Capital adequacy and risk management 2019-12

Capital adequacy and risk management

This information refers to Ikano Bank AB (publ) ("Ikano Bank" or the "Bank"), Corporate Identity Number 516406-0922. The document contains information regarding the Bank's capital adequacy and risk management and refers to such information required for the own funds and own funds requirements in accordance with regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority's regulations regarding regulatory requirements and capital buffers (2014:12 and amendment provisions).

Operations

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

There are three business lines within the Bank: 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 the retail sector, are managed and marketed within the Sales Finance business line. 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 application work themselves on the internet or by telephone, which enables an efficient handling whereby the Bank can offer customers cost-efficient and competitive products.

Lending is offered as unsecured loans and VISA credit cards. Lending is provided as unsecured loans and card products in Sweden, Denmark, Norway and Germany. Unsecured loans are also offered on the UK market. Deposits are offered in the Swedish, Danish, German and UK markets.

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 must also manage liquidity risk, foreign exchange risk and interest rate risk. The Board of Directors and CEO are ultimately responsible for risk management at Ikano Bank.

Risk management is intended to ensure that the risks do not exceed the risk tolerance set by the Board. The Bank's risks are controlled centrally, but the responsibility for risk management rests primarily with local business units. This means that operating business units own and manage the risk in daily operations. The independent Risk Control Function is responsible for monitoring and evaluating the risk management in the Bank. Reporting is done monthly to the Bank's management and quarterly to the Board of Directors. The Bank's Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP/ILAAP) are updated at least bi-annually and presented to the management and Board of Directors.

For more information on the Bank's risks and organisation for risk management see the Annual Report 2019 note 3 as well as the Governance report.

Organisation and responsibility

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

In the Bank the three lines of defence model is implemented where the business acts as 1st line of defence with the main responsibility for identification, assessment, mitigation and ownership of risks. Risk Control and Compliance functions acts as an independent 2nd line of defence and is responsible for oversight and guidance. Internal Audit the 3rd line of defence provide independent assurance to the Board.

Recovery Planning

Ikano Bank has drawn up a recovery plan and put in place processes around a regular up-date of recovery indicators in accordance with the

Bank Recovery and Resolution Directive, EBA guidelines and Swedish legislation. The recovery plan is a tool to identify options potentially available to counter extreme crisis scenarios and is an integral part of the Bank's risk and capital management framework.

Credit risk

Credit risk is the Bank's largest risk and is defined as the risk that the counterparty does not fulfil its obligations. Credit risk arises in lending operations, the investment of the Bank's operating liquidity, overnight investment and for derivatives with positive market values.

The Bank's lending operations consist of the products leasing, factoring, credit cards and unsecured loans. All products are designed for high quantity management. The Bank applies scoring models in the assessment of credit risk. 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 going into default. The assessment is supplemented with customer information as well as information from external sources, example credit bureaus to assess repayment capacity before the credit is finally approved. Most of the Bank's scoring models are internally developed but there are also externally developed and generic models, mostly corporate models. 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 expected credit loss models are based on the IFRS 9 framework; see note 2 Accounting principles in the Annual Report for a description of the Bank's models. These models are all internally developed and form the foundation for the classification in the tables below.

The Bank has a diversified loan portfolio in terms of customer, product and geographical market which means that no significant credit risk concentrations exist. No single customer accounts for more than 1 per cent of the loan book.

The table below illustrates the Bank's credit exposure before and after credit risk impairment provisioning, specified as per the internal risk classification (low, medium or high) or an external credit rating depending on the counterparty.

Leasing assets are recognised as tangible fixed assets in the balance sheet. The main groups of leasing objects are office equipment, vehicles and production machinery. Collaterals are solely comprised of residual value guarantees from suppliers of leasing objects recognised as tangible fixed assets. The value of the collateral amounts to SEK 1,187 m as of 31 December 2019 (SEK 1,425 m). No significant changes in the quality of collateral have occurred during the period.

Liquidity and transaction accounts in other banks, where the liquidity is managed by the Bank's treasury function, are exempt from credit impairment provisioning since the credit risk is considered to be immaterial. These accounts are classified as loans to credit institutions below.

Accrued interest is reported in the balance sheet item Accrued income. The credit impairment provisions are not material.

Credit risk exposure, gross and net, per risk classification for financial assets, and commitments and undrawn limits

2019

SEK 000	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost according to IFRS 9				
Loans to credit institutions				
AAA	3 040	-	-	3 040
AA	836 958	-	-	836 958
A	1 019 162	-	-	1 019 162
BBB	50 048	-	-	50 048
NR	27	-	-	27
Credit impairment provisions	-	-	-	-
Total carrying amount	**1 909 236**	**-**	**-**	**1 909 236**
Loans to the public				
Low	20 899 926	466 755	-	21 366 681
Medium	2 880 959	979 467	-	3 860 425
High	851 485	1 922 878	407 939	3 182 302
Credit impairment provisions	-140 044	-319 113	-289 322	-748 479
Total carrying amount	**24 492 326**	**3 049 987**	**118 617**	**27 660 929**
Financial assets measured at fair value according to IFRS 9				
Treasury bills				
AAA	481 264	-	-	481 264
AA+	565 818	-	-	565 818
AA	489 790	-	-	489 790
AA-	135 741	-	-	135 741
Credit impairment provisions	-292	-	-	-292
Total carrying amount	**1 672 321**	**-**	**-**	**1 672 321**
Bonds and other interest-bearing securities				
AAA	1 372 348	-	-	1 372 348
A+	20 086	-	-	20 086
A	49 994	-	-	49 994
A-	819 031	-	-	819 031
BBB+	185 150	-	-	185 150
Credit impairment provisions	-1 564	-	-	-1 564
Total carrying amount	**2 445 045**	**-**	**-**	**2 445 045**
Total gross carrying amount for financial assets measured at amortised cost or fair value through other comprehensive income	**30 660 509**	**3 369 099**	**407 939**	**34 437 548**
Total credit impairment provisions	**-141 900**	**-319 113**	**-289 322**	**-750 335**
Total carrying amount	**30 518 609**	**3 049 987**	**118 617**	**33 687 212**
Leasing objects including trade recievables leasing				
Low	6 512 702	974 846	-	7 487 548
Medium	847 525	1 268 854	-	2 116 379
High	127 006	863 973	337 207	1 328 186
Credit impairment provisions	-11 070	-47 251	-148 205	-206 526
Total carrying amount	**7 476 163**	**3 060 422**	**189 001**	**10 725 586**
Commitments and undrawn limits				
Low	30 822 629	260 269	-	31 082 898
Medium	3 720 911	304 472	-	4 025 384
High	100 399	355 689	-	456 088
Credit impairment provisions	-13 017	-12 850	-	-25 867
Total commitments and undrawn limits	**34 630 922**	**907 580**	**-**	**35 538 502**

The tables below specifies exposures in the credit portfolio, i.e. Loans to the public and Leasing receivables, before and after credit impairment provisions, broken down by industries etc. Granted but unused credit limits are not included in the exposures.

A loan is classified as non-performing or credit impaired (stage 3) 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 that are 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.

Unsettled receivables refers to receivables which are due for payment and which are not included in non-performing loans. These receivables are included in the additional assessment in which impairment is made at portfolio level. Non-performing loans and unsettled receivables by sector and geography are shown in the following tables.

Exposures in the credit portfolio before and after impairment and loan losses shown by industry

2019 SEK 000	Total exposures	Impairments	Exposure after impairments	Loan losses in the income statement
Households	27 599 117	732 797	26 866 320	-538 883
Trade	2 047 105	27 323	2 019 782	-20 093
Manufacturing industry	1 496 884	13 508	1 483 376	-9 933
Transport and communication	1 309 641	63 909	1 245 733	-46 997
Property and rental activity	1 348 694	17 739	1 330 956	-13 045
Legal, finance and technical industry	738 669	6 617	732 052	-4 866
Building activity	1 486 624	31 282	1 455 342	-23 004
Hotel and restaurant business	1 043 101	36 394	1 006 707	-26 763
Healthcare and social services	376 482	3 551	372 931	-2 611
Art and culture	423 835	5 527	418 308	-4 064
Education	257 211	2 485	254 726	-1 828
Water and waste handeling	241 316	581	240 735	-427
Service operations	219 610	5 131	214 479	-3 773
Finance and insurance	126 824	221	126 604	-162
Public administration and defense	113 763	41	113 723	-30
Farming, hunting and forestry	432 594	7 275	425 319	-5 350
Other businesses	80 047	624	79 423	-459
Total	**39 341 521**	**955 004**	**38 386 517**	**-702 289**

Exposures in the credit portfolio after impairments divided by sectors

SEK 000	2019
Loan recivables, gross	
- household sector	27 599 117
- corporate sector	11 535 729
- public sector	206 674
Total	**39 341 521**
Less:	
Specific impairment for individually assessed significant	**955 005**
- household sector	732 797
- corporate sector	221 768
- public sector	440
Impairment for collectively assessed homogenous	**-**
- household sector	-
- corporate sector	-
- public sector	-
Loan receivables, net reported value	
- household sector	26 866 320
- corporate sector	11 313 961
- public sector	206 235
Total	**38 386 517**

Performing and non-performing exposures and related provisions

SEK 000	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
2019		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1 Loans and advances	**40 348 059**	**34 028 839**	**6 319 219**	**902 698**	**157 553**	**745 146**	**508 541**	**151 115**	**357 426**	**446 464**	**8 937**	**437 527**		**1 346 257**	**85 252**
2 *Central banks*	33 755	33 755													
3 *General governments*	190 328	176 770	13 558	7 476	1 810	5 666	169	68	100	204	0	204		12	
4 *Credit institutions*	1 889 547	1 885 602	3 945	2		2	60	23	37	0		0			
5 *Other financial corporations*	24 522	22 184	2 338	5 435		5 435	54	25	29	2		2		136	
6 *Non-financial corporations*	11 067 589	8 156 742	2 910 848	421 313	53 540	367 773	57 618	11 489	46 128	157 018	2 841	154 176		1 342 322	84 361
7 *Of which SMEs*	2 158 188	1 665 031	493 157	56 694	2 943	53 751	6 800	2 399	4 400	30 878	5	30 873		270 423	3 763
8 *Households*	27 142 318	23 753 787	3 388 531	468 472	102 202	366 270	450 641	139 510	311 131	289 240	6 095	283 144		3 787	891
9 Debt securities	**4 119 223**	**4 119 223**					**1 856**	**1 856**							
10 *Central banks*	427 365	427 365					167	167							
11 *General governments*	1 245 248	1 245 248					130	130							
12 *Credit institutions*	1 473 256	1 473 256					961	961							
13 *Other financial corporations*	49 990	49 990					5	5							
14 *Non-financial corporations*	923 363	923 363					593	593							
15 Off-balance-sheet exposures	**35 528 716**	**34 643 939**	**884 777**	**35 653**	**35 653**		**25 808**	**13 017**	**12 791**	**59**	**59**				
16 *Central banks*	346 267	337 643	8 623	1 508	1 508		7	3	3						
17 *General governments*	267 494	260 832	6 661	27	27		26	13	13						
18 *Credit institutions*	18 599	18 136	463	2	2		4	2	2						
19 *Other financial corporations*	16 017	15 618	399	2	2		3	2	2						
20 *Non-financial corporations*	9 223 348	8 993 657	229 690	936	936		3 736	1 885	1 852						
21 *Households*	25 656 991	25 018 052	638 940	33 179	33 179		22 032	11 112	10 919	59	59				
22 Total	**79 995 997**	**72 792 001**	**7 203 996**	**938 352**	**193 206**	**745 146**	**536 205**	**165 988**	**370 217**	**446 524**	**8 996**	**437 527**		**1 346 257**	**85 252**

Credit quality of performing and non-performing exposures by past due days

SEK 000	a	b	c	d	e	f	g	h	i	j	k	l
	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
2019		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1 Loans and advances	**40 348 059**	**39 814 425**	**533 634**	**902 698**	**104 118**	**223 124**	**193 146**	**160 625**	**117 157**	**10 336**	**94 193**	**902 698**
2 *Central banks*	33 755	33 755										
3 *General governments*	190 328	188 646	1 683	7 476		7 404		0		73		7 476
4 *Credit institutions*	1 889 547	1 888 087	1 460	2		1					0	2
5 *Other financial corporations*	24 522	23 837	684	5 435		79	82	5 274			0	5 435
6 *Non-financial corporations*	11 067 589	10 890 906	176 683	421 313	89 113	116 344	116 048	65 019	34 023	282	484	421 313
7 *Of which SMEs*	2 158 188	2 151 750	6 438	56 694	2 905	14 597	11 546	15 561	12 084	1		56 694
8 *Households*	27 142 318	26 789 195	353 123	468 472	15 005	99 296	77 016	90 332	83 134	9 980	93 709	468 472
9 Debt securities	**4 119 223**	**4 119 223**										
10 *Central banks*	427 365	427 365										
11 *General governments*	1 245 248	1 245 248										
12 *Credit institutions*	1 473 256	1 473 256										
13 *Other financial corporations*	49 990	49 990										
14 *Non-financial corporations*	923 363	923 363										
15 Off-balance-sheet exposures	**35 528 716**			**35 653**								**35 653**
16 *Central banks*	346 267			1 508								1 508
17 *General governments*	267 494			27								27
18 *Credit institutions*	18 599			2								2
19 *Other financial corporations*	16 017			2								2
20 *Non-financial corporations*	9 223 348			936								936
21 *Households*	25 656 991			33 179								33 179
22 Total	**79 995 997**	**43 933 648**	**533 634**	**938 352**	**104 118**	**223 124**	**193 146**	**160 625**	**117 157**	**10 336**	**94 193**	**938 352**

Non-performing loans divided by sector and geography

SEK 000	2019
- household sector	**376 977 335**
Sweden	49 105 804
Denmark	2 036 924
Norway	10 522 897
United Kingdom	221 136 472
Finland	14 576 462
Germany	77 000 434
Poland	2 598 342
- corporate sector	**405 593 752**
Sweden	244 298 730
Denmark	52 573 193
Norway	65 493 915
United Kingdom	-
Finland	41 415 146
Germany	1 812 768
Poland	-
- public sector	**-**
Sweden	-
Denmark	-
Norway	-
United Kingdom	-
Finland	-
Germany	-
Poland	-
Total	**782 571 087**

Unsettled receivables, not included in non-performing loans, divided by sector and geography

SEK 000	2019
- household sector	**1 059 969 218**
Sweden	419 591 049
Denmark	326 844 672
Norway	33 172 896
United Kingdom	128 207 086
Finland	16 668 121
Germany	111 326 134
Poland	24 159 260
- corporate sector	**579 907 528**
Sweden	246 724 254
Denmark	184 905 925
Norway	89 628 954
United Kingdom	-
Finland	55 190 047
Germany	3 458 347
Poland	-
- public sector	**5 093 453**
Sweden	1 913 914
Denmark	3 179 539
Norway	0
United Kingdom	-
Finland	-
Netherlands	-
Germany	-
Poland	-
Total	**1 644 970 198**

Forbearance

Forbearance is a measure made when a counterparty is experiencing financial difficulty in meeting its financial commitments and the bank decides to grant a concession, which implies that the contractual terms are amended in favour of the customer. The most common forbearance measure applied by the bank is amortisation holidays. Other forbearance measures include refinancing with new loan terms. Changes in contractual terms may be so significant that the loan is also considered impaired.

Credit quality of forborne exposures

SEK 000	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
2019			Of which defaulted	Of which impaired				
1 Loans and advances	**324 331**	**209 776**	**206 854**	**206 691**	**44 303**	**163 183**	**26 083**	**10 902**
2 *Central banks*								
3 *General governments*								
4 *Credit institutions*								
5 *Other financial corporations*								
6 *Non-financial corporations*	56 366	28 895	26 699	28 884	612	16 264	26 083	10 902
7 *Households*	267 966	180 882	180 155	177 806	43 692	146 919		
8 Debt Securities								
9 Loan commitments given								
10 Total	**324 331**	**209 776**	**206 854**	**206 691**	**44 303**	**163 183**	**26 083**	**10 902**

Counterparty risk

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.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, human error, systems or external events. This definition includes legal risk, but not strategic and reputational risk.

Ikano Bank, as an Internet bank, is strongly dependent on IT systems and technical infrastructure. Follow-up of incidents and improvements in accessibility are prioritised areas. The Bank has an incident reporting system where incidents are reported and monitored. Risks are analysed continuously and policies, guidelines and process instructions are available to prevent and mitigate losses caused by operational risks.

The Risk Control Function is responsible for establishing and maintaining the risk framework and supporting in coordination of the work with operational risk in business operations. Responsibility for managing operational risk lies with each business area. Operational risk assessments are continuously carried out, within material processes, to ensure that risks are identified, managed and documented with action plans.

The New Product Approval Process (NPAP) is performed to assess and manage risks before introducing new products, services, IT-systems or other systems, processes or markets or making significant changes to existing ones. 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 internal control, security and accessibility.

The Bank's defined risk appetite for operational risk is based on a number of different criteria. All criteria are monitored and reported on by the Risk Control Function.

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.

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 increase the overall net exposure by SEK 2,9 m.

In the Bank's income statement, exchange rate results with SEK 6.1 m (-0.6) 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.

Interest rate 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 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 2019 to SEK -1.6 m. Per 31 December 2019 no fair value hedges exist.

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 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 19.0 m (36.3), 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 -21.8 m and SEK 23.2 m with a parallel decrease of the interest rate curve.

As of 31 December 2019, the Bank had interest rate swaps with a contract value of SEK 3.1 bn (2.1). The swaps' net fair value as of 31 December 2019 totalled SEK -4.0 m (-7.7) consisting of assets of SEK 7.0 m (0.0) and liabilities of SEK 11.0 m (7.7).

Interest rate exposure – fixed interest periods for assets and liabilities

2019 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
Assets								
Cash and balances with central banks	-	-	-	-	-	34	**34**	0.0 years
Treasury bills	1 197	15	112	348	-	-	**1 673**	0.7 years
Loans to credit institutions	1 909	-	-	-	-	-	**1 909**	0.1 years
Loans to the public	16 112	2 427	4 189	4 421	512	-	**27 661**	0.6 years
Leasing receivables	9 014	154	280	1 195	82	-	**10 726**	0.7 years
Bonds and other interest-bearing securities	2 396	0	-	51	-	-	**2 447**	0.2 years
Other assets	29	0	-	-	-	1 478	**1 507**	0.0 years
Total assets	**30 658**	**2 596**	**4 582**	**6 014**	**594**	**1 512**	**45 956**	
Liabilities and equity								
Liabilities to credit institutions	1 456	554	-	-	-	-	**2 010**	0.2 years
Deposits from the public	20 403	1 066	1 526	2 963	-	-	**25 958**	0.4 years
Issued securities	7 547	699	349	-	-	-	**8 595**	0.2 years
Other liabilities	1 268	0	-	-	-	1 218	**2 487**	0.1 years
Subordinated liabilities	415	451	-	-	-	-	**865**	0.3 years
Equity and untaxed reserves	-	-	-	-	-	6 042	**6 042**	0.0 years
Total liabilities and equity	**31 088**	**2 770**	**1 875**	**2 963**	**-**	**7 260**	**45 956**	
Difference assets and liabilities	**-430**	**-175**	**2 707**	**3 051**	**594**	**-5 748**	**-**	
Interest rate derivatives, long positions [1)]	735	2 415	-	-	-	-	**3 149**	
Interest rate derivatives, short positions [1)]	-	262	1 050	1 837	-	-	**3 149**	

1) Nominal values

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 risks 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.

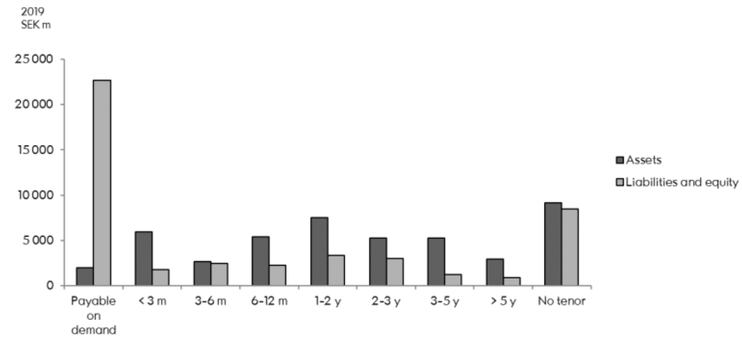
Liquidity risk is managed through effective liquidity planning, application of limits, measurement and analysis. Control and monitoring is conducted against the Bank's liquidity limits specified in the Bank's steering documents. Liquidity planning is a significant component of the liquidity management, 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 scenarios 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.

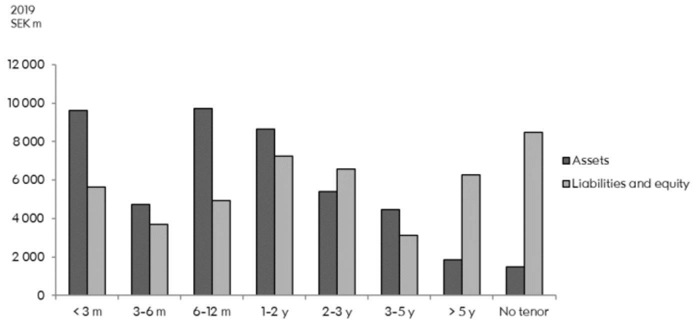
Measurement and monitoring of the balance sheet structure and liquidity exposure with respect to the remaining maturity of assets and liabilities are carried out continuously. Both contractual maturity and behavioural-modelled maturity are analysed.

The first graph below shows the Bank's maturity exposure based on the reported cash flow's contractual remaining maturity as of 31 December 2019. Deposits from the public are comprised of both fixed term and non-fixed term deposits. Most of the deposits from the public are reported in the column "on demand" since the counterparty in most cases 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 which are shown in the second graph below.

Liquidity risk exposure - recognised cash flows remaining contractual term of recovery



Liquidity risk exposure - recognised cash flows remaining expected time of recovery



Ikano Bank offers a variety of card products where a majority implies that the customer receives a credit. 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 is 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 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 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 liquidity reserve is regulated in the Bank's steering documents, which are adopted by the Bank's Board of Directors.

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

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. 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 LCR Delegated Act. Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio is to 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 funding options. The liquidity reserve is invested in interest-bearing securities with a high credit rating 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 operational liquidity is managed in the operational liquidity portfolio. The assets in the portfolio consist of interest-bearing securities in the Swedish market. Investments in this portfolio are to have a minimum rating of BBB+ rating according to Standard and Poor's (or equivalent according to Moody's).

The Bank's liquidity reserve amounts to SEK3.1 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 31 December 2019 totalled SEK 6.0 bn excluding overdraft facilities and constitutes 23.3 percent of deposits from the public. It includes cash and balances with banks (SEK 1.9 bn), the liquidity reserve (SEK 3.1 bn) and other interest-bearing securities (SEK 1.1 bn). 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 2.9 bn are available. As of 31 December 2019, the Bank's LCR totalled 276 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 limit for the liquidity coverage ratio of 100 percent is applied since 1 January 2018.

Encumbered assets

Information on the Bank's encumbered assets can be found in the Bank's Annual Report and its website www.ikanobank.se – Additional information Pillar 3.

Summary of liquidity reserve
2019

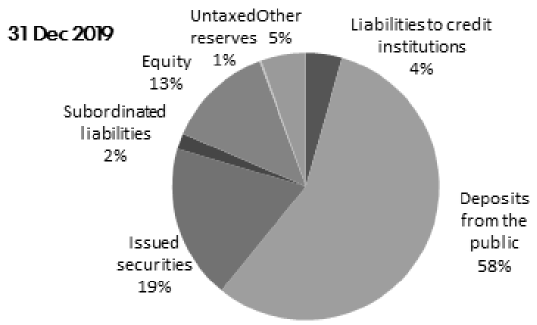
SEK m	Total	SEK	EUR	DKK	GBP	Other
Securities issued by public entities	1 676	1 246	-	38	392	-
Securities issued by financial corporations	164	5	159	-	-	-
Covered bonds	1 213	843	302	68	-	-
Liquidity reserve	**3 053**	**2 095**	**461**	**106**	**392**	**-**
Other operating liquidity invested in securities	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	-

Sources of funding

The aim of the long-term funding plan is a diversified funding which takes into account the spread of risk and funding costs.

Summary of sources of funding

SEK m	2019
Liabilities to credit institutions	2 010
Deposits from the public	25 958
Issued securities	8 595
Subordinated liabilities	865
Equity	5 945
Untaxed reserves	97
Other	2 486
Total	**45 956**



Other information

SEK m	2019
Total assets	45 956
Loans to the public	27 661
Deposits from the public	25 958
Ratio Deposits/Total assets	56%
Ratio Liquidity portfolio/Deposits	23%

Capital management and capital adequacy

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 risk, credit valuation adjustment risk (CVA risk), operational risk and foreign exchange risk. 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 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.

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 S-FSA.

As of 31 December 2019, the Bank had own funds of SEK 6.7 bn (6.4) of which SEK 5.8 bn are common equity Tier 1. The statutory own funds requirement for Pillar 1-risk amounted to SEK 3.0 bn (3.0). 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 3.5 bn remain available as common equity Tier 1 capital. The internal own funds requirement in addition to Pillar 1 requirements totalled SEK 840 m and is covered by available capital.

Capital buffers

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 949 m and is covered 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 Bank are located. The institution-specific countercyclical buffer amounts to 1.52 percent or SEK 578 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 1,527 m.

The total capital ratio was 17.7 percent with a common equity tier 1 capital ratio of 15.4 percent.

For further information on the countercyclical capital buffer, see the Bank's website www.ikanobank.se - Additional information Pillar 3.

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

SEK 000	2019
Tier 1 capital	5 838 310
Tier 2 capital	865 187
Own funds	**6 703 496**
Total risk exposure amount	**37 949 156**
Total own funds requirements	**3 035 932**
Total Capital ratio	**17.7%**
Tier 1 Capital ratio	**15.4%**
Common equity Tier 1 ratio	**15.4%**
Available common equity Tier 1 Capital	**3 561 360**
Available common equity Tier 1 Capital in relation to Total risk exposure amount	**9.4%**
Capital conservation buffer	948 729
Counter-cyclical capital buffer	578 488
Combined buffer requirement	1 527 217

Own funds

The Bank's own funds totalled SEK 6.7 bn whereof SEK 5.8 bn is Tier 1 capital and SEK 0.9 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 (78.6 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 included in 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 valued at fair value through other comprehensive income. Retained profit and loss consists of the Bank's accumulated earnings and a capital contribution by the shareholders. The Bank's untaxed reserves consist of accelerated depreciation on tangible assets, 78.6 percent of these are included in CET 1 capital.

Deductions from the CET 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 15 m is not included in the Bank's Own funds, recognised as a deduction from common equity Tier 1. Also, an Additional Value Adjustment has been deducted from CET 1 in line with EBA's technical standard for prudent valuation. Aim of the deduction is to adjust for uncertainty of positions measured and recognised at fair value.

At 31 December 2019, the Bank has no deferred tax liabilities that rely on future profitability and that under certain circumstances should have been deducted from Own funds. Below is a specification of Ikano Bank's Own funds as of 31 December 2019.

For standardised settlement of equity instruments and capital, see the Bank's website www.ikanobank.se – Additional information Pillar 3. The Bank's balance sheet is described in the Bank's Annual Report for 2019.

Specification of Own funds

SEK 000	2019
Equity reported in the balance sheet	**5 944 636**
Share capital	78 994
Statutory reserve	193 655
Fund for development expenses	293 925
Fund for fair value	239 111
Retained earnings	4 673 550
Net result for the period	465 401
Untaxed reserves (78.6% of which)	76 208
CET1 capital before regulatory adjustments	**6 020 844**
CET1 capital: regulatory adjustments	
Intangible assets	-352 138
Cash flow hedge	-14 938
Value adjustments due to the requirements for prudential valuation	-4 250
Adjustment for IFRS 9 Day 1 effect according to transitional arrangements	188 790
Total Common Equity Tier 1 Capital	**5 838 310**
Total Tier 1 Capital	**5 838 310**
Tier 2 capital	
Subordinated liabilities	865 187
Total Tier 2 Capital	**865 187**
Total own funds	**6 703 496**

Risk exposure amount 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 29.6 bn, which results in an own funds requirement of SEK 2.4 bn.

The Bank uses Standard and Poor's rating for the calculation of the own funds requirement for Bonds and other interest-bearing securities, distributed across respective exposure classes according to regulations.

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 5.1 bn, resulting in an own funds requirement of SEK 406 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. Own funds requirements of eight percent are applied to the total net position in foreign currency subject to capital requirements for foreign exchange risk. The Bank's risk exposure amount for foreign exchange risk is SEK 3.2 bn, with an own funds requirement of SEK 260 m.

The Bank's risk exposure amount for CVA risk is SEK 13 m, giving an own funds requirement of SEK 1 m.

Specification of risk exposure amounts and own funds requirements

SEK 000	2019 Risk exposure amount	2019 Own funds requirements
Credit risk according to the standardised approach		
Exposures to regional governments or local authorities	11 755	940
Institutional exposure	506 566	40 525
Corporate exposure	4 220 076	337 606
Retail exposure	23 453 213	1 876 257
Equity exposure	55 610	4 449
Past due items	856 320	68 506
Covered bond exposure	121 310	9 705
Other items	390 486	31 239
Total credit risk	**29 615 335**	**2 369 227**
Operational risk according to the basic indicator approach	**5 071 525**	**405 722**
Foreign exchange risk according to the standardised approach	**3 248 969**	**259 917**
CVA risk according to the standardised approach	**13 328**	**1 066**
Total	**37 949 156**	**3 035 932**

Total exposure to credit risk and own fund requirements by exposure class and average exposure amounts for the period are shown below. The period's average exposure amounts are based on estimates of exposures for each quarter during the period. Total exposures refer to exposures in the balance sheet after provisions for loan losses and unused credit limits and other commitments.

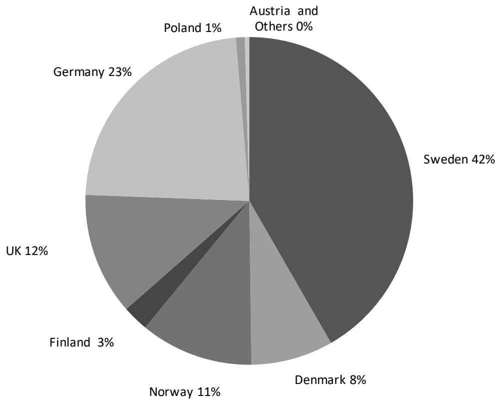
Breakdown of total exposures for credit risk shown by class of exposure

2019 SEK m	Total exposure	Own fund requirement	Average exposure amount
Government and central banks	2 883	-	2 699
Local government and comparable associations	323	1	383
Public sector entities	-	-	-
Institutional exposure	2 325	41	2 142
Corporate exposure	11 636	338	11 778
Retail exposure	59 861	1 876	61 978
Past due items	682	69	852
Covered bond exposure	1 213	10	1 138
Equity exposure	56	4	43
Other items	424	31	448
Total	**79 403**	**2 369**	**81 460**

Geographical breakdown of risk exposure amount for credit risk and specific credit risk adjustment

2019 SEK 000	Sweden	Denmark	Norway	United Kingdom	Finland	Germany	Poland	Austria	Others
Exposures to Central governments or central banks	-	-	-	-	-	-	-	-	-
Exposure to Regional governments or local authorities	931	265	10 540	-	19	-	-	-	-
Exposures to institutions	323 941	120 487	2 274	5 445	180	38 810	15 430	-	-
Corporate exposure	2 132 566	884 654	564 784	4 690	397 568	29 640	20 490	1 864	183 821
Specific credit risk adjustments deducted above	*30 505*	*13 419*	*10 188*	0	*3 164*	*18*	*6*	-	*1 484*
Retail exposure	8 991 409	2 640 896	1 690 128	5 137 396	475 261	4 046 496	363 821	93 001	14 805
Specific credit risk adjustments deducted above	*133 108*	*71 585*	*49 031*	*150 629*	*14 717*	*117 496*	*2 655*	*2 138*	*297*
Exposures in default	256 407	85 845	42 399	150 397	145 819	161 598	2 437	6 307	5 112
Equity exposures	55 610	-	-	-	-	-	-	-	-
Covered bond exposure	103 951	1 508	15 851	-	-	-	-	-	-
Other items	232 031	11 912	52 125	28 577	154	61 202	4 485	-	-
Total Risk Exposure Amount for Credit risk	**12 096 847**	**3 745 567**	**2 378 100**	**5 326 504**	**1 019 000**	**4 337 745**	**406 662**	**101 172**	**203 738**
Exposures to small and medium sized companie	-	-	-	-	-	-	-	-	-
Corporate exposure	123 433	37 336	19 415	-	22 049	-	0	-	-
Retail exposure	2 288 351	998 258	543 384	-	274 546	-	2 251	-	-

Geographical breakdown of exposures



Total remaining contractual term of exposures shown by class of exposure

2019 SEK m	On demand	<3 months	3-12 months	1-5 years	> 5 years	No tenor	Total
Government and central banks	342	355	473	1 696	18	-	**2 883**
Local government and comparable	264	8	14	36	1	-	**323**
Public sector entities	-	-	-	-	-	-	**-**
Institutional exposure	18	374	511	1 370	51	-	**2 325**
Corporate exposure	6 993	1 350	877	2 329	88	-	**11 636**
Household exposure	27 406	3 961	5 850	12 941	2 614	7 089	**59 861**
Past due items	36	87	149	396	15	-	**682**
Covered bond exposure	-	51	533	629	0	-	**1 213**
Equity exposure	-	7	13	34	1	-	**56**
Other items	-	57	98	260	10	-	**424**
Total credit risks	**35 058**	**6 250**	**8 517**	**19 691**	**2 798**	**7 089**	**79 403**

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

SEK m	2019
Available capital	
Common Equity Tier 1 (CET1) capital	5 838
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5 650
Tier 1 capital	5 838
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	5 650
Total capital	6 703
Total capital as if IFRS 9 transitional arrangements had not been applied	6 515
Risk-weighted assets	
Total risk-weighted assets	37 949
Inphasing	108
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	37 841
Capital ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	15.4%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.9%
Tier 1 (as a percentage of risk exposure amount)	15.4%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.9%
Total capital (as a percentage of risk exposure amount)	17.7%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	17.2%
Leverage ratio	
Leverage ratio total exposure measure	48 122
Leverage ratio	12.1%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.8%

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 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 31 December 2019 is 12.1 percent (11.8) and thus above the proposed binding measure. For a specification of Ikano Bank's leverage ratio see the file Additional information pillar 3 published on www.ikanobank.se.