Capital adequacy and Liquidity 2017-09

IKANO BANK

Periodic information, 30 September 2017 – 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, the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers (FFFS 2014:12) and management of liquidity risks (FFFS 2010:7).

Operations

Ikano Bank AB (publ) ("Ikano Bank" or the "Bank") conducts banking operations regulated by the Swedish Financial Supervisory Authority in Sweden, the UK, Norway, Denmark, Finland, Germany, Austria and Poland. The operations in Denmark, Norway, Finland, the UK, Germany and Poland are operated as branches, while Austria is conducted as cross-border operations.

Capital adequacy

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

To ensure that Ikano Bank's capital situation is satisfactory to cover the risks that the Bank is or may be exposed to, an internal capital adequacy assessment (ICAAP) is conducted at least annually. The ICAAP is also the Board's tool for assessing the need for changes in the own funds requirement in the event of changed circumstances. The evaluation includes an overall risk analysis to ensure that the risks are properly taken into account and reflect the Bank's true risk profile and own funds requirement. 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 adequacy assessment. The own funds requirement of the ICAAP in addition to Pillar 1 requirements for 30 September 2017 totalled SEK 933 m.

Ikano Bank's risk tolerance is that the total capital ratio should never fall below 15 percent, i.e. 7 percentage points above the statutory capital requirement for Pillar 1 risks. The risk tolerance level also exceeds the own funds requirement including Pillar 1 buffers, which for Ikano Bank totaled 11.8 percent. This margin represents a buffer 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 Bank has a guideline that the total capital ratio shall correspond to 17 percent.

As of 30 September 2017, the Bank had own funds of SEK 6.0 bn compared with the statutory own funds requirement for Pillar 1-risks of SEK 2.9 bn. The total capital ratio was 16.5 percent with a common equity tier 1 capital ratio of 14.3 percent. Consequently, the Bank has a strong 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 capital 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 906 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 0.98 percent or SEK 355 m after weighting the applicable geographic requirements, which for the Bank means Sweden and Norway. Ikano Bank's combined buffer requirement is SEK 1 260 m.

Summary of Own funds and risk exposure amount

SEK m	30 Sep 2017	31 Dec 2016
Tier 1 Capital	5 176	4 965
Tier 2 Capital	810	810
Own funds	**5 986**	**5 775**
Total risk exposure amount	**36 231**	**34 747**
Total own funds requirements	**2 898**	**2 780**
Total Capital ratio	**16.5%**	**16.6%**
Tier 1 Capital ratio	**14.3%**	**14.3%**
Common equity Tier 1 ratio	**14.3%**	**14.3%**
Available common equity Tier 1 capital	**3 002**	**2 881**
Available common equity Tier 1 capital in relation to total risk exposure amount	**8.3%**	**8.3%**
Capital conservation buffer	906	869
Countercyclical capital buffer	355	246
Combined buffer requirement	**1 260**	**1 115**

Specification of Own funds

SEK m	30 Sep 2017	31 Dec 2016
Own funds		
Common equity Tier 1 capital		
Equity reported in the balance sheet	**5 071**	**4 744**
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	219	150
Fund for fair value	140	124
Retained earnings	4 128	3 919
Net profit for the period	311	279
Untaxed reserves (78% of which)	545	545
Less:		
- Intangible assets	-376	-322
- Cash flow hedge	-18	-1
- Unaudited profit	-45	-
Total Common Equity Tier 1 capital	**5 176**	**4 965**
Total Tier 1 capital	**5 176**	**4 965**
Tier 2 capital		
Subordinated liabilities	810	810
Total Tier 2 capital	**810**	**810**
Total own funds	**5 986**	**5 775**

Specification of risk exposure amount

SEK m	30 Sep 2017 Risk exposure amount	30 Sep 2017 Own funds requirements	31 Dec 2016 Risk exposure amount	31 Dec 2016 Own funds requirements
Credit risk according to the standardised approach				
Exposures to states and central banks	0	0	0	0
Exposures to public sector entities	0	0	0	0
Exposures to institutions	477	38	440	35
Corporate exposure	1 995	160	1 603	128
Retail exposure	24 325	1 946	23 678	1 894
Exposures in default	890	71	914	73
Covered bond exposure	117	9	134	11
Equity exposure	30	2	28	2
Other items	526	42	531	42
Total credit risk	**28 359**	**2 269**	**27 329**	**2 186**
Operational risk according to the basic indicator approach	**4 841**	**387**	**4 538**	**363**
Foreign exchange risk according to the standardised approach	**3 017**	**241**	**2 876**	**230**
Credit valuation adjustment (CVA) according to the standardised method	**4**	**0**	**5**	**0**
Total	**36 231**	**2 898**	**34 747**	**2 780**

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. There is currently no legal minimum requirement in force for the Leverage ratio, but the European Commission has proposed a leverage ratio of 3 percent. 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 2017 is 10.9 percent.

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 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 liquidity of Ikano Bank is adequate, the internal liquidity adequacy assessment (ILAAP) is performed.

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

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

The liquidity reserve, along with other operating liquidity, is invested in interest-bearing securities in the markets where the Bank operates. The Bank's steering documents define what quality levels the securities 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, in the Bank's cash pool.

The liquidity reserve is to constitute a separate reserve of high-quality liquid assets, which are to be quickly convertible in case of market stress situations that affect the Bank's financing options. The liquidity reserve is invested in interest-bearing securities with a high credit rating on the markets where the Bank operates. 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 markets where the Bank operates. 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 regulations on liquidity risk management and asset classification in the European Commission's delegated act for liquidity coverage requirements.

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 4.4 bn. These assets are of high quality, liquid in private markets and eligible as collateral with the Swedish Central Bank.

The liquidity portfolio totalled SEK 5.5 bn as of 30 September 2017, which constitutes 22 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 1.2 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, there are obtained, committed credit facilities for a total of SEK 3.3 bn.

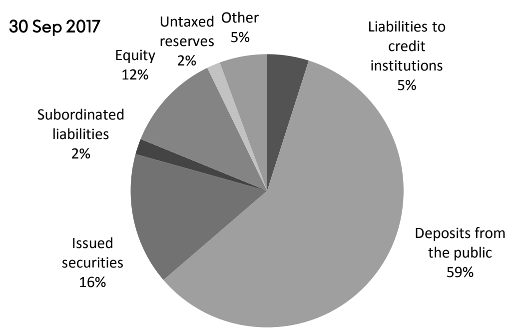
As of 30 September 2017, the Bank's liquidity coverage ratio (LCR) totalled 251 percent. This statutory measure shows how the Bank's highly liquid assets are related to net outflows over a thirty-day period under strained market conditions. Since 1 January 2017 the liquidity coverage ratio must amount to 80 percent, with an increasing phasing to 100 percent on 1 January 2018. For a healthy and stable liquidity management, the Bank has already for several years decided to hold a LCR of over 100 percent.

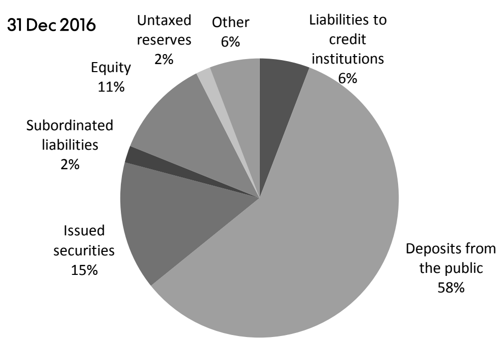
Summary of the Liquidity Reserve

SEK m	30 Sep 2017	31 Dec 2016
Cash and balances with banks	1 883	1 824
Securities issued by regional governments and governments	1 257	1 201
Securities issued by financial companies	146	146
Covered bonds	1 168	1 336
Liquidity reserve (according to definition in FFFS 2010:7)	**4 453**	**4 507**
Operating liquidity invested in securities	1 085	766
Total liquidity portfolio	**5 538**	**5 272**
Other liquidity creating measures		
Unused committed credit facilities	3 278	3 405

Summary of Funding Sources

SEK m	30 Sep 2017	31 Dec 2016
Liabilities to credit institutions	2 153	2 415
Deposits from the public	25 671	24 180
Issued securities	6 824	6 183
Subordinated liabilities	810	810
Equity	5 071	4 744
Untaxed reserves	698	698
Other	2 453	2 399
Total	**43 681**	**41 536**





Other information

SEK m	30 Sep 2017	31 Dec 2016
Total assets	43 681	41 536
Loans to the public	27 248	26 845
Deposits from the public	25 671	24 180
Ratio Deposits/Total assets	59%	58%
Ratio Liquidity portfolio/Deposits	22%	22%

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

Deposits from the public are regarded as the main funding source and the Bank maintains 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 2016 and the information on capital adequacy and risk management for 2016. The documents are published on the Bank's website www.ikanobank.se.