Capital adequacy and risk management 2015-12

Capital adequacy and risk management

This information refers to Ikano Bank AB (publ), 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 chapter 8, paragraphs 1-7 in the Financial Supervisory Authority's regulations regarding regulatory requirements and capital buffers (2014:12).

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.

There are three business lines within the operation: Corporate, Sales Finance and Consumer. At the end of 2015 the bank has not issued any securitisations.

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

In the business line Sales Finance services for financing and sales support, primarily to retail, are administered and marketed. This business line is represented in all geographic markets. The services offered comprise 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 work themselves on the internet or by telephone, which enables efficient and timely handling and the bank can offer customers cost-efficient and competitive products.

Lending is offered as unsecured loans, mortgage loans and Visa credit cards. Mortgage loans are offered in cooperation with SBAB Bank AB (publ), which means that loans are intermediated to and provided by SBAB under the bank's "Ikano Bolån" brand. Lending is provided as unsecured loans and card products in Sweden, Denmark Norway and Germany. Deposits are offered in the Swedish, Danish, German and British markets and mortgage loan products are only offered in the Swedish market.

Risks and risk management

The bank is exposed to several risks such as credit risk, operational risk and business risk, but it also has to manage liquidity risk, foreign exchange risk and interest rate risk. Strategic risk and reputation risk are managed within the business risk.

Risk management aims to ensure that the risks do not exceed the risk levels established by the Board.

The bank has established a risk management framework that will ensure that the necessary decisions are taken under the circumstances. The framework includes limits, tolerance levels and indicators as set by the Board or CEO:

- Risk Appetite
- Operational limits
- Recovery Indicators

All new processes, products and organisational changes that are introduced in the bank go through the bank's New Product Approval Committee (NPAC) to ensure that material risk are identified and managed before the implementation.

The bank's Board receives quarterly capital adequacy report, which if necessary can be supplemented with the ongoing development of the bank's risks if necessary. The Board, annually, also receives a comprehensive report from management. The Board of Directors concludes that risk management is adequate in relation to the bank's risk profile and strategy. The Board of Directors concludes that risk management is carried out in a satisfactory manner and within the risk appetite determined by the Board.

Organisation and responsibility

The Board of Directors and the Managing Director are ultimately responsibility for risk management at Ikano Bank. To ensure sound risk management, the Board of Directors establishes policies relating to such matters as risk appetite and risk tolerance.

The Risk Control function is responsible for monitoring and reporting to the Board of Directors and management.

The bank's control organisation comprises of three lines of defence with respect to management and control of the risks.

The first line of defence is the operational units that are exposed to and manage the risks in the daily operations. This includes the Managing Director, management and business unit managers, as well as support functions.

The second line of defence consists of two functions; the independent control function responsible for identifying, quantifying and reporting risks and Compliance, responsible for monitoring compliance with rules and regulations. These functions also provide advice and support to the business functions. Within the business functions there are also compliance coordinators who facilitate the communication with Compliance in the second line of defence.

The third line of defence is the internal audit, which independently audit the first and second lines of defence. The function reports directly to the Board of Directors.

Recovery Planning

Ikano Bank has drawn up a recovery plan and put in place processes around a regular updating of recovery indicators in accordance with the Crisis Management Directive, EBA guidelines and Swedish legislation. The recovery plan is a form of governance that will prepare the bank for periods of financial stress 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 to the bank. Credit risk arises in lending operations, the investment of the bank's operating liquidity and the overnight investment as well as derivatives with positive market values.

Credit management

The bank's lending activities consist of the product areas: Leasing, Factoring, Card Credits and Unsecured Loans. All of these products are designed for quantity management with small individual commitments. The bank has applied scoring models in the assessment of credit risk for many years. 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 default. The assessment is supplemented with details from credit information agencies before the credit is finally approved. 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 models for assessing the probability that customers will default are based on the Basel-committees principles for advanced PD and LGD models (Probability of Default, Loss Given Default).

Leasing and Factoring

The Corporate business line primarily comprises of leasing of office equipment and vehicles. The business line also includes factoring which is the purchase or financing of invoices and is a form of financing that helps companies to quickly convert accounts receivable into cash. Ikano Bank has cooperated with various partners throughout the course of several years. In many cases, repurchase agreements are made in the event of the end customer default and guaranteed residual value when the leasing agreement expires. The operations have been focused on a few types of objects for which there is good internal expertise of over-the-counter markets when no repurchase guarantees are available.

Credit assessment takes place on the basis of the credit information agency's scoring and rating models and customary credit information. Limits for larger engagements are determined in the local credit committees and the largest engagements are forwarded to the central credit and risk committee. The established limits on partners and large engagements are followed up continuously during the year.

Card credits

Lending in the form of credit cards consist of low revolving credits and is represented in the business lines Sales Finance and Consumer. The majority of credit card loans include store cards with or without either VISA or MasterCard attached.
The product is represented in all markets. Credits are generated through the trading partners with whom the bank cooperates, and through the distribution of cards through the Internet and telephone. The various sales channels are followed up on a regular basis.

Unsecured loans

Lending in the form of unsecured loans is managed in the business line Consumer. Unsecured loans are loans without collateral to private individuals. Sales of these unsecured loan products take place in different types of media. The various sales channels are followed up on a regular basis. Most products are sold on the basis of individual price setting in which the price reflects the customer's assessed risk class as of the application date.

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. Further information about the bank's counterparty risk can be found in the Annual Report.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or defective internal processes, procedures and systems, management errors or external events and factors. This definition includes legal risk, but not strategic risk or reputation risk.

Ikano Bank, as an Internet bank, is strongly dependent on IT systems and telephony. Follow-up of incidents and improvements in accessibility are priority areas. The bank has an incident reporting system where incidents are reported and monitored. Risks are analysed continuously and policies, guidelines and procedure descriptions are available to prevent and limit damages due to operational risks.

Risk Control coordinates the work with operational risk but the respective managers in each business operation are responsible for operational risk. Annual risk reviews are carried out by the management for the different operations, where the greatest risks are measured and managed in an action plan. New products, partners and IT systems undergo a risk assessment that includes operational risk. The goal is to ensure efficient processes and minimize operational risks so that the bank's customers and other stakeholders are ensured that Ikano Bank has a high level of security and accessibility.

The bank's Risk Appetite in regard to operational risks is defined based on three different criteria:

1. The bank's contingency plan - Business Continuity Planning, shall be updated and tested,
2. All new products must go through the NPAC and
3. Areas where the bank's Operational Risk Assessment has identified a potential risk that may cost the bank more than SEK 2 m. In this case, the action plan shall be set in motion and be completed within 12 months.

All criteria must be met.

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 borrowing 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.

A sensitivity analysis shows that an increase in the exchange rate by 10 percent reduces the overall net exposure by SEK 8.9 m.

In the bank's income statement, exchange rate results with SEK -3.4 m (+3.0) are included in Net income/expense of financial transactions.

The bank's risk appetite for currency risk is defined in terms of total outstanding exposure in all currencies. The total outstanding exposure can be a maximum sum of SEK 150 m.

Interest 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 earning power at 200 basic point shift of all yield curves. This amount shall not exceed 3.5 percent of the bank's own funds.

The bank limits (hedges) the interest rate risk for fixed interest deposits by entering into interest rate swap agreements whereby the bank receives a fixed interest rate and pays a variable interest rate. For these fair value hedges, the bank applies hedge accounting. During the period, the change in fair value of the hedged items (fixed interest deposits), with regard to the hedged risk, amounted to SEK -10.9 m (-7.2) and on hedging instruments (derivatives) to SEK 6.8 m (5.3). The reported net amount of SEK -4.1 m is consequently the period's reported inefficiency. The inefficiency is mainly due to changes in fair value in the variable position of the interest rate swaps.

The bank applies cash flow hedge for the share of loans at variable interest rates as the hedged risk is the uncertainty in future interest cash flows. For hedging, interest rate swaps is 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 income from financial transactions and amounted in 2015 to SEK 1.3 m.

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 bank also hedges the interest rate risk in a lending portfolio with fixed interest. Hedge accounting is not applied to this.

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 11.1 m (1.1), 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 16.9 m and SEK -18.4 with a parallel decrease of the interest rate curve.

As of 31 December 2015, the bank had interest rate swaps with a contract value of SEK 3.6 bn (2.6). The swaps' net fair value as of 31 December 2015 totalled SEK 39.3 m (61.9) consisting of assets of SEK 69.3 m (70.2) and liabilities of SEK 30.0 m (8.3).

Interest rate exposure – fixed interest periods for assets and liabilities

2015 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 2 years	Longer than 5 years	No maturity	**Total**	Remaining average fixed interest term
Assets								
Cash and balances with central banks	0	-	-	-	-	25	**25**	0.2 years
Treasury bills	1 052	68	-	-	-	-	**1 120**	0.9 years
Loans to credit institutions	1 659	-	-	-	-	88	**1 747**	0.2 years
Loans to the public	14 834	975	2 869	4 689	737	1	**24 105**	0.9 years
Leasing receivables	5 151	143	188	555	16	212	**6 266**	0.4 years
Bonds and other interest-bearing securities	1 004	544	137	-	-	-	**1 685**	0.3 years
Other assets	269	53	8	15	-	993	**1 338**	0.1 years
Total assets	**23 970**	**1 783**	**3 202**	**5 259**	**753**	**1 319**	**36 286**	
Liabilities and equity								
Liabilities to credit institutions	3 928	172	28	-	-	-	**4 128**	0.2 years
Deposits from the public	16 474	595	1 178	1 870	-	92	**20 209**	0.4 years
Issued securities	3 298	920	-	-	-	-	**4 218**	0.2 years
Other liabilities	1 048	-3	3	30	-	1 321	**2 399**	0.1 years
Subordinated liabilities	362	431	-	-	-	-	**793**	0.3 years
Equity and untaxed reservs	-	-	-	-	-	4 539	**4 539**	0.0 years
Total liablilities and equity	**25 110**	**2 115**	**1 208**	**1 900**	**-**	**5 952**	**36 286**	
Total difference	**-1 141**	**-333**	**1 994**	**3 358**	**753**	**-4 633**	**-**	
Interest rate derivates, fixed interest	2 166	1 116	93	178	-	-	**3 553**	
Interest rate derivates, fixed interest paid [1]	614	417	883	1 639	-	-	**3 553**	

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 and wide spread of financing sources forms the basis of the bank's liquidity and financing strategy. The liquidity level must always be sufficient; this means that there should always be a liquidity reserve and that 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 risk 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.

The liquidity risk is managed through effective liquidity planning, the 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. If it is deemed that a deviation will not return to the minimum required volume within three days, measures are to be taken to restore liquidity to the permitted level.

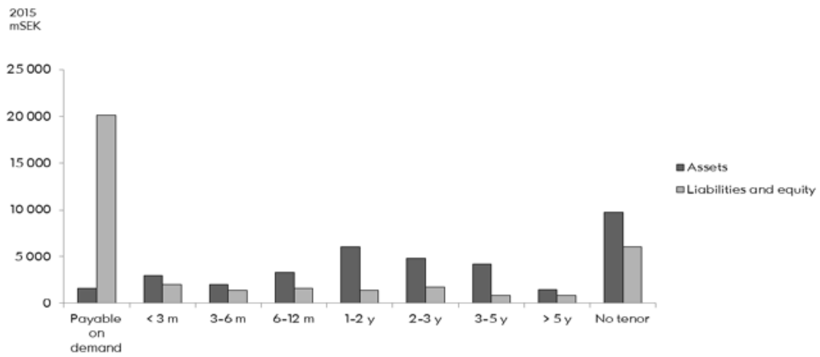
The bank carries out regular stress tests on liquidity in order to increase its preparedness and assess the ability of the bank to meet its payment obligations under conditions deviating from normal conditions. The analyses are based on the bank's risk tolerance, and include both company-specific and market-wide issues 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.

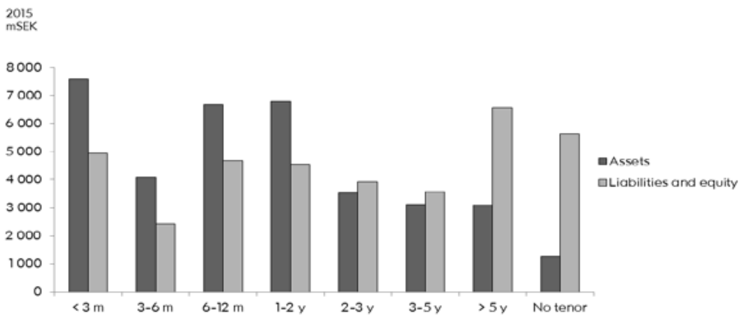
The table below shows the bank's maturity exposure based on the reported cash flow's contracted remaining maturity as of 31 December 2015. Deposits from the public are comprised of both fixed term and non-fixed term deposits. Total deposits from the public are reported in the column On demand since the counterparty always 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.

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 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. In other words, the bank's estimated inflow and liquid funds shall exceed the bank's outflow over a 30-day period of stress in the market.

Liquidity risk exposure, recognised cash flows – remaining contractual term of recovery



Liquidity risk exposure, recognised cash flows – remaining expected time of recovery



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 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.

The liquidity portfolio is divided into three categories: intraday liquidity, liquidity reserves 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 (LCR).

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 3.8 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 4.5 bn as of 31 December 2015, 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 0.7 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 1.2 bn.

At year-end, the bank's liquidity coverage ratio (LCR) totalled 160 percent. This measure shows how the bank's highly liquid assets are related to net outflows over a thirty-day period under strained market conditions. A statutory limit for the liquidity coverage ratio of 60 percent applies since 1 October 2015, 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.

Encumbered assets

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

Summary of the liquidity reserve

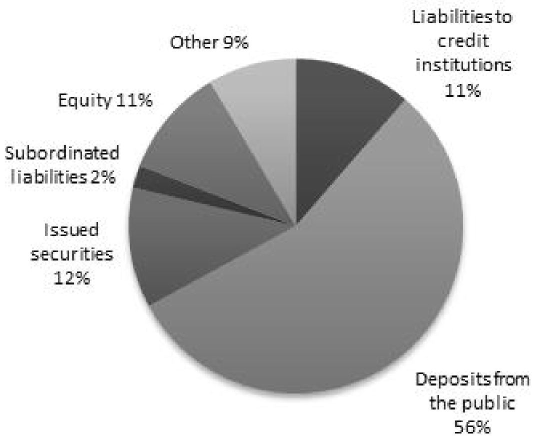
SEK '000	2015
Cash and balances with banks and credit institutions	1 691 988
Securities issued by states	1 120 183
Securities issued by financial companies	-
Covered bonds	961 606
Liquidity reserve (according to definition in FFFS 2010:7)	**3 773 777**
Operational liquidity invested in securities	723 573
Total liquidity portfolio	**4 497 350**
Other contingent funding facilities	
Unused committed credit facilities	1 186 517

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 000	2015
Liabilities to credit institutions	4 127 651
Deposits from the public	20 209 384
Issued securities	4 217 938
Subordinated liabilities	792 512
Equity	3 840 740
Other	3 097 536
Total	**36 285 762**



Other information

SEK 000	2015
Total assets	36 285 762
Loans to the public	24 105 331
Deposits from the public	20 209 384
Ratio deposits/total assets	56%
Ratio liquidity portfolio/deposits	22%

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 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 SFSA. The capital requirement of the ICAAP in addition to pillar 1 requirements for 31 December 2015 totalled SEK 859 m.

Ikano Bank's risk tolerance is that the total capital ratio should never fall below 14 percent, i.e. 6 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.

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 741 m and is covered well by the available common equity Tier 1 capital. On 13 September 2015 an additional buffer requirement was introduced, obliging institutes to maintain an institution-specific countercyclical buffer (CCB). The CCB is determined by multiplying the total risk exposure amount with the weighted average of the CCB 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 0.44% or SEK 129 m after weighting the applicable geographic requirements, which for the bank means Sweden and Norway. Ikano Bank's combined buffer requirement is SEK 871 m. For further information on the countercyclical capital buffer, see the bank's website www.ikanobank.se - Other information Pillar 3

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

SEK 000	2015
Tier 1 capital	4 194 564
Tier 2 capital	792 512
Own funds	**4 987 076**
Total risk exposure amount	**29 646 534**
Total own funds requirements	**2 371 723**
Total Capital ratio	**16.8%**
Tier 1 Capital ratio	**14.1%**
Common equity Tier 1 ratio	**14.1%**
Available common equity Tier 1 Capital	**2 415 772**
Available common equity Tier 1 Capital in relation to Total risk exposure amount	**8.1%**
Capital conservation buffer	741 163
Counter-cyclical capital buffer	129 434
Combined buffer requirement	**870 597**

Own funds

The bank's own funds totalled SEK 5.0 bn whereof SEK 4.2 bn is Tier 1 capital and SEK 0.8 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, reserves, fair value fund for fair value, retained earnings, untaxed reserves (78 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 counted as part of 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 available for sale. Retained profit and loss consists of the bank's accumulated earnings and a capital contribution by the shareholders in connection with the acquisition of the UK operation. The bank's untaxed reserves consist of accelerated depreciation on tangible assets, 78 percent of these are included in Tier 1 capital.

Deductions from the core Tier 1 capital were made for intangible assets and until 2014 for positive unrealised changes in value reported in Fund for fair value reserve in accordance with the transition rules. The bank's intangible assets consist of capitalised expenditures for internally generated and acquired software and IT systems. The unrealised changes in value that until

2014 are deducted from core Tier 1 capital consist of unrealised value changes in the bank's financial assets available for sale.

The bank's deferred tax assets, after the introduction of Basel III, are exempt from deductions from the own funds as they are dependent on future profitability and attributable to the temporary differences, and together, total 10 percent of core Tier 1 items. The bank's deferred receivables total 5 percent of core Tier 1 capital.

The cumulative value of the effective portion of cash flow hedges are recognized in fair value reserve is not included in the capital base, this amounts to SEK 3 m.

Below is a specification of Ikano Bank's own funds as of 31 December 2015.

For standardized settlement of equity instruments and capital, see the bank's website www.ikanobank.se – Other information Pillar 3. The bank's balance sheet is described in the bank's Annual Report for 2015.

Specification of own funds

SEK 000	2015
Own funds	
Tier 1 capital	
Equity reported in the balance sheet	3 840 740
Share capital	78 994
Statutory reserve	193 655
Fund for fair value	-724
Retained earnings	3 061 569
Net result for the year	507 246
Untaxed reserves (78% of which)	544 562
Less:	
Intangible assets	-187 930
Cash flow hedge	-2 809
Total Tier 1 Capital	**4 194 564**
Total Common Equity Tier 1 Capital	**4 194 564**
Tier 2 capital	
Subordinated liabilities	792 512
Total Tier 2 Capital	**792 512**
Total own funds	**4 987 076**

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 23.8 bn, which results in an own funds requirement of SEK 1.9 bn.

The bank uses Standard and Poor's rating for the calculation of the own funds requirement for Bonds and other interest-bearing securities.

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 4.4 bn, which resulting in an own funds requirement of SEK 355 m.

The risk exposure amount for foreign exchange risk covers all items in and off the balance sheet valued at the current market value and converted to Swedish kronor in accordance with the closing rate. Eight percent of the total net position in foreign currency is calculated to constitute capital requirements for the majority of the exposures. For closely related currencies, a lower capital requirement of four percent of the matched position is applied. The bank's risk exposure amount for foreign exchange risk is SEK 1.4 bn, with an own funds requirement of SEK 115 m.

Specification of risk exposure amounts and own funds requirements

SEK 000	2015	
Credit risk according to the standardised approach	**Risk exposure amount**	**Own funds requirements**
Exposures to states and central banks	480	38
Exposures to public sector entities	9	1
Institutional exposure	517 457	41 397
Corporate exposure	1 142 084	91 367
Retail exposure	20 902 056	1 672 165
Equity exposure	17 645	1 412
Exposures in default	524 911	41 993
Covered bond exposure	83 165	6 653
Other items	580 438	46 435
Total credit risk	**23 768 245**	**1 901 460**
Operational risk according to the basic indicator approach	**4 441 200**	**355 296**
Foreign exchange risk according to the standardised approach	**1 437 090**	**114 967**
Total	**29 646 534**	**2 371 723**

Leverage ratio

The leverage ratio is a measure that has been developed by the European Banking Authority EBA as an alternative to risk-based capital requirements. 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.

The leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. All values in the calculation are based on average values of the last three months. For the bank, the leverage ratio per 31 December 2015 is 9.4 percent. The bank therefore considers itself to have a comfortable level of capital strength.

Specification of the Leverage ratio

SEK 000	**2015-12-31**
Derivatives	186 467
Undrawn credit facilities	4 038 231
Other off-balance sheet items	2 053 996
Other assets	35 358 310
Intangible assets	-140 492
Total exposure value	**41 496 512**
Tier 1 capital	**3 913 794**
Leverage ratio	**9.4%**

Information regarding credit risk

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. The exposure class past due items are according to capital adequacy regulations items overdue more than 90 days or specifically impaired receivables.

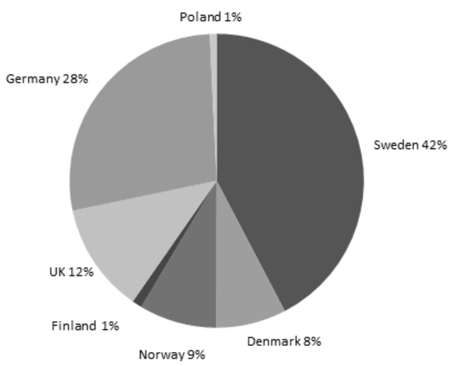
Breakdown of total exposures for credit risk shown by class of exposure

2015 SEK m	Total exposure	Own fund requirement	Average exposure amount
Government and central banks	916	0	560
Local government and comparable associations	1 534	-	1 451
Institutional exposure	2 597	41	2 210
Corporate exposure	1 284	91	1 344
Retail exposure	68 821	1 672	58 827
Past due items	603	42	718
Covered bond exposure	832	7	723
Equity exposure	18	1	-
Other items	619	46	557
Total	**77 223**	**1 901**	**66 390**

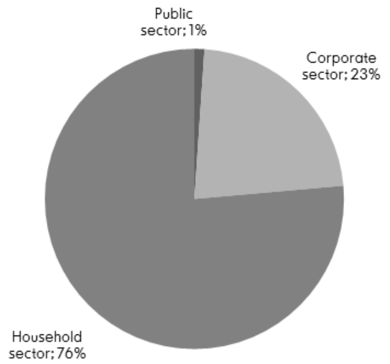
Geographical breakdown of risk exposure amount for credit risk and specific credit risk adjustment

2015 SEK 000	Sweden	Denmark	Norway	UK	Finland	Germany	Poland	Austria
Central governments or central banks	-	-	-	-	-	480	-	-
Public sector entities	-	-	-	-	-	9	-	-
Institutional exposure	453 251	3 352	2 948	29 848	68	4 533	23 457	-
Corporate exposure	739 360	356 711	26 175	-	19 838	-	-	-
Specific credit risk adjustment deducted in the above post	-	1 541	-	-	-	-	-	-
Retail exposure	7 158 501	2 524 881	1 557 467	4 520 112	255 398	4 567 378	261 807	56 513
Specific credit risk adjustment deducted in the above post	189 609	392 859	51 877	116 734	4 912	417 363	7 671	-
Past due items	104 395	249 524	57 753	3 080	173	92 512	5 428	12 047
Equity exposures	17 645	-	-	-	-	-	-	-
Covered bonds exposure	83 165	-	-	-	-	-	-	-
Other items	359 847	68 396	46 538	14 914	1 583	37 079	7 445	44 638
Total risk exposure amount for credit risk	**8 916 164**	**3 202 863**	**1 690 879**	**4 567 954**	**277 060**	**4 701 990**	**298 137**	**113 198**
Exposure to small and medium sized companies								
Corporate exposure	41 381	23 821	-	-	11 146	-	-	-
Retail exposure	1 096 552	758 061	433 577	-	27 925	-	-	-

Geographical breakdown of total exposure



Credit portfolio distributed by sector



Total remaining contractual term of exposures shown by class of exposure

2015 SEK m	On demand	<3 months	3-12 months	1-5 years	> 5 years	No tenor
Government and central banks	575	117	6	15	0	203
Local government and comparable associations	110	165	215	1 029	2	13
Institutional exposure	1 526	484	231	202	0	149
Corporate exposure	-	288	424	565	8	-
Household exposure	38 301	3 776	4 192	12 418	1 489	8 647
Past due items	118	36	137	270	-	43
Covered bond exposure	-	100	174	557	-	-
Equity exposure	-	-	-	-	-	18
Other items	-	186	0	-	-	433
Total credit risks	**40 629**	**5 153**	**5 379**	**15 056**	**1 500**	**9 506**

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

2015 SEK 000	Total exposures	Impairments	Exposure after impairments	Loan losses in the income statement
Households	24 326 185	1 121 037	23 205 148	-385 840
Trade	1 401 495	13 324	1 388 171	-4 586
Manufacturing industry	1 110 736	9 866	1 100 870	-3 396
Transport and communication	672 783	8 557	664 226	-2 945
Property and rental activity	659 938	6 938	653 001	-2 388
Legal, finance and technical industry	502 443	6 220	496 223	-2 141
Building activity	466 515	6 311	460 204	-2 172
Hotel and restaurant business	353 988	5 001	348 987	-1 721
Municipalities and county councils	327 453	1 366	326 087	-470
Healthcare and social services	322 330	4 026	318 304	-1 386
Art and culture	227 333	2 978	224 355	-1 025
Education	226 220	2 768	223 451	-953
Water and waste handeling	193 492	1 374	192 118	-473
Service operations	166 488	1 863	164 624	-641
Finance and insurance	78 674	1 404	77 270	-483
Public administration and defense	80 045	558	79 487	-192
Farming, hunting and forestry	66 461	498	65 963	-171
Other businesses	385 813	3 960	381 853	-1 363
Total	**31 568 392**	**1 198 051**	**30 370 341**	**-412 347**

The table above specifies exposures in the credit portfolio, i.e. Loans to the public and Leasing receivables, before and after impairment, broken down by industry. Granted but unused credit limit is not included in the exposures.

An exposure requiring impairment is regarded as a non-performing loan according to the definition given in the Annual Report. In the Annual Report, a loan is classified as non-performing if one or more events have occurred impacting the estimated future cash flows from the asset or group of assets. Payments 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 consist of information of considerable financial difficulties. The bank evaluates whether a need for impairment exists for non-performing loans and whether a loan loss must be recognised on an individual basis for each loan due and for substantial individual loans. When no need for impairment can be identified for loans evaluated in relation to the need for impairment on an individual basis, an additional assessment is carried out along with other loans with similar credit risk properties to investigate whether a need for impairment exists at portfolio level. An assessment to establish portfolio impairment is carried out using statistical models which calculate the probability that a debt in the different portfolios will not be settled in accordance with the original contract.

The recognised value of assets after impairment is calculated as the present value of the future cash flows discounted by the effective interest rate applicable when the asset was initially recognised. Short-term assets are not discounted. Impairment is charged to profit and loss.

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 are shown in the following tables.

Non-performing loans divided by sector and geography

SEK 000	2015
- household sector	**1 673 802**
Sweden	153 095
Denmark	635 096
Norway	77 617
United Kingdom	116 734
Finland	-
Germany	688 599
Poland	2 661
- corporate sector	**83 798**
Sweden	55 941
Denmark	8 009
Norway	19 650
United Kingdom	-
Finland	173
Germany	24
Poland	-
Total	**1 757 600**

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

SEK 000	2015
- household sector	**717 785**
Sweden	280 748
Denmark	41 048
Norway	71 239
United Kingdom	130 394
Finland	10 336
Germany	171 928
Poland	12 092
- corporate sector	**658 806**
Sweden	237 964
Denmark	65 531
Norway	354 992
United Kingdom	-
Finland	294
Germany	24
Poland	-
- public sector	**12 939**
Sweden	-
Denmark	172
Norway	12 767
United Kingdom	-
Finland	-
Germany	-
Poland	-
Total	**1 389 529**

Exposure in the credit portfolio divided by sectors

SEK 000	2015
Loan recivables, gross	
- household sector	24 326 185
- corporate sector	6 914 754
- public sector	327 453
Total	**31 568 392**
Less:	
Specific impairment for individually assessed significant	**70 938**
- household sector	0
- corporate sector	69 572
- public sector	1 366
Impairment for collectively assessed homogenous	**1 127 113**
- household sector	1 121 037
- corporate sector	6 076
- public sector	-
Loan receivables, net reported value	
- household sector	23 205 148
- corporate sector	6 839 106
- public sector	326 086
Total	**30 370 341**

The changes in impairment for loan losses during 2015 are shown below.

.

2015 SEK 000	Specific credit risk adjustments for individually assessed loan receivables	Specific credit risk adjustments for collectively assessed homogenous groups of loan receivables	Total
Opening balance 1 Jan 2015	72 752	783 115	855 867
Merged opening balance		450 196	450 196
Reversed impairment no longer required for loan losses	-11 198	36 143	24 945
Reversal of previous impairment for loan losses recognised in the annual accounts as determined loan losses	-20 437	-101 507	-121 944
Impairment for the year for loan losses	32 071	36 143	68 215
Exchange rate differences	-2 226	-	-2 226
Closing balance 31 Dec 2015	**70 963**	**1 204 090**	**1 275 053**