed assets and assets that are under development and not yet finished, an impairment assessment is carried out annually. The test is carried out by calculating the recoverable amount. The recoverable amount is the higher of the fair value less selling costs and the utilisation value.

In the case of impairment or reverse impairment of a leased asset where Ikano Bank is the lessor, the rules for financial leasing agreements apply.

Impairment is reversed if there is an indication that the need for impairment no longer exists and there has been a change in the assumptions constituting the basis for calculating the recoverable amount.

## Remuneration to employees

### Post-employment benefits

The Bank's pension plans for collective occupational pensions consist of defined contribution and defined benefit plans. According to IAS 19 a defined contribution pension plan, is a plan for post-employment benefits, under which the Bank pays fixed contributions into a separate legal entity and has no legal or informal obligation to pay further contributions if the legal entity does not have sufficient assets to pay all employee benefits relating to what the employees earned in the current period and earlier. A defined benefit plan is classified as plans for post-employment benefits other than defined contribution plan.

The information required for defined benefit plans, ITP 2, contained in collective agreements in accordance with IAS 19 is not obtainable and the Bank therefore applies the exception specified in UFR 10, which entails that defined benefit plans insured through Alecta are reported as defined contribution plans.

There is a provision in the Bank's own balance sheet for portions of the pension plans. The Swedish Pension Obligations Vesting Act for calculating the size of the obligation are applied. The commitment is credit-insured by FPG/PRI.

Pension costs for defined contribution plans are reported as expenses in the income statement as they are earned. The Bank's obligations to pay pensions in the future have been valued in the balance sheet at the present value of future expected pension payments. The calculation has been made for each employee and is based on assumptions such as the current salary level and the degree to which the pension is earned. The cost of insurance premiums for the year is reported in note 32 Provisions for pensions.

### Severance pay

An expense for payments in conjunction with termination of personnel is reported only if the Bank is unquestionably obliged to prematurely terminate employment in a formal, detailed plan.

When payments are made as an offer to encourage voluntary resignations, these are reported as expenses when the employee has accepted the offer.

### Variable remuneration

Ikano Bank has a low level of variable remuneration. It is considered that the criteria existing in order for variable remuneration to be paid, will not contribute to encouraging unsound risk-taking in the operations.

Information on remuneration which is required to be disclosed in accordance with the Swedish Financial Supervisory Authority's regulations is provided on the Bank's website: https://ikanobank.se/om-banken/ekonomisk-information/.

## Provisions

Provisions differ from other liabilities with regard to uncertainty concerning the payment date or the size of the amount for the regulation of the provision. Provisions are reported in the balance sheet when there is a legal or informal obligation due to a past event, and when it is likely that a flow of economic resources will be required for the settlement of the provision, and when the amount can be estimated in a reliable manner.

Provisions are made in the amounts representing the best estimates of the amounts required for the settlement of the obligations existing on the closing date. When the effect of the timing of the payment is significant, provisions are calculated by discounting the expected future cash flows at a pre-tax interest rate reflecting current market assessments of the time value of money and, if appropriate, the risks associated with the liability in question.

Provisions for pensions, deferred tax liabilities, credit loss provisions for credit commitments and other provisions are included in this balance sheet item.

## Group contributions

Group contributions are reported in accordance with the Swedish Financial Reporting Board, RFR 2 Accounting for legal entities. As a general rule, group contributions are reported directly against retained earnings after deduction for current tax effects and are considered equivalent to dividends paid to the parent company.

## Contingent liabilities

A contingent liability is reported when there is a possible obligation arising from past events, the existence of which can only be confirmed by one or more uncertain future events, or when there is an obligation that is not reported as a liability or provision, as it is not probable that an outflow of resources will be required.

# 3 Risks and risk management

The Bank’s earnings are affected by external changes that are not within the company’s control. The Bank’s earnings performance is affected by factors including macroeconomic change such as unemployment, as well as fluctuations in interest and exchange rates. Risk management is an integrated component of the Bank’s daily operations. In its business operations, the Bank is exposed to several risks such as credit risk, operational risk and business risk, but it must also manage liquidity risk, foreign exchange risk and interest rate risk. The Board of Directors and CEO are ultimately responsible for risk management at Ikano Bank. Risk management is intended to ensure that the risks do not exceed the risk tolerances set by the Board. The Bank’s risks are controlled centrally, but the responsibility for risk management rests primarily with local business units. This means that operating businesses own and manage the risk in daily operations. The central risk control function is responsible for monitoring and evaluating risk management.

In the Bank the three lines of defence model is implemented where the business acts as 1st line of defence with the main responsibility for identification, assessment, mitigation and ownership of risks. Risk Control and Compliance functions acts as an independent 2nd line of defence and is responsible for oversight and guidance. Internal Audit the 3rd line of defence provides independent assurance to the Board.

The Bank's risk strategy aims to identify, measure, report and mitigate the risks that the Bank deems material. The risk strategy is updated annually and this is done in conjunction with the Bank's business planning and internal capital assessment. The risk strategy is approved annually by the Board. The Bank's CRO (Chief Risk Officer) annually presents a strategy for the development of the Bank's tools and processes to improve the Bank's risk management.

## Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, human error, systems or external events. This definition includes legal risk, but not strategic and reputational risk.

Ikano Bank, as an Internet bank, is strongly dependent on IT systems and technical infrastructure. Follow-up of incidents and improvements in accessibility are prioritised areas. The Bank has an incident reporting system where incidents are reported and monitored. Risks are analysed continuously and policies, guidelines and process instructions are available to prevent and mitigate losses caused by operational risks.

The Risk Control Function is responsible for establishing and maintaining the risk framework and supporting in coordination of the work with operational risk in business operations. Responsibility for managing operational risk lies with each business area. Operational risk assessments are continuously carried out within material processes to ensure that risks are identified, managed and documented with action plans.

The New Product Approval Process (NPAP) is performed to assess and manage risks before introducing new products, services, IT-systems or other systems, processes or markets or making significant changes to existing ones. The goal is to ensure efficient processes and minimise operational risks so that the Bank's customers and other stakeholders are ensured that Ikano Bank has a high level of security and accessibility.

The Bank's risk appetite for operational risk is defined based on a number of different criteria. All criteria are monitored and reported on by the Risk Control Function.

## Regulatory risk

Regulatory risk is the risk that the Bank does not comply with and handle the effects of new legislation, regulations, directives and recommendations from authorities. This includes regulatory reporting, liquidity and capital management as well as other external and internal reporting. New comprehensive regulations have been introduced for the financial industry, mainly through adaptations to a common European regulatory framework. The implementation of these has placed great demands on all parts of the bank and will continue to do so. Ikano Bank aims to comply with all these requirements, not only explicitly but also the legislators' intentions.

## Business risk

Business risk is the risk that the Bank's earnings deteriorate and are not sufficient to cover operating expenses. Business risk also includes reputation risk, which is the risk of financial loss due to customers, partners and/or lenders losing confidence in the Bank, its brand, or the industry as a whole, for example due to adverse publicity or periods of system stress.

## Credit risk

Credit risk is the Bank's main risk and is defined as the risk that the counterparty does not fulfil his obligations. Credit risk arises in lending operations, the investment of the Bank's operating liquidity, overnight investment and also for derivatives with positive market values.

The credit risk that occurs in trading with financial instruments is called counterparty risk. This is the risk that the counterparty in a financial transaction may be unable to fulfil their payment obligations or deliver the securities in accordance with what has been agreed upon. Exposure per counterparty group is limited through limits and rating requirements.

The Bank's lending operations consist of the products leasing, factoring, credit card debts and unsecured loans. All products are designed for quantity management. The Bank applies scoring models in the assessment of credit risk. During the application process, the risk of default is calculated before credit is granted. The result of the initial application gives a score on a scale reflecting the probability of default. The assessment is supplemented with details from credit information agencies before the credit is finally approved. Most of the Bank's scoring models are internally developed but there are also externally developed and generic models, mostly corporate models. If the risk exceeds the internally accepted maximum risk exposure, the credit is denied. In addition to application scoring, Ikano Bank utilises various types of behavioural scoring models.

The Bank's expected credit loss models are based on the IFRS 9 framework; see note 2 Accounting principles for a description of the Bank's models. These models are all internally developed and form the foundation for the classification in the tables below.

The business line Corporate primarily comprises leasing of office and production equipment and vehicles. The business line also includes factoring, which is the purchase or borrowing of invoices and is a form of financing that helps companies quickly convert accounts receivable into cash. Ikano Bank has a longstanding cooperation with multiple partners. In many cases, there are repurchase agreements in the event of default by the end customer and also residual value guarantees when the leasing agreement expires. Operations have been concentrated on a few object types, where there is good internal expertise regarding secondary markets where repurchase guarantees are lacking.

The business line Sales Finance consists of credit card loans with small revolving credit and loan products. Credit card loans include store cards with or without either VISA or MasterCard attached. This business line is represented in all geographic markets. Credit and loans are generated by the partners within trade that the Bank cooperates with.

The business line Consumer lending consists of loans from credit cards linked to VISA and unsecured loans to individuals. Sales of the various products are made via the Internet and telephone. Follow-up of the different sales channels is carried out regularly. Most products are sold by individual pricing where the price is a reflection of the risk class that the customer is deemed to belong to at the time of application.

Credit assessment takes place on the basis of the credit information agency's scoring and rating models and customary credit information, purpose to assess the customer's payment capacity. Limits for larger engagements are determined in the local credit committees and the largest engagements are forwarded to the central credit and risk committee. The established limits on partners and large engagements are followed up continuously during the year.

The independent risk control function also monitors exposures against set limits. The Bank's risk appetite for credit risk is and updated annually ab approved by the Board. The risk appetite is split into several portfolios and is measured e.g. according to the Bank's IFRS 9 models. The Bank has a diversified loan portfolio in terms of customer, product and geographical market which means that no significant credit risk concentrations exist. No single customer accounts for more than 1 per cent of the loan book.

The realised loan losses are so far at a normal level, and the levels of late payments don't show any deviating pattern. Provisions for expected loan losses increased by SEK 185. Of this change, SEK 51 m is directly related to the Covid-19 pandemic and has been set aside for the corporate business line. The remaining increase is partly explained by macroeconomic factors that affect the Bank's models for loan loss provisions and partly by an increase in the Stage 2 provisions. The Bank's assessment is that payment holidays are not in themselves a driver of increased credit risk. On the other hand, the Bank's internal modelling means that a large proportion of these customers nevertheless migrate to Stage 2. Granted payment holidays have not automatically resulted in any significant modification of the loans.

Significant payment holidays and reductions were granted the spring. Many of these have now expired and customers have resumed payments according to the original plan and the realised losses due to the pandemic are still marginal. In the longer term, the uncertainty is greater and the Bank expects increased actual losses in 2021, which can be seen in the increased provisions that affected the result in 2020. Significant issues can be seen in some corporate markets and some customers have asked for recurring payment holidays. These issues are mainly due to sectors greatly impacted by the Covid-19 pandemic, such as hotels and restaurants, gyms and tourism-related industries. Apart from this, due dates so far show a normal pattern and the levels of payments exceed the earliest expectations. Early in the pandemic, the Bank decided on a number of restrictions on new lending in order to ensure a long-term sound credit portfolio.

Even before the outbreak of the Covid-19 pandemic, the Bank saw slightly increased loan losses, especially in Sweden, Denmark and the UK. The loan loss ratio as a share of average total lending as of December 31, 2020 increased to 2.1 (1.9). This is higher than the Bank's historical loan loss level, however, still lower than during the most recent financial crisis in 2009.

The Bank's gross and net credit risk exposure is shown below, including concentrations on counterparties as well as carrying amounts per category of borrower. Leasing assets are recognised as tangible fixed assets in the balance sheet. Trade receivables leasing are recognised as Other assets.

Liquidity and transaction accounts in other banks where the liquidity is handled by the Bank's treasury function are exempt from credit impairment provisioning since the credit risk at this point is considered to be immaterial. These accounts are classified as loans to credit institutions below. Accrued interest is reported in the balance sheet item Accrued income. The credit impairment provisions are not material.

The table illustrates the maximum credit exposure before and after credit risk impairment provisioning based on internal risk classification (low, medium or high) or an external credit rating, depending on the counterparty.

## Credit risk exposure, gross and net, per risk classification for financial assets, and commitments and undrawn limits

| 2020<br>SEK 000 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Financial assets measured at amortised cost according to IFRS 9** | | | | |
| **Loans to credit institutions** | | | | |
| AAA | 86 397 | - | - | 86 397 |
| AA | 999 290 | - | - | 999 290 |
| A | 837 843 | - | - | 837 843 |
| BBB | 8 954 | - | - | 8 954 |
| Credit impairment provisions | - | - | - | - |
| **Total carrying amount** | **1 932 483** | **-** | **-** | **1 932 483** |
| **Loans to the public** | | | | |
| Low | 16 236 983 | 529 169 | . | 16 766 152 |
| Medium | 3 969 500 | 1 711 775 | . | 5 681 275 |
| High | 884 502 | 2 073 856 | 385 073 | 3 343 431 |
| Credit impairment provisions | -139 162 | -362 002 | -258 930 | -760 094 |
| **Total carrying amount** | **20 951 823** | **3 952 799** | **126 143** | **25 030 765** |
| **Financial assets measured at fair value according to IFRS 9** | | | | |
| **Treasury bills** | | | | |
| AAA | 622 497 | - | - | 622 497 |
| AA+ | 731 913 | - | - | 731 913 |
| AA | 250 559 | - | - | 250 559 |
| AA- | 191 153 | - | - | 191 153 |
| Credit impairment provisions | -895 | - | - | -895 |
| **Total carrying amount** | **1 795 226** | **-** | **-** | **1 795 226** |
| **Bonds and other interest-bearing securities** | | | | |
| AAA | 1 269 597 | - | - | 1 269 597 |
| AA- | 71 049 | - | - | 71 049 |
| A+ | 20 060 | - | - | 20 060 |
| A | 164 125 | - | - | 113 329 |
| A- | 917 099 | - | - | 113 329 |
| BBB+ | 113 329 | - | - | 113 329 |
| NR | 49 974 | - | - | 49 974 |
| Credit impairment provisions | -3 444 | - | - | -3 444 |
| **Total carrying amount** | **2 601 790** | **-** | **-** | **2 601 790** |
| **Total gross carrying amount for financial assets measured at amortised cost or fair value through other comprehensive income** | **27 423 929** | **4 314 801** | **385 073** | **32 123 802** |
| **Total credit impairment provisions** | **-143 501** | **-362 002** | **-258 930** | **-764 433** |
| **Total carrying amount** | **27 280 428** | **3 952 799** | **126 143** | **31 359 369** |
| **Leasing objects including trade recievables leasing** | | | | |
| Low | 3 775 970 | 700 069 | . | 4 476 039 |
| Medium | 1 196 088 | 2 110 444 | . | 3 306 531 |
| High | 422 461 | 1 859 647 | 313 504 | 2 595 611 |
| Credit impairment provisions | -9 765 | -148 775 | -155 097 | -313 637 |
| **Total carrying amount** | **5 384 754** | **4 521 384** | **158 407** | **10 064 545** |
| **Commitments and undrawn limits** | | | | |
| Low | 21 369 215 | 183 493 | - | 21 552 709 |
| Medium | 3 631 331 | 303 770 | - | 3 935 101 |
| High | 535 684 | 389 844 | - | 925 529 |
| Credit impairment provisions | -14 472 | -11 675 | - | -26 146 |
| **Total commitments and undrawn limits** | **25 521 759** | **865 433** | **-** | **26 387 192** |

The main groups of leasing objects are office equipment, vehicles and production machinery.

No significant changes in the quality of collateral have occurred during the period.

## Loan receivables per category of borrower

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Loan receivables, gross** | | |
| - household sector | 24 979 381 | 27 599 117 |
| - corporate sector | 10 987 193 | 11 535 729 |
| - public sector | 202 466 | 206 674 |
| **Total** | **36 169 040** | **39 341 521** |
| Of which: | | |
| **Non performing loans** | **698 578** | **782 571** |
| - household sector | 362 683 | 376 977 |
| - corporate sector | 331 497 | 405 594 |
| - public sector | 4 398 | - |
| Less: | | |
| **Specific impairment for individually assessed loans** | **1 073 731** | **955 005** |
| - household sector | 751 082 | 732 797 |
| - corporate sector | 320 728 | 221 768 |
| - public sector | 1 921 | 440 |
| **Loan receivables, net reported value** | | |
| - household sector | 24 228 299 | 26 866 320 |
| - corporate sector | 10 666 465 | 11 313 961 |
| - public sector | 200 545 | 206 235 |
| **Total** | **35 095 309** | **38 386 516** |

Credit impairment provisions decreased by SEK 119 m during 2020, mainly due to sale of non-performing loan portfolios.

## Credit risk exposure for financial assets not subject to credit impairment provisions

Maximum exposure for credit risk of financial assets not subject to credit impairment provisions derivatives and related collateral, are shown below. See also section financial instruments that have been offset in the balance sheet or are subject to netting agreements below.

| SEK 000 | Credit risk exposure | Value of collateral | Credit risk exposure after collateral impact |
|---|---|---|---|
| Derivatives | 114 833 | 147 640 | -32 807 |
| **Total carrying amount** | **114 833** | **147 640** | **-32 807** |

## Financial instruments that have been offset in the Balance sheet or are subject to netting agreements

Ikano Bank is party to and enters derivative contracts under the International Swaps and Derivatives Association's (ISDA) master agreement, which means that when a counterparty cannot fulfil its obligations, the agreement is cancelled and all outstanding dealings between the parties are settled with a net amount. In the balance sheet, no amounts have been offset in 2020.

For derivatives Ikano Bank receives and submits collateral in the form of bank deposits in accordance with the standard terms in the ISDA Credit Support Annex.

| 2020<br>SEK 000 | Gross value | Offsetting in the Balance Sheet | Net in Balance Sheet | Amounts not offset in Balance sheet<br>Netting agreements | Issued/Received collateral | Net value |
|---|---|---|---|---|---|---|
| Derivatives | 114 833 | - | 114 833 | -15 826 | -147 640 | -48 633 |
| **Total financial assets** | **114 833** | **-** | **114 833** | **-15 826** | **-147 640** | **-48 633** |
| | | | | | | |
| Derivatives | 15 826 | - | 15 826 | -15 826 | - | 0 |
| **Total financial liabilities** | **15 826** | **-** | **15 826** | **-15 826** | **-** | **0** |

| 2019<br>SEK 000 | Gross value | Offsetting in the Balance Sheet | Net in Balance Sheet | Amounts not offset in Balance sheet<br>Netting agreements | Issued/Received collateral | Net value |
|---|---|---|---|---|---|---|
| Derivatives | 28 929 | - | 28 929 | -22 865 | -28 173 | -22 110 |
| **Total financial assets** | **28 929** | **-** | **28 929** | **-22 865** | **-28 173** | **-22 110** |
| | | | | | | |
| Derivatives | 56 751 | - | 56 751 | -22 865 | -8 766 | 25 120 |
| **Total financial liabilities** | **56 751** | **-** | **56 751** | **-22 865** | **-8 766** | **25 120** |

## Asset encumbrance

The following tables show the disclosures to be provided for encumbered and unencumbered assets in accordance with EBA's guidelines.

The Bank's encumbered assets consist of collateral in the form of bank deposits in accordance with the standard terms of the International Swaps and Derivatives Association (ISDA) Credit Support Annex with regard to derivatives, as well as a deposit in Central Bank’s due to ECB regulations for Euro transactions. Those liabilities that match encumbered assets consist of liabilities to counterparties in connection with derivative transactions in accordance with ISDA standard conditions.

Unencumbered assets and collateral received that may be encumbered is made up of other assets in the Bank's balance sheet and other collateral in the form of bank deposits that the Bank receives in order to reduce counterparty risk arising from derivative transactions.

Ikano Bank AB has not pledged received collateral.

| 2020<br>SEK m | Encumbered assets, carrying value | Unencumbered assets, carrying value | Unencumbered assets, fair value | Received encumbered assets, fair value | Received collateral that can be encumbered, fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Equity instruments | - | 65 | 65 | - | - |
| Interest-bearing securities | - | 4 401 | 4 401 | - | - |
| Other assets | 99 | 38 400 | 38 400 | - | 148 |
| **Total** | **99** | **42 866** | **42 866** | **-** | **148** |

| | Matching liabilities | Encumbered assets |
|---|---|---|
| Carrying amount of selected financial liabilities | 16 | 99 |

| 2019<br>SEK m | Encumbered assets, carrying value | Unencumbered assets, carrying value | Unencumbered assets, fair value | Received encumbered assets, fair value | Received collateral that can be encumbered, fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Equity instruments | - | 56 | 56 | - | - |
| Interest-bearing securities | - | 4 119 | 4 119 | - | - |
| Other assets | 43 | 41 738 | 41 738 | - | 28 |
| **Total** | **43** | **45 913** | **45 913** | **-** | **28** |

| | Matching liabilities | Encumbered assets |
|---|---|---|
| Carrying amount of selected financial liabilities | 57 | 43 |

## Liquidity risk

Ikano Bank defines liquidity risk as the risk of being unable to make payment when due, without significantly increasing the costs, or ultimately, not being able to meet payment obligations to any degree. The definition is also linked to the risk of being unable to receive renewed financing on maturity, so-called refinancing risk.

The matching of assets and liabilities, both in terms of maturity and volume, along with a good access to multiple funding sources forms the basis of the Bank's liquidity and financing strategy. The liquidity level must always be sufficient; this means there should always be a liquidity reserve and the Bank should always be able to fulfil its payment commitments and be in a position to strengthen liquidity without delay when necessary. The Bank's management and control of liquidity risks are centralised and the liquidity risk is reflected in the Bank's internal pricing.

The Bank's liquidity management and liquidity risk are handled by the Bank's central Treasury function in close cooperation with the local business units. The management of liquidity risk is controlled by the independent risk control function. The Bank's Board of Directors and management receive continuous reporting regarding the liquidity positions and development of liquidity.

Liquidity risk is managed through effective liquidity planning, application of limits, measurement and analysis. Control and monitoring is conducted against the Bank's liquidity limits specified in the Bank's steering documents. Liquidity planning is a significant component of the liquidity management, and forecasts are drawn up regularly in order to manage and control the Bank's total liquidity. Future cash requirements are monitored daily, as is the limit for minimum intra-day liquidity.

The Bank carries out regular stress tests on liquidity in order to increase its preparedness and assess the ability of the Bank to meet its payment obligations under conditions deviating from normal conditions. The analyses are based on the Bank's risk tolerance and include both company-specific and market-wide scenarios with varying degrees of stress and duration. Examples of events analysed include large withdrawals of deposits by the public, as well as market financing ceasing to be available. The Bank has a contingency funding plan containing action plans in the event of disruptions and if the supply of liquidity is limited. The contingency funding plan is used if three or more of the Bank's defined internal risk indicators signal a heightened risk.

Measurement and monitoring of the balance sheet structure and liquidity exposure with respect to the remaining maturity of assets and liabilities are carried out continuously. Both contractual maturity and behavioural-modelled maturity are analysed.

The table on the following page shows the Bank's maturity exposure based on the reported cash flow's contracted remaining maturity as per 31 December 2020. Deposits from the public are comprised of both fixed term and non-fixed term deposits. Most of the deposits from the public are reported in the column On demand since the counterparty in most cases has an option to choose when repayment should take place. Analyses of the behavioural cash flows show, however, that the deposits constitute a long-term, stable source of financing, which implies that the maturity distribution of deposits from the public is, in practice, distributed over several time intervals.

Ikano Bank offers a variety of card products where a majority implies that the customer receives a credit. The unused portion of customer credits and loan commitments are reported within item Loan promises and unused credit limits. Customer behaviour is monitored carefully, and history shows that this item is at a stable level, i.e. customers' utilization rate follows a stable pattern.

The Bank performs monthly stress tests of increased outflow of deposits from the public and increased utilization in customers' unused credit. A liquidity reserve in addition to committed and uncommitted credit facilities is maintained to be able to handle potential changes in the customer's expected behaviour.

The Bank's risk appetite is defined by two different measures of liquidity: The survival horizon is defined as the length of time the Bank can survive without cash inflow in a stressed scenario in regard to both bank-specific situations and the financial markets in general. The model is conservative as it assumes that the Bank will continue to engage in lending activities and to repay funding according to contractual maturity combined with stress assumptions regarding deposit outflow and the customers' use of credits limits. The Bank's risk tolerance is to be able to operate more than two months without seeking external financing. The second measure is the Bank's liquidity coverage ratio, which shall exceed 100 percent. The LCR show how the Bank's high quality liquid assets relate to the net cash outflow during a 30-day period of stress.

# Liquidity risk exposure, discounted cash flows – remaining contractual term and expected time of recovery

| 2020<br>SEK m | On demand | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 2 years | Longer than 2 years, but not longer than 3 years | Longer than 3 years, but not longer than 5 years | Longer than 5 years | No maturity | **Total carrying amount** | of which expected recovery time > 12 months |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| Cash and balances with central banks | 0 | - | - | - | - | - | - | - | - | **0** | - |
| Treasury bills | - | 435 | 104 | 136 | 323 | 308 | 490 | - | - | **1 796** | 1 121 |
| Loans to credit institutions | 1 932 | - | - | - | - | - | - | - | - | **1 932** | - |
| Loans to the public | - | 3 055 | 1 441 | 2 703 | 3 799 | 2 435 | 2 625 | 2 992 | 5 981 | **25 031** | 11 102 |
| Leasing receivables | - | 1 386 | 832 | 1 561 | 2 616 | 1 825 | 1 618 | 227 | - | **10 065** | 6 350 |
| Bonds and other interest-bearing securities | - | 1 179 | 204 | 290 | 397 | 205 | 331 | - | - | **2 605** | 932 |
| Derivatives | - | 111 | 8 | 0 | - | 0 | - | - | - | **119** | 0 |
| Other assets | - | - | - | - | - | - | - | - | 1 418 | **1 418** | - |
| **Total assets** | **1 933** | **6 166** | **2 588** | **4 689** | **7 135** | **4 773** | **5 064** | **3 219** | **7 399** | **42 965** | **19 505** |
| | | | | | | | | | | | |
| **Liabilities and equity** | | | | | | | | | | | |
| Liabilities to credit institutions | - | 161 | 369 | 349 | 163 | 198 | 245 | - | - | **1 486** | 606 |
| Deposits from the public | 23 052 | 389 | 379 | 779 | 826 | 373 | 425 | - | - | **26 223** | 1 623 |
| Derivatives | - | 2 | - | 2 | 4 | 6 | 2 | 0 | - | **16** | 12 |
| Issued securities | - | 1 085 | 850 | 1 250 | 2 349 | 849 | 0 | - | - | **6 384** | 3 199 |
| Other liabilities | - | - | - | - | - | - | - | - | 778 | **778** | - |
| Accrued expenses and prepaid income | - | - | - | - | - | - | - | - | 1 173 | **1 173** | - |
| Provisions | - | - | - | - | - | - | - | - | 129 | **129** | - |
| Subordinated liabilities | - | 830 | - | - | - | - | - | - | - | **830** | - |
| Equity and untaxed reserves | - | - | - | - | - | - | - | - | 5 948 | **5 948** | - |
| **Total liabilities and equity** | **23 052** | **2 467** | **1 598** | **2 381** | **3 342** | **1 426** | **672** | **0** | **8 027** | **42 965** | **5 441** |
| Loan promises and unused credit limits | 26 413 | - | - | - | - | - | - | - | - | **26 413** | |
| Operational lease agreements | - | 15 | 15 | 30 | 16 | 16 | 32 | - | - | **124** | |
| **Total difference** | **-47 533** | **3 684** | **975** | **2 278** | **3 777** | **3 331** | **4 360** | **3 218** | **-628** | **-26 537** | |

| 2019<br>SEK m | On demand | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 2 years | Longer than 2 years, but not longer than 3 years | Longer than 3 years, but not longer than 5 years | Longer than 5 years | No maturity | **Total carrying amount** | of which expected recovery time > 12 months |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| Cash and balances with central banks | 34 | - | - | - | - | - | - | - | - | **34** | - |
| Treasury bills | - | 320 | 15 | 278 | 200 | 340 | 520 | - | - | **1 673** | 1 060 |
| Loans to credit institutions | 1 909 | 0 | - | - | - | - | - | - | - | **1 909** | 0 |
| Loans to the public | - | 3 286 | 1 607 | 3 010 | 4 259 | 2 642 | 2 566 | 2 650 | 7 641 | **27 661** | 11 480 |
| Leasing receivables | - | 1 442 | 865 | 1 607 | 2 731 | 2 011 | 1 823 | 247 | - | **10 726** | 6 875 |
| Bonds and other interest-bearing securities | - | 888 | 152 | 460 | 351 | 288 | 308 | - | - | **2 447** | 946 |
| Derivatives | - | 22 | - | - | 1 | 1 | 5 | - | - | **29** | 7 |
| Other assets | - | - | - | - | - | - | - | - | 1 478 | **1 478** | - |
| **Total assets** | **1 943** | **5 958** | **2 639** | **5 356** | **7 541** | **5 281** | **5 223** | **2 896** | **9 119** | **45 956** | **20 367** |
| | | | | | | | | | | | |
| **Liabilities and equity** | | | | | | | | | | | |
| Liabilities to credit institutions | - | 50 | 367 | 958 | 147 | 163 | 325 | - | - | **2 010** | 635 |
| Deposits from the public | 22 650 | 339 | 452 | 929 | 651 | 496 | 441 | - | - | **25 958** | 16 352 |
| Derivatives | - | 46 | 0 | 3 | 2 | 3 | 3 | - | - | **57** | 8 |
| Issued securities | - | 1 300 | 1 599 | 349 | 2 549 | 2 349 | 450 | - | - | **8 595** | 5 347 |
| Other liabilities | - | 0 | - | - | - | - | - | - | 947 | **947** | - |
| Accrued expenses and prepaid income | - | 0 | - | - | - | - | - | - | 1 323 | **1 323** | - |
| Provisions | - | - | - | - | - | - | - | - | 160 | **160** | - |
| Subordinated liabilities | - | - | - | - | - | - | - | 865 | - | **865** | 865 |
| Equity and untaxed reserves | - | - | - | - | - | - | - | - | 6 042 | **6 042** | - |
| **Total liabilities and equity** | **22 650** | **1 734** | **2 419** | **2 238** | **3 349** | **3 010** | **1 219** | **865** | **8 471** | **45 956** | **23 207** |
| Loan promises and unused credit limits | 35 080 | - | - | - | - | - | - | - | - | **35 080** | |
| Operational lease agreements | - | 1 | 1 | 3 | 1 | 1 | 2 | 1 | - | **11** | |
| **Total difference** | **-55 786** | **4 222** | **219** | **3 115** | **4 191** | **2 270** | **4 002** | **2 030** | **648** | **-35 091** | |

# Liquidity risk exposure, non-discounted cash flows – remaining contractual term

| 2020<br>SEK m | On demand | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 2 years | Longer than 2 years, but not longer than 3 years | Longer than 3 years, but not longer than 5 years | Longer than 5 years | No maturity | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and balances with central banks | 0 | - | - | - | - | - | - | - | - | **0** |
| Treasury bills | - | 435 | 104 | 136 | 323 | 308 | 490 | - | - | **1 796** |
| Loans to credit institutions | 1 932 | - | - | - | - | - | - | - | - | **1 932** |
| Loans to the public | - | 4 631 | 3 107 | 6 191 | 5 263 | 2 222 | 2 061 | 1 556 | 0 | **25 031** |
| Leasing receivables | - | 1 286 | 816 | 1 613 | 2 837 | 1 854 | 1 443 | 215 | - | **10 065** |
| Bonds and other interest-bearing securities | - | 1 179 | 204 | 290 | 397 | 205 | 331 | - | - | **2 605** |
| Derivatives | - | 111 | 8 | 0 | - | 0 | - | - | - | **119** |
| Other assets | - | - | - | - - | 1 | - | - | - | 1 418 | **1 418** |
| **Total assets** | **1 933** | **7 641** | **4 239** | **8 230** | **8 820** | **4 589** | **4 325** | **1 771** | **1 418** | **42 965** |
| | | | | | | | | | | |
| **Liabilities and equity** | | | | | | | | | | |
| Liabilities to credit institutions | - | 161 | 369 | 349 | 163 | 198 | 245 | - | - | **1 486** |
| Deposits from the public | 23 052 | 389 | 379 | 779 | 826 | 373 | 425 | - | - | **26 223** |
| Derivatives | - | 2 | 0 | 2 | 4 | 6 | 2 | 0 | - | **16** |
| Issued securities | - | 1 085 | 850 | 1 250 | 2 349 | 849 | 0 | - | - | **6 384** |
| Other liabilities | - | - | - | - | - | - | - | - | 2 079 | **2 079** |
| Subordinated liabilities | - | 830 | - | - | - | - | - | - | - | **830** |
| Equity and untaxed reserves | - | - | - | - | - | - | - | - | 5 948 | **5 948** |
| **Total liabilities and equity** | **23 052** | **2 467** | **1 598** | **2 381** | **3 342** | **1 426** | **672** | **0** | **8 027** | **42 965** |
| | | | | | | | | | | |
| Loan promises and unused credit limits | 26 413 | - | - | - | - | - | - | - | - | **26 413** |
| Operational lease agreements | - | 15 | 15 | 30 | 16 | 16 | 32 | - | - | **124** |
| **Total difference** | **-47 533** | **5 159** | **2 626** | **5 819** | **5 462** | **3 147** | **3 621** | **1 771** | **-6 609** | **-26 537** |

| 2019<br>SEK m | On demand | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 2 years | Longer than 2 years, but not longer than 3 years | Longer than 3 years, but not longer than 5 years | Longer than 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and balances with central banks | 34 | - | - | - | - | - | - | - | - | **34** |
| Treasury bills | - | 320 | 15 | 278 | 200 | 340 | 520 | - | - | **1 673** |
| Loans to credit institutions | 1 909 | - | - | - | - | - | - | - | - | **1 909** |
| Loans to the public | - | 3 286 | 1 607 | 3 010 | 4 259 | 2 642 | 2 566 | 2 650 | 7 641 | **27 661** |
| Leasing receivables | - | 1 442 | 865 | 1 607 | 2 731 | 2 011 | 1 823 | 247 | - | **10 726** |
| Bonds and other interest-bearing securities | - | 888 | 152 | 460 | 351 | 288 | 308 | - | - | **2 447** |
| Derivatives | - | 22 | - | - | 1 | 1 | 5 | - | - | **29** |
| Other assets | - | - | - | - | - | - | - | - | 1 478 | **1 477** |
| **Total assets** | **1 943** | **5 958** | **2 639** | **5 356** | **7 541** | **5 281** | **5 223** | **2 896** | **9 119** | **45 956** |
| | | | | | | | | | | |
| **Liabilities and equity** | | | | | | | | | | |
| Liabilities to credit institutions | - | 50 | 367 | 958 | 147 | 163 | 325 | - | - | **2 010** |
| Deposits from the public | 22 650 | 339 | 452 | 929 | 651 | 496 | 441 | - | - | **25 958** |
| Derivatives | - | 46 | 0 | 3 | 2 | 3 | 3 | - | - | **57** |
| Issued securities | - | 1 300 | 1 599 | 349 | 2 549 | 2 349 | 450 | - | - | **8 595** |
| Other liabilities | - | - | - | - | - | - | - | - | 2 429 | **2 429** |
| Subordinated liabilities | - | - | - | - | - | - | - | 865 | - | **865** |
| Equity and untaxed reserves | - | - | - | - | - | - | - | - | 6 042 | **6 042** |
| **Total liabilities and equity** | **22 650** | **1 734** | **2 419** | **2 238** | **3 349** | **3 010** | **1 219** | **865** | **8 471** | **45 956** |
| | | | | | | | | | | |
| Loan promises and unused credit limits | 35 080 | - | - | - | - | - | - | - | - | **35 080** |
| Operational lease agreements | - | 1 | 1 | 3 | 1 | 1 | 2 | 1 | - | **11** |
| **Total difference** | **-55 786** | **4 222** | **219** | **3 115** | **4 191** | **2 270** | **4 002** | **2 030** | **648** | **-35 091** |

## 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. The composition and size of the Bank's liquidity portfolio and liquidity reserve is regulated in the Bank's steering documents, which are adopted by the Bank's Board of Directors. To ensure that the liquidity of Ikano Bank is adequate, an internal liquidity adequacy assessment (ILAAP) is performed at least annually. 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 and operational portfolio 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. Consequently, the liquidity portfolio shall always amount to at least 14 percent of deposits from the public.

The liquidity reserve, together 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 are in line with the LCR Delegated Act. Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio shall be available within one day, and shall consist of funds in bank accounts, investments available the next banking day (overnight) and committed bank overdraft facilities in the Bank's cash pool.

The liquidity reserve shall 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 funding options. The liquidity reserve is invested in interest-bearing securities with a high credit rating in 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 in the Swedish market. Investments in this portfolio are to have a minimum rating of BBB+ rating according to Standard and Poor's (or equivalent according to Moody's).

The Bank's liquidity reserve amounts to SEK 3,073 m (3,053) 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 December 2020 totalled SEK 6,246 m (6,038) excluding overdraft facilities and constitutes 24 percent (23) of deposits from the public. It includes cash and balances with banks of SEK 1,833 m (1,909), the liquidity reserve of SEK 3,073 m (3053) and other interest-bearing securities of SEK 1,340 m (1,075). None of the assets are being utilised as collateral and no non-performing loans exist. In addition to the liquidity portfolio, committed credit facilities for a total of SEK 2,410 m (2,872) are available.

The Covid-19 pandemic has not had any negative impact on the Bank's liquidity as the liquidity portfolio has been kept at a stable level during the pandemic.

As of 31 December 2020, the Bank's LCR totalled 256 percent (276). This measure shows how the Bank's highly liquid assets relate to net outflows over a thirty-day period under strained market conditions. The statutory limit for the liquidity coverage ratio is 100 percent.

The NSFR is a measure of the bank's structural liquidity, defined as the ratio between available stable funding and required stable funding. The EU has issued a minimum requirement of 100 percent to come into effect in June 2021. Net Stable Funding Ratio (NSFR) for Ikano Bank was 107 percent (105) at year-end 2020.

More information on liquidity is available in the report Periodic information on capital adequacy and liquidity, available at the Bank's webpage https://ikanobank.se/om-banken/ekonomisk-information/.

## Summary of liquidity reserve

**2020**

| SEK m | Total | SEK | EUR | DKK | GBP | Other |
|---|---|---|---|---|---|---|
| Securities issued by public entities | 1 799 | 1 348 | - | 143 | 308 | - |
| Securities issued by non-financial corporations | | | | | | |
| Securities issued by financial corporations | 157 | 5 | 151 | - | - | - |
| Covered bonds | 1 118 | 774 | 280 | 64 | - | - |
| **Liquidity reserve** | **3 073** | **2 127** | **432** | **207** | **308** | **-** |
| | | | | | | |
| Other operating liquidity invested in securities | 1 340 | 1 340 | - | - | - | - |
| Cash and balances in central banks and other banks | 1 833 | 753 | 460 | 278 | 148 | 194 |
| **Total liquidity portfolio** | **6 246** | **4 219** | **892** | **484** | **457** | **194** |
| Distribution per currency (%) | 100% | 68% | 14% | 8% | 7% | 3% |
| **Other liquidity-creating measures** | | | | | | |
| Granted unused credit facilities | 2 410 | 600 | 937 | 649 | 224 | - |

**2019**

| SEK m | Total | SEK | EUR | DKK | GBP | Other |
|---|---|---|---|---|---|---|
| Securities issued by public entities | 1 676 | 1 246 | - | 38 | 392 | - |
| Securities issued by financial corporations | 164 | 5 | 159 | - | - | - |
| Covered bonds | 1 213 | 843 | 302 | 68 | 0 | - |
| **Liquidity reserve** | **3 053** | **2 095** | **461** | **106** | **392** | **-** |
| | | | | | | |
| Other operating liquidity invested in securities | 1 075 | 1 075 | - | - | - | - |
| Cash and balances in central banks and other banks | 1 909 | 455 | 163 | 895 | 131 | 265 |
| **Total liquidity portfolio** | **6 038** | **3 625** | **624** | **1 001** | **523** | **265** |
| Distribution per currency (%) | 100% | 60% | 10% | 17% | 9% | 4% |
| **Other liquidity-creating measures** | | | | | | |
| Granted unused credit facilities | 2 872 | 508 | 1 326 | 790 | 248 | - |

## Market risk

Market risk is the risk of decreases in profits due to adverse market fluctuations in interest rates and currencies. Market risk is managed by the Bank's Treasury function. The Bank does not trade on its own behalf or on behalf of clients with derivatives or financial instruments. Therefore, the Bank has no capital requirement in accordance with the regulations for trading. Securities are held solely in order to maintain sufficient liquidity in accordance with the liquidity regulations. Derivatives are traded in order to minimise positions in business balances arising in the deposit and lending operations for customers.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises when lending and borrowing are not optimally matched. The Bank's deposits and lending are primarily short-term with a maturity period no longer than three months, as shown in the table on the following page.

In accordance with the Bank's steering documents, interest rate risk must be minimised so that any possible effect on the result is limited. The Bank's risk tolerance to interest rate risk is defined as profit and loss effect at 200 basis point shifts of all yield curves. This amount shall not exceed 3.5 percent of the Bank's own funds.

The main part of the Bank's interest rate risk stems from mismatches in interest rate periods for assets and liabilities. This interest rate risk is hedged with derivatives aimed at reducing the interest rate sensitivity and achieving better matching interest rate periods.

The Bank applies cash flow hedge for certain deposits at variable interest rates as the hedged risk is the uncertainty in future interest cash flows. For hedging, interest rate swaps are used. Swaps are measured at fair value in the balance sheet. In the income statement the accrued and paid interest are reported as interest expense and other changes in the value of the interest rate swap are recognized in other comprehensive income and accumulated in the fair value reserve in equity to the extent that the cash flow hedge has been effective until the hedged item affects profit or loss. All the ineffectiveness of the hedge is recognized in the income statement item Net gains and losses on financial transactions and amounted in 2020 to SEK -1.5 m (-1.6). Per 31 December 2020 no fair value hedges exist.

The Bank also limits the interest rate risk separately for the investments and the borrowing portfolio managed by the Treasury function. Such measurements result in an indirect limitation of volume and fixed interest periods on the Bank's interest-bearing investments and total net exposure.

The fixed interest periods for both the Bank's assets and liabilities in the balance sheet and for non-balance sheet items are shown in the table below. A sensitivity analysis shows that a change of one (1) percentage point in the market rate of interest increases/reduces the net interest income for the next 12-month period by SEK 10.9 m (19.0), given the interest-bearing assets and liabilities that exist on the closing date. A parallel increase of one (1) percentage point in the interest rate curve would have an effect on equity after tax of SEK -14,7 m (-21,8) and SEK 15,5 m (23.2) with a parallel decrease of the interest rate curve.

As of 31 December 2020, the Bank had interest rate swaps with a contract value of SEK 3,165 m (3,149). The swaps' net fair value totalled SEK -14.3 m (-4.0) consisting of assets of SEK 0.0 m (7.0) and liabilities of SEK 14.3 m (11.0).

## Interest rate exposure – fixed interest periods for assets and liabilities

| 2020<br>SEK m | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 5 years | Longer than 5 years | No interest | Total | Remaining average fixed interest term |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | 0 | **0** | 0.0 years |
| Treasury bills | 1 249 | 104 | 115 | 327 | - | - | **1 796** | 0.7 years |
| Loans to credit institutions | 1 932 | - | - | - | - | - | **1 932** | 0.1 years |
| Loans to the public | 14 413 | 2 103 | 3 812 | 4 556 | 147 | - | **25 031** | 0.6 years |
| Leasing receivables | 8 327 | 161 | 289 | 1 220 | 68 | - | **10 065** | 0.7 years |
| Bonds and other interest-bearing securities | 1 970 | 104 | 245 | 286 | - | - | **2 605** | 0.2 years |
| Other assets | 48 | 3 | - | - | - | 1 486 | **1 536** | 0.0 years |
| **Total assets** | **27 939** | **2 475** | **4 461** | **6 390** | **215** | **1 486** | **42 965** | |
| | | | | | | | | |
| **Liabilities and equity** | | | | | | | | |
| Liabilities to credit institutions | 1 174 | 311 | - | - | - | - | **1 486** | 0.2 years |
| Deposits from the public | 21 392 | 981 | 1 406 | 2 444 | - | - | **26 223** | 0.4 years |
| Issued securities | 6 184 | 200 | - | - | - | - | **6 384** | 0.2 years |
| Other liabilities | 1 164 | 11 | - | - | - | 920 | **2 095** | 0.1 years |
| Subordinated liabilities | 830 | 0 | - | - | - | - | **830** | 0.3 years |
| Equity and untaxed reserves | - | - | - | - | - | 5 948 | **5 948** | 0.0 years |
| **Total liabilities and equity** | **30 745** | **1 503** | **1 406** | **2 444** | **-** | **6 867** | **42 965** | |
| **Difference assets and liabilities** | **-2 805** | **971** | **3 054** | **3 946** | **215** | **-5 381** | **-** | |
| Interest rate derivatives, long positions [1] | 1 457 | 1 708 | - | - | - | - | **3 165** | |
| Interest rate derivatives, short positions [1] | - | - | 904 | 2 160 | 100 | - | **3 165** | |

| 2019<br>SEK m | Not longer than 3 months | Longer than 3 months, but not longer than 6 months | Longer than 6 months, but not longer than 1 year | Longer than 1 year, but not longer than 5 years | Longer than 5 years | No interest | Total | Remaining average fixed interest term |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | 34 | **34** | 0.0 years |
| Treasury bills | 1 197 | 15 | 112 | 348 | - | - | **1 673** | 0.7 years |
| Loans to credit institutions | 1 909 | - | - | - | - | - | **1 909** | 0.1 years |
| Loans to the public | 16 112 | 2 427 | 4 189 | 4 421 | 512 | - | **27 661** | 0.6 years |
| Leasing receivables | 9 014 | 154 | 280 | 1 195 | 82 | - | **10 726** | 0.7 years |
| Bonds and other interest-bearing securities | 2 396 | - | - | 51 | - | - | **2 447** | 0.2 years |
| Other assets | 29 | - | - | - | - | 1 478 | **1 507** | 0.0 years |
| **Total assets** | **30 658** | **2 596** | **4 582** | **6 014** | **594** | **1 512** | **45 956** | |
| | | | | | | | | |
| **Liabilities and equity** | | | | | | | | |
| Liabilities to credit institutions | 1 456 | 554 | - | - | - | - | **2 010** | 0.2 years |
| Deposits from the public | 20 403 | 1 066 | 1 526 | 2 963 | - | - | **25 958** | 0.4 years |
| Issued securities | 7 547 | 699 | 349 | - | - | - | **8 595** | 0.2 years |
| Other liabilities | 1 268 | 0 | - | - | - | 1 218 | **2 486** | 0.1 years |
| Subordinated liabilities | 415 | 451 | - | - | - | - | **865** | 0.3 years |
| Equity and untaxed reserves | - | - | - | - | - | 6 042 | **6 042** | 0.0 years |
| **Total liabilities and equity** | **31 088** | **2 770** | **1 875** | **2 963** | **-** | **7 260** | **45 956** | |
| **Difference assets and liabilities** | **-430** | **-175** | **2 707** | **3 051** | **594** | **-5 748** | **-** | |
| Interest rate derivatives, long positions [1] | 735 | 2 415 | - | - | - | - | **3 149** | |
| Interest rate derivatives, short positions [1] | - | 262 | 1 050 | 1 837 | - | - | **3 149** | |

## Derivatives

Derivatives are used to reduce exposure to interest rate and foreign exchange risk and include interest rate and currency derivatives according to the tablebelow. Below, all derivatives are reported at fair value and distributed based on the remaining term are shown.

## Derivatives - assets and liabilities

| 2020<br>SEK 000 | > 1 year | > 1 year - 5 years | > 5 years | Total | Assets (positive market value) | Liabilities (negative market value) |
|---|---|---|---|---|---|---|
| *Derivatives at fair value through profit or loss* | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | - | - | - | - | - | - |
| **Currency-related contracts** | | | | | | |
| Swaps | 116 910 | - | - | 116 910 | 114 765 | -1 528 |
| **Total** | **116 910** | **-** | **-** | **116 910** | **114 765** | **-1 528** |
| | | | | | | |
| *Derivatives for fair value hedges* | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | -2 066 | -11 874 | - 291 | -14 230 | 68 | -14 298 |
| **Total** | **-2 066** | **-11 874** | **- 291** | **-14 230** | **68** | **-14 298** |
| | | | | | | |
| **Total sum** | **114 844** | **-11 874** | **- 291** | **102 680** | **114 833** | **-15 826** |

| 2019<br>SEK 000 | > 1 year | > 1 year - 5 years | > 5 years | Total | Assets (positive market value) | Liabilities (negative market value) |
|---|---|---|---|---|---|---|
| *Derivatives at fair value through profit or loss* | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | - | - | - | - | - | - |
| **Currency-related contracts** | | | | | | |
| Swaps | -23 798 | - | - | -23 798 | 21 979 | -45 777 |
| **Total** | **-23 798** | **-** | **-** | **-23 798** | **21 979** | **-45 777** |
| | | | | | | |
| *Derivatives for fair value hedges* | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | -3 241 | -782 | - | -4 023 | 6 950 | -10 974 |
| **Total** | **-3 241** | **-782** | **-** | **-4 023** | **6 950** | **-10 974** |
| | | | | | | |
| **Total sum** | **-27 040** | **-782** | **-** | **-27 822** | **28 929** | **-56 751** |

## Hedge instruments in hedge accounting, nominal amounts and carrying amounts

Below tables show amounts for hedging instruments and inefficiency in hedges as well as information on the hedged items hedged in the bank's cash flow hedges.

| | Nominal amount | Carrying amount | | | | | |
|---|---|---|---|---|---|---|---|
| SEK 000 | | Assets | Liabilities | Balance sheet item where the hedge instrument is included | Changes in fair value used for calculating hedge ineffectiveness | Hedge ineffectiveness recognised in the income statement | Item in income statement that includes hedge ineffectiveness |
| **Interest rate risk** | | | | | | | |
| Interest rate swaps, positive values | - | - | - | | - | - | |
| Interest rate swaps, negative values | -3 934 976 | - | -12 751 | Other assets | 4 770 | 1 940 | Net gains and losses on financial transactions |

## Hedged items cash flow hedges

| SEK 000 | Balance sheet item in which the hedged item is included | Changes in value used for calculating hedge ineffectiveness | Cash flow hedge reserve | Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied |
|---|---|---|---|---|
| **Interest rate risk** | | | | |
| Interest rate swaps EUR | Deposits from the public | -6 610 | -12 756 | - |

## Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows from the Bank's assets will fluctuate because of changes in currency rates. For Ikano Bank, currency exposure arises in the context of net investment in foreign operations as well as the payment flows in loans and investments in foreign currency and borrowing in foreign currency. The majority of the Bank's cash flows in all currencies are managed in a common cash pool. Net exposures are managed centrally by the Treasury function and are mainly mitigated by currency derivatives.

A sensitivity analysis shows that an increase in the exchange rate by 10 percent increases the overall net exposure by SEK 16.7 m (2.9).

In the Bank's income statement, exchange rate results with SEK -19.3 m (6.2) are included in Net gains and losses on financial transactions.

The Bank's risk appetite for currency risk is defined in terms of total outstanding exposure in all currencies. SEK is included in the table below to give a picture of the total distribution between currencies.

## Assets and liabilities per significant currencies

| **2020**<br>SEK m | SEK | EUR | GBP | DKK | NOK | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Treasury bills | 1 455 | - | 307 | 35 | - | - | **1 796** |
| Loans to credit institutions | 753 | 560 | 148 | 278 | 89 | 105 | **1 933** |
| Loans to the public | 8 726 | 6 753 | 5 995 | 1 782 | 1 235 | 540 | **25 031** |
| Leasing receivables | 5 361 | 824 | - | 2 616 | 1 263 | - | **10 065** |
| Bonds and other interest-bearing securities | 2 112 | 429 | - 0 | 64 | - | - | **2 605** |
| Other assets | 1 063 | 89 | 83 | 204 | 55 | 42 | **1 536** |
| **Total assets** | **19 470** | **8 655** | **6 533** | **4 979** | **2 642** | **687** | **42 965** |
| Nominal amount currency derivative | 7 204 | - | - | - | - | - | **7 204** |
| **Liabilities and equity** | | | | | | | |
| Liabilities to credit institutions | 161 | 964 | 168 | - 0 | 192 | - | **1 486** |
| Deposits from the public | 13 043 | 5 899 | 3 345 | 3 937 | - | - | **26 223** |
| Issued securities | 6 384 | - | - | - | - | - | **6 384** |
| Subordinated liabilities | 200 | 397 | 79 | 122 | 33 | - | **830** |
| Other liablities incl. Equity | 6 937 | 290 | 362 | 277 | 247 | -70 | **8 043** |
| **Total equity and liabilities** | **26 725** | **7 550** | **3 953** | **4 335** | **473** | **-70** | **42 965** |
| Nominal amount currency derivative | - | 1 077 | 2 523 | 623 | 2 143 | 722 | **7 088** |
| Differences between assets and liabilities, incl. Nominal amount currency derivative | -51 | 27 | 57 | 21 | 26 | 35 | 115 |
| Effect (before tax) of 10% increase in exchange rate of SEK against foreign currency | | 2.7 | 5.7 | 2.1 | 2.6 | 3.5 | 16.7 |

| **2019**<br>SEK m | SEK | EUR | GBP | DKK | NOK | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Treasury bills | 1 245 | - | 390 | 38 | - | - | **1 673** |
| Loans to credit institutions | 455 | 180 | 131 | 895 | 144 | 138 | **1 943** |
| Loans to the public | 8 985 | 7 513 | 6 822 | 2 195 | 1 652 | 493 | **27 661** |
| Leasing receivables | 5 530 | 834 | - | 2 857 | 1 504 | - | **10 726** |
| Bonds and other interest-bearing securities | 1 918 | 460 | 0 | 68 | - | - | **2 447** |
| Other assets | 1 159 | 155 | 45 | 66 | 72 | 10 | **1 507** |
| **Total assets** | **19 292** | **9 143** | **7 388** | **6 119** | **3 373** | **641** | **45 956** |
| Nominal amount currency derivative | 5 558 | - | - | - | - | - | **5 558** |
| **Liabilities and equity** | | | | | | | |
| Liabilities to credit institutions | 50 | 547 | 558 | 75 | 533 | 247 | **2 010** |
| Deposits from the public | 12 204 | 6 059 | 3 464 | 4 231 | - | - | **25 958** |
| Issued securities | 8 595 | - | - | - | - | - | **8 595** |
| Subordinated liabilities | 200 | 415 | 87 | 126 | 37 | - | **865** |
| Other liablities incl. Equity | 3 861 | 1 933 | 539 | 1 684 | 587 | -77 | **8 528** |
| **Total equity and liabilities** | **24 910** | **8 954** | **4 647** | **6 117** | **1 157** | **170** | **45 956** |
| Nominal amount currency derivative | - | 179 | 2 742 | 0 | 2 211 | 458 | **5 589** |
| Differences between assets and liabilities, incl. Nominal amount currency derivative | -60 | 10 | 0 | 2 | 5 | 13 | -31 |
| Effect (before tax) of 10% increase in exchange rate of SEK against foreign currency | | 1.0 | 0.0 | 0.2 | 0.5 | 1.3 | 2.9 |

# 4 Operating segments

| 2020<br>SEK m | Sweden | Denmark | Norway | Finland | United Kingdom | Germany/ Austria | Poland | Shared functions | Total before eliminations | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | 801 | 271 | 149 | 27 | 571 | 555 | 55 | 473 | 2 902 | -720 | 2 182 |
| Interest expense | -273 | -54 | -58 | -10 | -182 | -64 | -10 | -415 | -1 065 | 720 | -345 |
| **Total net interest income** | **528** | **217** | **91** | **17** | **389** | **491** | **45** | **58** | **1 837** | **-** | **1 837** |
| Payment service commissions | 5 | 1 | - | 1 | - | 9 | - | - | 16 | - | 16 |
| Lending commissions | 150 | 35 | 41 | 20 | 42 | 13 | -1 | - | 301 | - | 301 |
| Compensation, mediated insurance | 139 | 20 | 30 | 3 | -1 | 47 | 5 | - | 244 | - | 244 |
| Other commissions | 6 | 3 | 6 | 0 | 2 | 0 | 0 | - | 19 | - | 19 |
| **Commission income** | **301** | **59** | **77** | **24** | **43** | **70** | **7** | **-** | **582** | **-** | **582** |
| Commission expense | -102 | -18 | -43 | -6 | -35 | -37 | -6 | -2 | -248 | - | -248 |
| **Commission, net** | **200** | **41** | **34** | **18** | **8** | **33** | **2** | **-2** | **333** | **-** | **333** |
| Lease income | 1 994 | 1 065 | 559 | 281 | - | - | - | - | 3 898 | - | 3 898 |
| Depreciation on leasing assets | -1 749 | -946 | -473 | -251 | - | - | - | - | -3 419 | - | -3 419 |
| **Leasing Income, net** | **244** | **118** | **86** | **31** | **-** | **-** | **-** | **-** | **479** | **-** | **479** |
| **Net Interest, fee and leasing income** | **972** | **377** | **211** | **65** | **397** | **524** | **47** | **56** | **2 649** | **-** | **2 649** |
| Other income | 13 | 14 | 10 | 3 | 2 | 5 | 2 | 744 | 793 | -754 | 39 |
| Other direct expenses | -31 | -9 | -13 | -5 | -14 | -21 | -1 | 0 | -94 | - | -94 |
| **Operating margin before net loan losses and operational expenses** | **954** | **382** | **209** | **63** | **385** | **508** | **48** | **799** | **3 348** | **-754** | **2 594** |
| Other expenses | -942 | -338 | -192 | -78 | -463 | -443 | -55 | -794 | -3 304 | 756 | -2 549 |
| Allocated overhead expenses | -7 | -2 | -3 | 0 | -4 | -5 | 0 | 0 | -20 | -1 | -22 |
| **Operating result** | **6** | **42** | **14** | **-15** | **-82** | **61** | **-8** | **5** | **23** | **0** | **23** |
| Of which: | | | | | | | | | | | |
| *Total internal income* | *136* | *35* | *-* | *-* | *68* | *25* | *-* | *1 212* | *1 475* | *-1 475* | *-* |
| *Total external income* | *1 253* | *424* | *322* | *85* | *549* | *605* | *64* | *-* | *3 302* | *-* | *3 302* |
| *Total internal expenses* | *-438* | *-128* | *-143* | *-25* | *-238* | *-180* | *-40* | *-282* | *-1 475* | *1 475* | *-* |
| Appropriations | - | - | - | - | - | - | - | - | - | - | - |
| Tax expense | 0 | -18 | 3 | - | 0 | -25 | -2 | -148 | -190 | - | -190 |
| **Net result for the year** | **6** | **24** | **17** | **-15** | **-82** | **37** | **-10** | **-143** | **-167** | **0** | **-167** |

| 2019<br>SEK m | Sweden | Denmark | Norway | Finland | United Kingdom | Germany/ Austria | Poland | Shared functions | Total before eliminations | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | 788 | 313 | 191 | 28 | 610 | 604 | 71 | 530 | 3 135 | -793 | 2 342 |
| Interest expense | -259 | -72 | -91 | -12 | -190 | -77 | -15 | -475 | -1 191 | 793 | -398 |
| **Total net interest income** | **529** | **241** | **100** | **16** | **420** | **527** | **56** | **55** | **1 944** | **-** | **1 944** |
| Payment service commissions | 11 | 1 | 0 | 1 | - | 13 | - | - | 26 | - | 26 |
| Lending commissions | 165 | 38 | 55 | 22 | 65 | 19 | 1 | - | 365 | - | 365 |
| Compensation, mediated insurance | 125 | 25 | 36 | 4 | 1 | 47 | 2 | - | 240 | - | 240 |
| Other commissions | 8 | 4 | 11 | 0 | 3 | 1 | 1 | 0 | 28 | - | 28 |
| **Commission income** | **309** | **68** | **102** | **27** | **69** | **80** | **4** | **0** | **659** | **-** | **659** |
| Commission expense | -140 | -13 | -51 | -7 | -55 | -30 | -6 | 0 | -302 | - | -302 |
| **Commission, net** | **169** | **55** | **51** | **20** | **14** | **50** | **-2** | **0** | **357** | **-** | **357** |
| Lease income | 2 026 | 1 072 | 633 | 280 | - | - | - | - | 4 011 | - | 4 011 |
| Depreciation on leasing assets | -1 791 | -944 | -539 | -248 | - | - | - | - | -3 522 | - | -3 522 |
| **Leasing Income, net** | **235** | **128** | **94** | **32** | **-** | **-** | **-** | **-** | **489** | **-** | **489** |
| **Net Interest, fee and leasing income** | **933** | **424** | **245** | **68** | **434** | **577** | **54** | **55** | **2 790** | **-** | **2 790** |
| Other income | 31 | 23 | 16 | 4 | 28 | 10 | 3 | 741 | 856 | -717 | 139 |
| Other direct expenses | -38 | -9 | -14 | -7 | -18 | -24 | -2 | -1 | -112 | - | -112 |
| **Operating margin before net loan losses and operational expenses** | **927** | **438** | **247** | **65** | **446** | **564** | **55** | **795** | **3 534** | **-717** | **2 817** |
| Other expenses | -904 | -356 | -233 | -67 | -501 | -487 | -53 | -716 | -3 314 | 717 | -2 597 |
| Allocated overhead expenses | -9 | -3 | -3 | 0 | -7 | -9 | 0 | 0 | -31 | - | -31 |
| **Operating result** | **14** | **79** | **11** | **-2** | **-62** | **68** | **2** | **79** | **189** | **-** | **189** |
| Of which: | | | | | | | | | | | |
| *Total internal income* | *146* | *40* | *-* | *-* | *63* | *30* | *-* | *1 232* | *1 510* | *-1 510* | *-* |
| *Total external income* | *1 236* | *492* | *403* | *91* | *645* | *664* | *77* | *-* | *3 608* | *-* | *3 608* |
| *Total internal expenses* | *-592* | *-144* | *-192* | *-32* | *-254* | *-227* | *-38* | *-31* | *-1 510* | *1 510* | *-* |
| Appropriations | - | - | - | - | - | - | - | 281 | 281 | - | 281 |
| Tax expense | - | -14 | -5 | - | -4 | -27 | -1 | 47 | -4 | - | -4 |
| **Net result for the year** | **13** | **65** | **6** | **-2** | **-66** | **41** | **1** | **406** | **465** | **-** | **465** |

| SEK m | 2020 | 2019 |
|---|---|---|
| Corporate | 779 | 823 |
| Sales Finance | 1 512 | 1 711 |
| Consumer | 977 | 1 000 |
| Other | 33 | 74 |
| **Total external income** | **3 302** | **3 608** |

Neither Ikano Bank, nor any individual business line, has any single customer representing 10 percent of revenues or more.

| 2020<br>SEK m | Sweden | Denmark | Norway | Finland | United Kingdom | Germany/<br>Austria | Poland | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed assets other than financial instruments | 498 | 0 | 0 | 0 | - 0 | 4 | 1 | - | **503** |
| Deferred tax assets | 36 | - | - | - | - | 25 | - | - | **61** |
| Other assets | 28 177 | 4 508 | 2 483 | 1 069 | 6 146 | 6 548 | 612 | -7 141 | **42 403** |
| **Total assets** | **28 711** | **4 508** | **2 483** | **1 069** | **6 146** | **6 577** | **613** | **-7 141** | **42 965** |
| **Liabilities and provisions** | **22 596** | **4 512** | **2 431** | **1 159** | **6 199** | **6 543** | **718** | **-7 141** | **37 018** |

| 2019<br>SEK m | Sweden | Denmark | Norway | Finland | United Kingdom | Germany/<br>Austria | Poland | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Fixed assets other than financial instruments | 359 | 2 | 0 | 0 | 0 | 4 | 1 | - | **366** |
| Deferred tax assets | 78 | - | - | - | - | 24 | - | - | **102** |
| Other assets | 33 931 | 5 913 | 3 187 | 1 132 | 6 993 | 8 000 | 584 | -14 252 | **45 487** |
| **Total assets** | **34 368** | **5 915** | **3 187** | **1 132** | **6 993** | **8 028** | **585** | **-14 252** | **45 956** |
| **Liabilities and provisions** | **31 454** | **4 539** | **2 861** | **1 211** | **6 965** | **6 444** | **692** | **-14 252** | **39 914** |

# 5 Net interest

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Loans to credit institutions | - | 0 |
| Loans to the public | 2 166 870 | 2 328 554 |
| Interest-bearing securities | 15 544 | 13 225 |
| **Total** | **2 182 414** | **2 341 779** |
| *Of which: Interest income from financial assets* | | |
| *not measured at fair value through profit or loss* | *2 166 870* | *2 328 554* |
| *Interest income from non-performing loans* | *34 297* | *34 770* |
| | | |
| **Interest expense** | | |
| Liabilities to credit institutions | -24 742 | -34 682 |
| Deposits from the public | -193 307 | -197 102 |
| *Of which: Deposit guarantee fee* | *-31 625* | *-34 719* |
| Issued securities | -62 911 | -47 821 |
| Derivatives | -31 348 | -76 816 |
| *- Hedge accounting* | *-4 394* | *-5 608* |
| *- Not hedge accounting* | *-26 954* | *-71 209* |
| Subordinated liabilities | -22 918 | -24 249 |
| Other interest expenses | -10 319 | -17 297 |
| *Of which: Stability fee* | *-7 631* | *-14 515* |
| **Total** | **-345 546** | **-397 968** |
| *Of which: Interest income from financial assets* | | |
| *not measured at fair value through profit or loss* | *-314 198* | *-321 151* |
| **Total net interest income** | **1 836 868** | **1 943 812** |
| | | |
| Interest margin | 4.0% | 4.2% |
| *Total interest income in relation to average balance sheet total, less total interest expenses in relation to average balance sheet total excluding average equity and 78% of untaxed reserves* | | |
| Investment margin | 4.1% | 4.3% |
| *Net interest income in relation to average balance sheet total* | | |

# 6 Leasing income

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Leasing income, gross | 3 898 213 | 4 011 000 |
| Less: Depreciation according to plan | -3 418 874 | -3 521 925 |
| **Leasing income, net** | **479 339** | **489 075** |
| Leasing income from financial lease agreements | 3 898 213 | 4 011 000 |
| Depreciation according to plan for assets that are financial lease agreements, but are recognised as operating leases | -3 418 874 | -3 521 925 |
| **Leasing income, net for financial lease agreements** | **479 339** | **489 075** |
| Interest income | 9 990 | 10 135 |
| Interest expenses | -114 095 | -127 680 |
| **Leasing, net** | **375 234** | **371 530** |

# 7 Net commission

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Commission income** | | |
| Payment service commissions | 15 766 | 26 419 |
| Lending commissions | 303 314 | 365 293 |
| Other commissions | 262 443 | 267 381 |
| **Total** | **581 523** | **659 093** |
| **Commission expenses** | | |
| Payment service commissions | -11 388 | -9 586 |
| Lending commissions | -196 718 | -233 488 |
| Other commissions | -44 901 | -58 786 |
| **Total** | **-253 007** | **-301 860** |
| **Net commission income** | **328 516** | **357 233** |

# 8 Net result on financial transactions

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Interest-bearing securities | - | - |
| Other financial instruments | -4 526 | 15 018 |
| Exchange rate fluctuations | -19 302 | 6 178 |
| **Total** | **-23 828** | **21 196** |
| **Net profit/loss divided per valuation category** | | |
| Financial assets at fair value through profit or loss | 733 395 | 168 611 |
| Financial assets at amortised cost | -725 217 | 397 784 |
| Loan receivables and accounts receivable | - | - |
| Financial liabilities at fair value through profit or loss | -123 591 | -461 821 |
| Financial liabilities at amortised costs | 97 088 | -84 947 |
| Change in fair value for derivatives that are hedging instruments in fair value | - | 0 |
| Change in fair value for hedged item in respect of the hedged risk in fair value | - | - |
| The ineffective portion of changes in fair value of the hedging instrument in a cash flow hedge | -1 483 | 1 643 |
| Changes in credit impairment provisions for assets at fair value through other comprehensive income | -2 483 | -647 |
| Exchange rate fluctuations | -1 536 | 572 |
| **Total** | **-23 828** | **21 196** |
| Net profit or loss on financial assets available-for-sale recognised in comprehensive income | **1 151** | **-6 179** |

The net gain or net loss refers to realised and unrealised value changes. No interest-difference-compensation for early repayment of loans has been paid.

# 9 Other operating income

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Realised gain arising from the disposal of tangible assets | 23 369 | 37 544 |
| One-off revenue SBAB, terminated cooperation | - | 0 |
| Other operating income | 35 049 | 80 657 |
| **Total** | **58 418** | **118 200** |

# 10 Geographic distribution of income

**2020**

| SEK 000 | Sweden | Finland | Denmark | Norway | United Kingdom | Germany | Poland | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 680 794 | 27 042 | 237 008 | 148 805 | 503 272 | 521 684 | 55 057 | 8 752 | **2 182 414** |
| Leasing income | 1 993 686 | 281 113 | 1 064 694 | 558 720 | - | - | - | - | **3 898 213** |
| Commission income | 290 714 | 30 791 | 59 549 | 78 901 | 43 114 | 68 200 | 7 979 | 2 276 | **581 523** |
| Net gains and losses from financial transactions | -19 263 | -1 841 | -403 | -1 383 | 10 | -1 | -454 | -493 | **-23 828** |
| Other operating income | 26 298 | 3 394 | 9 661 | 10 138 | 2 239 | 5 065 | 1 623 | - | **58 418** |
| **Total** | **2 972 229** | **340 498** | **1 370 510** | **795 179** | **548 635** | **594 947** | **64 206** | **10 535** | **6 696 740** |

**2019**

| SEK 000 | Sweden | Finland | Denmark | Norway | United Kingdom | Germany | Poland | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 650 959 | 33 274 | 273 147 | 190 876 | 547 419 | 566 147 | 71 388 | 8 569 | **2 341 779** |
| Leasing income | 2 026 634 | 279 614 | 1 071 937 | 632 814 | - | - | - | - | **4 011 000** |
| Commission income | 300 252 | 33 226 | 68 495 | 104 661 | 69 060 | 76 493 | 3 732 | 3 174 | **659 093** |
| Net gains and losses from financial transactions | 13 061 | 7 231 | -70 | 303 | 57 | -5 | 446 | 174 | **21 196** |
| Other operating income | 33 958 | 4 015 | 23 108 | 16 197 | 28 119 | 9 600 | 2 674 | 528 | **118 200** |
| **Total** | **3 024 864** | **357 361** | **1 436 617** | **944 851** | **644 655** | **652 235** | **78 240** | **12 445** | **7 151 268** |

The geographic distribution of income is based on where customers have their registered office, and also refers to intra-group customers.

# 11 General administrative expenses

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Personnel costs** | | |
| - salaries and fees | -544 628 | -536 240 |
| - social security contributions | -127 684 | -126 617 |
| - pension costs | -57 702 | -57 894 |
| - other personnel costs | -27 940 | -39 587 |
| **Total personnel costs** | **-757 954** | **-760 338** |
| **Other general administrative expenses** | | |
| - postage and telephone | -45 009 | -63 635 |
| - IT costs | -500 468 | -567 474 |
| - consultancy services | -47 164 | -36 489 |
| - agency staff | -14 262 | -18 661 |
| - audit | -15 275 | -11 375 |
| - rent and other costs for premises | -52 018 | -52 267 |
| - internal Group services | -23 181 | -32 060 |
| - cost of materials | -43 873 | -50 314 |
| - travel costs | -17 906 | -30 461 |
| - other | -113 777 | -126 214 |
| **Total other general administrative expenses** | **-872 933** | **-988 951** |
| **Total general administrative expenses** | **-1 630 887** | **-1 749 289** |

## Salaries, other remuneration, pensions and social costs

| | 2020 | | 2019 | |
|---|---|---|---|---|
| SEK 000 | Senior management (21 persons) | Other employees | Senior management (21 persons) | Other employees |
| Salaries and other remunerations | -21 279 | -520 987 | -25 211 | -507 829 |
| Variable remuneration | 0 | -2 362 | -86 | -3 115 |
| Pensions | -5 381 | -52 321 | -3 197 | -54 697 |
| Social security contributions | -6 131 | -121 552 | -6 613 | -120 004 |
| *Of which: social security contributions regarding pensions* | *-1 306* | *-8 105* | *-716* | *-8 692* |
| **Total** | **-32 792** | **-697 222** | **-35 107** | **-685 645** |

The number for senior management represents those who have received remuneration during the year and does not compare to the number of senior management per 31 December 2020.

The Bank has no overdue payments to pension schemes for senior executives. Senior management are the current and previous Board members, CEOs and

management groups that have been active in their role in 2020 and where compensation has been paid.

## Employment conditions for senior executives

A Board fee and committee fee is paid to the Board members in accordance with a resolution adopted by the Annual General Meeting. No fee is paid to employees of the Ikano S.A. Group.

Remuneration to the CEO and other senior executives has been decided by the Board. In regard to the CEO, the Bank's pension commitments are covered by ongoing insurance premiums. All pension benefits are vested employee benefits, i.e. not conditional on future employment. Retirement age for the CEO is 65 years.

Neither the CEO nor Board members have loans in the Bank. The Bank has not pledged collateral or undertaken contingent liabilities for the benefit of senior executives. Among CEO and board members a few of them have credit cards issued by the Bank with a credit limit of maximum SEK 50 k. The Bank has adopted a remuneration policy conforming to FFFS 2011:1/FFFS 2014:22 regarding remuneration policies in credit institutions, securities companies and fund management companies with permission to undertake discretionary portfolio management.

### Disclosure of information regarding remuneration

Information regarding remuneration which is required to be disclosed in accordance with the Swedish Financial Supervisory Authority’s regulations is provided on the Bank’s website, www.ikanobank.se.

## Salaries and remuneration to the Board of Directors and senior executives

| 2020<br>SEK 000 | Base salary | Variable remuneration | Other benefits | Pension costs | Total |
|---|---|---|---|---|---|
| Mats Håkansson, chairman of the Board of Directors 1) | - | - | - | - | **-** |
| Heather Jackson | -610 | - | - | - | **-610** |
| Diedrick van Thiel | -624 | - | - | - | **-624** |
| Lars Thorsén 1) | - | - | - | - | **-** |
| Yohann Adolphe 1) | - | - | - | - | **-** |
| Henrik Eklund, CEO | -3 720 | - | -61 | -761 | **-4 541** |
| Lars Ljungälv | -532 | - | - | - | **-532** |
| Viveka Strangert | -561 | - | - | - | **-561** |
| Other senior management | -14 785 | - | -387 | -4 621 | **-19 792** |
| **Total** | **-20 832** | **-** | **-448** | **-5 381** | **-26 661** |

| 2019<br>SEK 000 | Base salary | Variable remuneration | Other benefits | Pension costs | Total |
|---|---|---|---|---|---|
| Mats Håkansson, chairman of the Board of Directors 1) | - | - | - | - | **-** |
| Olle Claeson | -640 | - | - | - | **-640** |
| Heather Jackson | -1 162 | - | - | - | **-1 162** |
| Diederick van Thiel | -871 | - | - | - | **-871** |
| Lars Thorsén 1) | - | - | - | - | **-** |
| Yohann Adolphe 1) | - | - | - | - | - |
| Henrik Eklund, CEO | -3 167 | - | -60 | -638 | **-3 865** |
| Lars Ljungälv | -258 | - | - | - | **-258** |
| Viveka Strangert | -330 | - | - | - | **-330** |
| Other senior management | -17 697 | -86 | -1 026 | -2 559 | **-21 368** |
| **Total** | **-24 125** | **-86** | **-1 086** | **-3 197** | **-28 494** |

1) No fee is paid to employees of the Ikano S.A Group.

In September 2020. The bank entered into a termination agreement with the Chief People & Communication Officer. Which gave the Chief People & Communication Officer the right to twelve months' notice with salary and other benefits, from September 2020 to September 2021. At the same time, a termination agreement was entered with the Bank's Chief Compliance Officer who gave the Chief Compliance Officer the right to thirteen months' notice with salary and other benefits, from September 2020 to October 2021. Both these events affect the result for 2020.

| Gender distribution, Board and management | 2020 | 2019 |
|---|---|---|
| **Board of Directors** | | |
| Women | 2 | 2 |
| Men | 5 | 5 |
| **Other senior management incl. Managing Director** | | |
| Women | 4 | 3 |
| Men | 7 | 7 |

## Number of employees

Ordinary working hours are defined as available working time. This does not include overtime, or full or part-time leave of absence. The information refers to full year. The average number of employees is converted to full-time employees.

| Number of employees per country | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Women | Men | Total | Women | Men | Total |
| Sweden | 241 | 202 | 443 | 287 | 225 | 512 |
| Denmark | 37 | 36 | 73 | 32 | 35 | 66 |
| Norway | 20 | 20 | 40 | 17 | 21 | 38 |
| Finland | 12 | 9 | 21 | 12 | 9 | 21 |
| United Kingdom | 90 | 73 | 163 | 113 | 82 | 194 |
| Germany | 72 | 54 | 126 | 80 | 57 | 137 |
| Poland | 36 | 30 | 66 | 64 | 37 | 100 |
| **Total** | **508** | **424** | **932** | **603** | **464** | **1 067** |

## Remuneration to auditors

The auditing assignment involves an audit of the annual report, year-end report and accounting records and the administration by the Board of Directors and the CEO, other work incumbent on the Bank's auditors, and providing advice or other assistance deemed necessary after such an examination or the execution of such other work. Audit work in addition to the audit assignment refers to such tasks that can only be performed by signing auditor, for example different types of statutory certificates.

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Deloitte AB** | | |
| Audit assignment | -9 214 | -5 636 |
| Audit work in addition to the audit assignment | -432 | -336 |
| **Total** | **-9 645** | **-5 972** |
| | | |
| **Other auditors** | | |
| **KPMG Poland** | | |
| Audit assignment | -405 | -334 |
| **PKF Industrie- u. Verkehrstreuhand GmbH Tyskland** | | |
| Audit assignment | - | -145 |
| **Total** | **-405** | **-479** |

# 12 Other operating expenses

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Marketing expenses | -123 788 | -166 616 |
| Membership fees to organisations | -3 916 | -3 897 |
| Insurance expenses | -4 441 | -4 244 |
| Other operating expenses | 739 | -12 774 |
| **Total** | **-131 407** | **-187 531** |

# 13 Loan losses, net

The table below shows net loan losses including credit impairment provisions for credit commitments and undrawn limits.

Credit impairment provisions recognised at fair value via other comprehensive income amount to SEK 4.3 m (1.9) and have been recognised in equity against the item fair value reserve. The credit impairment ratio according to IFRS 9 was 2.1 percent for 2020 (1.9).

In 2020, the Bank has implemented a new model for incorporate forward-looking information in all of the Bank's markets. This is supplemented, if necessary, by expert opinions to calculate future expected loan losses. The model has been introduced under exceptional conditions and has been supplemented with manual adjustments where the outcome assessed by the Bank is believed to deviate from the model's estimate. For the corporate market, there are still outstanding volumes with payment holidays in some industries. Due to this, the Bank has, in accordance with a management decision, chosen to make additional provisions for future loan losses of SEK 51 m. The Bank's assessment is that the model for loan loss provisions has handled increased credit risks for the consumer market caused by the pandemic in a satisfactory manner and no further provisions have been made for that market.

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Stage 1 - assets not credit impaired since initial recognition** | | |
| Change in credit impairment provisions related to stage 1 | -6 827 | -19 805 |
| Derecognition of loans stage 1 | - | - |
| Reversal of previous provisions and recoveries stage 1 | - | -19 |
| **Net credit losses for the period- stage 1** | **-6 827** | **-19 824** |
| | | |
| **Stage 2 - assets with significant increase in credit risk since initial recognition but not credit impaired** | | |
| Change in credit impairment provisions related to stage 2 | -162 810 | 5 848 |
| Derecognition of loans stage 2 | -322 466 | -571 430 |
| Reversal of previous provisions and recoveries stage 2 | 184 510 | 348 724 |
| **Net credit losses for the period- stage 2** | **-300 766** | **-216 858** |
| | | |
| **Stage 3 - credit impaired assets** | | |
| Change in credit impairment provisions related to stage 3 | -2 717 | 180 505 |
| Derecognition of loans stage 3 | -721 247 | -970 007 |
| Reversal of previous provisions and recoveries stage 3 | 256 089 | 323 895 |
| **Net credit losses for the period credit impaired assets - stage 3** | **-467 876** | **-465 607** |
| | | |
| **Total net credit losses for the period** | **-775 469** | **-702 289** |

# 14 Appropriations and taxes

## Reported in the income statement

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Current tax expense** | | |
| Tax expense for the year | -164 421 | 11 564 |
| Adjustment of taxes attributable to previous years | -6 947 | -5 045 |
| **Current tax expense** | **-171 368** | **6 518** |
| | | |
| Deferred tax expense/income | 0 | -1 |
| Deferred tax related to temporary differences | -5 314 | 2 473 |
| Deferred tax expense due to reversal of residual value depreciations | -13 461 | -13 461 |
| Deferred tax income due to resolving derivatives and securities | - | - |
| | | |
| **Total reported tax expense in accordance with the income statement** | **-190 143** | **-4 470** |

## Tax expense for the period

Tax on the profit for the period of 190 m consists of current taxes, reported in the profit and loss statement, amounting to SEK 164 m, change in deferred taxes amounting to SEK 19 m and adjustment of taxes for previous periods amounting to SEK 7 m. The main driver for the relatively high current tax expense of SEK 164 m in relation to the bank's operating profit of SEK 23 m, are the translation differences attributable to unrealized exchange rate losses on intracompany loans. Those unrealized exchange rate losses are treated as non-deductible tax expense.

Tax on deductible exchange rate differences regarding assets and liabilities in foreign branches reduces the total tax with SEK 91 m, reported in other comprehensive income.

## Reconciliation of effective tax

| SEK 000 | 2020 | | 2019 | |
|---|---|---|---|---|
| Result before tax | | 23 038 | | 469 872 |
| Tax according to current tax rates | 21.4% | -4 930 | 21.4% | -100 552 |
| Non deductible tax expenses | 34.1% | -7 861 | 1.9% | -8 775 |
| Non-taxable income | 0.0% | - | -15.5 | 72 782 |
| Taxes attributable to previous years | 30.2% | -6 947 | 1.1% | -5 045 |
| Translation differences for the year foreign branches | 626.2% | -144 263 | 0,0% | - |
| Effect of other tax bases and tax rates in the foreign branches | 127.6% | -29 388 | -3.3% | 15 388 |
| Transfer of negative net interest from group company | -37.2% | 8 560 | -4.1 | 19 260 |
| Effect of revaluation of other deferred taxes | 23.1% | -5 314 | -0.2 | 791 |
| Other | 0.0% | - | -0.4 | 1 682 |
| **Reported effective tax** | **825.3%** | **-190 143** | **1.0%** | **-4 470** |

## Tax relating to other comprehensive income

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| SEK 000 | Before tax | Tax | After tax | Before tax | Tax | After tax |
| Foreign currency translation differences in foreign branches | -13 754 | 90 949 | 77 195 | 99 452 | -61 229 | 38 223 |
| Financial assets valued at fair value through other comprehensive income | 1 356 | -204 | 1 151 | -7 861 | 1 682 | -6 179 |
| Changes in loss allowance for financial assets valued at fair value via other comprehensive income | 2 483 | - | 2 483 | 647 | - | 647 |
| Changes in fair value of cash flow hedges | -9 323 | 1 688 | -7 635 | 2 917 | -601 | 2 316 |
| **Other comprehensive income** | **-19 238** | **92 433** | **73 195** | **95 154** | **-60 148** | **35 006** |

## Reported in the balance sheet

| SEK 000 | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| Tangible/intangible assets as well as financial assets at fair value through other comprehensive income | - | 13 461 | 1 768 | 3 433 |
| Financial assets available for sale | - | - | - | - |
| Offsetting | 62 218 | 88 994 | 62 218 | 88 682 |
| **Tax assets/liabilities** | **62 218** | **102 455** | **63 987** | **92 115** |

## Appropriations

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Difference between recognised depreciation and depreciation according to plan | - | 281 200 |
| **Total** | **-** | **281 200** |

# 15 Treasury bills

| SEK 000 | 2020 Fair value | 2020 Carrying amount | 2019 Fair value | 2019 Carrying amount |
|---|---|---|---|---|
| Treasury bills | | | | |
| - Swedish municipalities | 1 346 371 | 1 346 371 | 1 245 248 | 1 245 248 |
| - Foreign governments | 449 750 | 449 750 | 427 365 | 427 365 |
| **Total** | **1 796 121** | **1 796 121** | **1 672 613** | **1 672 613** |
| Positive difference as an effect of the carrying amount exceeding the nominal amount | | 27 480 | | 26 939 |
| Negative difference as an effect of the carrying amount being less than the nominal amount | | - | | 842 |
| **Total** | | **27 480** | | **27 780** |

Values above are gross values.

# 16 Loans to credit institutions

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Swedish banks | | |
| - Swedish currency | 433 699 | 324 438 |
| - Foreign currency | 862 484 | 861 795 |
| Foreign banks | | |
| - Swedish currency | 319 427 | 130 329 |
| - Foreign currency | 316 873 | 592 672 |
| **Total** | **1 932 483** | **1 909 236** |

The item Loans to credit institutions includes liquidity and transaction accounts with other banks where liquidity is handled by the bank's treasury function, with the exception of loan loss provisions as these are immaterial. These are reported as loans to credit institutions below.

# 17 Loans to the public

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Outstanding receivables, gross** | | |
| - Swedish currency | 9 108 234 | 9 147 612 |
| - Foreign currency | 16 682 624 | 19 261 796 |
| **Total** | **25 790 858** | **28 409 408** |
| *Of which: Non-performing loans* | *698 578* | *782 571* |
| Specific provision for individually assessed receivables | -760 095 | -748 479 |
| **Carrying amount, net** | **25 030 764** | **27 660 929** |

The table below shows changes in gross carrying amount and credit impairment provisions during 2020. Receivables in stage 3 have decreased by 6 percent from SEK 408 m to SEK 385 m during the year explained by exchange rate fluctuations. Under the item New financial assets, new loans extended during the year are shown and transfers between stages of these are shown under Transfers during the period. The same line includes increases of existing loans or increase of utilised credits for credit cards available at the start of 2020. New financial assets originated in stage 2 and 3 shows increases in the credit exposure on existing loans that were classified as stage 2 or 3 at the start of the year and returned to stage 1 during the year. Changes are therefore recognised under transfers during the period. Similarly, discontinued loans and amortisations are shown under Financial assets derecognised. The lower part of the table includes credit impairment provisions. Changes in the Bank's risk models and changes in the macroeconomic scenarios are shown separately. Changes in risk parameters that do not affect the stage classification are shown under Revaluation due to change in credit risk.

Total loan loss provisions are shown in Note 3, table Credit risk exposure gross and net, divided into credit ratings for financial assets and off-balance sheet items.

## Changes in carrying amounts and credit impairment provisions

| 2020<br>SEK 000 | Not credit impaired<br>Stage 1 | <br>Stage 2 | Credit impaired<br>Stage 3 | <br>Total |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| **Gross carrying amount per 1 January 2019** | **24 632 370** | **3 369 099** | **407 939** | **28 409 409** |
| New financial assets originated | 9 875 135 | 94 146 | 9 697 | 9 978 977 |
| Financial assets derecognised | -9 703 703 | -1 347 459 | -230 033 | -11 281 194 |
| Transfers during the period: | -2 489 954 | 2 266 286 | 223 668 | - |
| *from stage 1 to stage 2* | *-2 986 336* | *2 986 336* | *-* | - |
| *from stage 1 to stage 3* | *-165 100* | *-* | *165 100* | - |
| *from stage 2 to stage 1* | *656 721* | *-656 721* | *-* | - |
| *from stage 2 to stage 3* | *-* | *-76 816* | *76 816* | - |
| *from stage 3 to stage 1* | *4 761* | *-* | *-4 761* | - |
| *from stage 3 to stage 2* | *-* | *13 487* | *-13 487* | - |
| Change in exchange rates and other | -1 119 339 | -170 796 | -26 198 | -1 316 333 |
| **Gross carrying amount per 31 December 2020** | **21 194 509** | **4 211 277** | **385 073** | **25 790 859** |
| **Credit impairment provisions per 1 January 2020** | **-140 043** | **-319 113** | **-289 322** | **-748 478** |
| New financial assets originated | -166 930 | -7 375 | -4 165 | -178 469 |
| Financial assets derecognised | 51 893 | 146 754 | 166 525 | 365 172 |
| Changes in risk variables (EAD, PD, LGD) | 985 | 1 929 | -359 | 2 555 |
| Changes in macroeconomic scenarios | -37 145 | -7 273 | -123 | -44 542 |
| Changes due to expert credit judgement (individual assessments and manual adjustments) | 5 882 | 1 156 | 1 465 | 8 503 |
| Transfers during the period: | 138 530 | -190 643 | -145 351 | -197 464 |
| *from stage 1 to stage 2* | *111 991* | *-238 778* | *-* | *-126 787* |
| *from stage 1 to stage 3* | *32 272* | *-* | *-102 188* | *-69 916* |
| *from stage 2 to stage 1* | *-5 725* | *34 807* | *-* | *29 082* |
| *from stage 2 to stage 3* | *-* | *14 142* | *-47 085* | *-32 943* |
| *from stage 3 to stage 1* | *-9* | *-* | *838* | *829* |
| *from stage 3 to stage 2* | *-* | *-814* | *3 084* | *2 270* |
| Reevaluation due to change in credit risk | 1 030 | -3 781 | -8 294 | -11 044 |
| Change in exchange rates and other | 6 636 | 16 321 | 20 714 | 43 671 |
| **Credit impairment provisions per 31 December 2019** | **-139 162** | **-362 023** | **-258 910** | **-760 095** |
| **Net carrying amount** | **21 055 347** | **3 849 254** | **126 163** | **25 030 764** |

Transfers between the stages are assessed at the end of the reporting period.

# 18 Bonds and other interest-bearing securities

| SEK 000 | 2020<br>Fair value | <br>Carrying amount | 2019<br>Fair value | <br>Carrying amount |
|---|---|---|---|---|
| Issued by Swedish borrowers | | | | |
| - Mortgage institutions | 869 395 | 869 395 | 1 034 895 | 1 034 895 |
| - Non-financial entities | 999 928 | 999 928 | 923 363 | 923 363 |
| - Financial entities | 264 131 | 264 131 | 100 240 | 100 240 |
| Foreign issuers | 471 780 | 471 780 | 388 111 | 388 111 |
| **Total bonds and other interest-bearing securities** | **2 605 234** | **2 605 234** | **2 446 609** | **2 446 609** |
| Of which: | | | | |
| *Listed securities* | | *1 900 334* | | *1 646 637* |
| *Unlisted securities* | | *704 901* | | *799 972* |
| Positive difference as an effect of the carrying amount exceeding the nominal amount | | 23 511 | | 20 172 |
| Negative difference as an effect of the carrying amount being less than the nominal amount | | 102 | | 40 |

Values above are gross values. Credit impairment provisions for assets measured at fair value via other comprehensive income amounts to SEK 4.3 m (1.9) and have been reported under the item Net result from financial transactions in the profit and loss.

# 19 Shares and participations in associated companies

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Other | 20 980 | 12 446 |
| **Total shares and other participations** | **20 980** | **12 446** |
| **Accumulated acquisition values** | | |
| **At the beginning of the year** | 12 446 | - |
| Aquisitions | 8 534 | 12 446 |
| **Carrying value, 31 December** | **20 980** | **12 446** |

| 2020 | | | | | |
|---|---|---|---|---|---|
| SEK 000 | Net result | Equity | Capital share | Number of shares | Carrying amount |
| IISÅ Holdco AB, 559217-9203, Stockholm | -3 | 76 015 | 25% | 2 500 | 20 980 |
| **2019** | | | | | |
| SEK 000 | Net result | Equity | Capital share | Number of shares | Carrying amount |
| IISÅ Holdco AB, 559217-9203, Stockholm | - | 42 008 | 25% | 2 500 | 12 446 |

# 20 Shares and participations in other companies

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Shares and participations, unlisted securities | 1 535 | 1 535 |
| Shares and participations, listed securities | 42 097 | 41 629 |
| **Total shares and other participations** | **43 632** | **43 164** |

# 21 Intangible assets

| | Internally generated intangible assets | Acquired intangible assets | | |
|---|---|---|---|---|
| SEK 000 | Other technical/cont-ract based assets | Market and customer based assets | Other technical/ contract based assets | Total |
| **Acquisition cost** | | | | |
| Opening balance, 1 January 2018 | 547 891 | 41 526 | 62 459 | 651 876 |
| Translation difference | - | 1 342 | 3 381 | 4 723 |
| **Closing balance, 31 December 2018** | **614 348** | **42 868** | **66 938** | **724 154** |
| | | | | |
| Opening balance, 1 January 2019 | 614 348 | 42 868 | 66 938 | 724 154 |
| Sales and disposals | - | - | - 2 372 | - 2 372 |
| Translation difference | - | -1 803 | -4 207 | -6 010 |
| **Closing balance, 31 December 2019** | **867 478** | **41 065** | **42 692** | **951 234** |
| | | | | |
| **Amortisation** | | | | |
| Opening balance, 1 January 2018 | -171 260 | -40 748 | -61 122 | -273 130 |
| Amortisation for the year | -93 014 | -142 | -1 102 | -94 258 |
| Sales and disposals | - | - | - | - |
| Translation difference | - | -1 315 | -3 313 | -4 628 |
| **Closing balance, 31 December 2018** | **-264 274** | **-42 205** | **-65 537** | **-372 016** |
| | | | | |
| Opening balance, 1 January 2019 | -264 274 | -42 205 | -65 537 | -372 016 |
| Amortisation for the year | -111 783 | -140 | -775 | -112 698 |
| Sales and disposals | - | - | 2 372 | 2 372 |
| Other changes | - | - | 19 055 | 19 055 |
| Translation difference | - | 1 780 | 4 155 | 5 935 |
| **Closing balance, 31 December 2019** | **-376 057** | **-40 565** | **-40 729** | **-457 350** |
| | | | | |
| **Carrying amount** | | | | |
| As of 1 January 2018 | 376 631 | 778 | 1 337 | 378 746 |
| **As of 31 December 2018** | **350 074** | **663** | **1 401** | **352 138** |
| | | | | |
| As of 1 January 2019 | 350 074 | 663 | 1 401 | 352 138 |
| **As of 31 December 2019** | **491 421** | **499** | **1 962** | **493 883** |

# 22 Tangible assets

| SEK 000 | Equipment | Leased assets | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| Opening balance, 1 January 2018 | 162 362 | 16 757 934 | 16 920 296 |
| Acquisitions | 3 210 | - | 4 582 286 |
| Sales and disposals | -23 469 | -3 639 351 | -3 662 820 |
| Translation difference | 5 543 | 286 791 | 292 334 |
| **Closing balance, 31 December 2018** | **147 646** | **17 984 450** | **18 132 096** |
| | | | |
| Opening balance, 1 January 2019 | 147 646 | 17 984 449 | 18 132 095 |
| Acquisition | 1 539 | 4 244 780 | 4 246 319 |
| Sales and disposals | -13 794 | -3 994 167 | -4 007 962 |
| Other changes | -304 | - | -304 |
| Translation difference | -5 068 | -537 859 | -542 927 |
| **Closing balance, 31 December 2019** | **130 019** | **17 697 203** | **17 827 222** |
| | | | |
| **Depreciation** | | | |
| Opening balance, 1 January 2018 | -144 066 | -6 660 909 | -6 804 975 |
| Depreciation for the year | -7 478 | -3 521 925 | -3 529 403 |
| Sales and disposals | 23 312 | 2 753 548 | 2 776 860 |
| Translation difference | -5 179 | -102 968 | -108 147 |
| **Closing balance, 31 December 2018** | **-133 411** | **-7 532 254** | **-7 665 665** |
| | | | |
| Opening balance, 1 January 2019 | -133 411 | -7 532 254 | -7 665 665 |
| Depreciation for the year | -5 815 | -3 418 874 | -3 424 688 |
| Sales and disposals | 13 735 | 2 947 103 | 2 960 838 |
| Translation difference | 4 905 | 302 049 | 306 954 |
| **Closing balance, 31 December 2019** | **-120 281** | **-7 701 976** | **-7 822 257** |
| | | | |
| **Impairments** | | | |
| Opening balance, 1 January 2018 | - | -198 904 | -198 904 |
| Impairments for the year | - | -77 984 | -77 984 |
| Translation difference | - | -3 830 | -3 830 |
| **Closing balance, 31 December 2018** | **-** | **-183 936** | **-183 936** |
| | | | |
| Opening balance, 1 January 2019 | - | -183 937 | -183 937 |
| Impairments for the year | - | -159 165 | -159 165 |
| Reversals of previous impariment | - | 54 757 | 54 757 |
| Translation difference | - | 6 921 | 6 921 |
| **Closing balance, 31 December 2019** | **-** | **-281 424** | **-281 424** |
| | | | |
| **Carrying amount** | | | |
| As of 1 January 2018 | 18 296 | 9 898 120 | 9 916 416 |
| **As of 31 December 2018** | **14 235** | **10 268 260** | **10 282 495** |
| | | | |
| As of 1 January 2019 | 14 235 | 10 268 258 | 10 282 493 |
| **As of 31 December 2019** | **9 738** | **9 713 803** | **9 723 541** |

## Change in impairment for financial leases recognised as operating

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Opening balance** | **183 936** | **198 905** |
| Impairment of loan losses for the year | 159 165 | 77 984 |
| Transitional effect IFRS 9 | - | - |
| Reversal of previous impairment of loan losses recognised in the annual accounts | -54 757 | -96 782 |
| Translation difference | -6 921 | 3 830 |
| **Closing balance** | **281 424** | **183 936** |

The table below shows changes in gross carrying amount and credit impairment provisions during 2020. The carrying amounts have decreased with 6 percent from SEK 10,726 m to SEK 10,065 m. The line item New leasing objects shows new assets originated during the year and changes in stage allocations are shown under Transfers during the period. The same line includes increases of existing loans or increase of utilised credits available at the start of 2020. New financial assets originated in stage 2 and 3 shows increases in the credit exposure on existing loans that were classified as stage 2 or 3 at the start of the year and returned to stage 1 during the year. Changes are therefore recognised under transfers during the period. Similarly, discontinued loans and amortisations are shown under Financial assets derecognised. The lower part of the table includes credit impairment provisions. Changes in the Bank's risk models and changes in the macroeconomic scenarios are shown separately. Changes in risk parameters that do not affect the stage classification are shown under Revaluation due to changes in credit risk. Total loan loss provisions are shown in Note 3, table Credit risk exposure gross and net, divided into credit ratings for financial assets and off-balance sheet items.

## Changes in credit impairment provisions for leasing objects (financial leasing)

| | Not credit impaired | | Credit impaired | |
|---|---|---|---|---|
| **2020** | | | | |
| SEK 000 | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount** | | | | |
| **Gross carrying amount per 1 January 2020** | **7 487 234** | **3 107 672** | **337 207** | **10 932 113** |
| New leasing objects | 3 594 532 | 4 764 | 2 500 | 3 601 798 |
| Derecognised leasing objects | -2 667 113 | -1 034 919 | -156 510 | -3 858 542 |
| Transfers during the period: | -2 791 831 | 2 652 073 | 139 757 | - |
| *from stage 1 to stage 2* | *-3 118 543* | *3 118 543* | - | - |
| *from stage 1 to stage 3* | *-88 213* | - | *88 213* | - |
| *from stage 2 to stage 1* | *407 912* | *-407 912* | - | - |
| *from stage 2 to stage 3* | - | *-111 044* | *111 044* | - |
| *from stage 3 to stage 1* | *7 014* | - | *-7 014* | - |
| *from stage 3 to stage 2* | - | *52 486* | *-52 486* | - |
| Change in exchange rates and other | -228 304 | -59 432 | -9 452 | -297 188 |
| **Gross carrying amount per 31 December 2020** | **5 394 519** | **4 670 159** | **313 503** | **10 378 181** |
| Credit impairment provisions | | | | |
| **Credit impairment provisions per 1 January 2020** | **-11 307** | **-49 132** | **-146 087** | **-206 525** |
| New leasing objects | -88 382 | -63 | -1 089 | -89 534 |
| Derecognised leasing objects | 3 698 | 16 229 | 74 867 | 94 793 |
| Changes in risk variables (EAD, PD, LGD) | 7 418 | 16 608 | 2 685 | 26 711 |
| Changes in macroeconomic scenarios | -11 799 | -9 118 | -575 | -21 493 |
| Changes due to expert credit judgement (individual assessments and manual adjustments) | -7 885 | -14 157 | 7 011 | -15 029 |
| Transfers during the period: | 102 459 | -85 487 | -73 028 | -56 056 |
| *from stage 1 to stage 2* | *84 519* | *-109 530* | - | *-25 011* |
| *from stage 1 to stage 3* | *18 514* | - | *-30 450* | *-11 936* |
| *from stage 2 to stage 1* | *-541* | *4 321* | - | *3 780* |
| *from stage 2 to stage 3* | - | *21 623* | *-49 625* | *-28 002* |
| *from stage 3 to stage 1* | *-33* | - | *909* | *875* |
| *from stage 3 to stage 2* | - | *-1 901* | *6 139* | *4 238* |
| Reevaluation due to change in credit risk | *-4 466* | *-24 996* | *-23 181* | *-52 642* |
| Change in exchange rates and other | 500 | 1 361 | 4 279 | - |
| **Credit impairment provisions per 31 December 2020** | **-9 765** | **-148 755** | **-155 117** | **-313 636** |
| **Net closing balance per 31 December 2020** | **5 384 754** | **4 521 405** | **158 386** | **10 064 545** |

Of the total carrying value of leasing objects, SEK 27 m (35) are repossessed leasing objects, of which SEK 21 m (18) have been reserved for credit impairments. Residual value amounts guaranteed by suppliers totalled SEK 151 m (377).

# 23 Loan commitments and undrawn limits

The table below shows changes in gross carrying amount and credit impairment provisions for loan commitments and undrawn limits during 2020. The carrying amounts have decreased with SEK 9,151 m to SEK 26,387 m (35,539). during the year The line item New loan commitments and undrawn limits shows new assets originated during the year and changes in stage allocations are shown under Transfers during the period. The same line includes increases of existing loan commitments or increase of credits limits available at the start of 2020. New financial assets originated in stage 2 and 3 shows increases in the credit exposure on existing loans that were classified as stage 2 or 3 at the start of the year and returned to stage 1 during the year. Changes are therefore recognised under Transfers during the period. Similarly, discontinued loans and decreased loan commitments are shown under Financial assets derecognised. The lower part of the table includes credit impairment provisions. Changes in the Bank's risk models and changes in the macroeconomic scenarios are shown separately. Changes in risk parameters that do not affect the stage classification are shown under Revaluation due to changes in credit risk. Note 3, table Credit risk exposure gross and net, divided into credit ratings for financial assets and off-balance sheet items.

## Changes in credit impairment provisions for loan commitments and undrawn limits

| | Not credit impaired | | Credit impaired | |
|---|---|---|---|---|
| 2020<br>SEK 000 | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount** | | | | |
| **Gross carrying amount per 1 January 2020** | **34 643 940** | **920 430** | **-** | **35 564 370** |
| New loan commitments and undrawn limits | 7 404 681 | 365 675 | 60 081 | 7 830 438 |
| Derecognised loan commitments and undrawn limits | -15 248 381 | -227 455 | - | -15 475 836 |
| Transfers during the period: | 198 068 | -137 987 | -60 081 | - |
| *from stage 1 to stage 2* | *-493 310* | *493 310* | - | - |
| *from stage 1 to stage 3* | - | - | - | - |
| *from stage 2 to stage 1* | *674 697* | *-674 697* | - | - |
| *from stage 2 to stage 3* | - | - | - | - |
| *from stage 3 to stage 1* | *16 681* | - | *-16 681* | - |
| *from stage 3 to stage 2* | - | *43 400* | *-43 400* | - |
| Change in exchange rates and other | -1 462 078 | -43 555 | - | - |
| **Gross carrying amount per 31 December 2020** | **25 536 230** | **877 108** | **0** | **26 413 339** |
| **Credit impairment provisions per 1 January 2020** | **-13 017** | **-12 850** | **-** | **-25 867** |
| New loan commitments and undrawn limits | -9 562 | -4 641 | -64 | -14 267 |
| Derecognised loan commitments and undrawn limits | 6 308 | 3 683 | - | 9 991 |
| Changes in risk variables (EAD, PD, LGD) | 354 | 704 | - | 1 058 |
| Changes in macroeconomic scenarios | -1 725 | -135 | -10 | -1 870 |
| Changes due to expert credit judgement (individual assessments and manual adjustments) | 13 | - 1 | - 0 | 11 |
| Transfers during the period: | 997 | 1 636 | 74 | 2 707 |
| *from stage 1 to stage 2* | *1 406* | *-6 034* | - | *-4 628* |
| *from stage 1 to stage 3* | *-2* | - | - | *-2* |
| *from stage 2 to stage 1* | *-405* | *7 782* | - | *7 377* |
| *from stage 2 to stage 3* | - | *-50* | - | *-50* |
| *from stage 3 to stage 1* | *-2* | - | *2* | *0* |
| *from stage 3 to stage 2* | - | *-62* | *72* | *10* |
| Reevaluation due to change in credit risk | 1 566 | -701 | - | 865 |
| Change in exchange rates and other | 595 | 631 | - | -1 092 |
| **Credit impairment provisions per 31 December 2020** | **-14 472** | **-11 675** | **-** | **-26 146** |
| **Net closing balance per 31 December 2020** | **25 521 759** | **865 433** | **0** | **26 387 192** |

# 24 Leasing

### Ikano Bank as lessor

The Bank owns assets leased to customers through financial leases, which, in accordance with the rules in RFR 2, are reported as operating leases. These assets are, therefore, reported in the balance sheet as tangible assets with depreciation reported within Depreciation/amortisation and impairments of tangible and intangible assets in the income statement. The leased assets consist primarily of office equipment, vehicles and manufacturing equipment. For contracts that cannot be cancelled, future minimum lease payments are allocated in accordance with the table below.

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Irrevocable lease payments amount to: | | |
| Within 1 year | 3 524 632 | 3 287 552 |
| 1-5 years | 6 929 963 | 6 974 166 |
| More than 5 years | 276 345 | 292 317 |
| **Total** | **10 730 940** | **10 554 036** |

### Ikano Bank as lessee

Operating leases refer to the Bank's normal activities. The term of the contract generally extends over three years. On expiry of the lease term, the Bank will redeem the contract at its guaranteed residual value. Lease payments entered as expenses in 2020 totalled SEK 3.4 m (3.7). For contracts that cannot be cancelled, future minimum lease payments are allocated in accordance with the table below.

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Irrevocable lease payments amount to: | | |
| Within 1 year | 60 432 | 5 543 |
| 1-5 years | 63 615 | 4 610 |
| More than 5 years | - | 939 |
| **Total** | **124 048** | **11 093** |

# 25 Other assets

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Positive value of derivative instruments | 114 833 | 28 929 |
| Accounts receivable | 350 743 | 457 327 |
| Tax receivables | 408 289 | 583 067 |
| Account receivable, Group companies | 92 | 118 |
| VAT receivable | 4 304 | 9 944 |
| Other assets | 84 004 | 55 459 |
| **Total** | **976 555** | **1 160 042** |

Accounts receivable leasing shows the gross value because credit loss provisions for leasing receivables are reported as part of the leasing provisions. For other assets, no significant credit loss provisions are deemed to exist

# 26 Prepaid expenses and accrued income

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Accrued fees and commissions | 71 807 | 78 450 |
| Accrued interest income | 27 800 | 27 207 |
| Other prepaid expenses and accrued income | 180 276 | 174 011 |
| **Total** | **279 883** | **279 668** |

Credit impairment provisions on accrued interest income are immaterial and not shown separately above.

# 27 Liabilities to credit institutions

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Swedish banks** | | |
| - Swedish currency | 32 058 | 35 536 |
| - Foreign currency | 369 197 | 893 579 |
| **Total Swedish banks** | **401 255** | **929 114** |
| | | |
| **Foreign banks** | | |
| - Swedish currency | 128 849 | 14 335 |
| - Foreign currency | 955 539 | 1 066 382 |
| **Total foreign banks** | **1 084 388** | **1 080 717** |
| **Total** | **1 485 643** | **2 009 831** |

# 28 Deposits from the public

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Public** | | |
| - Swedish currency | 13 042 852 | 12 203 869 |
| - Foreign currency | 13 180 440 | 13 753 910 |
| **Total** | **26 223 293** | **25 957 779** |
| | | |
| **Deposits specified by category of borrower** | | |
| Corporate sector | 1 594 405 | 1 459 887 |
| Household sector | 24 628 888 | 24 497 892 |
| **Total** | **26 223 293** | **25 957 779** |

# 29 Issued securities

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Certificates of deposits | 1 129 206 | 2 187 705 |
| Bonds | 5 254 435 | 6 407 344 |
| **Total** | **6 383 642** | **8 595 049** |

# 30 Other liabilities

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Negative value of derivative instruments | 15 826 | 56 751 |
| Accounts payable | 216 505 | 296 820 |
| Preliminary tax, interests | 18 388 | 10 835 |
| Settlement and clearing items | 386 340 | 515 128 |
| Group liabilities | 5 821 | 4 246 |
| Tax liabilities | 103 022 | 90 530 |
| Other liabilities | 47 539 | 29 096 |
| **Total** | **793 442** | **1 003 407** |

# 31 Accrued expenses and prepaid income

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Accrued interest expenses | 81 457 | 99 834 |
| Accrued personnel costs | 99 634 | 91 351 |
| Prepaid lease payments | 385 166 | 414 208 |
| Prepaid income from partners | 370 079 | 412 957 |
| Accrued audit costs | 15 871 | 7 344 |
| Prepaid income related to leasing insurance | 24 868 | 27 504 |
| Other prepaid income | 45 124 | 46 028 |
| Other accrued expenses | 150 499 | 223 334 |
| **Total** | **1 172 699** | **1 322 560** |

# 32 Provisions for pensions

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Provision for pensions | 36 957 | 35 886 |
| **Total** | **36 957** | **35 886** |
| | | |
| **Change in net debt** | | |
| Net debt regarding pension obligations at the beginning of the year | 35 886 | 34 663 |
| | | |
| + Personal pension expenses, excluding interest expense, reported in income statement | - | - |
| + Interest expenses | 1 928 | 2 056 |
| - Pension payments | -857 | -833 |
| **= Net debt at year-end** | **36 957** | **35 886** |
| | | |
| Of which credit insured by FPG/PRI | 36 957 | 35 886 |
| | | |
| **Pension costs** | | |
| **Personal pension plan** | | |
| Cost of earning pensions etc. | - | - |
| + Interest expense (calculated discounting effect) | 1 927 | 2 055 |
| **= Pension expenses for personal pension plan exluding taxes** | **1 927** | **2 055** |
| | | |
| **Pensions through insurance** | | |
| + Insurance premiums or equivalent | 55 774 | 55 839 |
| **= Total pension costs excluding taxes** | **57 702** | **57 894** |

Next year's expected payment in regard to defined benefit pension plans amounts to SEK 739 k. The entire provision reported in the balance sheet is covered by the Pension Obligations Vesting Act.

# 33 Subordinated liabilities

| SEK 000 | Currency | Issue date | Nom | Coupon interest | Interest rate | 2020 Maturity date | Reported value |
|---|---|---|---|---|---|---|---|
| Subordinated loan 1 | GBP | 2015-05-28 | 7 000 | Ibor 6 mth +2.8% per year | 3.66% | 2025-05-28 | 78 526 |
| Subordinated loan 2 | NOK | 2015-05-28 | 35 000 | Ibor 6 mth +2.55% per year | 4.55% | 2025-05-28 | 33 498 |
| Subordinated loan 3 | DKK | 2015-05-28 | 90 000 | Ibor 6 mth +2.45% per year | 2.45% | 2025-05-28 | 121 504 |
| Subordinated loan 4 | EUR | 2015-08-01 | 39 500 | Ibor 3 mth +2.5% per year | 2.50% | 2025-05-28 | 396 830 |
| Subordinated loan 5 | SEK | 2015-05-28 | 200 000 | Ibor 6 mth +2.7% per year | 2.77% | 2025-05-28 | 200 000 |
| **Total** | | | | | | | **830 357** |
| *Of which: Group companies* | | | | | | | *830 357* |

| SEK 000 | Currency | Issue date | Nom | Coupon interest | Interest rate | 2019 Maturity date | Reported value |
|---|---|---|---|---|---|---|---|
| Subordinated loan 1 | GBP | 2015-05-28 | 7 000 | Ibor 6 mth +2.8% per year | 3.66% | 2025-05-28 | 86 799 |
| Subordinated loan 2 | NOK | 2015-05-28 | 35 000 | Ibor 6 mth +2.55% per year | 4.55% | 2025-05-28 | 37 266 |
| Subordinated loan 3 | DKK | 2015-05-28 | 90 000 | Ibor 6 mth +2.45% per year | 2.45% | 2025-05-28 | 126 442 |
| Subordinated loan 4 | EUR | 2015-08-01 | 39 500 | Ibor 3 mth +2.5% per year | 2.50% | 2025-05-28 | 414 680 |
| Subordinated loan 5 | SEK | 2015-05-28 | 200 000 | Ibor 6 mth +2.7% per year | 2.77% | 2025-05-28 | 200 000 |
| **Total** | | | | | | | **865 187** |
| *Of which: Group companies* | | | | | | | *865 187* |

The subordinated debt is subordinate to the Bank's other liabilities, which implies a right to payment only after the other creditors have received payment.

The year's interest expense on subordinated liabilities amounted to SEK 22,918 k (24,249).

# 34 Untaxed reserves

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Equipment, accumulated depreciation in excess of plan** | | |
| Opening balance, 1 January | 96 957 | 378 157 |
| Reversal of depreciation in excess of plan during the year | 0 | -281 200 |
| **Closing balance, 31 December** | **96 957** | **96 957** |

Capacity for excess depreciation on leased assets held on behalf of clients exists.

# 35 Equity

The number of shares totals 10 004, with a quota value of SEK 7 896. Quota value refers to share capital divided by the number of shares.

## Statutory reserve

The statutory reserve consists of restricted equity.

## Fund for development costs

Fund for development costs is restricted equity which regards the costs for own development classified as intangible assets.

## Fund for fair value

The fund for fair value comprises the fair value reserve, the cash flow hedge reserve and the translation reserve. The fair value reserve includes the accumulated, unrealised net change in the fair value of financial assets valued at fair value through other comprehensive income until the asset is removed from the balance sheet. Changes in value due to impairment losses are, however, reported in the income statement. The hedging reserve includes the effective portion of the cumulative net change in fair value of cash flow hedging instrument attributable to hedging transactions that have not yet occurred. The translation reserve comprises translation differences arising when consolidating the Bank's foreign branches.

## Profit or loss brought forward

Profit or loss brought forward consists of the previous year's retained earnings after the distribution of dividends for the year. Together with the profit and loss for the year and the fund for fair value, this item comprises the total unrestricted equity, meaning the amount available for distribution to the shareholders.

## Changes in equity

For a specification of changes in equity during the year see the Statement of changes in equity.

## Proposal appropriation of profits

The following amount is available for distribution by the Annual General Meeting (SEK):

| | |
|---|---|
| Fund for fair value | 312,305,581 |
| Retained earnings | 4,961,236,787 |
| Net result for the year | -167,104,724 |
| Total | 5,106,437,644 |

The Board of Directors proposes that the profits be appropriated as follows (SEK):

| | |
|---|---|
| To be carried forward | 5,106,437,644 |

## Change in the Fund for fair value

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Fair value reserve** | | |
| Opening balance, 1 January | 2 959 | 8 492 |
| Unrealised changes in fair value reported in other comprehensive income for the year | 3 839 | -7 215 |
| Tax attributable to unrealised changes in fair value of financial assets during the year | -204 | 1 682 |
| **Closing balance, 31 December** | **6 593** | **2 959** |
| **Hedging reserve** | | |
| Opening balance, 1 January | 14 938 | 12 622 |
| The year's change in fair value of cash flow hedges | -9 323 | 2 917 |
| Tax attributable to the year's change in fair value of cash flow hedges | 1 688 | -601 |
| **Closing balance, 31 December** | **7 303** | **14 938** |
| **Translation reserve** | | |
| Opening balance, 1 January | 221 214 | 182 991 |
| Translation differences, branches | -13 754 | 99 452 |
| Tax related to translation differences | 90 949 | -61 229 |
| **Closing balance, 31 December** | **298 409** | **221 214** |
| **Closing balance, Fund for fair value** | **312 306** | **239 111** |

# 36 Contingent liabilities

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Contingent liabilities** | | |
| PRI | 739 | 718 |
| **Total** | **739** | **718** |
| | | |
| **Commitments** | | |
| Loan commitments, irrevocable | 2 566 806 | 2 671 685 |
| Unused credit limits | 23 846 533 | 32 408 160 |
| **Total** | **26 413 339** | **35 079 845** |

Commitments made up of granted unused credit can be terminated effective immediately to the extent this is permitted under the Consumer Credit Act. The bank is subject to claims and in some cases has claims, in a number of civil cases that are conducted in a general court. The assessment is that the disputes will essentially be in the bank's favour. Provisions are made when an outflow of resources is likely. The dispute amounts are not considered to have a significant impact on the bank's position or results

# 37 Financial assets and liabilities

The following summarizes information about carrying and fair values per category of financial instruments. Note 2 contains descriptions of how fair value is determined for financial assets and liabilities measured at fair value in the balance sheet.

The following section describes how fair value is determined on such instruments for which value has not been measured at fair value in the balance sheet.

### Lending

Variable rate lending is measured at the acquisition cost. When the credit spread remains unchanged, the acquisition cost is considered to reflect fair value.

### Deposits

Fair value on deposits is calculated on the basis of current market interest rates where the original credit spread has remained constant if there is no clear proof that a change in the Bank's creditworthiness has led to an observable change in the Bank's credit spread. For deposits at variable rates of interest, the reported value is considered to reflect the fair value.

### Other interest-bearing financial assets and liabilities

For financial assets and liabilities in the balance sheet with a remaining maturity of less than six months, the reported value is considered to reflect the fair value.

For financial assets and liabilities for which a rate is available from an active market, this rate is used for valuation. In the event that no rate is available, generally accepted valuation models are used instead. Controls of these models are performed on a continuous basis and comprise three steps. The values included in the model are compared with market data from other sources and the valuations are also compared with counterparty valuations. Finally, controls are also performed on the model's ability to generate a correct fair value.

### Financial assets and liabilities

| 2020<br>SEK m | Financial assets at fair value through profit or loss | Financial assets at Amortised cost | Financial assets at fair value through other comprehensive income | Financial liabilities at fair value through profit or loss | Financial liabilities at amortised cost | Derivatives used in hedge accounting | **Total carrying amount** | **Fair value** |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash | - | 0 | - | - | - | - | 0 | 0 |
| Treasury bills | - | - | 1 796 | - | - | - | 1 796 | 1 796 |
| Loans to credit institutions | - | 1 932 | - | - | - | - | 1 932 | 1 932 |
| Loans to the public | - | 25 031 | - | - | - | - | 25 031 | 25 045 |
| Bonds and other interest-bearing securities | - | - | 2 605 | - | - | - | 2 605 | 2 605 |
| Shares and participations | 44 | - | - | - | - | - | 44 | 44 |
| Derivatives | 115 | - | - | - | - | 0 | 115 | 115 |
| Accrued income | - | 100 | - | - | - | - | 100 | 100 |
| Other financial assets | - | 453 | - | - | - | - | 453 | 453 |
| **Total** | **158** | **27 537** | **4 401** | **-** | **-** | **0** | **32 097** | **32 112** |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Liabilities to credit institutions | - | - | - | - | 1 486 | - | 1 486 | 1 486 |
| Deposit from the public | - | - | - | - | 26 223 | - | 26 223 | 26 282 |
| Change in fair value on interest-rate hedged items in the portfolio | - | - | - | - | - | - | - | - |
| Issued securities | - | - | - | - | 6 384 | - | 6 384 | 6 383 |
| Derivatives | - | - | - | 2 | - | 14 | 16 | 16 |
| Other liabilities | - | - | - | - | 675 | - | 675 | 675 |
| Accrued expenses | - | - | - | - | 1 173 | - | 1 173 | 1 173 |
| Subordinated liabilities | - | - | - | - | 830 | - | 830 | 830 |
| **Total** | **-** | **-** | **-** | **2** | **36 770** | **14** | **36 786** | **36 844** |

| **2019**<br>SEK m | Financial assets at fair value through profit or loss | Loans and receivables | Financial assets available-for-sale | Financial liabilities at fair value through profit or loss | Other financial liabilities | Derivatives used in hedge accounting | **Total carrying amount** | **Fair value** |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash | - | 34 | - | - | - | - | 34 | 34 |
| Treasury bills | - | - | 1 673 | - | - | - | 1 673 | 1 673 |
| Loans to credit institutions | - | 1 909 | - | - | - | - | 1 909 | 1 909 |
| Loans to the public | - | 27 661 | - | - | - | - | 27 661 | 27 661 |
| Bonds and other interest-bearing securities | - | - | 2 447 | - | - | - | 2 447 | 2 447 |
| Shares and participations | 43 | - | 0 | - | - | - | 43 | 43 |
| Derivatives | 22 | - | - | - | - | 7 | 29 | 29 |
| Accrued income | - | 106 | - | - | - | - | 106 | 106 |
| Other financial assets | - | 548 | - | - | - | - | 548 | 548 |
| **Total** | **64** | **30 271** | **4 120** | **-** | **-** | **7** | **34 462** | **34 461** |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Liabilities to credit institutions | - | - | - | - | 2 010 | - | 2 010 | 2 010 |
| Deposits from the public | - | - | - | - | 25 958 | - | 25 958 | 25 958 |
| Change in fair value on interest-rate hedged items in the portfolio | - | - | - | - | - | - | - | - |
| Issued securities | - | - | - | - | 8 595 | - | 8 595 | 8 595 |
| Derivatives | - | - | - | 46 | 0 | 11 | 57 | 57 |
| Other liabilities | - | - | - | - | 856 | - | 856 | 856 |
| Accrued expenses | - | - | - | - | 1 323 | - | 1 323 | 1 323 |
| Subordinated liabilities | - | - | - | - | 865 | - | 865 | 865 |
| **Total** | **-** | **-** | **-** | **46** | **39 607** | **11** | **39 664** | **39 663** |

The following tables provide information on the measurement of fair value of financial instruments that are measured at fair value in the balance sheet (excluding the items included in hedge accounting). The breakdown of how fair value is determined is based on the following three levels:

- Level 1: according to prices listed on an active market for the same instrument
- Level 2: based on directly or indirectly observable market data that is not included in level 1
- Level 3: based on input that is not observable in the market

Financial assets and liabilities that are reported at fair value in the balance sheet

| **2020**<br>SEK 000 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives | - | 114 833 | - | **114 833** |
| Shares and participations in other companies | 42 097 | - | 1 535 | **43 632** |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Bonds and other interest-bearing securities | 1 900 334 | 704 901 | - | **2 605 234** |
| Treasury bills | 1 362 832 | 433 290 | - | **1 796 121** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives | - | 15 826 | - | **15 826** |

| **2019**<br>SEK 000 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivatives | - | 28 929 | - | **28 929** |
| Shares and participations in other companies | 41 629 | - | 1 535 | **43 164** |
| **Financial assets available-for-sale** | | | | |
| Bonds and other interest-bearing securities | 1 646 637 | 799 973 | - | **2 446 610** |
| Treasury bills | 1 502 652 | 169 961 | - | **1 672 613** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivatives | - | 56 751 | - | **56 751** |

The input data used in valuation techniques are based, to the extent possible, on market information.

The fair value of derivative instruments is calculated using established valuation techniques and observable market interest rates. The Bank's valuation of derivatives at fair value is solely based on input data that is directly or indirectly observable in the market. Fair value of financial instruments that are not derivative instruments is based on future cash flows and current market rates on the balance sheet date. The discount rate used is the market-based interest rate for similar instruments on the balance sheet date.

No changes between the levels have occurred during the year.

# 38 Capital analysis

The below information is provided regarding own funds and own funds requirements in accordance with regulation (EU) No 575/2013 and SFSA regulations regarding prudential requirements and capital buffers (FFFS 2014:12).

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 risk, credit valuation adjustment risk (CVA risk), operational risk and foreign exchange risk. 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.

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.

To ensure that Ikano Bank's capital situation is satisfactory to cover the risks that the Bank is or may be exposed to, an internal capital and liquidity adequacy assessment (ICAAP/ILAAP) is conducted at least annually. The ICAAP/ILAAP is the Board's tool for assessing the need for changes in the own fund’s requirement. In the assessment process, stress tests and scenario analyses are carried out to assess potential additional own funds requirements, including strategic decisions or external events that affect the business and its development. As a part of this process, a risk analysis is performed to ensure underlying risks are adequately addressed and mirror the Bank’s actual risk profile and capital requirements.

The risk control function is responsible for monitoring the process of the Bank's capital adequacy assessment. The capital requirements resulting from the ICAAP are regularly reported to the SFSA.

As of 31 December 2020, the Bank had own funds of SEK 5.577 m (6.703) of which SEK 5,577 m (5.838) are common equity Tier 1. The statutory own funds requirement for Pillar 1-risk amounted to SEK 2,542 m (3,036). After a statutory minimum for common equity Tier 1 capital has been allocated to cover requirement calculated in accordance with Pillar 1, a further SEK 3,035 m (3,561) remain available. The internal own funds requirement in addition to Pillar 1 requirements totalled SEK 585 m (840) and is covered by available 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 794 m (949) and is covered 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 Bank are located. The institution-specific countercyclical buffer amounts to 0.07 percent or SEK 22 m(578) after weighting the applicable geographic requirements, which for the Bank now mainly means Norway. As a response to the Covid-19 pandemic authorities in all the Bank’s operating markets have lowered the countercyclical buffer requirements during the spring 2020. . Ikano Bank’s combined buffer requirement is SEK 817 m (1,527).

The total capital ratio was 17.6 percent (17.7) with a common equity tier 1 capital ratio of 17.6 percent (15.4). The capital relation is positively affected by an exchange of own funds from EUR, DKK and NOK to SEK, which reduces the foreign exchange risk. Also credit risk exposure is reduced, partly due to a decrease in loan book and partly due to increased provisions.

The new accounting standards IFRS 9 Financial Instruments has been applied since 1 January 2018. Ikano Bank applies the transitional rules introduced with article 473a capital requirements regulation (EU No 575/2013) regarding the Day one effect. The table on page 59 provides 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. The table is presented in accordance with EBA guidelines 2018/01 for standardised disclosure requirements for transitional arrangements according to IFRS 9.

### Own funds

The Bank's own funds totalled SEK 5,577 and consists only of Tier 1 capital. Of the Bank's Tier 1 capital, all components have characteristics to be qualified as core Tier 1 capital. The different components of the core Tier 1 capital are share capital, statutory reserves, fund for development expenses, fund for fair value (excluding the cash flow reserve), retained earnings, untaxed reserves (78.6 percent thereof) and the year's audited result. Share capital consists of 10 004 shares with a quota value of SEK 7 896. The reserve fund is counted as part of the restricted capital that cannot be distributed to shareholders. The fund for fair value consists of a translation reserve that arises upon consolidation of the Bank's foreign branches and the fair value reserve arising from unrealised fair value adjustments on the Bank's financial assets valued at fair value through other comprehensive income. Retained profit and loss consists of the Bank's accumulated earnings and a capital contribution by the shareholders. The Bank's untaxed reserves consist of accelerated depreciation on tangible assets, 79.4 percent of these are included in Tier 1 capital.

Deductions from the core Tier 1 capital were made for intangible assets. The Bank's intangible assets consist of capitalised expenditures for internally generated and acquired software and IT systems. Cumulative value of the effective portion of cash flow hedging instruments that are recognized in fund for fair value amounting to SEK 7 m (15) is not included in the Bank's own funds, recognised as a deduction from common equity Tier 1. Also an Additional Value Adjustment has been deducted from common equity Tier 1 in line with EBA's technical standard for prudent valuation. Aim of the deduction is adjust for uncertainty of positions measured and recognised at fair value.

At 31 December 2020, the Bank has no deferred tax assets that rely on future profitability and that under certain circumstances should have been deducted from Own funds.

### Conditions for instruments in Tier 1 capital

Conditions for share capital and capital contribution (part of retained earnings) included in Tier 1 capital in accordance with article 26.3 of the Capital Requirements Regulation shall be published pursuant to article 3 of the Implementation regulation 1423/2013. Both instruments are governed by Swedish law and are part of the Tier I capital, both in accordance with the transitional provisions and after the transition period. The original issue date of the share capital is 2 November 1994 and is reported at a value of SEK 79 m (nominal value SEK 79 m). The original issue dates of the capital contributions are 1 May 2013, reported at a value of SEK 242 m (nominal value GBP 24 m) and 13 December 2016, reported at a value of SEK 500 m (nominal value SEK 500 m). All instruments have no maturity date.

### Conditions for Tier 2 capital

As of January 20, 2021, the Bank has redeemed all subordinated loans and these have therefore not been included in the capital base as of December 31, 2020. All subordinated loands had a remaining maturity of less than five years, which meant that they could not be fully included in the capital base.

Tier 2 capital consists of dated subordinated loans that are subordinate to the Bank's other liabilities, which means that they carry the right for payment only after other creditors have been repaid in the event that the Bank is no longer able to fulfil its commitments.

All subordinated loans are issued by Ikano Bank AB (publ). The subordinated loans are securities classified as Tier 2 capital in accordance with the Supervisory regulation article 26.3. For all subordinated loans the issue price constitutes 100 percent of the nominal amount and the redemption amount also totals 100 percent. The subordinated loans are measured at the acquisition value in the accounts.

Redemption of subordinated loans requires prior authorisation by the supervisory authority. In the loan terms, there is not a possibility for a step-up or other incentive for redemption. The subordinated loans are non-cumulative, which means that there are restrictions for the investor regarding the possibility to receive accrued interest in the event that the Bank fails to meet its obligations. The subordinated loans are non-convertible, i.e. not possible to convert into shares.

For other conditions that are specific to each subordinated loan and shall be published pursuant to article 3 of the Implementation regulation 1423/2013, see note 33.

### Risk exposure amounts and own funds requirements

In calculating the risk exposure amounts for credit risk in accordance with pillar 1, the Bank uses the standardised approach, which includes seventeen exposure classes with defined, weighted risks. The risk exposure amount for credit risk is SEK 26,587 m (29,615), which results in an own funds requirement of SEK 2,127 m (2,369).

The Bank uses Standard and Poor's rating for the calculation of the own funds requirement for Bonds and other interest-bearing securities, distributed across respective exposure classes according to regulations.

The risk exposure amount for operational risks is calculated in accordance with the basic indicator approach, which means that the risk-exposure amount constitutes 15 percent of the average operating income for the three previous financial years. The Bank's risk exposure amount for operational risk is SEK 5,117 m (5,072), resulting in an own funds requirement of SEK 409 m (406).

The risk exposure amount for foreign exchange risk covers on and off balance sheet items measured at the current market value and converted to Swedish kronor in accordance with the closing rate. Own funds requirements of eight percent are applied to the total net position in foreign currency subject to capital requirements for foreign exchange risk. The Bank's risk exposure amount for foreign exchange risk is SEK 54 m (3,249), with an own fund's requirement of SEK 4 m (260). The reduction of foreign exchange risk is explained by an exchange of own funds from EUR, DKK and NOK to SEK.

The Bank's risk exposure amount for CVA risk is SEK 19 m (13), giving an own funds requirement of SEK 2 m (1).

## Summary of own funds, risk exposure amount and own funds requirements

| SEK 000 | 2020 | 2019 |
|---|---|---|
| Tier 1 capital | 5 577 416 | 5 838 310 |
| Tier 2 capital | - | 865 187 |
| **Own funds** | **5 577 416** | **6 703 496** |
| **Total risk exposure amount** | **31 777 238** | **37 949 156** |
| **Total own funds requirements** | **2 542 179** | **3 035 932** |
| | | |
| **Total Capital ratio** | **17.6%** | **17.7%** |
| **Tier 1 Capital ratio** | **17.6%** | **15.4%** |
| **Common equity Tier 1 ratio** | **17.6%** | **15.4%** |
| **Available common equity Tier 1 Capital** | **3 035 237** | **3 561 360** |
| **Available common equity Tier 1 Capital in relation to Total risk exposure amount** | **9.6%** | **9.4%** |
| Capital conservation buffer | 794 431 | 948 729 |
| Counter-cyclical capital buffer | 22 308 | 578 488 |
| Combined buffer requirement | 816 739 | 1 527 217 |

## Specification of own funds

| SEK 000 | 2020 | 2019 |
|---|---|---|
| **Equity reported in the balance sheet** | **5 850 726** | **5 944 637** |
| Share capital | 78 994 | 78 994 |
| Statutory reserve | 193 655 | 193 655 |
| Fund for development expenses | 471 640 | 293 925 |
| Fund for fair value | 312 306 | 239 111 |
| Retained earnings | 4 961 236 | 4 673 550 |
| Net result for the period | -167 105 | 465 401 |
| Untaxed reserves (79.4% of which) | 76 984 | 76 208 |
| **CET1 capital before regulatory adjustments** | **5 927 710** | **6 020 844** |
| | | |
| **CET1 capital: regulatory adjustments** | | |
| Intangible assets | -493 883 | -352 138 |
| Cash flow hedge | -7 303 | -14 938 |
| Value adjustments due to the requirements for prudential valuation | -4 582 | -4 250 |
| Adjustment for IFRS 9 Day 1 effect according to transitional arrangements | 155 474 | 188 790 |
| **Total Common Equity Tier 1 Capital** | **5 577 416** | **5 838 309** |
| **Total Tier 1 Capital** | **5 577 416** | **5 838 309** |
| | | |
| **Tier 2 capital** | | |
| Subordinated liabilities | - | 865 187 |
| **Total Tier 2 Capital** | **-** | **865 187** |
| | | |
| **Total own funds** | **5 577 416** | **6 703 496** |

## Specification of risk exposure amounts and own funds requirements

| SEK 000 | 2020 Risk exposure amount | 2020 Own funds requirements | 2019 Risk exposure amount | 2019 Own funds requirements |
|---|---|---|---|---|
| **Credit risk according to the standardised approach** | | | | |
| Exposures to regional governments or local authorities | 10 975 | 878 | 11 755 | 940 |
| Institutional exposure | 535 028 | 42 802 | 506 566 | 40 525 |
| Corporate exposure | 3 630 378 | 290 430 | 4 220 076 | 337 606 |
| Retail exposure | 21 438 465 | 1 715 077 | 23 453 213 | 1 876 257 |
| Equity exposure | 64 612 | 5 169 | 55 610 | 4 449 |
| Past due items | 425 912 | 34 073 | 856 320 | 68 506 |
| Covered bond exposure | 111 752 | 8 940 | 121 310 | 9 705 |
| Other items | 369 614 | 29 569 | 390 486 | 31 239 |
| **Total credit risk** | **26 586 735** | **2 126 939** | **29 615 335** | **2 369 227** |
| **Operational risk according to the basic indicator approach** | **5 116 603** | **409 328** | **5 071 525** | **405 722** |
| **Foreign exchange risk according to the standardised approach** | **54 613** | **4 369** | **3 248 969** | **259 917** |
| **CVA risk according to the standardised approach** | **19 287** | **1 543** | **13 328** | **1 066** |
| **Total** | **31 777 238** | **2 542 179** | **37 949 156** | **3 035 932** |

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

| SEK m | 2020 | 2019 |
|---|---|---|
| **Available capital** | | |
| Common Equity Tier 1 (CET1) capital | 5 577 | 5 838 |
| Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied | 5 422 | 5 650 |
| Tier 1 capital | 5 577 | 5 838 |
| Tier 1 capital as if IFRS 9 transitional arrangements had not been applied | 5 422 | 5 650 |
| Total capital | 5 577 | 6 703 |
| Total capital as if IFRS 9 transitional arrangements had not been applied | 5 422 | 6 515 |
| **Risk-weighted assets** | | |
| Total risk-weighted assets | 31 777 | 37 949 |
| Inphasing | 69 | 108 |
| Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied | 31 708 | 37 841 |
| **Capital ratios** | | |
| Common Equity Tier 1 (as a percentage of risk exposure amount) | 17.6% | 15.4% |
| Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 17.1% | 14.9% |
| Tier 1 (as a percentage of risk exposure amount) | 17.6% | 15.4% |
| Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 17.1% | 14.9% |
| Total capital (as a percentage of risk exposure amount) | 17.6% | 17.7% |
| Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied | 17.1% | 17.2% |
| **Leverage ratio** | | |
| Leverage ratio total exposure measure | 43 952 | 48 122 |
| Leverage ratio | 12.7% | 12.1% |
| Leverage ratio as if IFRS 9 transitional arrangements had not been applied | 12.4% | 11.8% |

## 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. A legal minimum requirement of 3 percent is implemented when the revised revised Capital Requirements Regulation enters into force in 2021.

The leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. For the Bank, the leverage ratio per 31 December 2020 is 12.7 percent (12.1).

# 39 Transactions with related parties

The Bank has related party relationships with companies within the Group. Consolidated financial statements are prepared by Ikano S.A., Luxembourg.

Transactions with related parties are priced on commercial, market-based terms. No non-performing loans are attributable to the outstanding receivables with related parties.

### Transactions with key personnel in senior positions

Information about salaries and other remuneration, pensions and loans to key personnel in leading positions, see note 11 General administrative expenses.

| SEK 000 | Year | Income | Expenses | Receivables with related parties, 31 December | Liabilities with related parties, 31 December |
|---|---|---|---|---|---|
| Ikano S.A. | **2020** | **-** | **-19 705** | **-** | **2 663** |
| Ikano S.A. | **2019** | - | -26 790 | - | 1 130 |
| | | | | | |
| Other Group companies | **2020** | **1 889** | **-51 784** | **8 010** | **837 533** |
| Other Group companies | **2019** | 254 | -53 327 | 3 137 | 872 469 |

# 40 Events after the balance sheet date

As of January 20, 2021, the Bank has redeemed all subordinated liabilities.

On February 11, 2021, it was announced that Ingka Investments B.V. intends to, through a directed new issue, become an owner of 49 % of Ikano Bank AB. The transaction is subject to approval by the relevant regulatory authorities.

# Signatures

We hereby certify, to the best of our knowledge, that the annual report has been prepared in accordance with acceptable accounting practices. The information presented is consistent with actual conditions in the operations and nothing of significance has been omitted which could affect the image of the Bank created by the annual report.

Älmhult 25 March 2021

| | | |
|---|---|---|
| Mats Håkansson<br>Chairperson | Lars Thorsén<br>Board member | Diederick van Thiel<br>Board member |
| Heather Jackson<br>Board member | Lars Ljungälv<br>Board member | Yohann Adolphe<br>Board member |
| Viveka Strangert<br>Styrelseledamot | | |

Henrik Eklund
CEO

Our auditor's report was submitted on 26 March 2021.

Deloitte AB

Malin Lüning
Authorised public accountant

# Auditor's report

To the general meeting of the shareholders of Ikano Bank AB (publ)
corporate identity number 516406-0922

## Report on the annual accounts

### Opinions

We have audited the annual accounts of Ikano Bank AB (publ) for the financial year 2020-01-01 - 2020-12-31. The annual accounts of the company are included on pages 6-61 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Ikano Bank AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

#### Judgments and estimates with respect to valuation of loan receivables

Recognition and measurement of financial instruments as regulated in IFRS 9 is a complex area with significant impact on Ikano Bank AB (publ)'s business and financial reporting. IFRS 9 is a complex accounting standard which requires significant judgment to determine the loan loss provision.

Key areas of judgment include:

- The interpretation of the requirements to determine loan loss provisions under application of IFRS 9, which is reflected in the Bank's expected credit loss model.
- The identification of exposures with a significant deterioration in credit quality.
- Assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (unemployment rates and gross domestic product growth).
- Effect from Covid-19 on above key areas of judgement.

At December 31, 2020, loans to the public amounted to SEK 25 031 million, with loan loss provisions of SEK 760 million. The leasing portfolio, classified as tangible assets, amounted to SEK 9 714 million, with loan loss provisions of SEK 314 million.

Given the significance of loan receivables, the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, as well as the extensive disclosures required under IFRS 9, we consider this to be a key audit matter for our audit.
Refer to critical judgments and estimates in note 2 in the financial statements and related disclosures of credit risk in note 3.
Our audit procedures included, but were not limited to:

- We evaluated relevant controls within the loan loss provision process to verify if they are appropriately designed and implemented during the year. We also obtained an understanding of the process for key decisions from management and committee meetings that form part of the approval process for loan loss provisions.

- We assessed, supported by our credit risk modelling specialists, the modelling techniques and model methodologies against the requirements of IFRS 9. We assessed the sufficiency of a selection of the underlying models developed for loan loss provisions.
- Covid-19s effect has been included in above mentioned procedures.
- We assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

#### IT-systems that support complete and accurate financial reporting

Ikano Bank AB (publ) is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of Ikano Bank AB (publ)'s internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems. Given the high dependency on technology, we consider this to be a key audit matter for our audit.

We categorises key IT-risk and control domains relating to financial reporting in the following sections:

- Changes to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

Our audit procedures included, but were not limited to:

- We assessed management principles and processes for modifications to the IT-environment.
- We evaluated segregations of duties.
- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

### Other information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1-5 in this document. Other information also consists of the Sustainability Report that is published separately. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ikano Bank AB (publ) for the financial year 2020-01-01 - 2020-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

Deloitte AB, was appointed auditor of Ikano Bank AB by the general meeting of the shareholders on the 2020-03-27 and has been the company's auditor since 2013-04-10.

Stockholm March 26, 2021

Deloitte AB

*Signature on Swedish original*

Malin Lüning
Authorised public accountant

# Board of Directors

**Lars Thorsén**
Born 1965. BA in International Economics and Finance at Copenhagen Business School. Elected in 2015. Board member. CEO Ikano S.A. since 2015. Previously long career in international management, procurement and supply chain including the position as Regional Purchase Manager of IKEA Asia Pacific.

**Mats Håkansson**
Born 1962. MSc in Business and Economics. Elected in 2009. Chairperson of the Board since 2013 and member of the Audit,- Risk and Compliance Committee. VP Ikano S.A. Former CFO Ikano S.A. and Authorised Public Accountant at Arthur Andersen in Sweden. Other assignments: Board assignments in several subsidiaries within the Ikano Group.

**Heather Jackson**
Born 1965. BA Modern History. Elected in 2014. Board member and chairperson of the People and Remuneration Committee and the Project and IT Committee. Management consultant specialising in change management. Heather has twenty years' experience within finance and retail from senior positions within HBOS Plc., Capital One, Asda, Boots the Chemist and Accenture. Other assignments: Non-Executive Director of JD Sports Fashion plc, Skipton Building Society and Lookers PLC.

**Viveka Strangert**
Born 1967. Master in Philosophy and Master of Laws, LL. M. from Stockholm University. Elected in 2019. Board member and chairperson of the Audit,- Risk and Compliance Committee. Viveka has several years of experience from the financial industry from working in various senior and executive positions at KPMG, Swedbank, DnB NOR, and Old Mutual/Skandia. She also has experience from working as an Associate Judge and Legal Clerk at the Administrative Court of Stockholm for many years.

**Diederick van Thiel**
Born 1968. MBA Erasmus University Rotterdam and IMD Lausanne. PhD Candidate and Professor of 'AI in marketing & risk strategies' at Jheronimus Academy of Data Science. Elected in 2014. Board member and member of the Project and IT Committee. Entrepreneur and business angel since 2010 specialised in big data, AI and robotisation. CEO/ founder of AdviceRobo and E-cology, former CEO/ founder of eyeOpen online mortgages. Previously held board positions within ING and KPN mobile.

**Yohann Adolphe**
Born 1974. Engineer in Industrial Processes, Master in Business Administration, Chartered Financial Analyst, Financial Risk Manager certified by GARP. Elected in 2018. Board member and member of the Audit,- Risk and Compliance Committee. Since 2013, Group CFO at Ikano (joined in 2005). Previously manager within the Corporate Finance department at Deloitte. Other assignments: board member at various Ikano Group entities.

**Lars Ljungälv**
Born 1969. Bachelor of Science in Business Administration and Economics from the University of Lund. Elected in 2019. Board member and member of the People and Remuneration Committee. CEO of Bergendahls & Son AB. Lars has held many leading positions in the financial industry. His previous assignments include executive positions at Swedbank, CEO of Sparbanken Öresund AB and Färs och Frosta Sparbank AB.

Auditor
Malin Lüning
Authorised public accountant, Deloitte AB.
Auditor Ikano Bank AB (publ) since 2019.

# Management team

**Henrik Eklund,**
**CEO**
Born 1974. Employed since 2018. Henrik joined Ikano Bank as Chief Operations Officer (COO) in May 2018. Before that he held positions as COO and CIO at Resurs Bank. He has previous CEO-experience, as well as sales and e-commerce knowledge from working in various positions at CDON.

**Pontus Sardal,**
**CFO**
Born 1967. Employed since 2019. Previously Deputy CEO and CFO at Hoist Finance, where he was for 7 years. Pontus has close to 20 years at SEB, where he held several senior financial positions, both at a local and central level.

**Teresia Palm,**
**Chief People & Communications Officer**
Born 1970. Employed since 2021. Has long experience within HR, communication and marketing. For the last 20 years, Teresia has worked as executive manager within different IKEA organisations in Älmhult-Sweden, Denmark and Germany.

**David Elvström,**
**Chief Transformation Officer**
Born 1983. Employed since 2019. Previously held several positions throughout Ikano Group which he joined in 2008 as part of the ”Young Talents Programme”. Key experience ranges from Mergers & Acquisitions, Strategy, Project and Portfolio Management.

**Jessica Svantesson,**
**Chief Commercial Officer**
Born 1975. Employed since 1998. Has had several senior positions in Ikano Bank Sweden, including Sales Manager for banking and Business Line Manager for Retail Partners.

**Anna Wanby,**
**Chief Legal Officer**
Born 1966. Employed since 2020. Previously Head of legal department in the south-eastern region of Svenska Handelsbanken. Anna has 25 years of experience from the banking sector, having worked in business related positions mainly in the legal field.

**Anna Idorn,**
**Interim Chief Compliance Officer**
Born 1979. Employed since 2015. Most recently held the position as Chief Information Security Officer at Ikano Bank. Has over 15 years of experience in working with risk management mainly within the financial sector specialized in IT risk. Anna has worked as an Internal Auditor at SEB and an Information Security risk consultant at E&Y.

**Petter Brandt,**
**Chief Risk Officer**
Born 1963. Employed since September 2019. Previously Head of Risk Swedish Banking in Swedbank. Has worked as the CRO for Sparbanken Öresund, and prior to that as the CRO for Swedbank Robur. Petter has held different senior risk management positions at companies such as Hexagon, Ericsson and PWC.

**Dan Hedgate,**
**Chief Operations Officer**
Born 1975. Employed since 2018. Previously held the position as Head of Operations Services at Ikano Bank. Has held the position as Operations Services Manager at Resurs Bank and has extensive experience working in Operations' management teams.

**Johan Bjurup,**
**Chief Digital Officer**
Born 1981. Employed since 2020. Previously held the position as CDO Advisor. Has extensive experience from senior positions as both CIO and Chief Digital Officer in insurance and bank. Has extended experience in sponsoring and delivering large change and transformational programs.

# Corporate governance report

Ikano Bank AB (publ) ("Ikano Bank" or the "Bank") is a wholly owned subsidiary of Ikano S.A. in Luxembourg. The Bank has its registered office in Älmhult, Sweden. The role of corporate governance in Ikano Bank is to establish good conditions for active and responsible ownership, a clear division of responsibility between the various executive and shareholder functions of the Bank and effective and transparent communication with the Bank's stakeholders.

Ikano Bank's corporate governance report is based on the Swedish Code of Corporate Governance (the "Code") even though Ikano Bank has no direct obligation to apply the Code as its shares are not admitted to trading on a regulated market. The Code mainly targets companies with a dispersed ownership. For the Bank, which only has one owner, some rules consequently lack relevance and an application of such rules would not serve any reasonable purpose.

The Code is based on the principle "comply or explain" which entails that a company actively shall decide on how to it will act in relation to the various rules in the Code. If a company chooses to deviate from the rules of the Code, it should be disclosed. The instances where corporate governance in Ikano Bank deviates from specific rules in the Code for the above reasons are presented in the table below, together with an explanation:

| Code rule | Deviation and explanation/comment |
|---|---|
| Item 1.1 - Publication of information on shareholder right of initiative. | The objective of the rule is to provide various shareholders with the possibility of preparing for the Annual General Meeting well in advance and having a matter included in the convening notice of the Annual General Meeting. In wholly owned companies, there is no reason to apply the rule and information on the shareholder's right of initiative is therefore not published. |
| Item 1.3 - The company's Nomination Committee shall propose a chairperson for the Annual General Meeting. | Due to the ownership structure, Ikano Bank has no Nomination Committee. The election of the chairperson takes place at the Annual General Meeting according to the provisions of the Swedish Companies Act. |
| Item 2 - The company shall have a Nomination Committee that represents the company's shareholders. | Due to the ownership structure, Ikano Bank has no Nomination Committee.<br><br>Consequently, the references to the Nomination Committee in items 1.2, 1.3, 4.6, 8.1, 10.2 and 10.3 in the Code are not applicable. |
| Item 4.6 - Nominees to positions on the board are to provide the nomination committee with sufficient information to enable an assessment of the candidate's independence as defined in 4.4 and 4.5. | As stated above the Bank has no nomination Committee. In connection with appointment and management suitability assessment of new member of the board Ikano Bank and its owner is provided with corresponding information. |
| Item 7.6 - The board of directors is to ensure that the company's six month report is reviewed by the company's auditor. | Review of the company's six month report is conducted when Ikano Bank intends to apply to include the interim result in its CET 1 capital before AGM resolution approving the final interim result. For the interim report 2020 no review was made. |
| Item 8.1 - The results of this evaluation are to be reported to the nomination committee. | As stated above the Bank has no nomination committee. The results of the evaluation of the board of directors is reported to the board and conveyed to the shareholder. |

Item 10.3 – The company is to have a section of its website devoted to corporate governance matters.

The Bank has a section for corporate governance matters on its website. The Bank's corporate governance report is a part of the Bank's annual report and consequently published under the section devoted to Financial information. The audit report which includes the corporate governance report is available on the same section. The section regarding corporate governance matters on the Bank's website, the corporate governance report and the annual report together convey the information to be made available. Reference to share and share price related incentive programmes are not applicable due to the bank not having listed shares and the Bank's articles of association are not posted on the website. The Bank does not post a report on the results of the evaluation according to the second and third bullets in rule 9.1 but refers to the description in the corporate governance report regarding the evaluation by the People and remuneration committee of the remuneration policy and system.

Item 10.5-10.6 – The remuneration report is to contain a reference to where in the company's annual report the information required by chapter 5, sections 40-44 of the Annual Accounts Act (1995:1554) is to be found. - The remuneration report is to contain a summary description of each outstanding share and share-price related incentive programme and any such programme that was completed during the year.

Due to Ikano Bank not having listed shares the rules are not applicable.

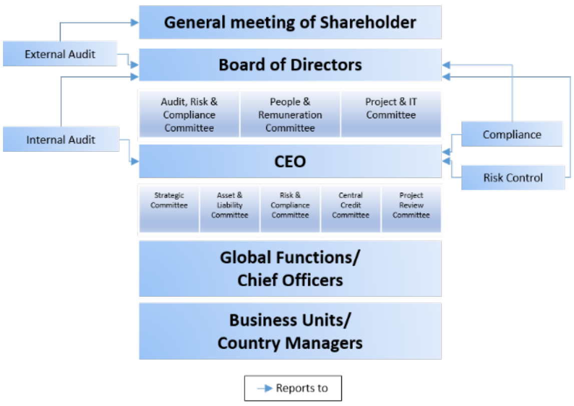
## Corporate governance

Ikano Bank's corporate governance is mainly based on Swedish law, Swedish Financial Supervisory Authority's regulations and guidelines, the company's articles of association and internal steering documents. In addition to the rules in the Swedish Companies Act, the Annual Accounts Act and the Banking and Finance Business Act, the Bank also applies the Code, EBA guidelines on internal governance and other applicable laws and regulations relevant for banks.

The Swedish Financial Supervisory Authority exercises supervision over the Bank's operations in Sweden and in the countries in which the Bank conducts business through branches or cross border business. The Bank's foreign branches are also subject to limited supervision by the financial supervisory authority of the country in question.

Customers' confidence in the Bank's operation is of major importance. An appropriate and effective framework for internal governance and control with clear internal rules and a sound risk culture are essential elements in the Bank's work with governance.

## Overview of Governance Structure




## Executive and shareholder functions of the Company

### Annual General Meeting of Shareholders

The annual general meeting of Shareholders is the highest decision-making body of Ikano Bank and exercises its influence at the annual general meeting and extraordinary shareholder meetings (if relevant). On the annual general meeting, to be held within six months from the end of the financial year, the annual report including income statement and balance sheet is adopted and it's resolved on allocation of profits and discharge from liability for the Board and the CEO. Furthermore, the Bank's shareholder elects Board members, Chairperson of the Board and external auditors and establishes their remuneration.

### 2020 Annual General Meeting

The annual general meeting was held on 27 March 2020. The following resolutions were passed:

- Adoption of the annual report including income statement and balance sheet
- Resolution on appropriation of the Bank's profit according to the adopted balance sheet
- Resolution on discharge from liability for the members of the Board and the CEO
- Determination of fees for each external Board member and auditors
- Board fees to each external board member shall amount to SEK 442 900 or GBP 42 230 or EUR 49 955, depending on the currency in each Board member's country of residence, and additional compensation for
  - (i) each external Board member being appointed as chairman of a Board Committee amounting to SEK 118 038 or GBP 11 227 or EUR 13 699, depending on the currency in each director's country of residence
  - (ii) each external Board member being a member of a Board Committee amounting to SEK 86 600, or GBP 8 300, or EUR 10 000, depending on the currency in each director's country of residence, and for
  - (iii) additional work external Board members' perform over and above ordinary board work amounting to SEK 21 218, or GBP 2 060 or EUR 2 729 per day, depending on the currency in each director's country of residence
- all Board members were re-elected for the period until the next Annual General Meeting:
  - Mats Håkansson (Chairperson)
  - Lars Thorsén
  - Yohann Adolphe
  - Heather Jackson
  - Diederick van Thiel
  - Viveka Strangert
  - Lars Ljungälv
- Election of auditors

### Auditor

Deloitte with authorised public accountant Malin Lüning as auditor in charge is the auditor of the Bank. Deloitte with previous authorised public accountant Jan Palmqvist as auditor in charge was elected at the 2013 Annual General Meeting for a period of four years which thereafter has been prolonged for a period of one year at each annual general meeting. On the annual general meeting 2020 the assignment for Deloitte was prolonged with Malin Lüning as auditor in charge for a period of one year, until the end of the first annual general meeting to be held after the end of 2020. Malin Lüning has been an authorised public accountant since 2008 and the auditor of Ikano Bank since 2019. Malin Lüning's other current audit assignments include Nordax Bank, Lannebo Fonder, Enter Fonder, Froda and Pareto Securities.

The auditor meets with the entire Board once a year, without the participation of the CEO. During the year, the auditor is further invited to participate in the Audit, Risk and Compliance Committee meetings.

### Board of Directors

Second to the general meeting of shareholders the Board of Directors is the highest decision making body of the bank and it is also the highest executive body. The responsibility of the Board includes the company's organisation and management of the company's affairs. The Board of Directors appoints the CEO and, where applicable, the members of the Board Committees. The Board continuously reviews the work of the CEO. The Board also decides on salary and other benefits for the CEO, for employees who report directly to the CEO and for employees who have the overall responsibility for any of the Bank's control functions.

The work of the Board is mainly governed by Swedish Companies Act. The Board's work is further governed by the Board's formal work plan, which is adopted by the Board every year after the annual general meeting. The work plan now applicable was adopted at the Inaugural Board Meeting in March 2020. According to the work plan, the Board establishes and resolves on the Bank's overall strategy, business plan, and budget and adopts policies. Furthermore, the Board shall monitor the bank's financial development and ensure the quality of the financial reporting and follow up the bank's business based on established targets and policies. The Board also resolves on acquisitions and material commitments and investments of the Bank. The work plan of the Board includes the Board's instruction to the CEO that sets out the division of work and responsibilities between the Board and the CEO. The work plan further includes instructions for the committees established by the Board. These instructions are updated and approved at least annually. In addition to the members of the board of directors, the CEO, CFO and Chief Legal Officer also participate on the meetings of the board. The Chief Legal Officer is permanent secretary of the board.

The Articles of Association state that the Board shall consist of no less than three and no more than ten members without deputies.

### Board members

Ikano Bank's Board currently consists of seven board members. The Bank has a policy for selecting and assessing Board members. The same policy applies for key function holders of the Bank. The policy contains criteria and general requirements for the appointment of individual Board members and key function holders, both as overall principles to ensure diversity and competence regarding the composition of the Board as a whole.

The Board must have an appropriate composition. When electing members of the Board a goal is that the Board members together should have a range of backgrounds, expertise, experience, education, and knowledge so that they can complement each other. The members should together constitute a diverse range of gender, age and geographic origin. The Board must always include a sufficient number of members who are not employed in the Bank or the Ikano S.A. group. All of the current board members are deemed independent in relation to the Bank and its executive management and the majority of the board members independent also in relation to the Bank's owner. A diverse Board composition shall promote board members with ability to uphold independence of mind and integrity to resist inappropriate group think behaviour and thus contributes to sound risk management in the Bank.

Individual Board members, the CEO, and key function holders are evaluated, before they are appointed, from several different aspects. For example, the Bank investigates whether the member, the CEO, or key function holder has been convicted of a crime, or have incurred any other sanctions for breaching rules (e.g. within the framework of other directorships) or been found guilty of any other inappropriate behaviour. The Board member's, the CEO's and key function holder's experience, both theoretical education and practical experience, is also checked and evaluated before the member, the CEO or key function holder is appointed. Finally, other factors are evaluated such as potential conflicts of interest, the possibility of allocating sufficient time for the assignment, the Board's overall composition, etc.

The policy includes a form ("Information to be provided by a potential board member or a key function holder") which must be completed prior to every recruitment. There are restrictions in respect of number of assignments a member of a bank board may hold concurrently. The other assignments of the Board members of Ikano Bank are in accordance with the requirements.

The table on page 74 below presents information on attendance of the Board members during the year, as well as whether they are dependent or independent in relation to the Bank or its owner. For a more detailed presentation of the Board members, refer to page 66.

## Chairperson of the Board

The Chairperson of the Board organises and directs the Board's work so that it is effective and in accordance with applicable laws and rules, including the Code and the Board's internal steering framework. The Chairperson is responsible for ensuring that other Board members receive adequate information and decision data and conveys any points of view from the shareholder to the Board.

The Chairperson is responsible for ensuring that the Board continuously updates and deepens its knowledge of the Bank and otherwise receives the training required to effectively conduct the Board work. The Chairperson also ensures that the Board's work and the Board members knowledge is evaluated annually through self-assessments and assessment of the Board as a whole. The Chairperson reports the results to the Board and conveys the result to the shareholder.

## The Board's work in 2020

In 2020, eight ordinary Board meetings (including the inaugural), seven meetings were held by circulation and ten extraordinary Board meetings were held. . The ordinary Board meetings were held digitally and/or via telephone.

The ordinary Board meetings follow an established yearly plan which includes i.a. the following items:

- Operational matters and information on particularly important issues and events
- Financial reporting (annual report, year-end report, interim report)
- Financial status, liquidity and capital (ICAAP/ILAAP)
- Reporting from control functions
- Strategy
- Budget
- Committees (respective committee chairperson)

Other relevant issues of material significance to the Board's work in 2020 was monitoring and mitigation of Covid-19 impact on the Bank, strategy and the Bank's continued work with the digital transformation.

## Board committees

The overall responsibility of the Board of Directors cannot be delegated. However, the Board has established preparatory committees which, on the basis of the provisions contained in the Board's formal work plan, prepare and evaluate issues within their respective areas for decisions by the Board.

In accordance with the above the Bank's board has established three committees: the Audit, Risk- & Compliance Committee, the People and Remuneration Committee, and the Project and IT Committee.

## Audit, Risk- & Compliance committee

This Committee consists of three Board members Viveka Strangert (Chairperson), Mats Håkansson and Yohann Adolphe. The Chairperson is independent in relation to the Bank, its management and owners.

The Committee monitors accounting and financial reporting, as well as the effectiveness of the Bank's systems and processes for internal control, internal audit and risk management. The Committee also prepares the Board´s review of the external audit plan, follows up important reporting and recommendations from the external auditor, and ensures that the auditor is impartial and independent. The committee also assist in the preparation of proposals on the election of the auditor at the Annual General Meeting. The Committee's task is to support the Board in its management and control of risk, capital and compliance matters. In the risk area, this is mainly done by ensuring that there are processes in place to identify and define the risks in the business and that risk taking is measured and controlled. The risks referred to are credit, market, liquidity, interest rate and financing risks as well as operating risks. Fulfilment of the various capital adequacy requirements also belongs to this area of responsibility.

During the year the Audit, Risk & Compliance Committee has held six ordinary and one extraordinary minuted meetings. The Audit, Risk & Compliance Committee has both an advisory as well as a preparatory function in respect of matters to be resolved on by the Board.

## Project & IT committee

This Committee consists of two Board members - Heather Jackson (Chairperson) and Diederick van Thiel.

The Committee prepares the Bank's Project & IT strategy for approval by the Board and monitors and follow up on its implementation. Focus is on effective Project management and execution and effective IT security at a reasonable cost and ensuring access to necessary expertise in the Project and IT area. During the year the Project & IT Committee held four ordinary and one extraordinary minuted meetings.

## People & Remuneration committee

This Committee consists of two Board members - Heather Jackson (Chairperson) and Lars Ljungälv.

The People and Remuneration Committee prepares HR and remuneration matters that are to be decided on by the Board and the annual general meeting. The Board makes decisions in accordance with the Swedish Financial Supervisory Authority guidelines regarding remuneration to the CEO, employees that are direct reports to the CEO, and employees that hold overall responsibility for any of the bank's control functions. An important requirement in financial companies is that remuneration is structured so that it incentivises and supports effective risk management in the business.

The People & Remuneration Committee follows up and evaluates the application of the Bank's remuneration framework and annually conducts an independent assessment of the bank's remuneration policy and remuneration structure. The Risk Control function normally participates in this assessment.

The Bank also conducts an annual risk analysis of the remuneration models and the policy. In the risk analysis, the Bank identifies employees who can exercise a significant influence over the Bank's risk level (so called identified personnel). In addition, the Internal Audit function reviews the Bank's remuneration structure for compliance with the remuneration policy. The risk analysis and the results of the review are reported to the Board no later than the Board meeting at which the annual report is approved. The Board is responsible for and ensures that the remuneration policy – which has been issued based on the risk analysis – are adhered to and followed up.

During the year, the People & Remuneration Committee held four ordinary, one extraordinary, and two via circulation minuted meetings.

| Board and committee work 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Namn | Mats Håkansson | Lars Thorsén | Heather Jackson | Diederick van Thiel | Lars Ljungälv | Viveka Strangert | Yohann Adolphe |
| Board attendance[1, 2] | 25/25 | 25/25 | 25/25 | 24/25 | 25/25 | 24/25 | 25/25 |
| Attendance at People and Remuneration Committee meetings[1] | - | - | 7/7 | - | 7/7 | - | - |
| Attendance at Audit, Risk and Compliance Committee meetings[1] | 7/7 | - | - | - | - | 7/7 | 7/7 |
| Attendance at Project and IT Committee meetings[1] | 4/5[3] | - | 5/5 | 5/5 | - | 1/5[3] | 1/5[3] |
| Independent | Not independent in relation to the shareholder Ikano S.A. | Not independent in relation to the shareholder Ikano S.A. | Independent | Independent | Independent | Independent | Not independent in relation to the shareholder Ikano S.A. |

[1] Attendance/Total number meeting
[2] See Note 11 for information on remuneration to Board members
[3] Not members in Project and IT Committee, attendance for information only

## Remuneration

The Bank's remuneration to senior executives is regulated by the Bank's remuneration policy, which has been formulated based on the Swedish Financial Supervisory Authority's regulations, EBA guidelines, and the principles adopted by the Annual General Meeting.

The main features of the two remuneration policies mentioned above are that employees receive compensation in the form of a fixed salary, pension and certain benefits. The compensation is determined individually and reflects the work's complexity (i.e. the level of difficulty of the duties), local market conditions and the employee's performance.

Variable remuneration can be paid in accordance with the terms of the incentive programme that the Bank applies for employees in the management team and branch managers.

For more information on the terms for remuneration and outcomes to senior executives, refer to Note 11, page 40], and the Information on remuneration (financial year 2020) disclosed by the Bank.

## The Bank's organisation and management

### Organisation

The operational business is organised into seven geographic business units: Sweden (incl. cross border business into *inter alia* Austria) and the six foreign branches in Denmark, Norway, Finland, UK, Germany and Poland. The head office with management and global functions are located in Malmö, Sweden. The global functions comprise Finance, Operations, Commercial, Digital (which includes IT), People and communications, Legal, Risk Control, Compliance, and Internal Audit.

### Chief Executive Officer (CEO)

The CEO of the Bank is subordinate to the Board and is responsible for the Bank's day-to-day administration. The CEO shall perform this duty in accordance with current legislation and rules, the Articles of Association, the Board's formal work plan, the terms of reference issued by the Board of Directors to the CEO and any other guidelines and directives issued by the Board.

The delegation of duties between the CEO and the Board is set out in the Board's work plan and the instruction to the CEO from the Board. Henrik Eklund is CEO of the Bank since 2019.

### Management team

The Bank's Management team consists of ten people. In addition to the CEO, the Management team includes the CFO, Chief Digital Officer, Chief Operations Officer, Chief People and Communications Officer, Chief Commercial Officer, Chief Legal Officer, Chief Transformation Officer, Chief Risk Officer and Chief Compliance Officer. All persons in the management team report to the CEO. The Chief Risk Officer and Chief Compliance Officer also reports directly to the Board. For the operational management work in the Bank, the CEO has chosen to establish a number of committees and bodies.

For a more detailed presentation of the Management team, refer to page 67.

## Internal control structure

The Board shall ensure that the Bank has a risk control function, a compliance function (that together constitute the second line of defence), and an internal audit function (third line of defence). The control functions regularly report to CEO and the Board on material weaknesses and risks and follow up on earlier reported weaknesses and risks. The Board and CEO shall ensure that appropriate actions based on reports from the control functions are taken as soon as possible and that such actions are followed up on. It is the Board's task to ensure an appropriate, robust and transparent organisational structure with efficient communication and reporting channels in a suitable and effective internal control structure. The Board's responsibility regarding internal control is regulated in the Swedish Companies Act, the Annual Accounts Act, the Code and the regulations and general guidelines from the Swedish Financial Supervisory Authority. The internal control structure within the Bank shall, in addition to the independent control functions for Internal Audit, Compliance and Risk Control, also include appropriate processes and procedures for internal control of the operational business, and in particular also regarding accounting and financial reporting. The Board annually establishes a number of policies that together with the external regulations constitute the basis of the Bank's internal control structure and create the overarching boundaries of the control of the business. The Bank's internal regulations also includes guidelines and instructions.

### Compliance

Under the management of the Bank's Chief Compliance Officer (CCO) the Compliance function is responsible for identifying risks that exist due to failure by the Bank to fulfil its obligations pursuant to laws, statutes and other internal and external regulations applicable to the operations subject to authorisation. The Compliance function is further responsible for performing monitoring and controls to ensure that such risks are managed and for providing advice, support, training etc. on the laws, statutes and other regulations applicable to the operations subject to authorisation, and internal rules. The Compliance function regularly controls and assesses whether measures and routines implemented by the Bank are suitable and effective including verifying and assessing whether the Bank's procedures and measures to remedy any failure to fulfil applicable external and internal regulations. To ensure independence of the Compliance function, CCO reports directly to CEO and the Board. Reporting from the Compliance function is made at every ordinary board meeting and to the CEO on a monthly basis. CCO further also reports to the Board's Audit, Risk and Compliance Committee.

### Risk Control

Under the management of the Bank's Chief Risk Officer (CRO), the Risk Control function is responsible for compiling, analysing and reporting all material risks of the undertaking. The responsibility of the Risk Control function includes identification, assessment and reporting of all material risks related to the operations of the Bank. CRO is responsible for developing suitable methods to analyse and measure risks and to regularly analyse and control that each such risk is consistent with the Bank's decided risk appetite.

To ensure independence of the Risk Control function, CRO reports directly to CEO and the Board. Reporting from the Risk Control function is made at every ordinary board meeting and to the CEO on a monthly basis. CRO further also reports to the Board's Audit, Risk and Compliance Committee.

### Internal Audit

Ikano Bank has a separate Internal Audit function. It works on behalf of the Board and acts independently from the Bank's operations. The work is conducted based on an annual audit plan prepared by the Audit, Risk and Compliance Committee and approved by the Board. The results of the internal audit are reported to the Board twice a year and to the Audit, Risk and Compliance Committee every quarter.

The Bank's Internal Audit function is established to assist the Board and its Audit, Risk and Compliance Committee in the identification and follow-up of various matters concerning the Bank's financial reporting. The tasks of the Audit Committee include the follow-up of important observations and recommendations from both Internal Audit and external auditors regarding financial reporting. The Audit, Risk and Compliance Committee reports to the Board and recommends suitable measures when Board decisions are required.

In operational terms, the Internal Audit function is run by Ikano S.A. in accordance with an outsourcing agreement. In 2019, PwC assisted Internal Audit in the execution of the internal audit.

### Internal control over financial reporting

The Bank's process for ensuring the quality of the financial reporting includes four main activities: (i) Risk assessment, (ii) control measures, (iii) information and communication, and (iv) follow-up.

Risk assessment comprises identification and analysis of material risks that affect internal control over financial reporting.

The control measures are both of a preventive nature, meaning that they are measures intended to prevent losses or misstatements in the reporting, and of a detective nature. The controls are to also ensure that all misstatements are corrected. The Finance function, which compiles the reports, works with carefully prepared accounts and standardised working procedures with controls.

The Bank's control processes include the involvement of Board, management and other staff. Before each ordinary Board meeting the Board receives information regarding the Bank's financial position, including reporting on liquidity and capital, prior to every ordinary Board meeting. These areas are also prepared by the Board's Audit, Risk, and Compliance Committee. Information to the management is provided i.a. at regular Management team meetings in which the CFO participates. The Bank has internal policies, guidelines, instructions that guide and support the financial operations are published on the Bank's intranet.

The Board receives regular reports with financial outcomes, including the management's comments on the business. The Company's auditor participates in one Board meeting per year and is further invited to participate in all ordinary meetings of the Audit, Risk and Compliance Committee where he/she provides information on the observations of the Company's internal procedures and control systems. The Board members have the opportunity to ask questions at these meetings. The Board annually decides on significant risk areas and evaluates internal control, also by way of the Bank's internal capital and liquidity adequacy assessment processes.