

Capital adequacy and Liquidity 2016-09

Periodic information, 30 September 2016 – 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 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 carries out banking activities subject to a license from the Swedish Financial Supervisory Authority in Sweden, Denmark, Norway, Finland, the UK, Germany, Austria and Poland. The foreign operations are branches of the Swedish operations, with the exception of the Austrian operations, which are conducted as cross-border operations.

Capital adequacy

Below, information is provided regarding own funds and own funds requirements in accordance with among others regulation (EU) No 575/2013 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 sufficient, the internal capital adequacy assessment (ICAAP) 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 SFS. The capital requirement of the ICAAP in addition to pillar 1 requirements for 30 September 2016 totalled SEK 1 215 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. 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.

In the calculation of own funds requirements for credit risk and CVA risk under Pillar 1, the bank uses the standardised approach. For credit risk this is based on 17 exposure categories with defined risk weights. Own funds requirements for operational risk are calculated using the basic indicator approach which means that the own funds requirement is 15 percent of the average for the prior three years' operating revenues.

Own funds requirements for foreign exchange risk cover all on and off balance sheet items measured at market value and converted to Swedish kronor at the closing rate. From 1 January 2016 eight percent of the overall net positions in foreign currency are own funds requirement for all exposures in foreign currencies. Until December 31, 2015 it was four percent own funds requirements for closely correlated currencies. This explains the large increase from the 31 December 2015.

As of 30 September 2016, the bank had own funds of SEK 5.3 bn compared with the statutory own funds requirement for Pillar 1-risk of SEK 2.7 bn. The total capital ratio was 15.8 percent with a Tier 1 capital ratio of 13.4 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 4.5 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 2.5 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 848 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 0.68% or SEK 232 m after weighting the applicable geographic requirements, which for the bank means Sweden and Norway. Ikano Bank's combined buffer requirement is SEK 1 080 m.

Summary of Own funds and risk exposure amount

SEK m	30 Sep 2016	31 Dec 2015
Tier 1 Capital	4 532	4 195
Tier 2 Capital	812	793
Own funds	5 344	4 987
Total risk exposure amount	33 929	29 647
Total own funds requirements	2 714	2 372
Total Capital ratio	15.8%	16.8%
Tier 1 Capital ratio	13.4%	14.1%
Common equity Tier 1 ratio	13.4%	14.1%
Available common equity Tier 1 capital	2 496	2 416
Available common equity Tier 1 capital in relation to total risk exposure amount	7.4%	8.1%
Capital conservation buffer	848	741
Countercyclical capital buffer	232	129
Combined buffer requirement	1 080	871

Specification of Own funds

SEK m	30 Sep 2016	31 Dec 2015
Own funds		
Common equity Tier 1 capital		
Equity reported in the balance sheet	4 350	3 841
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	107	-
Fund for fair value	145	-1
Retained earnings	3 462	3 062
Net profit for the period	363	507
Untaxed reserves (78% of which)	545	545
Less:		
- Intangible assets	-284	-188
- Cash flow hedge	-7	-3
- Unaudited profit	-71	-
Total Common Equity Tier 1 capital	4 532	4 195
Total Tier 1 capital	4 532	4 195
Tier 2 capital		
Subordinated liabilities	812	793
Total Tier 2 capital	812	793
Total own funds	5 344	4 987

Specification of risk exposure amount

SEK m	30 Sep 2016		31 Dec 2015	
	Risk exposure amount	Own funds requirements	Risk exposure amount	Own funds requirements
Credit risk according to the standardised approach				
Exposures to states and central banks	1	0	0	0
Exposures to public sector entities	0	0	0	0
Exposures to institutions	458	37	517	41
Corporate exposure	1 454	116	1 142	91
Retail exposure	22 918	1 833	20 902	1 672
Exposures in default	939	75	525	42
Covered bond exposure	134	11	83	7
Equity exposure	27	2	18	1
Other items	612	49	580	46
Total credit risk	26 543	2 123	23 768	1 901
Operational risk according to the basic indicator approach	4 538	363	4 441	355
Foreign exchange risk according to the standardised approach	2 841	227	1 437	115
Credit valuation adjustment according to the standardised method	7	1	-	-
Total	33 929	2 714	29 647	2 372

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 steering documents established by the bank's Board of Directors. To ensure that the liquidity of Ikano Bank is adequate, the internal liquidity assessment (ILAAP) is performed. This process is a tool used by the Board of Directors to assess the need for changes the liquidity requirement in the event of changed circumstances.

The liquidity portfolio is divided into three categories: Intra-day liquidity, liquidity reserve and an investment 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 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 markets in the Nordic region. 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, in the bank's cash pool.

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

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

The bank's liquidity reserve is based on the Financial Supervisory Authority's current regulations on liquidity risk and asset classification in the European Commission's delegated file 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 4.4 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 5.3 bn as of 30 September 2016, which constitutes 23 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 0.9 bn. None of the assets are being utilised as collat-

eral 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 2.9 bn.

As of 30 September 2016, the bank's liquidity coverage ratio (LCR) totalled 267 percent. This measure shows how the bank's highly liquid as-

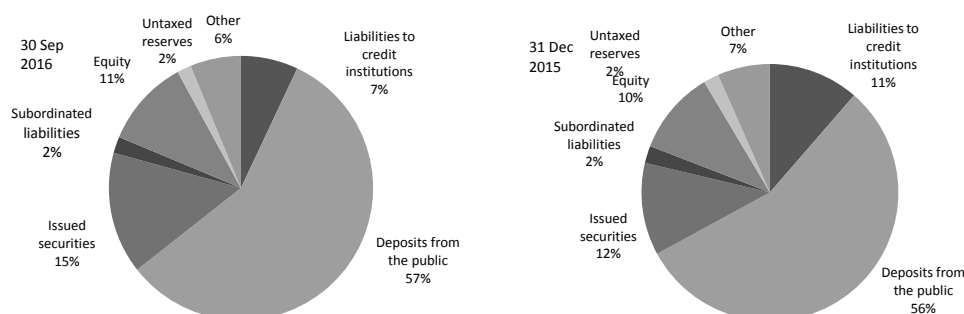
sets are related to net outflows over a thirty-day period under strained market conditions. A statutory limit for the liquidity coverage ratio of 70 percent applies since 1 January 2016, with an increasing phasing to 100 percent on January 1, 2018. For a healthy and stable liquidity management, the bank has already decided to hold an LCR of over 100 percent.

Summary of the Liquidity Reserve

SEK m	30 Sep 2016	31 Dec 2015
Cash and balances with banks	1 855	1 692
Securities issued by municipalities and public units	1 182	1 120
Covered bonds	1 339	962
Liquidity reserve (according to definition in FFFS 2010:7)	4 375	3 774
Operating liquidity invested in securities	902	724
Total liquidity portfolio	5 277	4 497
Other liquidity creating measures		
Unused committed credit facilities	2 903	1 187

Summary of Funding Sources

SEK m	30 Sep 2016	31 Dec 2015
Liabilities to credit institutions	2 834	4 128
Deposits from the public	23 219	20 209
Issued securities	6 032	4 218
Subordinated liabilities	812	793
Equity	4 350	3 841
Untaxed reserves	698	698
Other	2 520	2 399
Total	40 465	36 286



Other information

SEK m	30 Sep 2016	31 Dec 2015
Total assets	40 465	36 286
Loans to the public	26 444	24 105
Deposits from the public	23 219	20 209
Ratio Deposits/Total assets	57%	56%
Ratio Liquidity portfolio/Deposits	23%	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%.

Additional information about the bank's capital adequacy and liquidity risk management can be found in the Annual Report for 2015 and the information on capital adequacy and risk management for 2015. The documents are published on the bank's website www.ikanobank.se.

