Capital adequacy and Liquidity 2019-03

IKANO BANK

Periodic information, 31 March 2019 – Capital adequacy and Liquidity

This information regarding capital adequacy requirements and liquidity for Ikano Bank AB (Publ), corporate identity number 516406-0922, refers to such periodic information which shall be submitted in accordance with the capital requirements regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers (FFFS 2014:12 including amendments).

Operations

Ikano Bank conducts banking operations in Sweden, the UK, Norway, Denmark, Finland, Germany, Austria and Poland under the supervision of the Swedish Financial Supervisory Authority. There are three business lines: Corporate, Sales Finance and Consumer. The operations in Denmark, Norway, Finland, the UK, Germany and Poland are operated as branches, while Austria is conducted as cross-border operations.

Capital adequacy

The capital requirements regulations help to strengthen resilience against financial losses and thereby protect the Bank's customers. The regulations state that the Bank's own funds shall cover the minimum statutory own funds requirements, referred to as Pillar 1 requirements, which for Ikano Bank include the requirements for credit risks, credit valuation adjustment risk (CVA risks), operational risks and foreign exchange risks. In addition, the own funds requirements include further identified risks in the operation in accordance with the Bank's internal capital adequacy assessment process and the requirements stipulated by the Board of Directors, also referred to as Pillar 2 requirements.

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 SFSA.

As of 31 March 2019, the Bank had own funds of SEK 6.5 bn (6.4 per 31 December 2018) of which SEK 5.6 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 3.3 bn remain available as common equity Tier 1 capital. The internal own funds requirement in addition to Pillar 1 requirements totalled SEK 859 m and is covered by available capital. The total capital ratio was 17.1 percent with a common equity tier 1 capital ratio of 14.8 percent.

The combined buffer requirement for Ikano Bank consists of the capital conservation buffer and the countercyclical capital buffer. According to the law (2014:966) regarding capital buffers, the capital conservation buffer shall consist of a common equity Tier 1 capital equivalent to 2.5 percent of the Bank's total risk exposure amounts. For Ikano Bank, the capital conservation buffer totals SEK 944 m and is covered by the available common equity Tier 1 capital. The institution-specific countercyclical buffer is determined by multiplying the total risk exposure amount with the weighted average of the countercyclical buffer rates applicable in those countries where the relevant credit exposures of the Bank are located. The institution-specific countercyclical buffer amounts to 1.22 percent or SEK 460 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 1,404 m.

Per 1 January 2018, the new accounting standards IFRS 9 Financial Instruments entered into force. As mentioned in the Annual Report 2017, Ikano Bank has notified the SFSA of its decision to apply the transitional rules introduced with article 473a capital requirements regulation (EU No 575/2013) regarding the Day one effect. For the Bank, this effect was SEK 222 m after tax that will be gradually phased in into the capital adequacy over five years. The table on page 4 provides a comparison of Ikano Bank's own funds as well as capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 as introduced by the EBA guidelines 2018/01 for standardised disclosure requirements for transitional arrangements according to IFRS 9.

Summary of own funds and risk exposure amount

SEK m	31 Mar 2019	31 Dec 2018
Tier 1 capital	5 596	5 555
Tier 2 capital	859	839
Own funds	**6 455**	**6 394**
Total risk exposure amount	**37 755**	**37 283**
Total own funds requirements	**3 020**	**2 983**
Total Capital ratio	**17.1%**	**17.2%**
Tier 1 Capital ratio	**14.8%**	**14.9%**
Common equity Tier 1 ratio	**14.8%**	**14.9%**
Available common equity Tier 1 Capital	**3 330**	**3 318**
Available common equity Tier 1 Capital in relation to Total risk exposure amount	**8.8%**	**8.9%**
Capital conservation buffer	944	932
Counter-cyclical capital buffer	460	427
Combined buffer requirement	1 404	1 359

Specification of own funds

SEK m	31 Mar 2019	31 Dec 2018
Own funds		
Tier 1 capital		
Equity reported in the balance sheet	**5 576**	**5 444**
Share capital	79	79
Statutory reserve	194	194
Fund for development expenses	269	276
Fund for fair value	244	204
Retained earnings	4 699	4 150
Net result for the period	92	541
Adjustment for IFRS 9 one-off effect according to transitional arrangements	**189**	**211**
Untaxed reserves (78.6% of which)	297	295
Deductions:		
Intangible assets	-359	-379
Cash flow hedge	-12	-13
Unaudited profit	-92	
Value adjustments due to the requirements for prudential valuation	-4	-4
Total Tier 1 Capital	**5 596**	**5 555**
Total Common Equity Tier 1 Capital	**5 596**	**5 555**
Tier 2 capital		
Subordinated liabilities	859	839
Total Tier 2 Capital	**859**	**839**
Total own funds	**6 455**	**6 394**

Specification of risk exposure amount

SEK m	31 Mar 2019 Risk exposure amount	31 Mar 2019 Own funds requirements	31 Dec 2018 Risk exposure amount	31 Dec 2018 Own funds requirements
Credit risk according to the standardised approach				
Exposures to regional governments or local authorities	11	1	11	1
Institutional exposure	421	34	514	41
Corporate exposure	4 030	322	3 873	310
Retail exposure	23 091	1 847	22 713	1 817
Equity exposure	36	3	29	2
Past due items	1 206	96	1 181	95
Covered bond exposure	112	9	108	9
Other items	468	37	429	34
Total credit risk	**29 376**	**2 350**	**28 858**	**2 309**
Operational risk according to the basic indicator approach	**5 072**	**406**	**5 056**	**404**
Foreign exchange risk according to the standardised approach	**3 293**	**263**	**3 329**	**266**
CVA risk according to the standardised approach	**14**	**1**	**40**	**3**
Total	**37 755**	**3 020**	**37 283**	**2 983**

Leverage ratio

The leverage ratio is a measure that provides an alternative to the risk-based capital requirement. The purpose is that it should be a clear and simple measure of capital strength. The measurement shows capital as a percentage of asset size, without considering the actual risk level of the assets. To this date there is no legal minimum level of the Leverage ratio. The EU commission has proposed a Leverage ratio of 3 percent to be introduced in connection with the proposed revised Capital Requirements Regulation.

The Leverage ratio is calculated using the Tier 1 capital as a percentage of total assets. For the Bank, the leverage ratio per 31 March 2019 is 11.8 percent (11.8) and thus above the proposed binding measure.

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

SEK m	31 Mar 2019	31 Dec 2018
Available capital		
Common Equity Tier 1 (CET1) capital	5 596	5 555
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements had not been applied	5 407	5 344
Tier 1 capital	5 596	5 555
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	5 407	5 344
Total capital	6 455	6 394
Total capital as if IFRS 9 transitional arrangements had not been applied	6 266	6 183
Risk-weighted assets		
Total risk-weighted assets	37 755	37 283
Inphasing	108	126
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	37 647	37 157
Capital ratios		
Common Equity Tier 1 (as a percentage of risk exposure amount)	14.8%	14.9%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.4%	14.4%
Tier 1 (as a percentage of risk exposure amount)	14.8%	14.9%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	14.4%	14.4%
Total capital (as a percentage of risk exposure amount)	17.1%	17.2%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements had not been applied	16.6%	16.6%
Leverage ratio		
Leverage ratio total exposure measure	47 582	47 259
Leverage ratio	11.8%	11.8%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	11.4%	11.4%

Liquidity and liquidity reserve

Ikano Bank's liquidity is managed within the framework of the Bank's liquidity portfolio. The liquidity portfolio consists of deposits with banks, short-term lending to credit institutions and 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 the liquidity reserve is regulated in the Bank's steering documents, which are adopted by the Bank's Board of Directors. To ensure that the capital and liquidity of Ikano Bank is adequate, the internal liquidity adequacy assessment (ILAAP) is performed at least annually. This process is a tool used by the Board of Directors to assess the need for changes in the liquidity requirement in the event of changed circumstances.

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

The Bank's liquidity reserve and operational portfolio shall always total at least 10 percent of deposits from the public. In addition to the liquidity reserve, the Bank shall maintain an intra-day liquidity of at least 4 percent of deposits from the public. Consequently the liquidity portfolio shall always amount to at least 14 percent of deposits from the public.

The liquidity reserve, along with other operating liquidity, is invested in interest-bearing securities in the markets where the Bank operates. Steering documents define that quality levels of securities included in the Bank's liquidity reserve are in line with the European Commission's Delegated Act for LCR. Intra-day liquidity manages the Bank's daily payment commitments. The liquidity in this portfolio shall be available within one day, and shall consist of funds in bank accounts, investments available the next banking day (overnight) and committed bank overdraft facilities in the Bank's cash pool.

The liquidity reserve 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 mainly 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 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+ according to Standard and Poor's (or the Moody's equivalent).

The Bank's liquidity reserve amounts to SEK 2.5 bn and consists of liquid high quality assets that are eligible as collateral with the Swedish Central Bank.

The liquidity portfolio as of 31 March 2019 totalled SEK 5.3 bn excluding overdraft facilities and constitutes 20 percent of deposits from the public. It includes Cash and balances with banks, the liquidity reserve and other interest-bearing securities with a value of SEK 1.3 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, committed credit facilities for a total of SEK 3.1 bn are available.

As of 31 March 2019, the Bank's LCR totalled 229 percent. This measure shows how the Bank's highly liquid assets relate to net outflows over a thirty-day period under strained market conditions. A statutory minimum liquidity coverage ratio of 100 percent is required since 1 January 2018.

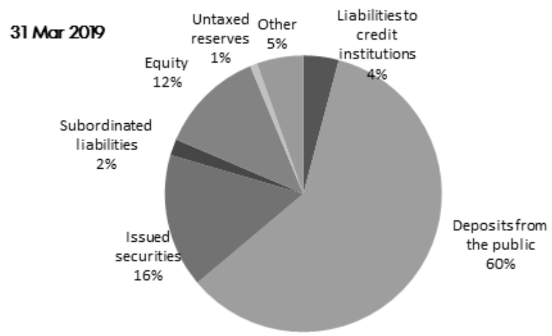
Summary of the liquidity reserve

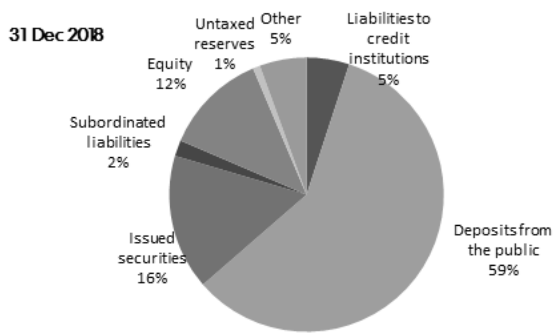
	31 Mar 2019					
SEK m	Total	SEK	EUR	DKK	GBP	Other
Securities issued by public entities	1 184	761	0	39	384	0
Securities issued by financial corporations	158	0	158	0	0	0
Covered bonds	1 121	804	248	69	0	0
Liquidity reserve	**2 462**	**1 565**	**406**	**108**	**384**	**0**
Other operating liquidity invested in securities	1 251	1 251	0	0	0	0
Cash and balances in central banks and other banks	1 631	406	71	942	107	103
Total liquidity portfolio	**5 344**	**3 222**	**477**	**1 050**	**491**	**103**
Distribution per currency (%)	100%	60%	9%	20%	9%	2%
Other liquidity-creating measures						
Granted unused credit facilities	3 084	918	1 384	540	241	0

	31 Dec 2018					
SEK m	Total	SEK	EUR	DKK	GBP	Other
Securities issued by public entities	1 282	968	0	38	277	0
Securities issued by financial corporations	154	0	154	0	0	0
Covered bonds	1 072	644	190	68	170	0
Liquidity reserve	**2 508**	**1 612**	**344**	**105**	**447**	**0**
Other operating liquidity invested in securities	1 006	1 006	0	0	0	0
Cash and balances in central banks and other banks	2 126	593	245	788	140	359
Total liquidity portfolio	**5 640**	**3 211**	**589**	**893**	**587**	**359**
Distribution per currency (%)	100%	57%	10%	16%	10%	6%
Other liquidity-creating measures						
Granted unused credit facilities	2 822	822	1 168	605	226	0

Summary of funding sources

SEK m	31 Mar 2019	31 Dec 2018
Liabilities to credit institutions	1 869	2 250
Deposits from the public	26 620	26 206
Issued securities	7 090	7 138
Subordinated liabilities	859	839
Equity	5 576	5 444
Untaxed reserves	378	378
Other	2 461	2 474
Total	**44 854**	**44 731**





Other information

SEK m	31 Mar 2019	31 Dec 2018
Total assets	44 854	44 731
Loans to the public	27 445	27 289
Deposits from the public	26 620	26 206
Ratio Deposits/Total assets	59%	59%
Ratio Liquidity portfolio/Deposits	20%	22%

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

Deposits from the public are regarded as the main funding source and the Bank has set a minimum ratio of deposits to total assets of 50 percent.

Additional information about the Bank's capital adequacy and liquidity risk management can be found in the Annual Report for 2018 and the information on capital adequacy and risk management for 2018. The documents are published on the Bank's website www.ikanobank.se.