

Periodic information, 30 September 2020 – 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 AB (publ) conducts banking operations regulated by the financial supervisory authorities of Sweden, the UK, Norway, Denmark, Finland, Germany, Austria and Poland. The Bank provides financing solutions to the consumer and corporate markets through partnerships, finance brokers and direct sales. The operations in Denmark, Norway, Finland, the UK, Germany and Poland are operated as branches, while Austria is serviced under 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, credit valuation adjustment risk (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.

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 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.

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

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

As of 30 September 2020, the Bank had own funds of SEK 6,462 m (6,703 per 31 December 2019) of which SEK 5,698 m are common equity Tier 1. The statutory own funds requirement for Pillar 1-risk amounted to SEK 2,643 m (3,036). 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 3,682 m remain available as common equity Tier 1 capital. The internal own funds requirement (Pillar 2) totalled SEK 634 m and is covered by available capital. The total capital ratio was 19.6 percent with a common equity tier 1 capital ratio of 17.1 percent.

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 834 m and is covered by the available common equity Tier 1 capital.

The institution-specific countercyclical buffer is determined by multiplying the total risk exposure amount with the weighted average of the countercyclical buffer rates applicable in those countries where the relevant credit exposures of the Bank are located. The institution-specific countercyclical buffer amounts to 0.07 percent (1.52) or SEK 23 m (578) after weighting the applicable geographic requirements, which for the Bank now means mainly Norway. Ikano Bank's combined buffer requirement is SEK 849 m (1,527).

Per 1 January 2018, the new accounting standards IFRS 9 Financial Instruments entered into force. Ikano Bank applies the transitional rules introduced with article 473a capital requirements regulation (EU No 575/2013) regarding the Day 1 effect. The table on page 4 provides a comparison of Ikano Bank's own funds as well as capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 in accordance with the EBA guidelines 2018/01 for standardised disclosure requirements for transitional arrangements according to IFRS 9.

Summary of own funds and risk exposure amount

SEK m	30 Sep 2020	31 Dec 2019
Tier 1 capital	5 665	5 838
Tier 2 capital	797	865
Own funds	6 462	6 703
Total risk exposure amount	33 043	37 949
Total own funds requirements	2 643	3 036
Total Capital ratio	19.6%	17.7%
Tier 1 Capital ratio	17.1%	15.4%
Common equity Tier 1 ratio	17.1%	15.4%
Available common equity Tier 1 Capital	3 682	3 561
Available common equity Tier 1 Capital in relation to Total risk exposure amount	11.1%	9.4%
Capital conservation buffer	826	949
Counter-cyclical capital buffer	23	578
Combined buffer requirement	849	1 527

Specification of own funds

SEK m	30 Sep 2020	31 Dec 2019
Equity reported in the balance sheet	5 868	5 945
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	392	294
Fund for fair value	293	239
Retained earnings	5 041	4 674
Net result for the period	-130	465
Untaxed reserves (78.6% of which)	97	76
CET1 capital before regulatory adjustments	5 965	6 021
CET1 capital: regulatory adjustments		
Intangible assets	-421	-352
Cash flow hedge	-9	-15
Value adjustments due to the requirements for prudential valuation	-4	-4
Adjustment for IFRS 9 Day 1 effect according to transitional arrangements	155	189
Total Common Equity Tier 1 Capital	5 665	5 838
Total Tier 1 Capital	5 665	5 838
Tier 2 capital		
Subordinated liabilities	797	865
Total Tier 2 Capital	797	865
Total own funds	6 462	6 703

Specification of risk exposure amount

SEK m	30 Sep 2020		31 Dec 2019	
	Risk exposure amount	Own funds requirements	Risk exposure amount	Own funds requirements
Credit risk according to the standardised approach				
Exposures to regional governments or local authorities	10	1	12	1
Institutional exposure	640	51	507	41
Corporate exposure	3 352	268	4 220	338
Retail exposure	22 014	1 761	23 453	1 876
Equity exposure	56	4	56	4
Past due items	554	44	856	69
Covered bond exposure	108	9	121	10
Other items	382	31	390	31
Total credit risk	27 115	2 169	29 615	2 369
Operational risk according to the basic indicator approach	5 117	409	5 072	406
Foreign exchange risk according to the standardised approach	796	64	3 249	260
CVA risk according to the standardised approach	15	1	13	1
Total	33 043	2 643	37 949	3 036

Leverage ratio

The leverage ratio is a measure that provides an alternative to the risk-based capital requirement. The aim is that it should be a clear and simple measure of capital strength. The measurement shows capital as a percentage of asset size, without the actual risk level of the assets being taken into consideration. A legal minimum requirement of 3 percent is implemented when

the revised Capital Requirements Regulation enters into force in 2021.

The leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. For the Bank, the leverage ratio per 30 September 2020 is 12.6 percent (12.1).

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

SEK m	30 Sep 2020	31 Dec 2019
Available capital		
Common Equity Tier 1 (CET1) capital	5 665	5 838
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5 509	5 650
Tier 1 capital	5 665	5 838
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	5 509	5 650
Total capital	6 462	6 703
Total capital as if IFRS 9 transitional arrangements had not been applied	6 307	6 515
Risk-weighted assets		
Total risk-weighted assets	33 043	37 949
Inphasing	62	108
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	32 981	37 841
Capital ratios		
Common Equity Tier 1 (as a percentage of risk exposure amount)	17.1%	15.4%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	16.7%	14.9%
Tier 1 (as a percentage of risk exposure amount)	17.1%	15.4%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	16.7%	14.9%
Total capital (as a percentage of risk exposure amount)	19.6%	17.7%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	19.1%	17.2%
Leverage ratio		
Leverage ratio total exposure measure	45 035	48 122
Leverage ratio	12.6%	12.1%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	12.3%	11.8%

Liquidity 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 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 the 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 shall constitute a separate reserve of high-quality liquid assets, which are to be quickly convertible in case of market stress situations that affect the Bank's financing options. Investments in this portfolio are to have a minimum rating of AA- according to Standard and Poor's (or the Moody's equivalent). The liquidity reserve is invested in interest-bearing securities with a high credit rating. 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. Investments in this portfolio are to have a minimum rating of BBB+ according to Standard and Poor's (or the Moody's equivalent).

The Bank's liquidity reserve amounts to SEK 3,042 m and consists of high quality liquid assets that are eligible as collateral with the Swedish Central Bank.

The liquidity portfolio as of 30 September 2020 totalled SEK 6,131 m excluding overdraft facilities and constitutes 23 percent of deposits from the public. It includes Cash and balances with banks (SEK 2,009 m), the liquidity reserve (SEK 3,042 m) and other interest-bearing securities (SEK 1,079 m). None of the assets are being utilised as collateral and no non-performing loans exist.

In addition to the liquidity portfolio, committed credit facilities for a total of SEK 3,119 m are available. The assets are measured at fair value.

The Covid-19 Pandemic has not had any negative impact on Ikano Bank's liquidity portfolio, which has been kept at a stable level.

As of 30 September 2020, the Bank's LCR totalled 291 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

30 Sep 2020

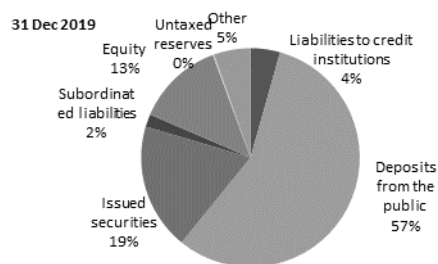
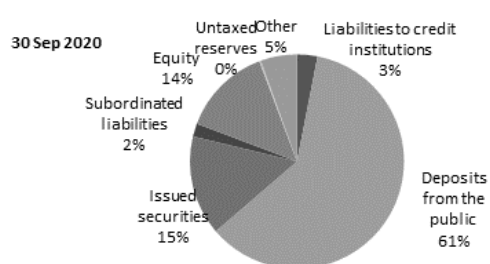
SEK m	Total	SEK	EUR	DKK	GBP	Other
Securities issued by public entities	1 794	1 369	-	108	317	-
Securities issued by financial corporations	164	6	158	-	-	-
Covered bonds	1 085	661	356	67	-	-
Liquidity reserve	3 042	2 036	514	175	317	-
Other operating liquidity invested in securities	1 079	1 079	-	-	-	-
Cash and balances in central banks and other banks	2 009	1 174	318	297	139	81
Total liquidity portfolio	6 131	4 289	833	472	456	81
Distribution per currency (%)	100%	70%	14%	8%	7%	1%
Other liquidity-creating measures						
Granted unused credit facilities	3 119	600	1 364	924	230	-

31 Dec 2019

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

Summary of funding sources

SEK m	30 Sep 2020	31 Dec 2019
Liabilities to credit institutions	1 343	2 010
Deposits from the public	26 269	25 958
Issued securities	6 526	8 595
Subordinated liabilities	856	865
Equity	5 868	5 945
Untaxed reserves	97	97
Other	2 381	2 486
Total	43 340	45 956



Other information

SEK m	30 Sep 2020	31 Dec 2019
Total assets	43 340	44 731
Loans to the public	25 558	27 289
Deposits from the public	26 269	26 206
Ratio Deposits/Total assets	61%	59%
Ratio Liquidity portfolio/Deposits	23%	22%

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. Covid-19 pandemic has not had a negative impact on the Bank's liquidity in Q3. Deposit has continued to grow and

loanbook has decreased slightly, allowing maturing issued securities not being prolonged without negatively affecting the net liquidity.

Additional information about the Bank's capital adequacy and liquidity risk management can be found in the Annual Report for 2019 and the information on capital adequacy and risk management for 2019. The documents are published on the Bank's website www.ikanobank.se.