

# Annual Report 2017





# The year in brief

- Business volume grew by 7 percent to SEK 67,863 m (63,501)
- Lending, including leasing, increased by 8 percent to SEK 37,082 m (34,475)
- Deposits from the public grew with 6 percent to SEK 25,617 m (24,180)
- Operating result decreased by 2 percent to SEK 435 m (445). Operating result for 2017 is negatively affected by higher loan losses compared to previous year, with the difference partly due to the model standardisation of loan losses made in 2016
- The result for 2017 is positively impacted by a net income of SEK 174 m from a one-off portfolio sale in connection with the harmonisation of the process for debt collection
- 2017 was also affected by costs incurred by the outsourcing of our IT platform to Cap Gemini.
- Loan losses measured as a percentage of average total lending increased to 1.6 percent (0.9). This is in line with levels before the model standardisation for loan loss reserves
- The lower operating result led to return on equity decreasing to 6.2 percent compared with 2016 (7.2)
- The growth have been good on all markets, especially Sweden and Finland
- During the year cooperation with the IT partner Capgemini started.
- The Bank have received awards with focus on customer relations in several markets. In Germany and in Britain, we won several awards for best customer service, loan and savings products during the year
- Håkan Nyberg started his position as Managing Director of the Bank on 21 September 2017

## BUSINESS VOLUME IN SEK BILLIONS

# 67.9

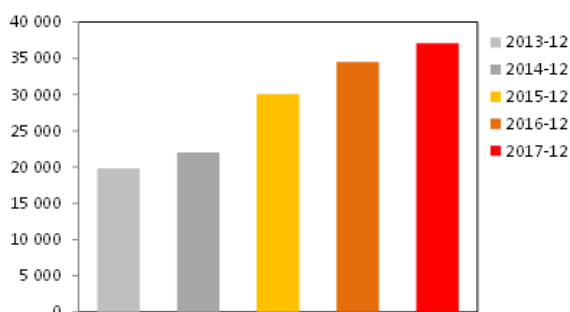
## OPERATING RESULT IN SEK MILLIONS

# 435

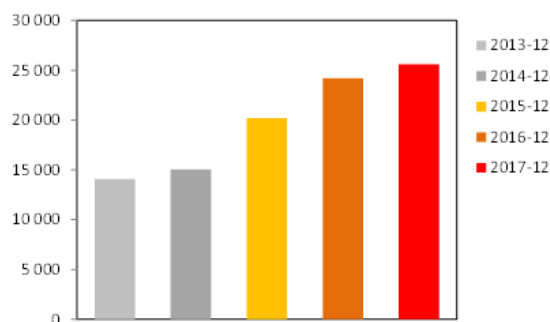
## KEY RATIOS

	2017	2016
Total Capital ratio	16,5%	16,6%
Common equity Tier 1 ratio	14,3%	14,3%
Investment margin	4,6%	5,2%
Return on adjusted equity	6,2%	7,2%
Leverage ratio	10,9%	10,5%
C/I-ratio before loan losses	66,3%	74,2%
Loan loss ratio	1,6%	0,9%

## LENDING INCLUDING LEASING IN SEK MILLION



## DEPOSITS IN SEK MILLION



# This is Ikano Bank

Our services in financing solutions are for consumers and businesses, offered directly and indirectly via partners. We also provide savings solutions 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 independent group since 1988. The Ikano Group was previously part of IKEA. In addition to finance, the Ikano Group also has real estate, production, insurance and retail operations.

In Ikano we are driven by a collective vision and values. 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, car loans, mortgages, credit cards and savings accounts.

### Sales finance

We offer sales supporting finance solutions, including loyalty programmes, loyalty cards and installment 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.

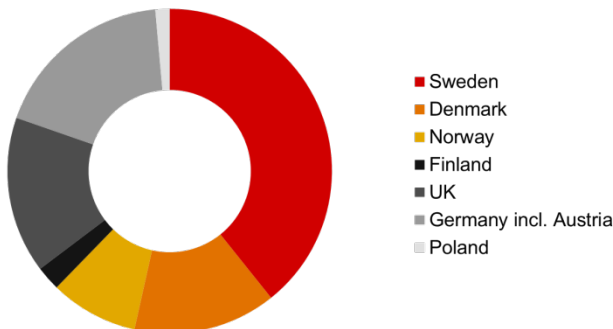
### Corporate

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.

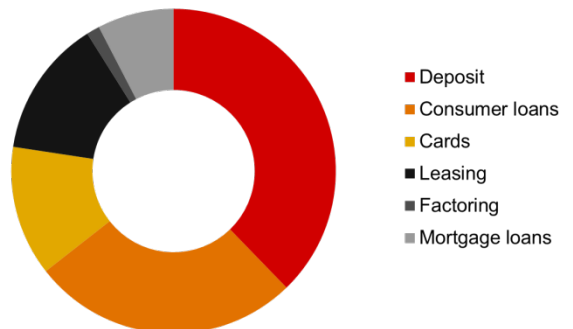
## GEOGRAPHIC PRESENCE



## LENDING PER COUNTRY



## BUSINESS VOLUME PER PRODUCT AREA



# Good growth on our markets

2017 was an eventful year. We have seen a number of changes in the bank, including the initiation of outsourcing our IT function. We are happy that we have had growth in our markets with business volumes increasing by 7 percent. Lending amounted to SEK 37.1 billion by year end with exceptional growth in our leasing business during the year. Also the development of our private business is good. Deposits increased during the year and are stable, amounting to 58 percent of total funding. The increase relates mainly to our foreign markets, while deposits in the Swedish market fell slightly during the year. Deposits are an important funding source for us and we are grateful for the confidence our customers show us by allowing us to manage their savings. We also see a good demand for our capital market programme, with five bonds issued with good results during the year. We saw a lower operating result compared to 2016 with impacts from certain non-recurring items from the previous year and this year.

We have good offerings and our geographical presence in large markets such as Germany, the UK, Poland and the Nordic countries gives us good potential for growth. During the year we have worked closely with our customers and partners and have delivered financial solutions to the many people, such as the new credit card launched together with Ikea in Germany. We are following the development of Brexit and our strategy to grow in the UK market is firm.

We are proud to have received awards with focus on customer relations in several markets during the year. In Germany and in the UK, we won several awards for best customer service, loan and savings products, and in Sweden we ranked among the best banks for private loans in the Swedish SKI survey for the fifth consecutive year.

We continue developing our services, always focusing on the customer experience. During the year, cooperation with our IT partner Capgemini began. The extensive integration work that the outsourcing requires is under way and is expected to continue throughout the year. The cooperation will strengthen our IT capabilities and support the work to further develop our digital offerings.

Together we want to create a modern digital platform for financial services and develop new smart solutions that simplify the everyday lives for our customers



In September, I started as MD and it was primarily the corporate culture and the strong values that attracted me to the mission and it is fantastic to be part of this and to further develop the Bank.

**Outlook 2018**

We work in a challenging industry but are well-equipped financially with stable growth in our markets and a wide range of products that simplify everyday life. Work on developing and improving our digital presence, efficiency and offerings continues.

In 2018, our cooperation regarding mortgage loans with SBAB will end since the company decided to prioritize sales under its own brand. From 31 August

2018, we will no longer be able to mediate mortgage loans to SBAB, but our ambition is that we also in future will be able to offer mortgage loan financing.

As we enter 2018, I feel very confident. We have great offerings and the investments we make in our business platform give us the best of opportunities to fulfil our vision; To create opportunities for a better everyday life for the many people.

Thank you all customers, partners and employees who contributed to making 2017 a good year for Ikano Bank.



# Administration report

*The Board of Directors and the Managing Director of Ikano Bank AB (publ), Corporate Registration Number 516406-0922, hereby present the annual accounts for the period from 1 January to 31 December 2017.*

## Owner and operating structure

Ikano Bank AB (publ) ("Ikano Bank" or the "Bank") conducts 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. (the "Ikano Group") became a separate Group in 1988 and now has five business areas – Insurance, Finance, Real Estate, Production and Retail. Ikano Bank has operated its business under a Banking license from the Swedish Financial Supervisory Authority since 1995 and carries out banking operations in Sweden, Denmark, Norway, Finland, the UK, Germany, Austria and Poland. The foreign operations are branches of the Swedish entity, with the exception of the Austrian operations, which are conducted as cross-border business.

The operations of the Bank's subsidiary, Ikano Insight Ltd, were integrated into the Bank's operations in 2016. In 2017, no activities have been carried out in the subsidiary and the company has been discontinued as of 23 January 2018.

## Operations

The Bank's operations are followed up on the basis of geographic markets; see Note 5, Operating segments, for further details.

There are three business lines within these 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 retail, 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 efficient and timely handling and the Bank can offer customers cost-efficient and competitive products.

Lending is offered as unsecured loans, mortgage loans and Visa credit cards. Mortgage loans are offered in cooperation with SBAB Bank AB (publ), which means that loans are intermediated to and provided by SBAB under the Bank's "Ikano Bolån" brand. Lending is provided as unsecured loans and card products in Sweden, Denmark, Norway and Germany. Since the beginning of the year unsecured loans are also offered on the British market. Deposits are offered in the Swedish, Danish, German and British markets and mortgage loan products are only offered in the Swedish market.

As previously communicated the cooperation between SBAB and Ikano Bank will end during 2018. SBAB has decided to prioritise sales under its own brand. This means that Ikano Bank will not continue to offer mortgages provided by SBAB to our customers after 31 August 2018.

## Significant events during the year

During the year, the Bank initiated a partnership with the IT partner Capgemini. This will contribute to the Bank's growth strategy by strengthening its IT capabilities with cost-effective services and supporting the digital conversion of the Bank's offer. In connection with the partnership with Capgemini, employees at the Bank's IT department have moved to Capgemini.

Håkan Nyberg has been appointed new Managing Director of the Bank and started his new position on 21 September 2017, and comes from the position as Managing Director of Nordnet Bank. As previously announced, Stefan Nyrinder left his assignment as Managing Director in the second half of 2017.

The process of preparing for different scenarios that may come from the Brexit result has been in progress in 2017 and the Bank's strategy to grow on the UK market is firm.

During the year, work on implementing IFRS 9 has been ongoing. IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Accounting and Valuation as of 1 January 2018, according to the applicable rules.

## Total assets and business volumes

The Bank's total assets increased by SEK 2.6 bn to SEK 44.1 bn (41.5). Most markets experienced good growth in the private and business area during the year, which leads to the largest part of the increase.

The Bank's equity increased by SEK 0.4 bn to SEK 5.1 bn (4.7).

Overall business volumes of loans to the public, deposits from the public, leasing assets and mediated mortgage loans expanded by 7 percent, to SEK 67.9 bn (63.5).

The Bank's loans to the public increased by 4 percent to SEK 27.8 bn (26.8) after provisions for loan losses. Growth varies between the Banks' markets, where loans to the public in Denmark and the UK declined during the year, while growth in the Swedish market increased and led to a total increase of the Bank's loans to the public.

Leased assets held on customers' behalf increased by 22 percent to SEK 9.3 bn (7.6). Most of the markets increased volumes due to good demand for financing from our partners in the Corporate business line.

Deposits from the public increased by 6 percent to SEK 25.6 bn (24.2). Deposits increased in all foreign markets, while volumes on the Swedish market fell slightly during the year.

Deposits are an important part of the Bank's funding and the stable volume growth shows the confidence the customers have in Ikano Bank. At year-end, deposits from the public were 58 percent of the Bank's total funding.

Intermediated mortgage volumes to SBAB increase by 7 percent to SEK 5.2 bn (4.8). As previously communicated the cooperation between SBAB and Ikano Bank will end during 2018. SBAB has decided to prioritise sales under its own brand. This means that Ikano Bank will not continue to offer mortgages provided by SBAB to our customers after 31 August 2018.

The Bank regularly obtains funding from the capital markets. The Bank's volume of issued securities rose by SEK 0.6 bn to SEK 6.8 bn (6.2). Demand for the Bank's short-term commercial paper (CP) programmes as well as for the Bank's bond programme (Medium Term Note programme) has been good. In 2017, five bonds, with maturities between 2-5 years, in total amounting to SEK 1,950 m in nominal amount have been issued with good results. The investor's interest in the Bank's short term CP has also been high during the year.

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

The Bank's liquidity portfolio totalled SEK 5.1 bn as of 31 December 2017 (5.3), which corresponds to 20 percent of the Bank's total deposits from the public.

## Result

Operating result for 2017 decreased by 2 percent to SEK 435 m (445). The lower operating result compared with the previous year is partially due to the model standardisation for loan loss reserves implemented during the first half of 2016. The model standardisation led to a resolution of loan loss reserves in 2016, which means that loan losses for 2017 have increased compared to 2016. The result for 2017 is positively affected by a net income of SEK 174 m from a one-off portfolio sale in connection with the harmonisation of the process for debt collection.

The underlying profitability of the Bank is deemed to be stable and supported by a well-founded loan business with good growth.

Net interest income decreased by 3 percent to SEK 1,960 m (2,021). Net interest income declined mainly in the Danish, British and German markets, where the volume of lending to the public has been stable or decreased. Other markets' net interest income increased during the year.

Net leasing income increased by 25 percent to SEK 391 m (313). Leasing net income increased in all markets based on volume growth in the majority of our markets.

Net commission income decreased by 8 percent to SEK 328 m (356). The operations in Germany and Finland contributed positively to the Bank's net commission income, while lower income from mediated insurances and higher commission expenses in other markets impact negatively.

Operating expenses rose by 9 percent to SEK 5.0 bn (4.5). This increase is mainly attributable to increased depreciation on leased assets on behalf of customers, due to the volume growth in the Corporate business line. 2017 was also affected by costs incurred by the outsourcing of our IT platform to Capgemini.

Loan losses measured as a percentage of average total lending increased to 1.6 percent (0.9). This is in line with levels before the model standardisation performed during the first half of 2016. Net loan losses increased to SEK 556 m (278) explained by the growth in volumes during the year and the model standardisation in 2016.

## Employees

The Bank works continuously with competence development. Newly appointed and newly hired managers participate in Ikano's Culture and Leadership Programme. We have also started up a common introduction programme for all employees called Ikanoway.

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 Managing Director and Head of HR.

The number of employees, based on full-time workers, totalled 901 (967) as an average during the year.

Information regarding principles and processes relating to remuneration and benefits to key personnel can be found in note 12 General administrative expenses.

## Management

On 21 September 2017, Håkan Nyberg started as Managing Director of the Bank as Stefan Nyrinder, as previously communicated, left his assignment during 2017. Håkan Nyberg comes from a position as Managing Director of Nordnet Bank.

## Risks and risk management

In its business operations, the Bank is exposed to several risks such as credit risk, operational risk



and business risk, but it also has to manage liquidity risk, foreign exchange risk and interest rate risk. Risk management is a well-integrated part of the daily work of the Bank. The Board of Directors and Managing Director are ultimately responsible for risk management at Ikano Bank. Risk management aims to ensure that the risks do not exceed the risk levels established by the Board of Directors. The Bank's risks are controlled centrally, but the responsibility for risk management rests primarily on the local business units. This means that the operative business owns and manages risk in the daily operations. The central risk control function is responsible for monitoring and evaluating risk management.

Credit risk is the Bank's largest risk and is defined as the risk that the counterparty (the borrower) does not fulfil his obligations. Through good management of credit risk, profitability in the lending operations is optimised.

Operational risk is the risk of direct or indirect loss resulting from inadequate or defective internal processes, procedures and systems, administrative errors or external events and factors. Operational risk also includes legal 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.

Objectives and policies for the Bank's risk management are further described in note 3, Risks and risk management. In recent years, the Bank's operation has been affected by the introduction of a variety of new and changing regulatory frameworks for the financial sector. Further increase in the regulatory burden is expected in future years. In response to these changes, the Bank has strengthened the organisation for monitoring, evaluating and implementing the new regulations.

In the various geographic markets in which the Bank operates, there are risk departments that report the risks that the Bank faces locally to the local management groups. The risk's second line of defence is also present in each country, which reports to the central risk function. The Bank's central risk function is an independent risk control of all the Bank's risks. These are reported monthly to the Bank's management and quarterly to the Board of Directors. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) and future liquidity needs are updated quarterly and presented to the management group and Board of Directors.

### Capital adequacy and leverage ratio

The common equity Tier 1 capital ratio for 2017 was 14.3 percent (14.3) and the total capital ratio was 16.5 percent (16.6). For more information

about the capital adequacy calculation, see note 39 Capital analysis.

The combined buffer requirement for Ikano Bank is made up of the capital conservation buffer and the countercyclical capital buffer and amounts to SEK 1 281 m as at 31 December 2017.

The leverage ratio for the Bank was 10.9 percent for 31 December 2017 (10.5). The Bank therefore considers itself to have a comfortable level of capital strength.

### Liquidity

At year-end, the Bank's liquidity coverage ratio (LCR) totalled 229 percent. This measure shows how the Bank's highly liquid assets are related to net cash outflows over a thirty-day period during very strained market conditions. A limit value for the liquidity coverage ratio of 80 percent applies since 1 January 2017, with an increasing phasing to 100 percent on 1 January 2018. For a healthy and stable liquidity management the Bank has decided to hold an internal limit of over 100 percent already today.

The measure of stable financing (NSFR), has been introduced through Basel III, but as of 31 December 2017, had not been adopted in Sweden.

### Corporate Governance Report

Ikano Bank's corporate governance report for 2017 is attached to this Annual Report on page 64.

### Sustainability report

Ikano Bank's sustainability report for 2017 is published on the Bank's website.

### Outlook

Our outlook is positive and in 2018 the Bank anticipates further development work with a focus on customer benefit and efficiency. We have a strong financial position with good liquidity and a favourable market position.

### Proposal appropriation of profits

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

Fund for fair value	166 137 426
Retained earnings	4 104 641 695
<u>Net result for the year</u>	<u>283 861 349</u>
Total	4 554 640 470

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

To be carried forward	4 554 640 470
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## 5-year summary

SEK m	2017	2016	2015	2014	2013
<b>Income statement</b>					
Net interest income	1 960	2 021	2 011	1 262	1 080
Leasing income	3 396	2 781	2 427	2 275	2 039
Net commission	328	356	367	356	356
Net gains and losses on financial transactions	-6	9	-8	-7	7
Other operating income	268	105	159	192	143
<b>Total operating income</b>	<b>5 946</b>	<b>5 273</b>	<b>4 956</b>	<b>4 078</b>	<b>3 625</b>
General administrative expenses	-1 670	-1 689	-1 575	-1 194	-1 020
Depreciation/ amortisation and impairments of tangible and intangible assets	-3 086	-2 515	-2 167	-1 991	-1 756
Other operating expenses	-200	-346	-240	-138	-121
Loan losses	-556	-278	-412	-308	-295
<b>Other operating expenses</b>	<b>-5 511</b>	<b>-4 828</b>	<b>-4 395</b>	<b>-3 631</b>	<b>-3 192</b>
<b>Operating result</b>	<b>435</b>	<b>445</b>	<b>562</b>	<b>447</b>	<b>433</b>
Appropriations	-	-	-	-	-178
Taxes	-151	-166	-54	-130	-64
<b>Net result for the year</b>	<b>284</b>	<b>279</b>	<b>507</b>	<b>317</b>	<b>190</b>
SEK m	2017	2016	2015	2014	2013
<b>Balance Sheet</b>					
Cash	7	10	25	0	0
Loans to credit institutions	1 814	1 838	1 747	1 068	828
Loans to the public	27 799	26 845	24 105	16 573	14 887
Interest-bearing securities	3 277	3 449	2 805	2 225	2 126
Tangible assets	9 318	7 687	6 037	5 487	5 002
Other	1 868	1 708	1 567	833	940
<b>Total assets</b>	<b>44 082</b>	<b>41 536</b>	<b>36 286</b>	<b>26 186</b>	<b>23 783</b>
Liabilities to credit institutions	2 504	2 415	4 128	2 258	1 699
Deposits from the public	25 617	24 180	20 209	15 063	14 084
Other	9 203	8 517	6 511	4 758	4 295
Provisions	170	172	107	93	87
Subordinated liabilities	820	810	792	579	551
<b>Total liabilities and provisions</b>	<b>38 314</b>	<b>36 093</b>	<b>31 747</b>	<b>22 751</b>	<b>20 715</b>
Untaxed reserves	698	698	698	698	698
Equity	5 070	4 744	3 841	2 737	2 370
<b>Total liabilities, provisions and equity</b>	<b>44 082</b>	<b>41 536</b>	<b>36 286</b>	<b>26 186</b>	<b>23 783</b>

On 3 August 2015 sister company Ikano Bank GmbH in Germany merged with Ikano Bank AB (publ). This partly explains the differences between 2014 and 2015.

# 5-year summary

SEK m	2017	2016	2015	2014	2013
<b>Volumes</b>					
Business volume	67 863	63 501	55 119	41 777	38 918
<i>Change during the year</i>	6.9%	15.2%	31.9%	7.3%	10.9%
<i>Customer-related loans and deposits, leasing and mediated mortgage loans</i>					
Loans to the public	27 799	26 845	24 105	16 573	14 887
<i>Change during the year</i>	3.6%	11.4%	45.4%	11.3%	28.5%
Deposits from the public	25 617	24 180	20 209	15 063	14 084
<i>Change during the year</i>	5.9%	19.6%	34.2%	7.0%	1.7%
<b>Capital</b>					
Equity ratio <sup>1)</sup>	12.7%	12.7%	12.1%	12.5%	12.3%
<i>Taxed equity +78 % of untaxed reserves in relation to total assets</i>					
Total Capital ratio	16.5%	16.6%	16.8%	17.8%	16.7%
<i>Own funds in relation to risk exposure amount</i>					
Common equity Tier 1 ratio	14.3%	14.3%	14.1%	15.1%	14.0%
<i>Common Equity Tier 1 capital in relation to risk exposure amount</i>					
<b>Liquidity</b>					
Liquidity portfolio in relation to deposits from the public	19.7%	21.8%	22.3%	21.9%	21.0%
Deposits from the public in relation to total assets	58.1%	58.2%	55.7%	57.5%	59.2%
Liquidity coverage ratio (LCR)	229%	283%	160%	167%	-
<b>Result</b>					
Investment margin	4.6%	5.2%	6.4%	5.1%	4.9%
<i>Net interest income in relation to average total assets</i>					
Return on adjusted equity <sup>1)</sup>	6.2%	7.2%	11.4%	11.3%	12.8%
<i>Operating result after standard tax rate in relation to average adjusted equity</i>					
C/I-ratio before loan losses	66.3%	74.2%	65.6%	64.4%	61.9%
<i>Operating expenses in relation to operating income with lease operations offset in operating income</i>					
Return on total assets	0.6%	0.7%	1.4%	1.2%	0.8%
<i>Net result as % of total assets</i>					
<b>Credit quality</b>					
Provision for non performing loans	48.1%	58.6%	61.0%	63.9%	56.0%
<i>Total provision for probable loan losses in relation to non performing loans, gross</i>					
Share of non performing loans	1.8%	1.7%	2.2%	1.8%	2.3%
<i>Non performing loans, in relation to total loans to the public, credit institutions (excluding banks) and lease receivables</i>					
Loan loss ratio	1.6%	0.9%	1.6%	1.5%	1.7%
<i>Loan losses in relation to average loans to the public, credit institutions (excluding banks) and lease receivables</i>					
<b>Other information</b>					
Average number of employees	901	967	821	709	719

1) Calculated according to each year's applicable tax rate.

# Income statement

SEK 000	Note	2017	2016
Interest income	6	2 354 945	2 421 986
Interest expense	6	-394 770	-400 551
<b>Net interest income</b>		<b>1 960 176</b>	<b>2 021 435</b>
Leasing income	7	3 395 930	2 780 577
Commission income	8	647 629	670 831
Commission expense	8	-319 298	-314 750
<b>Net commission income</b>		<b>328 331</b>	<b>356 081</b>
Net gains and losses on financial transactions	9	-6 455	9 337
Other operating income	10	268 200	105 108
<b>Total income</b>		<b>5 946 183</b>	<b>5 272 538</b>
General administrative expenses	12	-1 670 051	-1 688 508
Depreciation/amortisation and impairments of tangible and intangible assets	22, 23	-3 085 917	-2 515 049
Other operating expenses	13	-199 863	-345 556
<b>Total expenses before loan losses</b>		<b>-4 955 831</b>	<b>-4 549 113</b>
<b>Profit before loan losses</b>		<b>990 352</b>	<b>723 425</b>
Loan losses, net	14	-555 588	-278 424
<b>Operating result</b>		<b>434 764</b>	<b>445 001</b>
Tax expense	15	-150 903	-166 153
<b>Net result for the year</b>		<b>283 861</b>	<b>278 848</b>

# Report on total comprehensive income for the year

SEK 000	2017	2016
<b>Net result for the year</b>	<b>283 861</b>	<b>278 848</b>
<b>Other comprehensive income</b>		
<b>Items that can be reclassified to net profit for the year</b>		
Translation difference for the year, foreign branches	33 309	98 524
Changes in fair value on financial assets available-for-sale	2 360	35 321
Cash flow hedges	9 394	-2 169
Tax related to changes in fair value of financial assets available for sale	-519	-7 770
Tax related to changes in fair value of cash flow hedges	-2 067	477
<b>Other comprehensive income for the year, net of tax</b>	<b>42 477</b>	<b>124 383</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>326 339</b>	<b>403 231</b>

# Balance sheet

SEK 000	Note	2017	2016
<b>Assets</b>			
Cash		6 603	9 881
Treasury bills	16	1 172 947	1 201 155
Loans to credit institutions	17	1 813 843	1 837 545
Loans to the public	18	27 798 753	26 845 453
Bonds and other interest-bearing securities	19	2 103 980	2 247 378
Shares and participations	20	18 885	15 083
Shares and participations in group companies	21	13 322	13 322
Intangible assets	22	394 813	322 072
Tangible assets	23	9 318 397	7 687 008
- Leasing assets		9 283 371	7 629 348
- Equipment		35 026	57 660
Other assets	25	968 610	908 297
Deferred tax assets	15	158 824	162 892
Prepaid expenses and accrued income	26	313 121	285 532
<b>Total assets</b>		<b>44 082 098</b>	<b>41 535 619</b>
<b>Liabilities, provisions and equity</b>			
Liabilities to credit institutions	27	2 503 967	2 414 715
Deposits from the public	28	25 616 729	24 179 555
Change in fair value on interest-rate hedged items in the portfolio	29	-	468
Issued securities	30	6 824 779	6 182 825
Other liabilities	31	1 128 161	1 035 082
Accrued expenses and deferred income	32	1 250 216	1 298 763
Provisions		170 098	172 179
- Provisions for pensions	33	33 468	32 815
- Deferred tax liabilities	15	122 573	122 798
- Other provisions		14 058	16 566
Subordinated liabilities	34	819 680	809 905
<b>Total liabilities and provisions</b>		<b>38 313 631</b>	<b>36 093 490</b>
<b>Untaxed reserves</b>	35	<b>698 157</b>	<b>698 157</b>
<b>Equity</b>	36		
<b>Restricted equity</b>		<b>515 670</b>	<b>422 417</b>
Share capital		78 994	78 994
Statutory reserve		193 655	193 655
Fund for development expenses		243 021	149 768
<b>Non-restricted equity</b>		<b>4 554 640</b>	<b>4 321 555</b>
Fund for fair value		166 137	123 659
Retained earnings		4 104 642	3 919 048
Net result for the year		283 861	278 848
<b>Total equity</b>		<b>5 070 310</b>	<b>4 743 972</b>
<b>Total liabilities, provisions and equity</b>		<b>44 082 098</b>	<b>41 535 619</b>

# Statement of changes in equity

SEK 000	Restricted equity			Non-restricted equity					Total equity
	Share capital	Statutory reserve	Fund for development expenses	Fund for fair value			Retained earnings or losses	Net result for the year	
				Fair value reserve	Translation reserve	Cash flow hedge reserve			
<b>Opening balance 2016-01-01</b>	78 994	193 655	-	-2 473	-1 060	2 809	3 061 569	507 246	3 840 740
Appropriation of profits	-	-	-	-	-	-	507 246	-507 246	-
Change in fund for development expenses	-	-	149 768	-	-	-	-149 768	-	-
Net result for the year	-	-	-	-	-	-	-	278 848	278 848
Other comprehensive income for the year	-	-	-	27 551	98 524	-1 692	-	-	124 383
<b>Total comprehensive income for the year</b>	-	-	-	27 551	98 524	-1 692	-	278 848	403 231
Shareholders contribution	-	-	-	-	-	-	500 000	-	500 000
<b>Closing balance 2016-12-31</b>	78 994	193 655	149 768	25 078	97 465	1 117	3 919 047	278 848	4 743 972
<b>Opening balance 2017-01-01</b>	78 994	193 655	149 768	25 078	97 465	1 117	3 919 047	278 848	4 743 972
Appropriation of profits	-	-	-	-	-	-	278 848	-278 848	-
Change in fund for development expenses	-	-	93 253	-	-	-	-93 253	-	-
Net result for the year	-	-	-	-	-	-	-	283 861	283 861
Other comprehensive income for the year	-	-	-	1 841	33 309	7 327	-	-	42 477
<b>Total comprehensive income for the year</b>	-	-	-	1 841	33 309	7 327	-	283 861	326 339
<b>Closing balance 2017-12-31</b>	78 994	193 655	243 021	26 919	130 774	8 444	4 104 642	283 861	5 070 310

# Cash flow statement

SEK 000	2017	2016
<b>Operating activities</b>		
Operating result	+434 764	+445 001
<i>Of which interest paid</i>	-379 058	-488 945
<i>Of which interest received</i>	+2 353 416	+2 422 283
<b>Adjustment for non-cash items</b>		
Depreciation / amortisation	+3 085 917	+2 515 049
Loan losses	+773 068	+453 854
Other adjustments	+186 768	+45 609
Income tax paid	-302 224	-169 848
<b>Cash flows from operating activities before changes in working capital</b>	<b>+4 178 293</b>	<b>+3 289 665</b>
<b>Cash flows from changes in working capital</b>		
Changes in loans to the public	-1 699 038	-3 170 809
Changes in securities	+171 607	-643 171
Changes in deposits from the public	+1 437 165	+3 978 800
Changes in leasing assets	-4 650 622	-3 924 832
Changes in other assets	+40 940	1 874
Changes in other liabilities	-62 554	+25 317
<b>Cash flows from operating activities</b>	<b>-584 209</b>	<b>-443 156</b>
<b>Investing activities</b>		
Investment in financial assets	+0	-521
Change of intangible assets	-128 417	-154 693
Sale of tangible assets	+654	+1 004
Acquisition of tangible assets	-3 105	-13 932
<b>Cash flows from investing activities</b>	<b>-130 868</b>	<b>-168 142</b>
<b>Financing activities</b>		
Issuance of interest-bearing securities	+5 042 501	+4 931 774
Repayment of interest-bearing securities	-4 400 547	-2 966 887
Borrowing from credit institutions	+168 282	-1 914 407
Shareholders contribution	+0	+500 000
<b>Cash flows from financing activities</b>	<b>+810 236</b>	<b>+550 480</b>
<b>Cash flow for the year</b>	<b>+95 159</b>	<b>-60 818</b>
Cash and cash equivalents at beginning of the year	+1 707 836	+1 766 386
Exchange rate difference in cash and cash equivalents	+5 441	+2 269
<b>Cash and cash equivalents at the end of the year</b>	<b>+1 808 435</b>	<b>+1 707 836</b>

Reclassification has been made regarding 2016.

## Additional information about change in liabilities from financing activities

SEK 000	2017-01-01	Cash flows	Foreign exchange movement	2017-12-31
Certificates of deposits	2 204 208	-99 652	-	2 104 556
Bonds	3 978 617	741 606	-	4 720 223
Borrowing from credit institutions	2 275 124	168 282	48 550	2 491 956
Subordinated loans	809 905	-	9 775	819 680
<b>Total liabilities from financing activities</b>	<b>9 267 854</b>	<b>810 236</b>	<b>58 325</b>	<b>10 136 415</b>

All of the above liabilities in the financing activities are valued at amortized 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 1 820 m, with deductions for current liabilities to credit institutions SEK 12 m. The corresponding amounts for the previous year were SEK 1 847 m and SEK 140 m.

# Notes

## 1 General information

The annual report for Ikano Bank AB (publ) as of 31 December 2017 has been approved for disclosure by the Board on 14 March 2018. The Annual Report relates to Ikano Bank AB (publ), which is a limited liability company with registered office in Älmhult, corporate registration number 516406-0922. 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 14 March 2018 at the latest.

The 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 for credit institutions and securities companies (AACCS), the Financial Supervisory Authority and general advice on Annual Reports in credit institutions and securities companies (FFFS 2008: 25), in accordance with the amendment provisions 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 imposed by RFR 2 and FFFS 2008: 25 in accordance with the amending regulations. This means that all EU-endorsed IFRS and statements, to the extent possible, within the framework of the Annual Accounts Act and considering the relationship between accounting and taxation, have been applied. The following accounting principles have been applied consistently to all periods presented in the financial statements, unless otherwise stated.

All amounts reported in the financial statements are in Swedish kronor (SEK), 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. Financial assets and liabilities are reported at fair value constituted by:

- derivatives
- financial instruments classified as financial assets or liabilities at fair value in the income statement
- financial assets that can be sold

### 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 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.

### **Impairment of loan losses**

Collective loss reserves are applied to loan losses for portfolios of a similar financial nature where the objective indications suggest that there is a risk of loss in the portfolio. When assessing the need for collective loan loss reserves, factors, such as credit quality, customer behaviour, portfolio size, concentrations, historical experience and other financial factors are taken into consideration. For quantitative information see note 3 Risks and risk management. Individual loss reserves are based on estimates of the present value of the expected cash flows. In estimating these cash flows, an assessment of the client's financial situation and the value of any collateral is carried out.

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

### **Changed accounting principles**

New or Amendments and interpretations effective from 1 January 2017 are assessed to have no material impact on the Bank's financial position, result or disclosures.

### **New IFRS and interpretations not yet implemented**

New or amended standards and interpretations that come into effect only during the coming fiscal year have not been applied in advance for the preparation of these financial reports. Below are described such standards that may affect the Bank's financial reports. In addition to these, other new standards is not expected to have any significant impact on the Bank's financial reports 2017 or later.

#### **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Accounting and Valuation as of January 1 2018. IFRS 9 does not contain any requirement for translation of comparative figures in annual accounts and Ikano Bank does not intend to do so.

The IASB divided the project into three parts: Classification and valuation, Impairment and Hedge accounting

#### **Classification and valuation**

According to the classification and valuation rules in IFRS 9, financial assets are classified at fair value through profit or loss, fair value through other comprehensive income or at amortised cost. The classification of a debt instrument is determined based on the company's business model for the management of financial assets and whether the contractual cash flows consist solely of payment of capital and interest.

Analysis of Ikano Bank's business model for the assets included in loans and receivables is to hold these to receive contractual cash flows and that these cash flows consist solely of payments of capital amount and interest on the outstanding principle amount, which means that the Bank will continue to classify these instruments to amortised cost.

Financial assets in the Bank's liquidity portfolio are held in a business model whose purpose is to hold financial assets both to obtain contractual cash flows as well as to sell these financial assets and will continue to be classified as financial assets valued at fair value through other comprehensive income.

For existing equity instruments within the scope of IFRS 9, the Bank has chosen to follow the main rule for equity instruments and valuation will be made at fair value through profit or loss. The classification and valuation of financial liabilities is largely unchanged compared with IAS 39. The classification and valuation of financial liabilities is largely unchanged compared with IAS 39.

Based on analysis performed, the Bank intends to classify all debt instruments at amortised cost. Financial assets in the Bank's liquidity portfolio will be classified as financial assets valued at fair value through other comprehensive income.

Equity instruments shall be valued at fair value through profit or loss, unless the entity chooses to present such instruments at fair value through other comprehensive income at the date of the first reporting. For existing equity instruments within the scope of IFRS 9, the Bank has chosen a fair value measurement in the income statement. The classification and valuation of financial liabilities is largely unchanged compared with IAS 39.

Ikano Bank's assessment is that the classification and valuation rules in IFRS 9 are not expected to make any significant changes in Ikano Bank's financial reports

#### **Impairment**

The second part of IFRS 9 introduces a forward-looking expected loan loss model which, unlike IAS 39, builds reserves already when new credits are granted. Furthermore, IFRS 9 is more extensive than IAS 39 regarding the impairment requirement. Assets valued at amortised cost and fair value through other comprehensive income and credit commitments shall be subject to the assessment of impairment. Financial assets that are subject to the impairment test need to be divided into three stages, depending on the degree of credit impairment. 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). The Bank's criteria for identifying if a significant increase occurs is based on absolute and relative changes in the probability of default. Qualitative factors

not reflected in models can also be used to identify an increase in credit risk. In addition, financial instruments which are past due by more than 30 days are considered to have had a significant increase in credit risk. Models for assessing the probability of default and consequently a significant increase in risk are constructed per market and segment using internal and, in part, external attributes.

The regulatory framework also requires a forward-looking part where internal macro models have been built for the different markets. Macro variables are collected from official sources, for example, for gross domestic product and consumer price index per market. The macro model is based on different scenarios as probability weights for an adjustment of the probability of default. The models are based on the Bank's history of default or credit losses, and for markets with insufficient loss history, time series from official sources have been used as approximation for internal cases.

In line with previously communicated expectations, the transition to IFRS 9 implies increased provisions for loan losses and a reduction of the Bank's equity. Calculations show that the effect of the introduction of IFRS 9 is an increase in credit loss reserves by SEK 285 m and the net effect after tax of this one-off effect is a decrease of SEK 222 m in retained earnings, which will have a negative effect with 50 basis points on the Bank's capital adequacy. The EU has decided on the possibility of applying transitional rules for the introduction of IFRS 9. The Bank has notified SFSA of its decision to apply the one-off transition rules, which means a gradual phase-in in the capital adequacy over five years.

#### **Hedge accounting**

The third part on simplified prerequisites for hedge accounting enables adjustment of the hedge accounting for risk management in the company and introduces less detailed rules for assessing the effectiveness of hedging. IFRS 9 contains an opportunity to continue applying IAS 39 until the IASB has completed its portfolio hedging project. Ikano Bank will continue to apply IAS 39 for its portfolio hedges and will apply IFRS 9 to other hedging relationships. Ikano Bank's assessment is that the new rules on hedge accounting will not have a significant impact on the Bank's financial reports.

#### **IFRS 15 Income from agreements with customers**

The new standard for revenue recognition IFRS 15 replaces IAS 18 Revenues. IFRS 15 is applicable for fiscal years beginning January 1 2018 or later, and is adopted by the EU. The standard represents a revenue recognition model for almost all income arising from agreements with customers, with the exception of leases, financial instruments and insurance contracts. The basic principle is that a company should report an income in the manner that reflects the transfer of the promised product or service to the customer, to the amount that the company expects to receive in exchange for the

goods or service. IFRS 15 comprises for Ikano Bank mainly payment brokerage commissions, lending commissions and other commissions, such as insurance brokerage commissions. The review carried out showed no significant effects on Ikano Bank's financial reports from IFRS 15, in addition to the extended disclosures that comply with the standard.

#### **IFRS 16 Leases**

The new leasing standard IFRS 16, which replaces IAS 17, will start from 2019. IFRS 16 implies changes for the lessee's lease accounting, while the lessor is expected to report substantially consistent with current rules in IAS 17. When Ikano Bank today utilizes the exception in RFR 2 for legal entity, IFRS 16 is expected to not affect Ikano Bank's financial reports to a significant extent, since the Financial Reporting Council has proposed that the exemption continues to apply for IFRS 16 from 2019.

#### **Segment reporting**

Ikano Bank carries out business using seven operating segments that coincide with the geographic markets. The geographic segments are Sweden, Denmark, Norway, Finland, UK, Germany/Austria and Poland. Each segment is internally reported on a monthly basis to the Bank's management group 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 and Norway. In addition, the business in Sweden, Denmark, Germany and UK offer loans and savings products to private individuals. Loan products to private individuals are also offered by the Norwegian business. 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**

The income is reported when the income can be considered reliable and it is probable that the financial benefits associated with the transaction will be paid to the Bank.

## 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 of time, 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 commissions and fees related to payment settlements, clearing transactions and account administration. Income from commissions and fees is reported as revenue when the revenue can be measured reliably, it is probable that the financial benefits associated with the transaction will be paid to the Bank and the expenditures incurred and the remaining expenses can be calculated reliably.

## 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 available for sale
- when applicable, impairment of financial assets available for sale
- 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 laws that have been established on 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

Financial instruments are initially measured at the instrument's fair value with additions for transaction costs except for derivatives and those instruments that are in the category Financial assets reported at fair value in the income statement, which are reported at the fair value exclusive transaction costs. A financial instrument is classified at the time of acquisition partly based on the purpose of acquiring the instrument but also on the options contained in IAS 39. The classification determines how the financial instrument is measured after its initial reporting.

Ikano Bank classifies financial assets into the following three categories at the time of acquisition: Financial assets measured at fair value in the income statement, Loan receivables and accounts receivable as well as Financial assets available for sale.

Ikano Bank classifies financial liabilities into the following two categories at the time of acquisition: Financial liabilities measured at fair value in the income statement and Other financial liabilities.

## Financial assets measured at fair value in the income statement

This category includes interest rate and currency swaps for which hedge accounting is not applied. Financial instruments in this category are measured on an ongoing basis at the fair value with changes in value reported in the income statement.

## Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets with fixed or determinable payments and are not listed on an active market. In the balance sheet, these are represented by the balance sheet items Loans to credit institutions, Loans to the public, Accrued income and Other assets. These assets are measured at the amortised cost. The amortised cost value is determined using the effective interest rate calculated at the date of acquisition. Accounts receivable and loan receivables are reported at the amounts expected to be received, i.e. after deductions for provisions of non-performing loans.

## Financial assets available for sale

In the category Financial assets available for sale, interest-bearing securities and shares and participations are included. Assets in this category are measured at fair value with value changes reported in other comprehensive income and accumulated in the fund for fair value in equity. Shareholdings that are not listed on an active market and whose fair value cannot be reliably measured are measured at the acquisition cost.

Changes in value due to impairment or exchange rate differences on monetary items (interest-bearing securities) are reported in the income statement. When an asset is liquidated, the accumulated gain or loss, which was previously reported in other comprehensive income, is reported in the income statement.

## Financial liabilities measured at fair value in the income statement

This category includes interest rate and currency swaps that are not used in hedge accounting.

## Other financial liabilities

This category includes Liabilities to credit institutions, Deposits from the public, Issued securities, Subordinated liabilities, and Other financial liabilities. Other financial liabilities are mainly items relating to other liabilities and accrued expenses. These assets 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 whether he or she wants 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 two weeks. 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.

## 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 IAS 39 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 IAS 39 in those cases the income effect would be too misleading if hedge accounting was not applied. For the Bank's hedging relationships, hedging is applied at fair value hedge and cash flow hedge.

### Fair value hedge

Change 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. For hedging of fixed-rate deposits, the derivative is reported at fair value in the balance sheet. The hedged liability's book value is adjusted taking into consideration the change in value of the hedged risk. Change in fair value of the derivative is reported in the income statement as well as the change in fair value of the hedged item under 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 efficiency is within the 80-125% range, an adjustment of the value of the hedged amount equivalent

to the calculated change in fair value is reported on a separate line in the balance sheet. If the hedge relationship is no longer efficient, the relation is discontinued and previously reported value adjustments on the hedged item, up to the hedged item's expected maturity date, are distributed over time. 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.

### Cash flow hedge

Cash flow hedging is 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. 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 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 are accounted as recognized in other comprehensive income and accumulated in the fair value reserve.

## 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 38, 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 the 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 38, 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.

Where the fair value of unlisted shares cannot be determined reliably, the acquisition value, adjusted for possible impairment, is used as an approximation of fair value. The Bank has no intention to dispose of the unlisted shares in the foreseeable future.

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

### **Loan losses and impairment of financial instruments**

At each reporting date, the Bank evaluates whether there is objective evidence that a financial asset or group of assets needs to be impaired. Objective evidence of the need for impairment includes observable data, for example, whether the debtor has financial difficulties and has made late payments or missed payments. Objective evidence may also be identified as adverse changes in the payment status of a group of financial assets with a similar risk profile.

#### **Financial assets measured at amortised cost**

A loan is classified as non-performing if one or more events have occurred that have an impact on the estimated future cash flows from the asset or group of assets. Payments more than 45–90 days overdue, depending on the product and market, are generally considered by the Bank as objective evidence that a loan is non-performing. Other objective evidence may be information about significant financial difficulties. The Bank assesses whether the need for impairment exists for non-performing loans and whether a credit loss shall be reported on an individual basis for all loans that are overdue and also for significant, individual loans.

When no need for impairment can be identified for loans evaluated in relation to the need for impairment on an individual basis, an additional assessment is carried out along with other loans with similar credit-risk properties to investigate whether a need for impairment exists at the group level. An assessment to establish group-wide impairment is carried out using statistical models, which calculate the probability that a receivable in the different groups will not be settled in accordance with the original contract.

The reported value of assets after impairment is calculated as the present value of future cash flows discounted by the effective interest rate that was applicable when the asset was initially reported. Short-term assets are not discounted. Impairment is charged to the income statement.

#### **Financial assets available for sale**

Financial assets available for sale consist mainly of bonds and other interest-bearing securities. These are subject to impairment if objective evidence has been identified, see above.

#### **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 14. Impairments of interest-bearing securities are reversed in the income statement if the fair value increases and such increase can objectively be attributed to an event taking place after the impairment was done.

#### **Write-off of loan receivables**

Loan receivables classified as non-performing are written off from the balance sheet when the loan loss is considered to be realised. A loan 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.

#### **Intangible assets**

Intangible 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 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 on the line, Tangible assets. The leasing fee, when the Bank is the lessee, 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 is normally financed for 36 months, with a residual value between 0 and 10%.

## 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 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, 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 defined 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 and the Swedish Financial Supervisory Authority's regulations for estimating the size of commitments apply. This is a prerequisite for the right to deduct tax.

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 33 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: [www.ikanobank.se](http://www.ikanobank.se).

### 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

## 3 Risks and risk management

In its operations, the Bank is exposed to various types of risk, such as credit risk, operational risk, liquidity risk, and market risk. The Bank also manages other types of risk, such as strategic risk and reputation risk. The Bank's risk appetite is generally low and all volume growth takes place with controlled and conscious risk-taking.

The Board of Directors and Managing Director are ultimately responsible for risk management at Ikano Bank. To ensure sound risk management, the Board of Directors establishes policies relating to such matters as risk appetite and risk tolerance.

Risk management aims to ensure that the risks do not exceed the risk tolerance levels established by the Board of Directors and management.

The Bank's control organisation comprises three lines of defence with respect to management and control of the company's risks.

The first line of defence is the operating units that are exposed to and manage the risks in daily operations. This includes the Managing Director/management and business line managers, as well as support functions. Each business area and support function has a compliance and risk coordinator who is responsible for reporting and dialogue with the Compliance and Risk Control function in the second line of defence.

The second line of defence is the independent control function responsible for identifying, quantifying and reporting risks. Compliance is responsible for monitoring the policies and rules determined by the Board of Directors. This function also provides advice and support for the business functions. The independent Risk Control

appropriate, the risks associated with the liability in question.

Provisions for pensions, deferred tax liabilities 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.

function monitors exposures to Board-approved limits.

The third line of defence is the internal audit, which independently audits the first and second lines of defence. By testing and evaluating the efficiency in the risk management and control functions, the internal audit function is to ensure the quality in the Bank's management of risks. The function reports directly to the Board of Directors.

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. All new processes and products that are introduced in the Bank go through the Bank's New Product Approval Committee (NPAC). The NPAC identifies potential new risks and ensures that these can be measured, reported and mitigated.

### Operational risk

Ikano Bank defines operational risk as the risk of direct or indirect loss resulting from inadequate or defective internal processes, procedures and systems, management errors or external events and factors. This definition includes legal risk, but excludes strategic risk and reputational risk.

Ikano Bank, as an Internet bank, is strongly dependent on IT systems and telephony. Follow-up of incidents and improvements in accessibility are priority areas. The Bank has an incident



reporting system where incidents are reported and monitored. Risks are analysed continuously and policies, guidelines and procedure descriptions are available to prevent and limit damages due to operational risks.

Risk Control coordinates the work with operational risk but the respective managers in each business operation are responsible for operational risk. Annual risk reviews are carried out by the management for the different operations, where the greatest risks are measured and managed in an action plan. New products, partners and IT systems undergo a risk assessment that includes operational risk. 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 in regard to operational risks is defined based on three different criteria:

1. The Bank's contingency plan - Business Continuity Planning, shall be updated and tested,
2. All new products must go through the NPAC and
3. Areas where the Bank's Operational Risk Assessment has identified a potential risk that may result in costs exceeding SEK 2 m for the Bank. In this case, the action plan shall be set in motion and be completed within 12 months.

All criteria are to be followed up.

## Credit risk

Credit risk is the Bank's largest risk and is defined as the risk that the counterparty (the borrower) 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 has applied scoring models in the assessment of credit risk for many years. 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. 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 models to assess the need for provisions, is based on Basel Committee's principles for advanced models called PD (Probability of Default) and LGD (Loss Given Default) models.

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 long-standing 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. 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 to credit risk is defined based on indicative regulatory capital and updated annually by the Board. The indicative capital is divided into three different exposure types - card lending, loans to individuals and corporate customers who have separate limits and are monitored separately.

The Bank's credit risk exposure, gross and net, concentrations regarding counterparties, as well as loan receivables by category of borrower are shown in the following table. Leasing receivables are reported as tangible fixed assets in the balance sheet.

## Credit risk exposure, gross and net

2017 SEK 000	Total credit risk exposure (before impairment)			Value of collaterals regarding balance sheet items	Total credit risk exposure after value of collaterals
	Impairment	Carrying amount			
Treasury bills	1 172 947	-	1 172 947	-	<b>1 172 947</b>
- AAA	335 659	-	335 659	-	335 659
- AA	837 288	-	837 288	-	837 288
Loans to credit institutions	1 813 843	-	1 813 843	-	<b>1 813 843</b>
- AAA	7 205	-	7 205	-	7 205
- AA	1 069 490	-	1 069 490	-	1 069 490
- A	535 954	-	535 954	-	535 954
- BBB or lower	177 569	-	177 569	-	177 569
- no rating	23 624	-	23 624	-	23 624
Loans to the public	28 701 216	902 463	27 798 753	-	<b>27 798 753</b>
Leasing receivables	9 837 062	112 742	9 724 320	1 408 571	<b>8 315 749</b>
Bonds and other interest-bearing securities	2 103 980	-	2 103 980	-	<b>2 103 980</b>
- AAA	1 272 481	-	1 272 481	-	1 272 481
- AA	250 140	-	250 140	-	250 140
- A	481 327	-	481 327	-	481 327
- BBB or lower	50 024	-	50 024	-	50 024
- no rating	50 008	-	50 008	-	50 008
Derivatives	9 068	-	9 068	-	<b>9 068</b>
- AA	7 861	-	7 861	-	7 861
- A	1 207	-	1 207	-	1 207
Commitments and contingent liabilities	40 309 611	-	40 309 611	-	<b>40 309 611</b>
Loan promises	2 262 408	-	2 262 408	-	2 262 408
Unused credit limits <sup>1)</sup>	38 046 534	-	38 046 534	-	38 046 534
Contingent liabilities	669	-	669	-	669
<b>Total credit risk exposure</b>	<b>83 947 726</b>	<b>1 015 205</b>	<b>82 932 522</b>	<b>1 408 571</b>	<b>81 523 951</b>

2016 SEK 000	Total credit risk exposure (before impairment)			Value of collaterals regarding balance sheet items	Total credit risk exposure after value of collaterals
	Impairment	Carrying amount			
Treasury bills	1 201 155	-	1 201 155	-	<b>1 201 155</b>
- AAA	517 588	-	517 588	-	517 588
- AA	683 567	-	683 567	-	683 567
Loans to credit institutions	1 837 545	-	1 837 545	-	<b>1 837 545</b>
- AA	1 067 719	-	1 067 719	-	1 067 719
- A	728 014	-	728 014	-	728 014
- BB	24	-	24	-	24
- no rating	41 788	-	41 788	-	41 788
Loans to the public	27 800 085	954 632	26 845 453	-	<b>26 845 453</b>
Leasing receivables	8 101 489	83 116	8 018 373	1 859 809	<b>6 158 564</b>
Bonds and other interest-bearing securities	2 247 377	-	2 247 377	-	<b>2 247 377</b>
- AAA	1 481 654	-	1 481 654	-	1 481 654
- AA	100 065	-	100 065	-	100 065
- A	500 164	-	500 164	-	500 164
- BBB or lower	85 220	-	85 220	-	85 220
- no rating	80 274	-	80 274	-	80 274
Derivatives	52 595	-	52 595	-	<b>52 595</b>
- AA	22 019	-	22 019	-	22 019
- A	34 619	-	34 619	-	34 619
- no rating	-4 043	-	-4 043	-	-4 043
Commitments and contingent liabilities	39 376 537	-	39 376 537	-	<b>39 376 537</b>
Loan promises	1 957 201	-	1 957 201	-	1 957 201
Unused credit limits <sup>1)</sup>	37 418 680	-	37 418 680	-	37 418 680
Contingent liabilities	656	-	656	-	656
<b>Total credit risk exposure</b>	<b>80 616 783</b>	<b>1 037 748</b>	<b>79 579 035</b>	<b>1 859 809</b>	<b>77 719 226</b>

1) All approved, non-utilised credit facilities consist of credit card loans that may be terminated effective immediately to the extent permitted by the Consumer Credit Act.

## Age analysis of non-performing loans

SEK 000	2017	2016
Receivables due up to 60 days	56 104	17 283
Receivables due > 60-90 days	184 531	21 873
Receivables due > 90-180 days	283 010	341 284
Receivables due > 180-360 days	322 569	306 672
Receivables due > 360 days	492 670	822 687
<b>Total</b>	<b>1 338 885</b>	<b>1 509 800</b>

## Age analysis of unsettled loan receivables not included in non-performing loans

SEK 000	2017	2016
Receivables due up to 60 days	1 105 773	1 138 762
Receivables due > 60-90 days	244 953	185 379
Receivables due > 90-180 days	-	-
Receivables due > 180-360 days	-	-
Receivables due > 360 days	-	-
<b>Total</b>	<b>1 350 726</b>	<b>1 324 141</b>

For a definition of non-performing loans, see section Financial assets measured at amortised cost in note 2 Accounting principles. Unsettled loan receivables refer to the receivables which are due for payment and which are not included

in non-performing loans. These receivables are included in the future assessment in which impairment is made at the group level. Collateral in the form of buy-backs and guarantees for overdue receivables amounted to SEK 121 k (179).

## Loan receivables per category of borrower

SEK 000	2017	2016
<b>Loan receivables, gross</b>		
- household sector	27 661 482	26 715 972
- corporate sector	10 584 040	8 868 175
- public sector	292 756	317 427
<b>Total</b>	<b>38 538 278</b>	<b>35 901 574</b>
Of which:		
<b>Non performing loans</b>	<b>1 338 885</b>	<b>1 509 800</b>
- household sector	926 091	1 182 566
- corporate sector	412 794	324 948
- public sector	-	2 286
Less:		
<b>Specific impairment for individually assessed loans</b>	<b>118 784</b>	<b>92 587</b>
- household sector	14 921	15 654
- corporate sector	103 863	76 761
- public sector	-	172
<b>Impairment for collectively assessed homogenous groups of loans</b>	<b>896 421</b>	<b>945 160</b>
- household sector	872 962	923 050
- corporate sector	23 434	22 081
- public sector	25	29
<b>Loan receivables, net reported value</b>		
- household sector	26 773 600	25 777 267
- corporate sector	10 456 743	8 769 333
- public sector	292 731	317 226
<b>Total</b>	<b>37 523 074</b>	<b>34 863 826</b>

## Credit quality, loan receivables

SEK 000	2017	2016
<b>Corporate sector</b>	<b>9 503 175</b>	<b>7 773 119</b>
Credit score 1-3, low to medium risk	9 351 907	7 231 342
Credit score 4-5, higher risk	151 268	541 777
<b>Household sector</b>	<b>26 345 492</b>	<b>25 294 515</b>
Credit score 1-3, low to medium risk	25 669 170	24 900 766
Credit score 4-5, higher risk	676 322	393 749
<b>Total</b>	<b>35 848 667</b>	<b>33 067 634</b>

Credit scores are assigned to receivables that are neither overdue nor defined as non-performing loans based on an internal assessment scale.

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

Ikano Bank is party to 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 2017.

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.

2017 SEK 000	Amounts not offset in Balance Sheet					
	Gross value	Offsetting in the Balance Sheet	Net in Balance Sheet	Netting agreements	Issued/Received collateral	Net value
Derivatives	63 835	-	63 835	-49 192	-9 846	4 798
<b>Total financial assets</b>	<b>63 835</b>	<b>-</b>	<b>63 835</b>	<b>-49 192</b>	<b>-9 846</b>	<b>4 798</b>

Derivatives	54 767	-	54 767	-49 192	-6 840	-1 265
<b>Total financial liabilities</b>	<b>54 767</b>	<b>-</b>	<b>54 767</b>	<b>-49 192</b>	<b>-6 840</b>	<b>-1 265</b>

2016 SEK 000	Amounts not offset in Balance Sheet					
	Gross value	Offsetting in the Balance Sheet	Net in Balance Sheet	Netting agreements	Issued/Received collateral	Net value
Derivatives	124 174	-	124 174	-58 095	-83 906	-17 826
<b>Total financial assets</b>	<b>124 174</b>	<b>-</b>	<b>124 174</b>	<b>-58 095</b>	<b>-83 906</b>	<b>-17 826</b>

Derivatives	71 579	-	71 579	-58 095	-	13 484
<b>Total financial liabilities</b>	<b>71 579</b>	<b>-</b>	<b>71 579</b>	<b>-58 095</b>	<b>-</b>	<b>13 484</b>

## 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. The degree of encumbrance, i.e. encumbered assets as a percentage of the total balance, is very low (approx. 0.1%).

	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
<b>2017</b>					
<b>SEK m</b>					
<b>Assets</b>					
Equity instruments	-	32	32	-	-
Interest-bearing securities	-	3 277	3 277	-	-
Other assets	47	40 726	40 726	-	10
<b>Total</b>	<b>47</b>	<b>44 036</b>	<b>44 036</b>	<b>-</b>	<b>10</b>

	Matching liabilities	Encumbered assets
Carrying amount of selected financial liabilities	55	47

	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
<b>2016</b>					
<b>SEK m</b>					
<b>Assets</b>					
Equity instruments	-	28	28	-	-
Equity instruments	-	3 449	3 449	-	-
Other assets	24	38 035	38 035	-	84
<b>Total</b>	<b>24</b>	<b>41 512</b>	<b>41 512</b>	<b>-</b>	<b>84</b>

	Matching liabilities	Encumbered assets
Carrying amount of selected financial liabilities	72	24

## 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.

The 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 issues 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 of 31 December 2017. Deposits from the public are comprised of both fixed term and non-fixed term deposits. Total deposits from the public are reported in the column On demand since the counterparty always 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 are 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

2017 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
<b>Assets</b>											
Cash and balances with central banks	7	-	-	-	-	-	-	-	-	7	-
Treasury bills	-	71	70	50	447	333	201	-	-	1 173	981
Loans to credit institutions	338	1 291	-	-	2	-	-	-	182	1 814	2
Loans to the public	-	3 523	1 600	2 853	3 836	2 587	2 601	2 604	8 195	27 799	12 614
Leasing receivables	-	1 126	785	1 465	2 487	1 817	1 817	227	-	9 724	6 395
Bonds and other interest-bearing securities	-	710	151	92	353	479	319	-	-	2 104	1 151
Derivatives	-	62	-	-	0	2	-	-	-	64	2
Other assets	-	53	0	-	0	0	-	-	1 345	1 398	236
<b>Total assets</b>	<b>345</b>	<b>6 837</b>	<b>2 607</b>	<b>4 460</b>	<b>7 125</b>	<b>5 217</b>	<b>4 938</b>	<b>2 832</b>	<b>9 722</b>	<b>44 082</b>	<b>21 381</b>
<b>Liabilities and equity</b>											
Liabilities to credit institutions	-	102	306	1 379	295	422	-	-	-	2 504	717
Deposits from the public	18 467	3 137	639	1 033	1 104	655	546	0	34	25 617	14 208
Derivatives	-	49	1	4	1	0	-	-	-	55	1
Issued securities	-	1 187	1 240	1 200	1 250	900	1 049	-	-	6 825	3 198
Other liabilities	-	321	-	0	-	-	-	-	752	1 073	-
Accrued expenses and prepaid income	1	482	1	1	-	-	4	1	759	1 250	-
Provisions	3	3	3	6	-	-	-	-	156	170	-
Subordinated liabilities	-	-	-	-	-	-	-	820	-	820	820
Equity and untaxed reserves	-	-	-	-	-	-	-	-	5 768	5 768	-
<b>Total liabilities and equity</b>	<b>18 472</b>	<b>5 281</b>	<b>2 190</b>	<b>3 623</b>	<b>2 650</b>	<b>1 977</b>	<b>1 599</b>	<b>821</b>	<b>7 470</b>	<b>44 082</b>	<b>18 944</b>
Loan promises and unused credit limits	40 309	-	-	-	-	-	-	-	-	40 309	-
Operational lease agreements	-	2	2	3	3	2	1	-	-	12	-
<b>Total difference</b>	<b>-58 436</b>	<b>1 555</b>	<b>416</b>	<b>834</b>	<b>4 472</b>	<b>3 238</b>	<b>3 338</b>	<b>2 010</b>	<b>2 252</b>	<b>-40 321</b>	

2016 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
<b>Assets</b>											
Cash and balances with central banks	10	-	-	-	-	-	-	-	-	10	-
Treasury bills	-	-	151	135	232	279	404	-	-	1 201	914
Loans to credit institutions	1 647	2	-	-	2	-	-	-	187	1 838	6
Loans to the public	-	3 266	1 511	2 838	3 868	2 440	2 312	2 061	8 549	26 845	11 747
Leasing receivables	-	1 354	663	1 227	2 056	1 443	1 177	100	-	8 020	6 633
Bonds and other interest-bearing securities	-	710	100	239	207	327	665	-	-	2 247	1 198
Derivatives	-	106	17	-	-	0	1	-	-	124	1
Other assets	-	88	6	11	18	16	20	5	1 087	1 250	117
<b>Total assets</b>	<b>1 657</b>	<b>5 525</b>	<b>2 450</b>	<b>4 451</b>	<b>6 382</b>	<b>4 504</b>	<b>4 579</b>	<b>2 166</b>	<b>9 823</b>	<b>41 536</b>	<b>20 616</b>
<b>Liabilities and equity</b>											
Liabilities to credit institutions	-	163	463	1 051	258	480	-	-	-	2 415	738
Deposits from the public	22 416	132	137	384	526	359	226	-	-	24 180	16 330
Derivatives	-	40	12	6	10	2	1	-	-	72	14
Issued securities	-	1 130	1 255	450	2 099	550	700	-	-	6 183	3 349
Other liabilities	-	379	-	68	-	-	-	-	516	964	-
Accrued expenses and prepaid income	-	257	96	108	95	26	5	-	712	1 299	126
Provisions	-	-	-	-	-	-	-	-	172	172	-
Subordinated liabilities	-	-	-	-	-	-	-	810	-	810	810
Equity and untaxed reserves	-	-	-	-	-	-	-	-	5 442	5 442	-
<b>Total liabilities and equity</b>	<b>22 416</b>	<b>2 102</b>	<b>1 962</b>	<b>2 066</b>	<b>2 989</b>	<b>1 416</b>	<b>932</b>	<b>810</b>	<b>6 842</b>	<b>41 536</b>	<b>21 366</b>
Loan promises and unused credit limits	39 376	-	-	-	-	-	-	-	-	39 376	-
Operational lease agreements	5	1	1	2	3	2	0	-	-	14	-
<b>Total difference</b>	<b>-60 141</b>	<b>3 422</b>	<b>487</b>	<b>2 383</b>	<b>3 390</b>	<b>3 086</b>	<b>3 647</b>	<b>1 356</b>	<b>2 981</b>	<b>-39 390</b>	

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

2017 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
<b>Assets</b>										
Cash and balances with central banks	7	-	-	-	-	-	-	-	-	7
Treasury bills	-	73	70	52	444	331	197	-	-	1 168
Loans to credit institutions	1 628	2	-	-	2	-	-	-	182	1 814
Loans to the public	-	3 681	1 832	3 218	4 630	3 032	3 061	2 938	8 177	30 569
Leasing receivables	-	1 396	850	1 595	2 646	1 899	1 854	216	-	10 455
Bonds and other interest-bearing securities	-	712	160	93	357	469	314	-	-	2 105
Derivatives	-	-	1	1	1	4	-	-	-	7
Other assets	-	29	-	-	-	-	-	-	1 363	1 392
<b>Total assets</b>	<b>1 634</b>	<b>5 893</b>	<b>2 913</b>	<b>4 958</b>	<b>8 080</b>	<b>5 735</b>	<b>5 426</b>	<b>3 154</b>	<b>9 722</b>	<b>47 516</b>
<b>Liabilities and equity</b>										
Liabilities to credit institutions	-	103	309	1 387	295	424	-	-	-	2 518
Deposits from the public	18 467	541	448	649	886	344	546	0	34	21 916
Derivatives	-	2 620	197	393	222	314	-	-	-	3 747
Issued securities	-	1 191	1 245	1 207	1 263	908	1 055	-	-	6 870
Other liabilities	273	106	3	6	-	-	4	1	1 662	2 054
Subordinated liabilities	-	2	8	8	21	21	41	873	-	975
Equity and untaxed reserves	-	-	-	-	-	-	-	-	5 768	5 768
<b>Total liabilities and equity</b>	<b>18 740</b>	<b>4 563</b>	<b>2 211</b>	<b>3 650</b>	<b>2 687</b>	<b>2 012</b>	<b>1 646</b>	<b>875</b>	<b>7 464</b>	<b>43 848</b>
Loan promises and unused credit limits	40 309	-	-	-	-	-	-	-	-	40 309
Operational lease agreements	-	2	2	3	3	2	1	-	-	12
<b>Total difference</b>	<b>-57 415</b>	<b>1 328</b>	<b>700</b>	<b>1 305</b>	<b>5 390</b>	<b>3 722</b>	<b>3 779</b>	<b>2 279</b>	<b>2 258</b>	<b>-36 653</b>

2016 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
<b>Assets</b>										
Cash and balances with central banks	10	-	-	-	-	-	-	-	-	10
Treasury bills	-	1	152	135	231	275	400	-	-	1 195
Loans to credit institutions	1 642	2	-	-	2	-	-	-	187	1 833
Loans to the public	-	3 105	1 572	2 942	4 297	2 871	2 836	2 653	8 913	29 187
Leasing receivables	-	1 265	757	1 392	2 301	1 598	1 305	109	-	8 728
Bonds and other interest-bearing securities	-	711	110	239	213	324	648	-	-	2 244
Derivatives	-	13	1	1	1	2	-	-	-	18
Other assets	-	88	-	11	-	-	20	5	1 070	1 233
<b>Total assets</b>	<b>1 652</b>	<b>5 184</b>	<b>2 599</b>	<b>4 719</b>	<b>7 063</b>	<b>5 084</b>	<b>5 211</b>	<b>2 767</b>	<b>10 169</b>	<b>44 448</b>
<b>Liabilities and equity</b>										
Liabilities to credit institutions	-	163	468	1 044	258	485	-	-	-	2 418
Deposits from the public	22 416	132	137	384	526	359	226	-	-	24 180
Derivatives	-	1 135	1 259	458	2 111	555	702	-	-	6 219
Issued securities	-	4	5	7	7	0	0	-	-	24
Other liabilities	-	536	41	79	-	-	-	-	1 386	2 041
Subordinated liabilities	-	0	-	9	22	22	43	886	-	982
Equity and untaxed reserves	-	-	-	-	-	-	-	-	5 442	5 442
<b>Total liabilities and equity</b>	<b>22 416</b>	<b>1 970</b>	<b>1 909</b>	<b>1 981</b>	<b>2 924</b>	<b>1 421</b>	<b>971</b>	<b>886</b>	<b>6 828</b>	<b>41 306</b>
Loan promises and unused credit limits	39 376	0	-	-	-	-	-	-	-	39 376
Operational lease agreements	5	1	1	2	3	2	-	-	-	14
<b>Total difference</b>	<b>-60 145</b>	<b>3 212</b>	<b>689</b>	<b>2 736</b>	<b>4 136</b>	<b>3 662</b>	<b>4 240</b>	<b>1 880</b>	<b>3 342</b>	<b>-36 249</b>



### Liquidity portfolio and liquidity reserve

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 composition and size of the Bank's liquidity portfolio and the liquidity reserve is regulated in steering documents established by the Bank's Board of Directors.

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

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

The liquidity reserve, along with other operating liquidity, is invested in interest-bearing securities in the Bank's markets. Steering documents define what quality level the securities that are included in the Bank's liquidity reserve shall have. Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio is to be available within one day, and is to consist of funds in bank accounts, investments available the next banking day (overnight) and bank overdraft facilities, granted in writing.

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

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

The Bank's liquidity reserve is based on the Financial Supervisory Authority's current regulations on liquidity risk and asset classification in the European Commission's delegated act for the liquidity coverage requirement.

The Financial Supervisory Authority, in its regulations regarding the handling of liquidity risks, FFFS 2010:7, has included a definition of liquidity reserve. This definition coincides with the Bank's definition, with the exception of cash and deposits with credit institutions, which are not part of the Bank's liquidity reserve. According to the Financial Supervisory Authority's definition, the liquidity reserve totals SEK 4.2 bn. These assets are of a high quality, liquid in private markets

and eligible as collateral with the Swedish Central Bank.

The liquidity portfolio totalled SEK 5.1 bn as of 31 December 2017, which constitutes 20 percent of deposits from the public. It includes the liquidity reserve in accordance with the above and other interest-bearing securities with a value of SEK 0.8 bn. None of the assets are being utilised as collateral and no non-performing assets exist. The assets are measured at market value.

In addition to the liquidity portfolio, the Bank has access to committed credit facilities of SEK 3.0 bn.

At year-end, the Bank's liquidity coverage ratio (LCR) totalled 229 percent. This measure shows how the Bank's high quality liquid assets are related to net outflows over a thirty-day period under stressed conditions. A statutory limit for the liquidity coverage ratio of 80 percent applies since 1 January 2017, with an increasing phasing to 100 percent on 1 January 2018. For a healthy and stable liquidity management, the Bank has already decided to hold a LCR of over 100 percent.

### 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 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 Bank limits (hedges) the interest rate risk for fixed interest deposits by entering into interest rate swap agreements whereby the Bank receives a fixed interest rate and pays a variable

interest rate. For these fair value hedges, the Bank applies hedge accounting. During the period, the change in fair value of the hedged items (fixed interest deposits), with regard to the hedged risk, amounted to SEK 0.5 m (8.2) and on hedging instruments (derivatives) to SEK -0.5 m (-8.2). The reported net amount of SEK 0 m is consequently the period's reported inefficiency.

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 2017 to SEK 1.2 m.

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 Bank also hedges the interest rate risk in a lending portfolio with fixed interest. Hedge accounting is not applied to this.

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 36.5 m (30.1), 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 -11.7 m and SEK 12.4 m with a parallel decrease of the interest rate curve.

As of 31 December 2017, the Bank had interest rate swaps with a contract value of SEK 2.5 bn (2.9). The swaps' net fair value as of 31 December 2017 totalled SEK -4.7 m (-6.2) consisting of assets of SEK 1.6 m (14.0) and liabilities of SEK 6.3 m (20.2).

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

2017 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
<b>Assets</b>								
Cash and balances with central banks	7	-	-	-	-	-	7	0.1 years
Treasury bills	968	-	-	205	-	-	1 173	0.4 years
Loans to credit institutions	1 765	-	-	2	-	47	1 814	0.1 years
Loans to the public	17 298	2 122	4 096	4 201	74	8	27 799	0.6 years
Leasing receivables	8 052	191	251	950	88	193	9 724	0.4 years
Bonds and other interest-bearing securities	1 303	151	52	598	-	-	2 104	0.9 years
Other assets	62	2	-	-	-	1 398	1 462	0.0 years
<b>Total assets</b>	<b>29 454</b>	<b>2 466</b>	<b>4 398</b>	<b>5 955</b>	<b>163</b>	<b>1 646</b>	<b>44 082</b>	
<b>Liabilities and equity</b>								
Liabilities to credit institutions	2 082	422	-	-	-	-	2 504	0.2 years
Deposits from the public	19 345	901	1 589	2 679	-	1 103	25 617	0.4 years
Issued securities	5 285	940	400	200	-	-	6 825	0.3 years
Other liabilities	52	2	1	-	-	2 494	2 548	0.1 years
Subordinated liabilities	388	431	-	-	-	-	820	0.3 years
Equity and untaxed reserves	-	-	-	-	-	5 768	5 768	0.0 years
<b>Total liabilities and equity</b>	<b>27 153</b>	<b>2 695</b>	<b>1 989</b>	<b>2 879</b>	<b>-</b>	<b>9 365</b>	<b>44 082</b>	
<b>Total difference</b>	<b>2 302</b>	<b>-230</b>	<b>2 409</b>	<b>3 076</b>	<b>163</b>	<b>-7 720</b>	<b>-</b>	
Interest rate derivatives, long positions <sup>1)</sup>	469	2 065	-	-	-	-	2 534	
Interest rate derivatives, short positions <sup>2)</sup>	49	344	590	1 550	-	-	2 534	

2016 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
<b>Assets</b>								
Cash and balances with central banks	0	-	-	-	-	10	10	0.0 years
Treasury bills	1 135	66	-	-	-	-	1 201	0.1 years
Loans to credit institutions	1 787	-	-	-	-	50	1 838	0.1 years
Loans to the public	15 554	1 842	3 127	5 392	931	-	26 845	0.9 years
Leasing receivables	6 868	157	193	623	23	154	8 018	0.3 years
Bonds and other interest-bearing securities	1 532	370	345	-	-	-	2 247	0.3 years
Other assets	106	19	-	-	-	1 252	1 376	0.0 years
<b>Total assets</b>	<b>26 982</b>	<b>2 454</b>	<b>3 665</b>	<b>6 015</b>	<b>953</b>	<b>1 466</b>	<b>41 536</b>	
<b>Liabilities and equity</b>								
Liabilities to credit institutions	1 587	798	29	-	-	-	2 415	0.2 years
Deposits from the public	18 642	667	1 620	3 020	-	231	24 180	0.4 years
Issued securities	4 729	1 255	200	-	-	-	6 183	0.2 years
Other liabilities	52	18	1	-	-	2 434	2 506	0.0 years
Subordinated liabilities	50	760	-	-	-	-	810	0.4 years
Equity and untaxed reserves	-	-	-	-	-	5 442	5 442	0.0 years
<b>Total liabilities and equity</b>	<b>25 060</b>	<b>3 497</b>	<b>1 850</b>	<b>3 020</b>	<b>-</b>	<b>8 108</b>	<b>41 536</b>	
<b>Total difference</b>	<b>1 922</b>	<b>-1 044</b>	<b>1 816</b>	<b>2 995</b>	<b>953</b>	<b>-6 642</b>	<b>-</b>	
Interest rate derivatives, long positions <sup>1)</sup>	1 125	1 810	-	-	-	-	2 935	
Interest rate derivatives, short positions <sup>1)</sup>	178	150	582	2 025	-	-	2 935	

1) Nominal value

## Derivatives

Derivatives are used to reduce exposure to interest rate and foreign exchange risk and include interest rate and currency derivatives according to the table below. Below, all deriva-

tives are reported at fair value and distributed based on the remaining term are shown.

## Derivatives - assets and liabilities

2017 SEK 000	> 1 year	> 1 year - 5 years	> 5 years	Total	Assets (positive market value)	Liabilities (negative market value)
<i>Derivatives at fair value through profit or loss</i>						
<b>Interest-related contracts</b>						
Swaps	-	-492	-	-492	365	-857
<b>Currency-related contracts</b>						
Swaps	13 761	-	-	13 761	62 194	-48 433
<b>Total</b>	<b>13 761</b>	<b>-492</b>	<b>-</b>	<b>13 269</b>	<b>62 559</b>	<b>-49 290</b>
<i>Derivatives for fair value hedges</i>						
<b>Interest-related contracts</b>						
Swaps	-5 336	1 135	-	-4 200	1 277	-5 477
<b>Total</b>	<b>-5 336</b>	<b>1 135</b>	<b>-</b>	<b>-4 200</b>	<b>1 277</b>	<b>-5 477</b>
<i>Derivatives for cash flow hedges</i>						
<b>Interest-related contracts</b>						
Swaps	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total sum</b>	<b>8 425</b>	<b>643</b>	<b>-</b>	<b>9 068</b>	<b>63 835</b>	<b>-54 767</b>

2016 SEK 000	> 1 year	> 1 year - 5 years	> 5 years	Total	Assets (positive market value)	Liabilities (negative market value)
<i>Derivatives at fair value through profit or loss</i>						
<b>Interest-related contracts</b>						
Swaps	-1 555	-1 937	-	-3 492	-	-3 492
<b>Currency-related contracts</b>						
Swaps	58 755	-	-	58 755	110 120	-51 365
<b>Total</b>	<b>57 200</b>	<b>-1 937</b>	<b>-</b>	<b>55 263</b>	<b>110 120</b>	<b>-54 857</b>
<i>Derivatives for fair value hedges</i>						
<b>Interest-related contracts</b>						
Swaps	-5 137	-10 483	-	-15 620	1 103	-16 723
<b>Total</b>	<b>-5 137</b>	<b>-10 483</b>	<b>-</b>	<b>-15 620</b>	<b>1 103</b>	<b>-16 723</b>
<i>Derivatives for cash flow hedges</i>						
<b>Interest-related contracts</b>						
Swaps	12 951	-	-	12 951	12 951	-
<b>Summa</b>	<b>12 951</b>	<b>-</b>	<b>-</b>	<b>12 951</b>	<b>12 951</b>	<b>-</b>
<b>Total sum</b>	<b>65 014</b>	<b>-12 420</b>	<b>-</b>	<b>52 594</b>	<b>124 174</b>	<b>-71 580</b>

## 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 reduces the overall net exposure by SEK -9.8 m.

In the Bank's income statement, exchange rate results with SEK -8.6 m (-2.1) 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.

## Assets and liabilities per significant currencies

2017	SEK	EUR	GBP	DKK	NOK	Other currencies	Total
<b>Assets</b>							
Treasury bills	1 004	-	169	-	-	-	1 173
Loans to credit institutions	1 076	98	148	102	89	306	1 820
Loans to the public	9 680	7 371	5 794	2 497	1 892	565	27 799
Leasing receivables	4 630	616	-	2 937	1 542	-	9 724
Bonds and other interest-bearing securities	1 639	299	167	-	-	-	2 104
Other assets	1 081	105	60	76	129	11	1 462
<b>Total assets</b>	<b>19 110</b>	<b>8 489</b>	<b>6 338</b>	<b>5 612</b>	<b>3 652</b>	<b>882</b>	<b>44 082</b>
Nominal amount currency derivative	5 402	-	-	-	-	-	5 402
<b>Liabilities and equity</b>							
Liabilities to credit institutions	22	506	830	211	629	306	2 504
Deposits from the public	13 456	5 844	2 610	3 707	-	-	25 617
Issued securities	6 825	-	-	-	-	-	6 825
Subordinated liabilities	200	388	77	119	35	-	820
Other liabilities incl. Equity	3 904	1 794	558	1 572	530	-41	8 317
<b>Total equity and liabilities</b>	<b>24 407</b>	<b>8 532</b>	<b>4 075</b>	<b>5 609</b>	<b>1 194</b>	<b>265</b>	<b>44 082</b>
Nominal amount currency derivative	-	-	2 265	-	2 461	669	5 395
Differences between assets and liabilities, incl. Nominal amount currency derivative	105	-43	-2	3	-3	-52	7
Effect (before tax) of 10% increase in exchange rate of SEK against foreign currency		-4.3	-0.2	0.3	-0.3	-5.2	-9.8

2016	SEK	EUR	GBP	DKK	NOK	Other currencies	Total
<b>Assets</b>							
Treasury bills	1 201	-	-	-	-	-	1 201
Loans to credit institutions	1 097	127	211	104	103	203	1 847
Loans to the public	8 735	7 333	5 968	2 534	1 824	452	26 845
Leasing receivables	3 702	220	-	2 577	1 553	-	8 052
Bonds and other interest-bearing securities	1 618	292	337	-	-	-	2 247
Other assets	948	79	81	95	121	19	1 343
<b>Total assets</b>	<b>17 302</b>	<b>8 052</b>	<b>6 597</b>	<b>5 310</b>	<b>3 601</b>	<b>674</b>	<b>41 536</b>
Nominal amount currency derivative	7 028	-	-	-	-	-	7 028
<b>Liabilities and equity</b>							
Liabilities to credit institutions	99	364	673	627	369	283	2 415
Deposits from the public	14 258	5 483	1 764	2 676	-	-	24 180
Issued securities	6 183	-	-	-	-	-	6 183
Subordinated liabilities	200	379	79	116	37	-	810
Other liabilities incl. Equity	3 758	1 755	683	1 290	530	-68	7 948
<b>Total equity and liabilities</b>	<b>24 498</b>	<b>7 980</b>	<b>3 198</b>	<b>4 709</b>	<b>936</b>	<b>215</b>	<b>41 536</b>
Nominal amount currency derivative	-	-	3 382	576	2 606	465	7 028
Differences between assets and liabilities, incl. Nominal amount currency derivative	-168	71	17	25	60	-5	0
Effect (before tax) of 10% increase in exchange rate of SEK against foreign currency		7.1	1.7	2.5	6.0	-0.5	16.8

## 4 Information about subsidiary

On 1 October 2015, all shares in the group company, Ikano Insight Ltd. were acquired. The Bank does not perform consolidated statements with reference to the Annual Accounts Act § 7: 3a. Financial position and results of Ikano Insight Ltd. has no material effect on the financial position and ratios for Ikano Bank.

Operations in the Bank's subsidiary were during 2016 integrated into the Bank's operations. During 2017, no operations were conducted in Ikano Insight Ltd. and liquidation took place on 23 January 2018.

### Financial position and result of Ikano Insight Ltd

SEK 000	2017	2016
<b>Assets</b>		
Other assets	14 597	14 949
<b>Total assets</b>	<b>14 597</b>	<b>14 949</b>
<b>Liabilities and equity</b>		
Equity	14 597	14 949
<b>Total liabilities and equity</b>	<b>14 597</b>	<b>14 949</b>
<b>SEK 000</b>	<b>2017</b>	<b>2016</b>
Net interest income	-	55
Net commission	-	-5 186
Other income	-	44 098
<b>Total income</b>	<b>-</b>	<b>38 967</b>
General administrative expenses	-	-41 040
Other expenses	-	-1 057
Tax expense	-	-392
<b>Net result for the year</b>	<b>-</b>	<b>-3 522</b>

## 5 Operating segments

2017	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Shared functions	Total before eliminations	Eliminations	Total
SEK m											
Interest income	755	324	226	27	529	659	60	436	3 016	-661	2 355
Interest expense	-221	-83	-76	-7	-146	-93	-13	-416	-1 056	661	-395
<b>Total net interest income</b>	<b>535</b>	<b>241</b>	<b>150</b>	<b>20</b>	<b>383</b>	<b>566</b>	<b>46</b>	<b>20</b>	<b>1 960</b>	-	<b>1 960</b>
Commission income	294	64	101	24	77	82	3	2	648	-	648
Commission expense	-148	-12	-55	-7	-47	-29	-4	-2	-303	-	-303
<b>Commission, net</b>	<b>146</b>	<b>53</b>	<b>47</b>	<b>17</b>	<b>30</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>345</b>	-	<b>345</b>
Lease income	1 735	941	579	140	-	-	-	-	3 396	-	3 396
Depreciation on leasing assets	-1 564	-826	-494	-121	-	-	-	-	-3 005	-	-3 005
<b>Leasing Income, net</b>	<b>171</b>	<b>116</b>	<b>84</b>	<b>20</b>	-	-	-	-	<b>391</b>	-	<b>391</b>
<b>Net interest, fee and leasing income</b>	<b>852</b>	<b>409</b>	<b>281</b>	<b>57</b>	<b>413</b>	<b>619</b>	<b>46</b>	<b>20</b>	<b>2 696</b>	-	<b>2 696</b>
Other income	17	207	6	1	24	6	5	971	1 237	-975	262
Other direct expenses	-46	-13	-13	-5	-21	-25	-2	-2	-126	-	-126
<b>Operating margin before net loan losses and operational expenses</b>	<b>824</b>	<b>604</b>	<b>274</b>	<b>52</b>	<b>416</b>	<b>599</b>	<b>50</b>	<b>989</b>	<b>3 808</b>	<b>-975</b>	<b>2 833</b>
Other expenses	-712	-355	-257	-59	-455	-440	-48	-995	-3 320	963	-2 356
Allocated overhead expenses	-21	-7	-4	-1	-9	-12	-1	1	-54	12	-42
<b>Operating result</b>	<b>91</b>	<b>242</b>	<b>13</b>	<b>-8</b>	<b>-48</b>	<b>148</b>	<b>1</b>	<b>-5</b>	<b>435</b>	-	<b>435</b>
Of which:											
Total internal income	118	31	-	-	44	35	-	1 409	1 637	-1 637	-
Total external income	1 111	681	418	71	586	712	69	13	3 662	-	3 662
Total internal expenses	-562	-91	-154	-31	-253	-218	-30	-299	-1 637	1 637	-
Tax expense	1	-51	0	-	9	-59	-	-51	-151	-	-151
<b>Net result for the year</b>	<b>92</b>	<b>190</b>	<b>13</b>	<b>-8</b>	<b>-39</b>	<b>89</b>	<b>1</b>	<b>-55</b>	<b>284</b>	-	<b>284</b>

2016	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Shared functions	Total before eliminations	Eliminations	Total
SEK m											
Interest income	738	346	206	25	550	703	45	411	3 023	-602	2 421
Interest expense	-213	-79	-64	-5	-132	-102	-11	-397	-1 002	602	-399
<b>Total net interest income</b>	<b>525</b>	<b>266</b>	<b>142</b>	<b>20</b>	<b>418</b>	<b>601</b>	<b>34</b>	<b>14</b>	<b>2 021</b>	-	<b>2 021</b>
Commission income	298	72	101	22	88	87	4	-	671	-	671
Commission expense	-134	-11	-51	-5	-39	-35	-3	-4	-283	-	-283
<b>Commission, net</b>	<b>163</b>	<b>60</b>	<b>49</b>	<b>16</b>	<b>48</b>	<b>53</b>	<b>1</b>	<b>-4</b>	<b>388</b>	-	<b>388</b>
Lease income	1 418	801	506	56	-	-	-	-	2 781	-	2 781
Depreciation on leasing assets	-1 290	-699	-431	-47	-	-	-	-	-2 468	-	-2 468
<b>Leasing Income, net</b>	<b>128</b>	<b>102</b>	<b>75</b>	<b>9</b>	-	-	-	-	<b>313</b>	-	<b>313</b>
<b>Net interest, fee and leasing income</b>	<b>816</b>	<b>428</b>	<b>267</b>	<b>45</b>	<b>467</b>	<b>654</b>	<b>36</b>	<b>10</b>	<b>2 722</b>	-	<b>2 722</b>
Other income	26	25	9	1	5	2	5	1 063	1 136	-1 021	115
Other direct expenses	-47	-21	-15	-5	-25	-45	-1	-1	-160	-	-160
<b>Operating margin before net loan losses and operational expenses</b>	<b>795</b>	<b>432</b>	<b>261</b>	<b>41</b>	<b>447</b>	<b>612</b>	<b>39</b>	<b>1 072</b>	<b>3 698</b>	<b>-1 021</b>	<b>2 677</b>
Other expenses	-706	-277	-274	-51	-425	-248	-38	-1 189	-3 208	1 014	-2 194
Allocated overhead expenses	-14	-6	-3	-1	-9	-11	-1	-1	-45	7	-37
<b>Operating result</b>	<b>74</b>	<b>149</b>	<b>-16</b>	<b>-11</b>	<b>14</b>	<b>353</b>	<b>1</b>	<b>-118</b>	<b>444</b>	-	<b>445</b>
Of which:											
Total internal income	122	26	-	-	16	33	-	1 428	1 624	-1 624	-
Total external income	1 065	519	390	56	627	760	54	39	3 511	-	3 511
Total internal expenses	-513	-58	-133	-23	-226	-177	-24	-471	-1 624	1 624	-
Tax expense	-	-30	4	-	-5	-126	-	-8	-166	-	-166
<b>Net result for the year</b>	<b>74</b>	<b>119</b>	<b>-12</b>	<b>-11</b>	<b>9</b>	<b>227</b>	<b>1</b>	<b>-128</b>	<b>279</b>	-	<b>279</b>

### External income

SEK m	2017	2016
Corporate	686	595
Sales Finance	1 938	2 002
Consumer	968	825
Other	70	89
<b>Total external income</b>	<b>3 662</b>	<b>3 511</b>

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

## Balance Sheet

2017

SEK m

	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/Austria	Poland	Eliminations	Total
Fixed assets other than financial instruments	400	19	1	0	3	6	1	-	430
Deferred tax assets	136	-	-	-	4	19	-	-	159
Other assets	32 519	5 474	3 480	968	5 980	7 586	831	-13 346	43 493
<b>Total assets</b>	<b>33 055</b>	<b>5 493</b>	<b>3 481</b>	<b>969</b>	<b>5 987</b>	<b>7 611</b>	<b>832</b>	<b>-13 346</b>	<b>44 082</b>
<b>Liabilities and provisions</b>	<b>30 173</b>	<b>4 272</b>	<b>3 166</b>	<b>1 013</b>	<b>5 841</b>	<b>6 255</b>	<b>940</b>	<b>-13 346</b>	<b>38 314</b>

2016

SEK m

	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/Austria	Poland	Eliminations	Total
Fixed assets other than financial instruments	323	39	1	0	6	9	1	-	380
Deferred tax assets	112	-	-	-	4	6	-	-	122
Other assets	31 432	5 186	3 407	526	6 179	7 378	598	-13 672	41 034
<b>Total assets</b>	<b>31 868</b>	<b>5 225</b>	<b>3 408</b>	<b>526</b>	<b>6 189</b>	<b>7 393</b>	<b>599</b>	<b>-13 672</b>	<b>41 536</b>
<b>Liabilities and provisions</b>	<b>29 032</b>	<b>4 223</b>	<b>3 089</b>	<b>562</b>	<b>6 001</b>	<b>6 160</b>	<b>700</b>	<b>-13 672</b>	<b>36 093</b>

## 6 Net interest

SEK 000

	2017	2016
<b>Interest income</b>		
Loans to credit institutions	1 558	0
Loans to the public	2 351 624	2 418 572
Interest-bearing securities	1 763	3 414
<b>Total</b>	<b>2 354 945</b>	<b>2 421 986</b>
<i>Of which: Interest income from financial assets not measured at fair value through profit or loss</i>	2 353 182	2 418 572
<i>Interest income from non-performing loans</i>	82 569	110 489
<b>Interest expense</b>		
Liabilities to credit institutions	-41 044	-48 010
Deposits from the public	-202 479	-193 886
<i>Of which: deposit guarantee fee</i>	-33 877	-23 971
Issued securities	-24 814	-25 901
Derivatives	-87 517	-98 737
- <i>hedge accounting</i>	-12 243	6 042
- <i>not hedge accounting</i>	-75 274	-104 779
Subordinated liabilities	-21 726	-22 228
Other interest expenses	-17 189	-11 789
<i>Of which: stability fee</i>	-14 302	-4 709
<b>Total</b>	<b>-394 770</b>	<b>-400 551</b>
<i>Of which: Interest income from financial assets not measured at fair value through profit or loss</i>	-307 253	-301 814
<b>Total net interest income</b>	<b>1 960 176</b>	<b>2 021 435</b>
Interest margin	4.4%	5.0%
<i>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</i>		
Investment margin	4.6%	5.2%
<i>Net interest income in relation to average balance sheet total</i>		

## 7 Leasing income

SEK 000

	2017	2016
Leasing income, gross	3 395 930	2 780 577
Less: Depreciation according to plan	-3 004 753	-2 467 504
<b>Leasing income, net</b>	<b>391 177</b>	<b>313 073</b>
Leasing income from financial lease agreements	3 395 930	2 780 577
Depreciation according to plan for assets that are financial lease agreements, but are recognised as operating leases	-3 004 753	-2 467 504
<b>Leasing income, net for financial lease agreements</b>	<b>391 177</b>	<b>313 073</b>
Interest income	7 723	6 327
Interest expenses	-96 273	-79 920
<b>Leasing, net</b>	<b>302 626</b>	<b>239 479</b>

## 8 Net commission

SEK 000	2017	2016
<b>Commission income</b>		
Payment service commissions	25 484	23 245
Lending commissions	376 996	409 033
Other commissions	245 149	238 552
<b>Total</b>	<b>647 629</b>	<b>670 831</b>
<b>Commission expenses</b>		
Payment service commissions	-3 728	-9 724
Lending commissions	-265 455	-260 942
Other commissions	-50 115	-44 084
<b>Total</b>	<b>-319 298</b>	<b>-314 750</b>
<b>Net commission income</b>	<b>328 331</b>	<b>356 081</b>

## 9 Net result on financial transactions

SEK 000	2017	2016
Interest-bearing securities	-1 827	-
Other financial instruments	4 013	11 412
Exchange rate fluctuations	-8 641	-2 075
<b>Total</b>	<b>-6 455</b>	<b>9 337</b>
<b>Net profit/loss divided per valuation category</b>		
Financial assets at fair value through profit or loss	381 586	624 493
Loan receivables and accounts receivable	-134 888	-103 842
Financial liabilities at fair value through profit or loss	-266 339	-463 702
Financial liabilities at amortised costs	12 917	-57 201
Change in fair value for derivatives that are hedging instruments in fair value	-48	-8 220
Change in fair value for hedged item in respect of the hedged risk in fair value	456	8 173
The ineffective portion of changes in fair value of the hedging instrument in a cash flow hedge	1 167	7 736
Exchange rate fluctuations	-1 304	1 900
<b>Total</b>	<b>-6 455</b>	<b>9 337</b>
Net profit or loss on financial assets available-for-sale recognised in comprehensive income	<b>1 841</b>	<b>27 551</b>

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.

## 10 Other operating income

SEK 000	2017	2016
Realised gain arising from the disposal of tangible assets	21 005	29 806
Intra-Group services	-	8 148
Dividend on Visa shares	-	26 942
One-off revenue from loan portfolio sale	180 864	-
Other operating income	66 331	40 212
<b>Total</b>	<b>268 200</b>	<b>105 108</b>



## 11 Geographic distribution of income

2017

SEK 000	Sweden	Finland	Denmark	Norway	United Kingdom	Germany	Poland	Other	Total
Interest income	627 470	35 351	293 355	227 486	485 784	615 560	60 366	9 574	2 354 945
Leasing income	1 735 488	140 420	941 256	578 766	-	-	-	-	3 395 930
Commission income	287 791	28 808	65 491	103 133	76 602	80 767	3 203	1 835	647 629
Net gains and losses from financial transactions	-6 040	-150	-10	-286	110	-27	0	-51	-6 455
Other operating income	18 314	799	207 357	6 470	23 934	5 824	5 502	0	268 200
<b>Total</b>	<b>2 663 023</b>	<b>205 228</b>	<b>1 507 448</b>	<b>915 569</b>	<b>586 430</b>	<b>702 124</b>	<b>69 071</b>	<b>11 357</b>	<b>6 660 250</b>

2016

SEK 000	Sweden	Finland	Denmark	Norway	United Kingdom	Germany	Poland	Other	Total
Interest income	610 788	31 462	321 390	207 790	534 017	661 764	45 905	8 870	2 421 986
Leasing income	1 416 327	57 466	800 748	505 975	-	61	-	-	2 780 577
Commission income	292 595	24 656	72 000	101 910	87 710	85 829	4 394	1 737	670 831
Net gains and losses from financial transactions	9 773	-236	-76	-109	-5	8	-1	-17	9 337
Other operating income	51 095	1 450	24 831	9 340	11 584	2 609	4 199	-	105 108
<b>Total</b>	<b>2 380 578</b>	<b>114 798</b>	<b>1 218 893</b>	<b>824 906</b>	<b>633 306</b>	<b>750 271</b>	<b>54 497</b>	<b>10 590</b>	<b>5 987 839</b>

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

## 12 General administrative expenses

SEK 000	2017	2016
<b>Personnel costs</b>		
- salaries and fees	-496 840	-516 622
- social security contributions	-125 974	-133 910
- pension costs	-58 306	-66 520
- other personnel costs	-42 760	-48 107
<b>Total personnel costs</b>	<b>-723 880</b>	<b>-765 159</b>
<b>Other general administrative expenses</b>		
- postage and telephone	-84 010	-103 912
- IT costs	-470 580	-409 427
- consultancy services	-74 586	-57 624
- agency staff	-37 238	-55 118
- audit	-12 227	-9 684
- rent and other costs for premises	-50 161	-50 229
- internal Group services	-41 617	-37 361
- cost of materials	-51 763	-48 612
- travel costs	-35 812	-48 507
- other	-88 176	-102 875
<b>Total other general administrative expenses</b>	<b>-946 171</b>	<b>-923 349</b>
<b>Total general administrative expenses</b>	<b>-1 670 051</b>	<b>-1 688 508</b>

## Salaries, other remuneration, pensions and social costs

SEK 000	2017		2016	
	Senior management (14 persons)	Other employees	Senior management (14 persons)	Other employees
Salaries and other remunerations	-30 979	-464 344	-18 955	-485 319
Variable remuneration	-	-1 518	-9 291	-3 056
Pensions	-6 025	-52 282	-4 142	-62 378
Social security contributions	-11 195	-114 779	-10 608	-123 302
<i>Of which: social security contributions regarding pensions</i>	<i>-1 462</i>	<i>-8 346</i>	<i>-1 005</i>	<i>-10 304</i>
<b>Total</b>	<b>-48 198</b>	<b>-632 922</b>	<b>-42 996</b>	<b>-674 056</b>

The Bank has no outstanding pension obligations to senior executives. Senior management are the

current and previous Board members, Managing Directors and management groups 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 Managing Director and other senior executives has been decided by the Board. In regard to the Managing Director, 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 Managing Director is 65 years.

Neither the Managing Director nor Board members have loans in the Bank. The Bank has not pledged collateral or undertaken contingent

liabilities for the benefit of senior executives. 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](http://www.ikanobank.se).

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

2017 SEK 000	Variable				Total
	Base salary	remuneration	Other benefits	Pension costs	
Mats Håkansson, Chairman of the Board <sup>1)</sup>	-	-	-	-	-
Olle Claeson	-839	-	-	-	-839
Heather Jackson	-659	-	-	-	-659
Diederick van Thiel	-772	-	-	-	-772
Lars Thorsén <sup>1)</sup>	-	-	-	-	-
Jean Champagne <sup>1)</sup>	-	-	-	-	-
Håkan Nyberg, MD	-1 336	-	-	-408	-1 744
Stefan Nyrinder, MD <sup>2)</sup>	-9 457	-	-58	-1 665	-11 181
Other senior management (12 persons)	-17 500	-	-357	-3 951	-21 809
<b>Total</b>	<b>-30 563</b>	<b>-</b>	<b>-416</b>	<b>-6 025</b>	<b>-37 003</b>

2016 SEK 000	Variable				Total
	Base salary	remuneration	Other benefits	Pension costs	
Mats Håkansson, Chairman of the Board <sup>1)</sup>	-	-	-	-	-
Steen Lopdrup Helles <sup>1)</sup>	-	-	-	-	-
Olle Claeson	-544	-	-	-	-544
Heather Jackson	-846	-	-	-	-846
Diederick van Thiel	-631	-	-	-	-631
Lars Thorsén <sup>1)</sup>	-	-	-	-	-
Jean Champagne <sup>1)</sup>	-	-	-	-	-
Stefan Nyrinder, MD	-3 350	-2 767	-49	-744	-6 910
Other senior management (10 persons)	-13 121	-6 525	-413	-3 398	-23 456
<b>Total</b>	<b>-18 493</b>	<b>-9 291</b>	<b>-462</b>	<b>-4 142</b>	<b>-32 388</b>

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

2) Resigned during the year, all costs are reported

Gender distribution, Board and management	2017	2016
<b>Board of Directors</b>		
Women	1	1
Men	5	5
<b>Other senior management incl. Managing Director</b>		
Women	3	1
Men	5	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	2017			2016		
	Women	Men	Total	Women	Men	Total
Sweden	202	200	402	220	213	433
Denmark	22	47	69	32	70	102
Norway	15	17	32	20	19	39
Finland	8	8	16	5	4	9
United Kingdom	118	90	208	117	86	203
Germany	64	56	120	68	61	129
Poland	35	20	55	31	21	52
<b>Total</b>	<b>464</b>	<b>437</b>	<b>901</b>	<b>493</b>	<b>474</b>	<b>967</b>

## Remuneration to auditors

The auditing assignment involves an audit of the annual report and accounting records and the administration by the Board of Directors and the Managing Director, 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.

Remuneration to auditors SEK 000	2017	2016
<b>Deloitte AB</b>		
Statutory audit	-6 220	-5 074
Tax consultancy	-123	-76
Other services	-	-
<b>Total</b>	<b>-6 343</b>	<b>-5 150</b>

## 13 Other operating expenses

SEK 000	2017	2016
Marketing expenses	-187 738	-207 094
Non deductible VAT regarding previous years	-	-120 110
Membership fees to organisations	-3 137	-4 224
Insurance expenses	-2 500	-3 306
Other operating expenses	-6 489	-10 821
<b>Total</b>	<b>-199 863</b>	<b>-345 556</b>

## 14 Loan losses, net

SEK 000	2017	2016
<b>Specific provision for individually assessed loan receivables</b>		
Provisions for the year	-57 003	-50 488
Write-off for the year for determined loan losses	-207 509	-312 002
Reversal of previous provisions for loan losses	47 566	176 055
Recoveries from previously determined loan losses	15 496	9 149
<b>Net cost for the year for individually assessed loan receivables</b>	<b>-201 450</b>	<b>-177 286</b>
<b>Specific provision for collectively assessed loan receivables</b>		
Provisions for the year	51 331	218 347
Write-off for the year for determined loan losses	-607 453	-485 766
Recoveries from previously determined loan losses	201 984	166 282
<b>Net cost for the year for collectively assessed loan receivables</b>	<b>-354 139</b>	<b>-101 138</b>
<b>Net cost for the year for loan losses</b>	<b>-555 588</b>	<b>-278 424</b>

## 15 Taxes

### Reported in the income statement

SEK 000	2017	2016
<b>Current tax expense</b>		
Tax expense for the year	-125 513	-55 798
Adjustment of taxes attributable to previous years	-66 823	-29 306
<b>Current tax expense</b>	<b>-192 336</b>	<b>-85 104</b>
Deferred tax income	41 433	-70 006
Deferred tax from non-creditable foreign taxes	-	-11 044
<b>Total reported tax expense in accordance with the income statement</b>	<b>-150 903</b>	<b>-166 153</b>

## Reconciliation of effective tax

SEK 000	2017		2016	
Result before tax		434 764		445 001
Tax according to current tax rates	22.0%	-95 648	22.0%	-97 900
Non tax-deductible expenses	-1.5%	-6 516	-0.4%	-1 658
Non-taxable income	0.0%	-	0.0%	124
Taxes attributable to previous years	-15.4%	-66 823	-6.6%	-29 306
Difference between tax base and tax rate	-8.6%	-37 314	-6.1%	-26 983
Non-creditable foreign tax	0.0%	-	-2.5%	-11 044
Reversal of previously recognised deferred tax receivable	0.0%	55 353	0.0%	-
Other	0.0%	46	0.1%	614
<b>Reported effective tax</b>	<b>34.7%</b>	<b>-150 903</b>	<b>37.3%</b>	<b>-166 153</b>

## Tax relating to other comprehensive income

SEK 000	2017			2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Financial assets available-for-sale	2 360	-519	1 841	35 321	-7 770	27 551
The year's change in fair value of cash flow hedges	9 394	-2 067	7 327	-2 169	477	-1 692
<b>Other comprehensive income</b>	<b>11 754</b>	<b>-2 586</b>	<b>9 168</b>	<b>33 152</b>	<b>-7 293</b>	<b>25 859</b>

## Reported in the balance sheet

SEK 000	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Tangible/intangible assets	41 515	-	-	-
Financial assets available for sale	-	-	5 264	-
Non-creditable foreign taxes	-	40 879	-	-
Offsetting	117 309	122 014	117 309	122 014
<b>Tax assets/liabilities</b>	<b>158 824</b>	<b>162 893</b>	<b>122 573</b>	<b>122 798</b>

## 16 Treasury bills

SEK 000	2017		2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Treasury bills				
- Swedish municipalities	1 003 629	1 003 629	1 201 155	1 201 155
- Foreign governments	169 318	169 318	-	-
<b>Total</b>	<b>1 172 947</b>	<b>1 172 947</b>	<b>1 201 155</b>	<b>1 201 155</b>
Positive difference as an effect of the carrying amount exceeding the nominal amount		15 024		11 155
Negative difference as an effect of the carrying amount being less than the nominal amount		-		-
<b>Total</b>		<b>15 024</b>		<b>11 155</b>

## 17 Loans to credit institutions

SEK 000	2017	2016
Swedish banks		
- Swedish currency	883 024	975 769
- Foreign currency	221 163	311 407
Foreign banks		
- Swedish currency	193 340	121 469
- Foreign currency	516 316	428 900
<b>Total</b>	<b>1 813 843</b>	<b>1 837 545</b>

## 18 Loans to the public

SEK 000	2017	2016
<b>Outstanding receivables, gross</b>		
- Swedish currency	9 846 847	8 886 408
- Foreign currency	18 854 370	18 913 677
<b>Total</b>	<b>28 701 216</b>	<b>27 800 085</b>
<i>Of which: non-performing loans</i>	957 961	1 204 226
Specific provision for individually assessed receivables	-26 276	-28 809
Specific provision for collectively assessed receivables	-876 187	-925 823
<b>Carrying amount, net</b>	<b>27 798 753</b>	<b>26 845 453</b>

SEK 000	Individually assessed non performing loans	Collectively assessed non performing loans	Total
Opening balance, 1 January 2017	28 809	925 823	954 632
Impairment for loan losses for the year	-52 604	-310 737	-363 341
Reversals of no longer required provisions for loan losses	34 909	261 920	296 829
Reversal of previous write-downs for loan losses now reported as actual losses	14 343	-	14 343
<b>Closing balance, 31 December 2017</b>	<b>25 457</b>	<b>877 006</b>	<b>902 463</b>

For a definition of non-performing loans, see section Financial assets carried at amortised cost in note 2 Accounting principles.

## 19 Bonds and other interest-bearing securities

SEK 000	2017		2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Issued by Swedish borrowers				
- Mortgage institutions	766 536	766 536	688 484	688 484
- Non-financial entities	741 355	741 355	615 542	615 542
- Financial entities	115 637	115 637	314 043	314 043
Foreign issuers	480 451	480 451	629 310	629 310
<b>Total bonds and other interest-bearing securities</b>	<b>2 103 980</b>	<b>2 103 980</b>	<b>2 247 378</b>	<b>2 247 378</b>
Of which:				
<i>Listed securities</i>		1 393 768		1 647 096
<i>Unlisted securities</i>		710 212		600 282
Positive difference as an effect of the carrying amount exceeding the nominal amount		32 071		40 330
Negative difference as an effect of the carrying amount being less than the nominal amount		-		28 752

## 20 Shares and participations

SEK 000	2017	2016
Shares and participations, unlisted securities	1 535	1 535
Shares and participations, listed securities	17 350	13 548
<b>Total shares and other participations</b>	<b>18 885</b>	<b>15 083</b>

## 21 Shares and participations in group companies

SEK 000	2017	2016
Other	13 322	13 322
<b>Total shares and other participations</b>	<b>13 322</b>	<b>13 322</b>
<b>Accumulated acquisition values</b>		
<b>At the beginning of the year</b>	13 322	13 322
Purchase	-	-
<b>Carrying value, 31 December</b>	<b>13 322</b>	<b>13 322</b>

### Specification of holding shares in subsidiary

Subsidiary / Corporate Registration Number / Registered office	Net result	Equity	Capital share	Number of shares	Carrying amount
Ikano Insight Limited/2928560/Nottingham	-	14 597	100%	1 000 000	13 322

## 22 Intangible assets

SEK 000	Internally generated	Acquired intangible assets		Total
	intangible assets	Other technical/cont- ract based assets	Market and customer based assets	
<b>Acquisition cost</b>				
Opening balance, 1 January 2016	207 372	36 868	60 349	304 589
Acquisitions	-	-	3 611	3 611
Other investments	152 519	565	667	153 752
Sales and disposals	-	-	-2 103	-2 103
Translation difference	-	1 746	-47	1 699
<b>Closing balance, 31 December 2016</b>	<b>359 892</b>	<b>39 180</b>	<b>62 476</b>	<b>461 547</b>
Opening balance, 1 January 2017	359 892	39 180	62 476	461 547
Other investments	128 271	-	147	128 417
Sales and disposals	-	-	-3 172	-3 172
Translation difference	-	1 010	638	1 648
<b>Closing balance, 31 December 2017</b>	<b>488 162</b>	<b>40 190</b>	<b>60 089</b>	<b>588 440</b>
<b>Amortisation</b>				
Opening balance, 1 January 2016	-36 747	-31 443	-48 469	-116 659
Acquired amortisation	-	-	-2 669	-2 669
Amortisation for the year	-12 907	-2 080	-5 156	-20 143
Sales and disposals	-	-	2 103	2 103
Translation difference	-	-1 501	-606	-2 108
<b>Closing balance, 31 December 2016</b>	<b>-49 654</b>	<b>-35 024</b>	<b>-54 797</b>	<b>-139 475</b>
Opening balance, 1 January 2017	-49 654	-35 024	-54 797	-139 475
Amortisation for the year	-49 492	-2 073	-4 110	-55 674
Sales and disposals	-	-	3 172	3 172
Translation difference	-	-943	-707	-1 650
<b>Closing balance, 31 December 2017</b>	<b>-99 146</b>	<b>-38 040</b>	<b>-56 441</b>	<b>-193 627</b>
<b>Carrying amount</b>				
As of 1 January 2016	170 625	5 425	11 880	187 930
<b>As of 31 December 2016</b>	<b>310 237</b>	<b>4 155</b>	<b>7 680</b>	<b>322 072</b>
As of 1 January 2017	310 237	4 155	7 680	322 072
<b>As of 31 December 2017</b>	<b>389 016</b>	<b>2 150</b>	<b>3 647</b>	<b>394 813</b>

## 23 Tangible assets

SEK 000	Equipment	Leased assets	Total
<b>Acquisition cost</b>			
Opening balance, 1 January 2016	182 142	9 861 888	10 044 030
Other investments	13 932	4 579 979	4 593 911
Sales and disposals	-9 314	-2 316 623	-2 325 936
Other changes	-	14 785	14 785
Translation difference	4 636	351 317	355 953
<b>Closing balance, 31 December 2016</b>	<b>191 397</b>	<b>12 491 346</b>	<b>12 682 743</b>
Opening balance, 1 January 2017	191 397	12 491 346	12 682 743
Other investments	3 106	5 511 307	5 514 413
Sales and disposals	-20 729	-2 910 627	-2 931 356
Translation difference	3 430	-22 224	-18 794
<b>Closing balance, 31 December 2017</b>	<b>177 204</b>	<b>15 069 802</b>	<b>15 247 006</b>
<b>Depreciation</b>			
Opening balance, 1 January 2016	-112 335	-3 839 279	-3 951 614
Depreciation for the year	-27 403	-2 467 504	-2 494 907
Sales and disposals	8 133	1 691 457	1 699 589
Other changes	-	-14 785	-14 785
Translation difference	-2 132	-153 102	-155 234
<b>Closing balance, 31 December 2016</b>	<b>-133 737</b>	<b>-4 783 213</b>	<b>-4 916 950</b>
Opening balance, 1 January 2017	-133 737	-4 783 213	-4 916 950
Depreciation for the year	-25 490	-3 004 753	-3 030 243
Sales and disposals	19 791	2 097 563	2 117 354
Translation difference	-2 741	10 088	7 347
<b>Closing balance, 31 December 2017</b>	<b>-142 177</b>	<b>-5 680 315</b>	<b>-5 822 492</b>
<b>Impairments</b>			
Opening balance, 1 January 2016	-	-55 619	-55 619
Impairments for the year	-	-33 289	-33 289
Reversals of previous impairment	-	12 503	12 503
Translation difference	-	-2 380	-2 380
<b>Closing balance, 31 December 2016</b>	<b>-</b>	<b>-78 785</b>	<b>-78 785</b>
Opening balance, 1 January 2017	-	-78 785	-78 785
Impairments for the year	-	-39 793	-39 793
Reversals of previous impairment	-	11 784	11 784
Translation difference	-	678	678
<b>Closing balance, 31 December 2017</b>	<b>-</b>	<b>-106 116</b>	<b>-106 116</b>
<b>Carrying amount</b>			
As of 1 January 2016	69 807	5 966 990	6 036 797
<b>As of 31 December 2016</b>	<b>57 660</b>	<b>7 629 348</b>	<b>7 687 008</b>
As of 1 January 2017	57 660	7 629 348	7 687 008
<b>As of 31 December 2017</b>	<b>35 026</b>	<b>9 283 371</b>	<b>9 318 397</b>

Of the total carrying value of leasing objects, SEK 3 023 k (2 991) are repossessed leasing objects, of which SEK 1 252 k (1 669) have been reserved for loan losses. Non-performing loans amount to SEK 380 924 k (305 584), of which SEK 56 555 k (42 426) have been reserved for loan losses. Residual value amounts guaranteed by suppliers totalled SEK 226 329 k (197 113).

## Change in impairment for financial leases recognised as operating leases

SEK 000	2017	2016
<b>Opening balance</b>	<b>78 785</b>	<b>55 619</b>
Impairment of loan losses for the year	39 793	33 289
Reversal of no longer required impairment of loan losses	-	-509
Reversal of previous impairment of loan losses recognised in the annual accounts as established losses	-11 784	-11 994
Translation difference	-678	2 380
<b>Closing balance</b>	<b>106 116</b>	<b>78 785</b>

## 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 and vehicles. For contracts that cannot be cancelled, future minimum lease payments are allocated in accordance with the table below.

SEK 000	2017	2016
Irrevocable lease payments amount to:		
Within 1 year	3 564 982	3 075 794
1-5 years	5 947 058	5 074 502
More than 5 years	187 437	127 549
<b>Total</b>	<b>9 699 477</b>	<b>8 277 845</b>

### 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 2017 totalled SEK 4 859 k. For contracts that cannot be cancelled, future minimum lease payments are allocated in accordance with the table below.

SEK 000	2017	2016
Irrevocable lease payments amount to:		
Within 1 year	6 058	5 550
1-5 years	5 744	4 296
More than 5 years	-	-
<b>Total</b>	<b>11 802</b>	<b>9 845</b>

## 25 Other assets

SEK 000	2017	2016
Positive value of derivative instruments	63 835	124 174
Accounts receivable	467 244	415 534
Tax receivables	319 497	233 618
Account receivable, Group companies	172	352
VAT receivable	21 662	58 000
Other assets	96 200	76 619
<b>Total</b>	<b>968 610</b>	<b>908 297</b>

## 26 Prepaid expenses and accrued income

SEK 000	2017	2016
Accrued fees and commissions	178 008	159 019
Accrued interest income	27 568	26 039
Other prepaid expenses and accrued income	107 545	100 474
<b>Total</b>	<b>313 121</b>	<b>285 532</b>



## 27 Liabilities to credit institutions

SEK 000	2017	2016
<b>Swedish banks</b>		
- Swedish currency	21 857	82 406
- Foreign currency	1 319 523	1 166 479
<b>Total Swedish banks</b>	<b>1 341 380</b>	<b>1 248 885</b>
<b>Foreign banks</b>		
- Swedish currency	-	16 284
- Foreign currency	1 162 587	1 149 546
<b>Total foreign banks</b>	<b>1 162 587</b>	<b>1 165 830</b>
<b>Total</b>	<b>2 503 967</b>	<b>2 414 715</b>

## 28 Deposits from the public

SEK 000	2017	2016
<b>Public</b>		
- Swedish currency	13 456 014	14 257 679
- Foreign currency	12 160 715	9 921 876
<b>Total</b>	<b>25 616 729</b>	<b>24 179 555</b>
<b>Deposits specified by category of borrower</b>		
Corporate sector	927 174	243 280
Household sector	24 689 555	23 936 275
<b>Total</b>	<b>25 616 729</b>	<b>24 179 555</b>

## 29 Change in fair value on hedged amounts in the portfolio hedge

SEK 000	2017	2016
Opening balance	468	8 630
Change in value during the year	-468	-8 162
<b>Closing balance</b>	<b>-</b>	<b>468</b>

## 30 Issued securities

SEK 000	2017	2016
Certificates of deposits	2 104 556	2 204 208
Bonds	4 720 223	3 978 617
<b>Total</b>	<b>6 824 779</b>	<b>6 182 825</b>

## 31 Other liabilities

SEK 000	2017	2016
Negative value of derivative instruments	54 767	71 579
Accounts payable	271 736	249 774
Preliminary tax, interests	10 708	12 253
Settlement and clearing items	594 330	521 086
Group liabilities	95 156	13 573
Tax liabilities	76 038	83 140
Other liabilities	25 426	83 677
<b>Total</b>	<b>1 128 161</b>	<b>1 035 082</b>

## 32 Accrued expenses and prepaid income

SEK 000	2017	2016
Accrued interest expenses	160 127	144 415
Accrued personnel costs	104 102	113 838
Prepaid lease payments	359 613	344 291
Prepaid income from partners	362 114	477 404
Accrued audit costs	10 868	8 375
Prepaid income related to leasing insurance	24 442	24 992
Other accrued expenses	228 950	185 448
<b>Total</b>	<b>1 250 216</b>	<b>1 298 763</b>

## 33 Provisions for pensions

SEK 000	2017	2016
Provision for pensions	33 468	32 815
<b>Total</b>	<b>33 468</b>	<b>32 815</b>
<b>Change in net debt</b>		
Net debt regarding pension obligations at the beginning of the year	32 815	32 317
+ Personal pension expenses, excluding interest expense, reported in income statement	-	-
+ Interest expenses	1 448	1 247
- Pension payments	-795	-749
<b>= Net debt at year-end</b>	<b>33 468</b>	<b>32 815</b>
Of which credit insured by FPG/PRI	33 468	32 815
<b>Pension costs</b>		
<b>Personal pension plan</b>		
Cost of earning pensions etc.	-	-
+ Interest expense (calculated discounting effect)	1 448	1 247
<b>= Pension expenses for personal pension plan excluding taxes</b>	<b>1 448</b>	<b>1 247</b>
<b>Pensions through insurance</b>		
+ Insurance premiums or equivalent	56 858	65 273
<b>= Total pension costs excluding taxes</b>	<b>58 306</b>	<b>66 520</b>

Next year's expected payment in regard to defined benefit pension plans amounts to SEK 835 k. The entire provision reported in the balance sheet is covered by the Pension Obligations Vesting Act.

## 34 Subordinated liabilities

SEK 000	Currency	Issue date	Nom	Coupon interest	2017		
					Interest rate	Maturity date	Reported value
Subordinated loan 1	GBP	2015-05-28	7 000	libor 6 mth +2.8% per year	3.27%	2025-05-28	77 430
Subordinated loan 2	NOK	2015-05-28	35 000	libor 6 mth +2.55% per year	3.43%	2025-05-28	34 970
Subordinated loan 3	DKK	2015-05-28	90 000	libor 6 mth +2.45% per year	2.45%	2025-05-28	118 881
Subordinated loan 4	EUR	2015-08-01	39 500	libor 3 mth +2.5% per year	2.50%	2025-05-28	388 399
Subordinated loan 5	SEK	2015-05-28	200 000	libor 6 mth +2.7% per year	2.70%	2025-05-28	200 000
<b>Total</b>							<b>819 680</b>
<i>Of which: Group companies</i>							

SEK 000	Currency	Issue date	Nom	Coupon interest	2016		
					Interest rate	Maturity date	Reported value
Subordinated loan 1	GBP	2015-05-28	7 000	Libor 6 mth +2.8% per year	3.06%	2025-05-28	78 504
Subordinated loan 2	NOK	2015-05-28	35 000	Nibor 6 mth +2.55% per year	3.45%	2025-05-28	36 882
Subordinated loan 3	DKK	2015-05-28	90 000	Cibor 6 mth +2.45% per year	2.45%	2025-05-28	115 998
Subordinated loan 4	EUR	2015-08-01	39 500	Euribor 3 mth +2.5% per year	2.50%	2025-05-28	378 521
Subordinated loan 5	SEK	2015-05-28	200 000	Stibor 6 mth +2.7% per year	2.70%	2025-05-28	200 000
<b>Total</b>							<b>809 905</b>
<i>Of which: Group companies</i>							

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 21 726 k. For other conditions regarding the Bank's subordinated loans, see note 39.

## 35 Untaxed reserves

SEK 000	2017	2016
<b>Equipment, accumulated depreciation in excess of plan</b>		
Opening balance, 1 January	698 157	698 157
Depreciation in excess of plan for the year	-	-
<b>Closing balance, 31 December</b>	<b>698 157</b>	<b>698 157</b>

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

## 36 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 available for sale 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.

### Change in the Fund for fair value

SEK 000	2017	2016
<b>Fair value reserve</b>		
Opening balance, 1 January	25 078	-2 474
Financial assets available-for-sale:		
Unrealised changes in fair value reported in other comprehensive income for the year	2 360	35 321
Tax attributable to the year's change in fair value of financial assets available-for-sale	-519	-7 770
<b>Closing balance, 31 December</b>	<b>26 919</b>	<b>25 078</b>
<b>Hedging reserve</b>		
Opening balance, 1 January	1 117	-
The year's change in fair value of cash flow hedges	9 394	-2 169
Tax attributable to the year's change in fair value of cash flow hedges	-2 067	477
<b>Closing balance, 31 December</b>	<b>8 444</b>	<b>1 117</b>
<b>Translation reserve</b>		
Opening balance, 1 January	97 465	-1 060
Translation differences, branches	33 309	98 524
<b>Closing balance, 31 December</b>	<b>130 774</b>	<b>97 465</b>
<b>Closing balance, Fund for fair value</b>	<b>166 137</b>	<b>123 660</b>

### 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	166 137 426
Retained earnings	4 104 641 695
<b>Net result for the year</b>	<b>283 861 349</b>
<b>Total</b>	<b>4 554 640 470</b>

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

To be carried forward	4 554 640 470
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## 37 Memorandum items

SEK 000	2017	2016
<b>Contingent liabilities</b>		
PRI	669	656
<b>Total</b>	<b>669</b>	<b>656</b>
<b>Commitments</b>		
Loan commitments, irrevocable	2 262 408	1 957 201
Unused credit limits	38 046 534	37 418 680
<b>Total</b>	<b>40 308 942</b>	<b>39 375 881</b>
<b>Total commitments and contingent liabilities</b>	<b>40 309 611</b>	<b>39 376 537</b>

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 has no pledged commitments.

## 38 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 carried 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

2017	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
SEK m								
<b>Financial assets</b>								
Cash	-	7	-	-	-	-	7	7
Treasury bills	-	-	1 173	-	-	-	1 173	1 173
Loans to credit institutions	-	1 814	-	-	-	-	1 814	1 814
Loans to the public	-	27 799	-	-	-	-	27 799	27 798
Bonds and other interest-bearing securities	-	-	2 104	-	-	-	2 104	2 104
Shares and participations	-	-	19	-	-	-	19	19
Derivatives	63	-	-	-	-	1	64	64
Accrued income	-	119	-	-	-	-	119	119
Other financial assets	-	585	-	-	-	-	585	585
<b>Total</b>	<b>63</b>	<b>30 323</b>	<b>3 296</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>33 683</b>	<b>33 682</b>
<b>Financial liabilities</b>								
Liabilities to credit institutions	-	-	-	-	2 504	-	2 504	2 504
Deposit from the public	-	-	-	-	25 617	-	25 617	25 637
Change in fair value on interest-rate hedged items in the portfolio	-	-	-	-	-	-	-	-
Issued securities	-	-	-	-	6 825	-	6 825	6 825
Derivatives	-	-	-	49	-	5	55	55
Other liabilities	-	-	-	-	997	-	997	997
Accrued expenses	-	-	-	-	504	-	504	504
Subordinated liabilities	-	-	-	-	820	-	820	820
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>37 267</b>	<b>5</b>	<b>37 321</b>	<b>37 342</b>
2016	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
SEK m								
<b>Financial assets</b>								
Cash	-	10	-	-	-	-	10	10
Treasury bills	-	-	1 201	-	-	-	1 201	1 201
Loans to credit institutions	-	1 838	-	-	-	-	1 838	1 838
Loans to the public	-	26 845	-	-	-	-	26 845	26 859
Bonds and other interest-bearing securities	-	-	2 247	-	-	-	2 247	2 247
Shares and participations	-	-	15	-	-	-	15	15
Derivatives	110	-	-	-	-	14	124	124
Accrued income	-	89	-	-	-	-	89	89
Other financial assets	-	551	-	-	-	-	551	551
<b>Total</b>	<b>110</b>	<b>29 332</b>	<b>3 464</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>32 920</b>	<b>32 934</b>
<b>Financial liabilities</b>								
Liabilities to credit institutions	-	-	-	-	2 415	-	2 415	2 415
Deposits from the public	-	-	-	-	24 180	-	24 180	24 220
Change in fair value on interest-rate hedged items in the portfolio	-	-	-	-	0	-	0	0
Issued securities	-	-	-	-	6 183	-	6 183	6 185
Derivatives	-	-	-	55	-	17	72	72
Other liabilities	-	-	-	-	880	-	880	880
Accrued expenses	-	-	-	-	452	-	452	452
Subordinated liabilities	-	-	-	-	810	-	810	810
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>34 920</b>	<b>17</b>	<b>34 991</b>	<b>35 035</b>

The following tables provide information about how the fair value of financial instruments that are measured at fair value in the balance sheet (excluding the items included in hedge accounting) is established. 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

<b>2017</b>				
<b>SEK 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss</b>				
Interest rate derivatives	-	1 642	-	<b>1 642</b>
Currency derivatives	-	62 194	-	<b>62 194</b>
<b>Financial assets available-for-sale</b>				
Bonds and other interest-bearing securities	1 393 768	710 212	-	<b>2 103 980</b>
Treasury bills	1 172 947	-	-	<b>1 172 947</b>
Shares and participations <sup>1)</sup>	17 350	1 535	-	<b>18 885</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate derivatives	-	6 334	-	<b>6 334</b>
Currency derivatives	-	48 433	-	<b>48 433</b>
<b>2016</b>				
<b>SEK 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value through profit or loss</b>				
Interest rate derivatives	-	14 054	-	<b>14 054</b>
Currency derivatives	-	110 120	-	<b>110 120</b>
<b>Financial assets available-for-sale</b>				
Bonds and other interest-bearing securities	1 647 096	600 282	-	<b>2 247 378</b>
Treasury bills	1 201 155	-	-	<b>1 201 155</b>
Shares and participations <sup>1)</sup>	13 548	1 535	-	<b>15 083</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate derivatives	-	20 214	-	<b>20 214</b>
Currency derivatives	-	51 365	-	<b>51 365</b>

- 1) The Bank owns unlisted shares, which are included in Level 2 of the valuation category Financial assets available for sale. As there are difficulties in being able to calculate a fair value reliably, this is reported at the cost of acquisition. The Bank does not intend to sell these shares in any near future.

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. The Bank has no assets or liabilities in Level 3.

## 39 Capital analysis

Below, information is provided regarding own funds and own funds requirements in accordance with among others regulation (EU) No 575/2013 and SFSA regulations regarding prudential requirements and capital buffers (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 risks, CVA risks, operational risks and foreign exchange risks. In addition, the own funds requirements include further identified risks in the operation in accordance with the Bank's internal capital adequacy assessment process and the requirements stipulated by the Board of Directors, also referred to as Pillar 2 requirements and statutory requirements for capital buffers.

To ensure that the own funds of Ikano Bank are adequate, the internal capital adequacy assessment (ICAAP/ILAAP) is performed. This process is a tool used by the Board of Directors to assess the need for changes in the own funds requirement in the event of changed circumstances. This might involve strategic commercial decisions or events in the market impacting the operations and their development. The Bank performs stress tests and scenario analyses to assess the need for further capital. The risk control function is responsible for monitoring the process of the Bank's capital planning. This is done annually and is integrated with the Bank's budget and strategic planning. The plan is monitored continuously and a comprehensive risk analysis is conducted annually to ensure that risks are properly assessed and reflect the Bank's true risk profile and capital needs. The capital requirements according to the capital adequacy assessment process are reported regularly to the SFSA. The capital requirement of the ICAAP in addition to Pillar 1 requirements for 31 December 2017 totalled SEK 980 m.

Ikano Bank has quantified tolerance levels for the CET 1 ratio and total capital ratio above regulatory requirements. The margins represent buffers adapted to the Bank's risk profile in order to cover identified risks based on probability and financial impact. To meet the anticipated expansion of loans, maintain strategic freedom of action and also handle external changes, the Board of Directors has also expressed target levels for the Bank's capital ratios as part of the risk appetite framework.

As of 31 December 2017, the Bank had own funds of SEK 6.0 bn (5.8) compared with the statutory own funds requirement for Pillar 1-risk of SEK 2.9 bn (2.8). The total capital ratio was 16.5 percent with a Tier 1 capital ratio of 14.3 percent. Consequently, the Bank has a good capital adequacy that meets both statutory and internal requirements. The Bank's common equity Tier 1 capital amounted to SEK 5.2 bn. After a statutory minimum for common equity Tier 1 capi-

tal has been allocated to cover 75 percent of the total own funds requirement calculated in accordance with Pillar 1, a further SEK 3.0 bn remain available as common equity Tier 1 capital.

The combined buffer requirement for Ikano Bank consists of the capital conservation buffer and the countercyclical capital buffer. According to the law (2014:966) regarding capital buffers, the capital conservation buffer shall consist of a common equity Tier 1 capital equivalent to 2.5 percent of the Bank's total risk exposure amounts. For Ikano Bank, the capital conservation buffer totals SEK 913 m and is covered well by the available common equity Tier 1 capital. The countercyclical buffer is determined by multiplying the total risk exposure amount with the weighted average of the countercyclical buffer rates applicable in those countries where the relevant credit exposures of the institution are located. The institution-specific countercyclical buffer for the Bank has been determined at 1.01% or SEK 368 m after weighting the applicable geographic requirements, which for the Bank means Sweden and Norway. Ikano Bank's combined buffer requirement is SEK 1,281 m.

### Own funds

The Bank's own funds totalled SEK 6.0 bn whereof SEK 5.2 bn is Tier 1 capital and SEK 0.8 bn is Tier 2 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 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 available for sale. Retained profit and loss consists of the Bank's accumulated earnings and a capital contribution by the shareholders in connection with the acquisition of the UK operation. The Bank's untaxed reserves consist of accelerated depreciation on tangible assets, 78 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 8 m is not included in the Bank's own funds.

The Bank's deferred tax assets that rely on future profitability are exempted from deductions

from the own funds until the 31 December 2017 as they in total do not exceed 10 percent of core Tier 1 items. At 31 December 2017, the Bank has no deferred tax receivables that rely on future profitability.

#### 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 1 capital, both in accordance with the transitional provisions and after the transition period. They are acceptable as Tier 1 capital at both the individual and group level. 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

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 Capital S.A. 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 34.

#### 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 28.7 bn, which results in an own funds requirement of SEK 2.3 bn.

The Bank uses Standard and Poor's rating for the calculation of the own funds requirement for Bonds and other interest-bearing securities.

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 4.8 bn, resulting in an own funds requirement of SEK 387 m.

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. Eight percent of the total net position in foreign currency is calculated to constitute capital requirements for the majority of the exposures.

The Bank's risk exposure amount for foreign exchange risk is SEK 2.9 bn, with an own funds requirement of SEK 236 m.

The Bank's risk exposure amount for CVA risk is SEK 8.6 m, giving an own funds requirement of SEK 0.7 m.

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

SEK 000	2017	2016
Tier 1 capital	5 211 615	4 965 344
Tier 2 capital	819 680	809 905
<b>Own funds</b>	<b>6 031 295</b>	<b>5 775 249</b>
<b>Total risk exposure amount</b>	<b>36 515 692</b>	<b>34 747 337</b>
<b>Total own funds requirements</b>	<b>2 921 255</b>	<b>2 779 787</b>
<b>Total Capital ratio</b>	<b>16.5%</b>	<b>16.6%</b>
<b>Tier 1 Capital ratio</b>	<b>14.3%</b>	<b>14.3%</b>
<b>Common equity Tier 1 ratio</b>	<b>14.3%</b>	<b>14.3%</b>
<b>Available common equity Tier 1 Capital</b>	<b>3 020 673</b>	<b>2 880 505</b>
<b>Available common equity Tier 1 Capital in relation to Total risk exposure amount</b>	<b>8.3%</b>	<b>8.3%</b>
Capital conservation buffer	912 892	868 683
Counter-cyclical capital buffer	367 680	245 989
<b>Combined buffer requirement</b>	<b>1 280 572</b>	<b>1 114 673</b>



## Specification of own funds

SEK 000	2017	2016
<b>Own funds</b>		
<b>Tier 1 capital</b>		
<b>Equity reported in the balance sheet</b>	<b>5 070 310</b>	<b>4 743 972</b>
Share capital	78 994	78 994
Statutory reserve	193 655	193 655
Fund for development expenses	243 021	149 768
Fund for fair value	166 137	123 659
Retained earnings	4 104 642	3 919 048
Net result for the year	283 861	278 848
Untaxed reserves (78% of which)	544 562	544 562
Less:		
Intangible assets	-394 813	-322 072
Cash flow hedge	-8 444	-1 117
<b>Total Tier 1 Capital</b>	<b>5 211 615</b>	<b>4 965 344</b>
<b>Total Common Equity Tier 1 Capital</b>	<b>5 211 615</b>	<b>4 965 344</b>
<b>Tier 2 capital</b>		
Subordinated liabilities	819 680	809 905
<b>Total Tier 2 Capital</b>	<b>819 680</b>	<b>809 905</b>
<b>Total own funds</b>	<b>6 031 295</b>	<b>5 775 249</b>

## Specification of risk exposure amounts and own funds requirements

SEK 000	2017		2016	
	Risk exposure amount	Own funds requirements	Risk exposure amount	Own funds requirements
<b>Credit risk according to the standardised approach</b>				
Exposures to states and central banks	32 571	2 606	0	0
Regional governments or local authorities	10 632	851	0	0
Exposures to public sector entities	26	2	7	1
Institutional exposure	416 933	33 355	440 435	35 235
Corporate exposure	1 833 137	146 651	1 602 721	128 218
Retail exposure	24 884 944	1 990 796	23 678 386	1 894 271
Equity exposure	32 207	2 577	28 405	2 272
Past due items	773 689	61 895	913 707	73 097
Covered bond exposure	113 016	9 041	134 141	10 731
Other items	620 242	49 617	530 872	42 470
<b>Total credit risk</b>	<b>28 717 397</b>	<b>2 297 391</b>	<b>27 328 673</b>	<b>2 186 294</b>
<b>Operational risk according to the basic indicator approach</b>	<b>4 840 640</b>	<b>387 251</b>	<b>4 537 533</b>	<b>363 003</b>
<b>Foreign exchange risk according to the standardised approach</b>	<b>2 949 096</b>	<b>235 928</b>	<b>2 876 276</b>	<b>230 102</b>
<b>CVA risk according to the standardised approach</b>	<b>8 559</b>	<b>685</b>	<b>4 855</b>	<b>388</b>
<b>Total</b>	<b>36 515 692</b>	<b>2 921 255</b>	<b>34 747 337</b>	<b>2 779 787</b>

## Leverage ratio

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

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

The leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. For the Bank, the leverage ratio per 31 December 2017 is 10.9 percent (10.5) and thus well above the proposed binding measure.

## 40 Related parties

The Bank has related party relationships with companies within the Group. Related parties also refers to the Board and senior executives in Ikano Bank and Ikano 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 12 General administrative expenses.

SEK 000	Year	Income	Expenses	Receivables with related parties, 31 December	Liabilities with related parties, 31 December
Ikano S.A.	2017	-	-34 685	955	78 031
Ikano S.A.	2016	-	-33 483	1 996	16 655
Other Group companies	2017	9 293	-45 700	19 144	839 424
Other Group companies	2016	28 574	-63 929	16 507	834 291

## 41 Events after the balance sheet date

After the end of the year, no significant events have occurred that have affected the financial reports for 2017.

# 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.

Mats Håkansson  
Chairperson

Diederick van Thiel  
Board member

Lars Thorsén  
Board member

Olle Claeson  
Board member

Heather Jackson  
Board member

Jean Champagne  
Board member

Håkan Nyberg  
Managing Director

Our auditor's report was submitted on 14 March 2018.

Deloitte AB

Jan Palmqvist  
Authorised public accountant

# Auditors 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 2017-01-01 - 2017-12-31 except for the corporate governance statement on pages 62-69. The annual accounts of the company are included on pages 6-58 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 2017 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 address-

sed 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 IAS 39 is a complex and significant area with large impact on Ikano Bank AB (publ)'s business and financial reporting. Ikano Bank AB (publ)'s management exercises significant judgment when determining both when and how much to record as loan loss provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Furthermore, the associated disclosures are complex and dependent on high quality data.

At December 31, 2017, gross loans to the public amounted to SEK 27 799 million, with loan loss provisions of SEK 902 million. Given the significance of loans to the public (representing 63% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 2 in the financial statement and related disclosures of credit risk in note 3.

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.
- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We examined a selection of loans that had been identified by management as potentially impaired.
- We examined the sufficiency of the underlying models, assumptions and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure

requirements in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

#### **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.

Ikano Bank AB (publ) categorises their key IT-risk and control domains relating to financial reporting in the following sections:

- Modifications 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 assessed management monitoring of modifications in the IT-environment.
- We evaluated segregations of duties.
- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the process for monitoring IT-System.
- We evaluated the process for identity and access management, including access granting, change and removal.
- 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. 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](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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 2017-01-01 - 2017-12-31 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](http://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 2017-04-26 and has been the company's auditor since 2013-04-10.

Stockholm March 14th 2018  
Deloitte AB  
Signature on Swedish original  
Jan Palmqvist  
Authorised public accountant

# Board of Directors



## Lars Thorsén

Born 1965. Master in International Economics and Finance at Copenhagen Business School. Board member. Elected in 2015. CEO Ikano S.A. since 2015. Previously long career in the purchasing sector with positions as Regional Purchase Manager of IKEA Asia Pacific.

## Mats Håkansson

Born 1962. MSc in Business and Economics. Chairperson of the board since 2013 and member of the Risk and Capital Committee and the Compliance and Audit Committee. Elected in 2009. 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.

## Olle Claesson

Born 1954. MSc in Business and Economics, University of Stockholm. Board member and chairperson of the Risk and Capital Committee and the Compliance and Audit Committee. Elected in 2014. Strategy and business development consultant with over thirty

years' experience within the financial sector. Founder of Omeo Financial Consulting AB. Previously Partner within KPMG and founder of KPMG Financial Sector Consulting in Sweden.

## Jean Champagne

Born 1966. Master of Commerce, HR and Management, HEC Business School. Board member and member of the Remuneration Committee. Elected 2015. Head of Group HR for Ikano S.A. since 2015. Long career as an HR Manager in various companies within IKEA Group including positions in 4 countries on 3 continents. Other assignments: Board member of Ikano Pte Ltd.

## Diederick van Thiel

Born 1968. MA in e-commerce and marketing. Board member and member of the IT Committee. Elected in 2014. Entrepreneur and business angel with in-depth knowledge of e-commerce and mobile solutions. CEO of AdviceGames, founder of Cool eyeOpen and Nauticnet, and also held senior positions within ING Bank and KPN mobile.

## Heather Jackson

Born 1965. BA Modern History. Board member and chairperson of the IT Committee and the Remuneration Committee. Elected in 2014. 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 and Fashion Plc.

## Auditor

## Jan Palmqvist

Authorised public accountant, Deloitte AB. Auditor Ikano Bank AB (publ) since 2013

# Management team



**Håkan Nyberg**  
**Managing Director**

Employed since 2017. Former CEO of Nordnet Bank, and EnterCard. Started his career at IBM. Started at IBM, Have held a number of manager positions IndustriFinans, part of Swedbank,



**Cecilia Ståhle**  
**Chief Compliance Officer**

Employed since 2014. CCO since 2017. Previously Head of Operations at Ikano Bank and has a background from several senior positions within General Electric in the Nordic and European region.



**Henrik Jensen**  
**CFO**

CFO for Ikano Bank since August 2015. Previously Treasurer for Ikano Group Services, and Country Manager for Ikano Bank Russia. Has held several positions in Investment Banking and worked as teacher at Copenhagen Business School.



**Fredrik Krüeger**  
**HR & Communications Director**

Employed since 2009. Former HR Director at Ferring and Framfab, General Legal Counsel and other operational management roles within Skanska/Drott.



**Kristin Asgermyr**  
**Legal & Corporate Gov Director**

Employed since 2013. Former Chief Compliance Officer in Ikano Bank, Legal Counsel and MLRO at Sparbanken Öresund AB (publ) and advokat (member of the Swedish bar association) at Wistrand lawfirm.



**Mikael Nurmi**  
**CTO**

Employed since 2016. Has previously held IT positions with Nokia and Tamro. Most recently from Sanoma Corporation where he held positions as CIO and CTO. Was the CIO of the Year 2015 in the Nordic region.



**Jonas Ljungqvist**  
**CRO**

Employed since 2013. Previously held senior positions within risk at SEB in Stockholm and Frankfurt.



**Jessica Svantesson**  
**Global IKEA KAM**

Employed since 1998. Has had several senior positions in Ikano Bank Sweden, including Sales Manager for banking and Business Line Manager for Retail Partners.



# 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.

The report is based on the Swedish Code of Corporate Governance (the "Code") even though Ikano Bank has no obligation to apply the Code as its shares are not admitted to trading on a regulated market. The regulations of the Code mainly target companies with a dispersed ownership. For the Bank, which only has one owner, this means that some rules are not at all relevant and that application would not serve any reasonable purpose.

The expression "applying" the Code means that the Bank actively decides on how 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 according to the principle of "comply or explain." 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

**Item 1.1** - Publication of information on shareholder right of initiative.

**Item 1.3** - The company's Nomination Committee shall propose a chairperson for the Annual General Meeting.

**Item 2** - The company shall have a Nomination Committee that represents the company's shareholders.

## Deviation and explanation/comment

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.

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.

Due to the ownership structure, Ikano Bank has no Nomination Committee.

Consequently, the references to the Nomination Committee in items 1.2, 1.3, 4.6, 8.1 and 10.2 in the Code are not applicable.

## Supervision and policy documents

Ikano Bank's corporate governance report is based on the Swedish code, the Bank's Articles of Association and applicable legal requirements, such as the European Parliament's and Council's regulation on supervisory reporting requirements, the Swedish Companies Act, the Annual Accounts Act and the banking and Finance Business Act.

The activities of Swedish banks are regulated by law and banking operations may only be conducted after obtaining a license from the Swedish Financial Supervisory Authority. The rules in the form of laws and ordinances, regulations and general guidelines are highly extensive, but are not described in more detail in this corporate governance report. The Swedish Financial Supervisory Authority exercises extensive supervision over the Bank's operations in Sweden and in the EU/EEA countries in which the Bank conducts business through branches. A branch means that the foreign operations constitute a part of the Swedish legal entity. The Bank's foreign branches are also subject to limited supervision by the financial supervisory authority of the country in question. The supervision means that the Bank provides the Swedish Financial Supervisory Authority with reporting including the Bank's organisation, decision-making structure, internal control, terms for the Bank's customers and information to private customers. The Swedish Financial Supervisory Authority also makes site visits, both in Sweden and at the foreign branches.

Customers' confidence in the Bank's operation is of major importance. Clear internal regulations and sound risk culture are essential elements in the Bank's work with maintaining proper supervision and controls. In addition to the above laws and rules, Ikano Bank has multiple policies that establish the overall limits for the governance of the business and these are annually submitted to the Board for approval. The Bank also has several guidelines and instructions.

## 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. At the Annual General Meeting, the annual report is adopted and the allocation of profits and discharge from liability for the Board and the Managing Director (MD) are approved. In addition, the Bank's shareholder elects Board members, the Chairperson of the Board and auditors and establishes their remuneration.

### 2017 Annual General Meeting

The Annual General Meeting was held on 26 April 2017. The following resolutions were passed:

- the 2016 Annual Report was adopted;
- no dividend was paid for 2016;
- the members of the Board and the MD were granted discharge from liability for 2016;

- Board fees were approved of SEK 407,000 or EUR 45,850 or GBP 38,700 for each non-executive Board member, depending on the currency in each director's country of residence, and additional compensation for (i) each non-executive Board member being appointed as chairman for the Compliance & Audit Committee the Risk & Capital Committee, the People & Remuneration Committee and/or the Project & IT Committee amounting to SEK 108,500 or EUR 12,500 or GBP 10,300, depending on the currency in each director's country of residence; (ii) each non-executive Board member being a member of the Compliance & Audit Committee, the People & Remuneration Committee, the Project & IT Committee and/or the Risk & Capital Committee amounting to SEK 82,000, or EUR 9,500, or GBP 7,800, depending on the currency in each director's country of residence; and for (iii) additional work non-executive Board members' perform over and above ordinary board work amounting to SEK 19,500, or EUR 2,500 or GBP 1,900 per day, depending on the currency in each director's country of residence;
- the following Board members were re-elected for the period until the next Annual General Meeting:
  - Mats Håkansson (Chairperson)
  - Olle Claeson
  - Heather Jackson
  - Diederick van Thiel
  - Lars Thorsén
  - Jean Champagne
- Deloitte, with authorized public accountant Jan Palmqvist was elected as auditor in charge of the Bank for a period of one year, until the end of the first annual general meeting to be held after the end of 2017.

### Extraordinary General Meetings in 2017

Besides the Annual General Meeting, no Extraordinary General Meetings were held.

### Auditor

The Authorised Public Accountant Jan Palmqvist from Deloitte is the auditor of the Bank. He was elected at the 2013 Annual General Meeting for a period of four years. At the Annual General Meeting 26 April 2017 Deloitte and Jan Palmqvist was elected 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 2017. Jan Palmqvist has been an authorised public accountant since 1992 and the auditor of Ikano Bank since 2013. Jan Palmqvist's other audit assignments include RagnSells, Stronghold Invest, Sparbanken Skåne, Länsförsäkringar Göteborg & Bohuslän och Nordnet.

The auditor meets with the entire Board once a year, without the participation of the MD. During

the year, the auditor also participates in every meeting of the Compliance & Audit Committee. The auditor conducts a general review of interim reports.

### Board of directors

The Board of Directors responsibility includes the company's organisation and administration in accordance with the Swedish Companies Act. The Board of Directors appoints the MD and, where applicable, the members of the Board Committees. The Board continuously reviews the work of the MD. The Board also decides on salary and other benefits for the MD, for employees who report directly to the MD and for employees who have the overall responsibility for any of the Bank's control functions. The Board's activities and the division of responsibility between the Board and the MD/management are regulated 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 Statutory Board Meeting in April 2017. According to the work plan, the Board makes decisions regarding the Bank's overall strategies, acquisitions and investments. The rules include terms of reference issued by the Board of Directors to the MD. These policy documents are reviewed and approved annually. The Articles of Association state that the Board is to consist of no less than three and no more than ten members without deputies.

### Policy to select and assess Board members and key function holders

Ikano Bank has a policy for selecting and assessing Board members and key function holders. 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 number of members who are not employed in the Bank or the Ikano S.A. group. A diverse Board counteracts inappropriate herd behaviour and contributes to sound risk management in the Bank.

Individual Board members, the MD, and key function holders are evaluated, before they are appointed, from several different aspects. For example, the Bank investigates whether the member, the MD, 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 MD's and key function holder's experience, both theoretical education and practical experience, is also checked and evaluated before the member, the MD 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.

### Board members

In the table below, information is presented on the Board members' respective remuneration and attendance during the year, as well as whether they are dependent or independent in relation to the Bank or its owner Ikano S.A. In 2017, eight ordinary Board meetings were held (including the inaugural). The Board also held four meetings by circulation and five extraordinary Board meetings. For a more detailed presentation of the Board members, refer to page 62.

Name	Mats Håkansson	Lars Thorsén	Olle Claeson	Heather Jackson	Diederick van Thiel	Jean Champagne
Board attendance <sup>1</sup>	17/17	17/17	17/17	17/17	17/17	17/17
Attendance at People & Remuneration Committee meetings <sup>1</sup>	-	-	-	6/6	-	6/6
Attendance at Compliance & Audit Committee meetings <sup>1</sup>	4/4	-	4/4	-	-	-
Attendance at Risk & Capital Committee meetings <sup>1</sup>	5/5	-	5/5	-	-	-
Attendance at Project & IT Committee meetings <sup>1</sup>	-	-	-	5/5	5/5	-
Remuneration	None for Board work	None for Board work	SEK 838,500	SEK 659,324	SEK 771,945	None for Board work
Independent	Not independent in relation to the shareholder Ikano S.A.	Not independent in relation to the shareholder Ikano S.A.	Independent	Independent	Independent	Not independent in relation to the shareholder Ikano S.A.

<sup>1</sup>Attendance/Total number of meetings

## Chairperson of the Board

The Chairperson of the Board is responsible for and heads the Board's work so that it is effective and in accordance with the Swedish Companies Act, other laws and ordinances, including the Code and the Board's internal steering instruments. The Chairperson monitors operations in dialogue with the MD and 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 is evaluated annually.

## The Board's work in 2017

In 2017, eight ordinary Board meetings were held (including the inaugural), four meetings were held by circulation and five extraordinary board meetings were held. The ordinary Board meetings were held in Hyllie, Glostrup, , Nottingham and via telephone.

Each ordinary Board meeting follows an established agenda with reporting of mainly the following items:

- Operational status and information on particularly important issues and events
- Financial status, liquidity and capital
- Risk Control report
- Compliance report
- Internal Audit report
- Credit report
- IT report
- Project report
- Committees (respective committee chairperson)

Other relevant issues of major importance to the Board's work in 2017 were the overall strategy for the Bank, the continued establishment of the Bank's common contact centre for the business units in the Nordics, preparation for coming changes in external regulations and outsourcing and changes made within IT.

## Board committees

The overall responsibility of the Board of Directors cannot be delegated. However, the Board has decided to establish four 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.

### Compliance & Audit committee

This Committee consists of two Board members - Olle Claeson (Chairperson) and Mats Håkansson.

The Compliance & Audit Committee monitors accounting and financial reporting, as well as the effectiveness of the Bank's internal control, internal audit and risk management system. The Committee also reviews and prepare the Board's approval 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 Compliance & Audit Committee also assist in the preparation of proposals on the election of the auditor at the Annual General Meeting. In 2017, the Compliance & Audit Committee held four minuted meetings. The Compliance & Audit Committee has both an advisory as well as a preparatory function regarding any matters being subject to a decision before being handled and decided upon by the Board.

### Risk & Capital Committee

This Committee consists of two Board members - Olle Claeson (Chairperson) and Mats Håkansson.

The Committee's task is to support the Board in the risk work, mainly by ensuring that there are procedures 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. In 2017, the Risk & Capital Committee held four ordinary and one extraordinary minuted meetings. The Risk & Capital Committee has both an advisory as well as a preparatory function regarding any matters being subject to a decision before being handled and decided upon 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 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. The Project & IT Committee held four ordinary and one extraordinary meeting during the year.

### People & Remuneration committee

This Committee consists of two Board members - Heather Jackson (Chairperson) and Jean Champagne.

The 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 of the MD.

other senior executives and employees responsible for 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 annually makes 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. In 2017, the People & Remuneration Committee held five ordinary and one extraordinary meeting.

## Remuneration

The Bank's remuneration to senior executives is regulated by both the Ikano S.A. group's and the Bank's remuneration policy, which have been formulated based on the Swedish Financial Supervisory Authority's regulations 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 12 page 41.

## Bank's organisation and management

### Organisation

The operating activities are organised into seven geographic business units: Sweden (incl. cross border business into *inter alia* Austria) and the six foreign bank branches in Denmark, Norway, Finland, UK, Germany and Poland. The head office with management and common functions are situated in Malmö, Sweden. The central functions comprise Finance, Commercial, IT, Risk

Control Compliance, Internal Audit, HR, Legal and Sourcing).

### Managing Director

The MD of the Bank is responsible for the Bank's day-to-day administration and is to 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 MD and all other guidelines and directives issued by the Board.

Håkan Nyberg (born 1959) has been the Managing Director since 2017. He was previously the MD of Nordnet Bank and EnterCard. Before that, he worked at IBM and has had different managerial positions within IndustriFinans (a part of Swedbank).

### Management team

The Management team consists of eight people. In addition to the MD, the Management team includes the CFO, the managers for the functions of Operations, IKEA Global KAM, IT, HR, Legal, Risk Control, and Compliance. All persons in the management team report to the MD. The heads of the Risk Control and Compliance functions also reports directly to the Board. For the operational management work in the Bank, the MD has chosen to establish a number of committees and bodies.

For a more detailed presentation of the Management team, refer to page 63.

### Report on internal control over financial reporting

The Bank's process for ensuring the quality of the financial reporting includes four main activities: Risk assessment, control measures, information and communication, and 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 Accounting function, which compiles the reports, works with carefully prepared accounts and standardised working procedures with control functions.

The internal communication to and from the Board takes place by the Board receiving extensive documentation on 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 Compliance & Audit Committee and its Risk & Capital Committee. Information to the management is provided i.a. at regular Management team meetings in which the CFO participates. Internal policies, guidelines, instructions and corresponding documents that guide and support the finan-

cial operations are published on the Bank's intranet.

Internal control over financial reporting is followed up mainly by asking questions and reviewing the work of the Accounting function. 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 in all meetings of the Compliance & Audit Committee and provides information on his 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, in part through the Bank's internal capital adequacy assessment process.

### Internal control structure

It is the Board's task to ensure an appropriate, robust and transparent organisational structure with efficient communication and reporting channels. The Board must also ensure that there is a suitable and effective internal control structure. Besides the independent control functions for Internal Audit, Compliance and Risk Control, this structure must also include appropriate processes and procedures for internal control of operating activities, especially financial reporting and accounting.

### Compliance

Under the management of the Bank's Chief Compliance Officer (CCO), Compliance is responsible for ensuring that the regulated activities of the Bank are conducted in accordance with applicable laws, regulations and general guidelines of the Swedish Financial Supervisory Authority, the European Banking Authority and other agencies, internal rules and generally accepted practice. To ensure the Compliance function's independence, the CCO reports directly to the MD and the Board. Reporting to the Board is done at every ordinary Board meeting and to the MD every month. CCO also reports to the Bank's Compliance & Audit Committee.

Compliance regularly checks and assesses if the measures and procedures introduced by the Bank are suitable and effective. In addition, actions taken to resolve potential deficiencies in the Company's regulatory compliance are also evaluated.

### Risk Control

Risk Control under the management of Chief Risk Officer (CRO) is responsible for (i) overarching direction of and the rules for risk management, and (ii) supervision of risk management and risk control functions within the Bank. To ensure the Risk Control function's independence, the CRO reports directly to the MD and the Board. The CRO reports to the Board at every ordinary

Board meeting and to the MD every month. CRO also report to the Bank's Risk & Capital Committee.

CRO's area of responsibility includes identification, measurement and oversight of all risks related to the Bank's business. The Risk Manager is responsible for developing appropriate methods for the analysis and measurement of the risks and for continuously following up and checking that every risk is kept within permitted limits.

### 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 Compliance & Audit Committee and approved by the Board. The results of the internal audit are reported to the Board twice a year and to the Compliance & Audit Committee every quarter.

The Bank's Internal Audit function is established to assist the Board and its Compliance & Audit Committee in the identification and follow-up of various matters concerning the Bank's financial reporting. The tasks of the Compliance & Audit Committee include the follow-up of important observations and recommendations from both Internal Audit and external auditors regarding financial reporting. The Compliance & Audit 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. according to an outsourcing agreement. In 2017, PwC assisted Internal Audit in the execution of the internal audit.

