

# Periodic information, 30 September 2018 – Capital adequacy and Liquidity

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

## Operations

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

## Capital adequacy

The capital requirements regulations help to strengthen resilience against financial losses and thereby protect the Bank's customers. The regulations state that the Bank's own funds shall cover the minimum statutory own funds requirements, referred to as Pillar 1 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) is conducted at least annually. The ICAAP is the Board's tool for assessing the need for changes in the own funds requirement in the event of changed circumstances. Strategic decisions or external events that affect the business and its development are taken into account and stress tests and scenario analyses are carried out to assess potential additional own funds requirements. The risk control function is responsible for monitoring the process of the Bank's capital assessment. This is done as an integrated part of the Bank's budget and strategy processes. The ICAAP outcome is reported to the SFSA. The own funds requirement of the ICAAP in addition to Pillar 1 requirements for 30 September 2018 totalled SEK 939 m.

Ikano Bank has quantified tolerance levels for the Common Equity Tier 1 capital (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 30 September 2018, the Bank had own funds of SEK 6.3 bn (6.0) compared with the statutory own funds requirement for Pillar 1 risk of SEK 3.0 bn (2.9). The total capital ratio was 16.7 percent with a Tier 1 capital ratio of 14.5 percent. Consequently, the Bank has a good capital adequacy that meets both statutory and internal requirements.

The Bank's CET 1 capital amounted to SEK 5.5 bn. After a statutory minimum for CET 1 capital has been allocated to cover 75 percent of the total own funds requirement for the Pillar 1 risks, a further SEK 3.2 bn remain available as CET 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 CET 1 capital equivalent to 2.5 percent of the Bank's total risk exposure amounts. For Ikano Bank, the capital conservation buffer totals SEK 943 m and is covered well by the available CET 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 1.1% or SEK 405 m after weighting the applicable geographic requirements, which for the Bank mainly means Sweden, Norway and the UK. Ikano Bank's combined buffer requirement is SEK 1,348 m.

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

## Summary of own funds and risk exposure amount

SEK m	30 Sep 2018	31 Dec 2017
Tier 1 capital	5 467	5 212
Tier 2 capital	851	820
<b>Own funds</b>	<b>6 318</b>	<b>6 031</b>
<b>Total risk exposure amount</b>	<b>37 734</b>	<b>36 516</b>
<b>Total own funds requirements</b>	<b>3 019</b>	<b>2 921</b>
<b>Total capital ratio</b>	<b>16.7%</b>	<b>16.5%</b>
<b>Tier 1 capital ratio</b>	<b>14.5%</b>	<b>14.3%</b>
<b>Common equity Tier 1 ratio</b>	<b>14.5%</b>	<b>14.3%</b>
<b>Available common equity Tier 1 capital</b>	<b>3 203</b>	<b>3 021</b>
<b>Available common equity Tier 1 capital in relation to total risk exposure amount</b>	<b>8.5%</b>	<b>8.3%</b>
Capital conservation buffer	943	913
Countercyclical capital buffer	405	368
<b>Combined buffer requirement</b>	<b>1 348</b>	<b>1 281</b>

## Specification of own funds

SEK m	30 Sep 2018	31 Dec 2017
<b>Own funds</b>		
<b>Tier 1 capital</b>		
<b>Equity reported in the balance sheet</b>	<b>5 212</b>	<b>5 070</b>
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	281	243
Fund for fair value	292	166
Retained earnings	4 145	4 105
Net profit for the period	221	284
Adjustment for IFRS 9 one-off effect according to transitional arrangements	211	-
Untaxed reserves (78% of which)	545	545
Less:		
- Intangible assets	-397	-395
- Cash flow hedge	-5	-8
- Unaudited profit	-99	-
<b>Total Tier 1 capital</b>	<b>5 467</b>	<b>5 212</b>
<b>Total common Equity Tier 1 capital</b>	<b>5 467</b>	<b>5 212</b>
<b>Tier 2 capital</b>		
Subordinated liabilities	851	820
<b>Total Tier 2 capital</b>	<b>851</b>	<b>820</b>
<b>Total own funds</b>	<b>6 318</b>	<b>6 031</b>

## Specification of risk exposure amount

SEK m	30 Sep 2018		31 Dec 2017	
	Risk exposure	Own funds requirement	Risk exposure	Own funds requirement
<b>Credit risk according to the standardised approach</b>				
Exposures to states and central banks	0	0	33	3
Regional governments or local authorities	11	1	11	1
Exposures to public sector entities	0	0	0	0
Institutional exposure	478	38	417	33
Corporate exposure	4 102	328	1 833	147
Retail exposure	23 116	1 849	24 885	1 991
Equity exposure	24	2	32	3
Past due items	1 227	98	774	62
Covered bond exposure	110	9	113	9
Other items	414	33	620	50
<b>Total credit risk</b>	<b>29 482</b>	<b>2 359</b>	<b>28 717</b>	<b>2 297</b>
<b>Operational risk according to the basic indicator approach</b>	<b>5 056</b>	<b>404</b>	<b>4 841</b>	<b>387</b>
<b>Foreign exchange risk according to the standardised approach</b>	<b>3 181</b>	<b>255</b>	<b>2 949</b>	<b>236</b>
<b>CVA according to the standardised method</b>	<b>14</b>	<b>1</b>	<b>9</b>	<b>1</b>
<b>Total</b>	<b>37 734</b>	<b>3 019</b>	<b>36 516</b>	<b>2 921</b>

### Leverage ratio

The leverage ratio is a measure that provides an alternative to the risk-based capital requirement. The purpose is that it should be a clear and simple measure of capital strength. The measurement shows capital as a percentage of asset size, without considering the actual risk level of the assets. 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 30 September 2018 is 11.4 percent (10.9) and thus well above the proposed binding measure.

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

SEK m	30 Sep 2018	30 Jun 2018
<b>Available capital</b>		
Common Equity Tier 1 (CET1) capital	5 467	5 506
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5 256	5 295
Tier 1 capital	5 467	5 506
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	5 256	5 295
Total capital	6 318	6 367
Total capital as if IFRS 9 transitional arrangements had not been applied	6 107	6 156
<b>Risk-weighted assets</b>		
Total risk-weighted assets	37 734	38 088
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	37 588	37 925
<b>Capital ratios</b>		
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.5%	14.5%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.0%	14.0%
Tier 1 (as a percentage of risk exposure amount)	14.5%	14.5%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.0%	14.0%
Total capital (as a percentage of risk exposure amount)	16.7%	16.7%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	16.2%	16.2%
<b>Leverage ratio</b>		
Leverage ratio total exposure measure	47 854	48 402
Leverage ratio	11.4%	11.4%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.0%	11.0%

## Liquidity

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

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

The Bank's liquidity reserve and operational portfolio shall always total at least 10 percent of deposits from the public. In addition to the liquidity reserve, the Bank shall maintain an intra-day liquidity of at least 4 percent of deposits from the public. Consequently the liquidity portfolio shall always amount to at least 14 percent of deposits from the public.

The liquidity reserve, along with other operating liquidity, is invested in interest-bearing securities in the markets where the Bank operates. Steering documents define that quality levels of securities included in the Bank's liquidity reserve are in line with the European Commission's Delegated Act for LCR.

Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio shall be available within one day, and shall consist of funds in bank accounts, investments

available the next banking day (overnight) and committed bank overdraft facilities in the Bank's cash pool.

The liquidity reserve 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 mainly in the Swedish market. The assets are to be available for realisation and conversion into cash at short notice. Unused bank overdraft facilities are not included in the liquidity portfolio.

The Bank's operating liquidity is managed in the investment portfolio. The assets in the portfolio consist of interest-bearing securities 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 amounts to SEK 2.2 bn and consists of high quality assets, liquid in private markets and eligible as collateral with the Swedish Central Bank.

The liquidity portfolio as of 30 September 2018 totalled SEK 5.5 bn excluding overdraft facilities and constitutes 21 percent of deposits from the public. It includes Cash and balances with banks, the liquidity reserve and other interest-bearing securities with a value of SEK 1.4 bn. None of the assets are being utilised as collateral and no non-performing loans exist. Valuation was carried out at market value.

In addition to the liquidity portfolio, committed credit facilities for a total of SEK 3.1 bn are available.

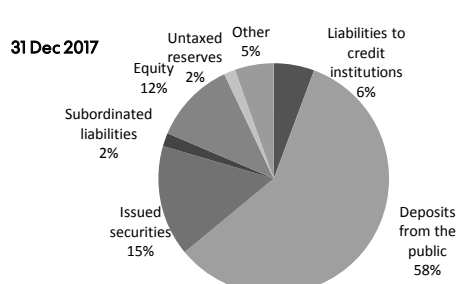
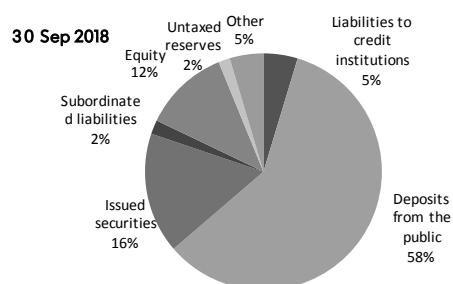
As of 30 September 2018, the Bank's LCR totalled 220 percent. This measure shows how the Bank's highly liquid assets relate to net outflows over a thirty-day period under strained market conditions. A statutory minimum liquidity coverage ratio of 100 percent is required since 1 January 2018.

## Summary of the liquidity reserve

SEK m	30 Sep 2018	31 Dec 2017
Securities issued by regional governments and governments	913	1 173
Securities issued by financial companies	156	149
Covered bonds	1 103	1 124
<b>Liquidity reserve</b>	<b>2 172</b>	<b>2 445</b>
Operating liquidity invested in securities	1 396	831
Cash and balances with central banks and other banks	1 964	1 781
<b>Total liquidity portfolio</b>	<b>5 532</b>	<b>5 058</b>
<b>Other liquidity creating measures</b>		
Unused committed credit facilities	3 118	2 954

## Summary of funding sources

SEK m	30 Sep 2018	31 Dec 2017
Liabilities to credit institutions	2 076	2 504
Deposits from the public	26 257	25 617
Issued securities	7 339	6 825
Subordinated liabilities	851	820
Equity	5 212	5 070
Untaxed reserves	698	698
Other	2 495	2 548
<b>Total</b>	<b>44 928</b>	<b>44 082</b>



## Other information

SEK m	30 Sep 2018	31 Dec 2017
Total assets	44 928	44 082
Loans to the public	27 596	27 799
Deposits from the public	26 257	25 617
Ratio Deposits/Total assets	58%	58%
Ratio Liquidity portfolio/Deposits	21%	20%

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

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

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