Year-end Report 2018-12

IKANO BANK

Ikano Bank AB (publ) Year-End Report, 2018

Results for the full year 2018

- Lending, including leasing, increased to SEK 37,187 m (37,082)
- Deposits from the public grew with 2 percent to SEK 26,206 m (25,617)
- Business volume amounted to SEK 63,394 m (67,863). The cooperation with SBAB regarding mediated mortgage loans was terminated during the year, which gave a decrease in the business volume of SEK 5.2 bn. Without this effect, the total business volume increased with 1 percent
- Operating result decreased by 18 percent to SEK 359 m (435). Operating result for 2018 is affected by increased depreciation on leasing assets due to increase in volume, and by costs for long term IT-investments
- The result for 2018 is positively impacted by an increased net leasing and net commission income
- Net interest income decreased by 1 percent to SEK 1,935 m (1,960)
- Net result for the year amounted to SEK 541 m (284) and was affected by dissolution of untaxed reserves
- Return on equity decreased to 4.9 percent compared with 2017 (6.2)
- Common equity Tier 1 ratio totalled 14.9 percent (14.3) and the total capital ratio was 17.2 percent (16.5).
- The liquidity reserve totalled SEK 2,508 m (2,445) and the total liquidity portfolio amounted to SEK 5,640 m (5,058)
- Håkan Nyberg left as CEO of the Bank in September 2018 following which Mats Håkansson assumed the role as working chairperson of the Board for the remainder of 2018. Henrik Eklund was appointed new interim CEO after the end of the year

Results for the second half year 2018

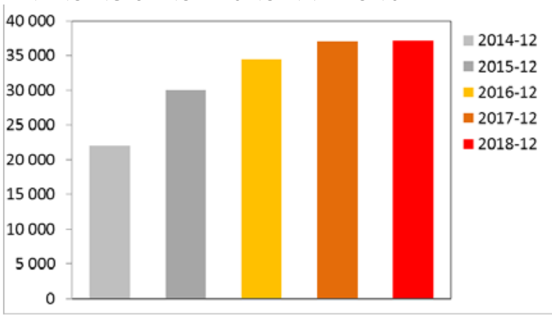
- Operating result increased by 66 percent to SEK 123 m (74). This is mainly explained by an increased net commission
- Net interest income decreased by 2 percent to SEK 957 m (978)
- Return on equity for the second half of the year amounted to 3.4 percent (2.1)

Outlook for 2019: Ikano Bank expects growth in 2019. The Bank operates in a challenging industry but is financially strong with favourable market position. The work to further develop and improve our digital experience, efficiency and customer offer continues.

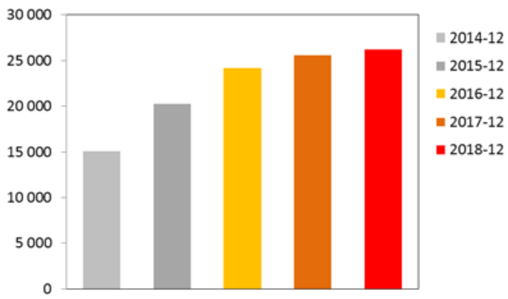
Key ratios	Jul-Dec 2018	Jul-Dec 2017	31 Dec 2018	31 Dec 2017
Total Capital ratio	17.2%	16.5%	17.2%	16.5%
Common equity Tier 1 ratio	14.9%	14.3%	14.9%	14.3%
Investment margin	4.3%	4.6%	4.4%	4.6%
Return on adjusted equity	3.4%	2.1%	4.9%	6.2%
Leverage ratio	11.8%	10.9%	11.8%	10.9%
C/I-ratio before loan losses	70.3%	72.4%	71.1%	66.3%
Loan loss ratio	1.7%	1.7%	1.3%	1.6%

For definitions of alternative performance measures used to describe the Bank's activities see the Bank's Annual Report for 2017, available on the Bank's website www.ikanobank.se/om-banken/ekonomisk-information. Comparative figures in parentheses refer to the same period of the previous year unless otherwise stated.

LENDING INCLUDING LEASING IN MILLION SEK



DEPOSITS IN MILLION SEK



This is information that Ikano Bank AB (publ) is required to disclose in accordance with the EU Market Abuse Regulation and the Securities Market Act. The information was submitted for publication on 28 February 2019 at 11:00 AM.

Statement by the Managing Director

Now we increase the speed

During the autumn, we made a restart to make sure we have a clear path forward to ensure long-term profitable growth and customer benefit, well-rooted in our values and our company culture.

Our desire is to persistently simplify everyday life for our customers and to offer simple and smart products on fair terms. When our customers acknowledge this, we become extra proud. During the year, we received awards for our offering of savings and loan products in Germany and in the Swedish market, our consumer loan products once again received top marks among our customers in the Swedish Quality Index (SKI) annual survey. This year's SKI result was also the highest ever for the bank. We were also recognised as a career company among the top in Sweden again this year.

During the year, we have worked closely with our customers and partners in our various business segments. Total lending was in line with previous year where we saw good growth in the leasing business. We also saw increased deposits in the Bank. The result for the year is in line with our expectations, but now we are increasing the speed of our on-going improvement work. Together, we continue the work that began during the autumn, where we, among other things, have a clearer focus on the commercial activities, improving efficiency and digitalisation of our offering.

2018 has also involved a lot of work in the regulatory area. Two important regulations, GDPR and PSD2, have been implemented during the year and work on the transition to new accounting rules according to IFRS9 has been completed. We follow the developments of Brexit in close cooperation with both UK and Swedish authorities, as our UK operations is important to us.

The extensive work of moving our IT environment to our IT partner went on for most of the year and the majority of this work has been concluded. We are now looking forward to being able to continue to build for the future.

An exciting area where we started to make investments during the year is in robotics. We are at an early stage but look forward to being able to streamline our business, increase customer satisfaction and free up resources by automating simple but time-consuming processes.

Looking forward, we expect continued growth in our markets while the comprehensive work with the development of the Bank's IT solutions continues. We have so far seen results in terms of increased stability and more efficient IT-services. We are continuing to invest in our technical platform to secure sustainable and profitable growth and customer benefit.

2018 was a challenging year, but we see many opportunities to grow our business in our existing markets and make a difference for our customers and partners. With our customer promise on fair terms as well as our strong brand and company culture, we have every opportunity to continue to offer products that simplify everyday life for the many people.

Henrik Eklund

Ikano Bank in brief

Ikano Bank has three business lines: Consumer, Sales Finance and Corporate. The Consumer business line conducts traditional Banking operations that focus on private individuals by offering simple and attractive savings and loan services. Sales Finance administers and markets finance solutions for partners, and Corporate offers leasing solutions, as well as factoring services to businesses.

Ikano Bank has operations in Sweden, the UK, Norway, Denmark, Finland, Germany, Austria and Poland. Sweden is the largest market, where the Bank also has the broadest offering for all target groups. Ikano Bank offers a selection of the Bank's services on other geographical markets. Ikano Bank has no physical offices for customers, but delivers its services online.

The Bank's result for the full year 2018

Operating result is affected by higher IT-costs and portfolio sale

The operating result for 2018 decreased by 18 percent to SEK 359 m (435).

2018 has been affected by the IT transition which has resulted in higher IT costs. While this IT transition is partly driven by regulatory requirements, the Bank is also investing in the technical platform to ensure long-term sustainable growth and customer benefit. These investments are expected to continue during 2019. The result for 2018 is positively affected by a one-off income of SEK 57 m related to the ceased cooperation with SBAB as well as a net income of SEK 128 m from portfolio sale of non-performing loans in Germany.

The underlying profitability of the Bank is deemed to be stable and supported by a well-established loan business.

Slightly lower net interest income

Net interest income decreased by 1 percent to SEK 1,935 m (1,960). The decrease is driven by lower loan volumes as well as pressure on margins in the markets and products where the Bank is active.

Higher net leasing and higher net commission income

Net leasing income increased by 15 percent to SEK 448 m (391). Leasing net income increased in all markets based on volume growth and improved margins.

Net commission income increased by 8 percent to SEK 353 m (328). The increase is driven by loan commission income and higher income from mediated insurances.

Higher costs from growth

Operating expenses rose by 9 percent to SEK 5.4 bn (5.0). This increase is mainly attributable to increased depreciation on leased assets on behalf of customers, due to the volume growth in the Corporate business line. 2018 was also affected by costs incurred by the outsourcing of our IT platform to Capgemini.

Loan losses

Loan losses measured as a percentage of average total lending decreased to 1.3 percent (1.6). Net loan losses decreased to SEK 476 m (556), mainly explained by a sale of non-performing loans which affected credit losses for the period positively with SEK 155 m.

The Bank's result for the second half-year 2018

Higher operating result for the second half year

Operating result increased by 66 percent to SEK 123 m (74). The result is positively affected both by increased net commission income and by higher leasing net. This is partly offset by decreasing net interest income and increased costs, driven by IT-investments.

Lower net interest income

Net interest income decreased by 2 percent to SEK 957 m (978). The lower interest income in the second half of the year follows the same trend as for the full year.

Higher net leasing and higher net commission income

Net leasing income rose by 8 percent to SEK 227 m (211) compared with the corresponding period in 2017. Net leasing income increased in all markets as a result of good demand for financing from our partners in the Corporate business line.

Net commission rose by 38 percent to SEK 198 m (143). The increase is driven by loan commission income and higher income from mediated insurances.

Higher costs, a consequence of growth and investments

Operating expenses rose by 8 percent to SEK 2.8 bn (2.6). The increase is primarily a result of increased depreciations of leasing assets, due to volume growth in the Corporate business line. Costs are also increasing as a consequence of the Bank's long term IT-investments.

Loan losses

Loan losses increased by 2 percent to SEK 313 m (308). Loan losses, measured as a percentage of average total lending, remained at 1.7 percent (1.7) during the second half of the year.

The Bank's position as of 31 December 2018

Increased deposits from the public

Deposits from the public increased by 2 percent to SEK 26.2 bn (25.6) Deposits increased in all foreign markets, while volumes on the Swedish market fell slightly during the year.

Deposits are an important part of the Bank's funding. At year-end, deposits from the public were 59 percent of the Bank's total funding.

Varying growth in lending to the public

The Bank's loans to the public decreased by 2 percent to SEK 27.3 bn (27.8) after provisions for loan losses. Growth varies between the Banks' markets, where loans to the public in Germany increased during the year while the other markets decreased.

Leased assets held on customers' behalf increased by more than 6 percent to SEK 9.9 bn (9.3) mostly driven by growth on the Swedish market.

Decrease in overall business volumes due to ceased mortgages cooperation

Overall business volumes of loans to the public, deposits from the public, leasing assets and mediated mortgage loans decreased by SEK 4.5 bn, corresponding to 7 percent, to SEK 63.4 bn (67.9). During the year the cooperation between SBAB and Ikano Bank under which mortgage loans branded "Ikano Bolån" were mediated to and provided by SBAB has ended. As a result the business volume has decreased with SEK 5.2 bn related to mortgage loans. Without the effect of this one-off event the total business volume increased with 1 percent.

Good liquidity reserve and high demand for the Bank's bonds

The Bank's liquidity portfolio totalled SEK 5.6 bn as of 31 December 2018 (5.1), which corresponds to 22 percent of the Bank's total deposits from the public.

The Bank regularly obtains funding from the capital markets. The Bank's volume of issued securities rose by SEK 0.3 bn to SEK 7.1 bn (6.8). Demand for the Bank's short-term commercial paper (CP) programme as well as for the Bank's bond programme (Medium Term Note programme) has been good. In 2018, six bonds with maturities between 2 and 5 years and a total nominal amount of SEK 1,950 m have been issued with good results.

At year-end, the Bank's liquidity coverage ratio (LCR) totalled 191 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.

The own funds as of 31 December 2018 totalled SEK 6.4 bn, compared with the statutory own funds requirement of SEK 3.0 bn. The total capital ratio at the end of year was 17.2 percent (16.5) and the common equity tier 1 capital ratio was 14.9 percent (14.3).

Other information

Ikano Bank AB (publ), corporate identity number 516406-0922, is a limited liability company licensed to conduct banking business, with its registered office in Älmhult and its head office in Malmö, Sweden. Ikano Bank is owned by Ikano S.A. with its registered office in Luxembourg. Originally part of IKEA, Ikano S.A. became an independent group in 1988. Apart from finance, the Ikano Group deals with insurance, production, property and retail sales. Ikano Bank has operated its business under a Banking license since 1995.

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. 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.

As of 23 January 2018, the subsidiary Ikano Insight Ltd, was terminated through liquidation. In 2017, no activities were carried out in the subsidiary.

Management

As the Bank has previously communicated Håkan Nyberg left as CEO of the Bank 12 September 2018 following which Mats Håkansson assumed the role as working chairperson of the Board for the remainder of 2018.

Events after 31 December 2018

After the year-end, no significant events have occurred that have affected the financial statements for 2018. On 7 January 2019 the Bank announced that Henrik Eklund has been appointed interim CEO for Ikano Bank. Henrik joined Ikano Bank in May 2018 as Chief Operating Officer and has previous experience from a number of management positions in the finance industry.

Outlook

The outlook is positive and in 2019 the Bank anticipates further development work with a focus on customer benefit and efficiency. The bank has a strong financial position with good liquidity and a favourable market position.

Annual Report

Ikano Bank's Annual Report will be available on the Bank's website during week 12.

Next reporting date

Ikano Bank reports its results half-yearly. The interim report for the first half of 2019 will be available on the Bank's website at the end of August 2019. Ikano Bank publishes information on capital adequacy and liquidity on a quarterly basis on its website.

Risks and uncertainty factors

The Bank's earnings are affected by external changes that the company has no control over. The Bank's earnings performance is affected by factors including macroeconomic change such as unemployment, as well as fluctuations in interest and exchange rates.

Risk management is an integrated component of the Bank's daily operations. 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 tolerances set by the Board.

The Bank's risks are monitored centrally, but the responsibility for risk management rests primarily with local business units. This means that operating businesses own and manage the risk in daily operations. The central risk control function is responsible for monitoring and evaluating risk management.

Apart from what is stated in this Interim Report, there is more detail in Ikano Bank's Annual Report for 2017 and Ikano Bank's annual "Capital adequacy and risk management" report in accordance with Basel 3 regulations, available at www.ikanobank.se.

Älmhult, 26 February 2019

We hereby certify, to the best of our knowledge, that the financial statements have been prepared in accordance with applicable accounting standards. The information presented is consistent with actual conditions in the operations and nothing of significance has been omitted which could affect the perception of the Bank created by the year-end report.

Board of Directors
Ikano Bank AB (publ)

This report has not been audited.

Income statement

SEK 000	Note	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Interest income	4	1 157 536	1 177 410	2 338 126	2 354 945
Interest expense	4	-200 361	-198 969	-402 997	-394 770
Net interest income		**957 175**	**978 441**	**1 935 129**	**1 960 176**
Leasing income	5	1 950 678	1 760 554	3 790 090	3 395 930
Commission income	6	355 112	312 869	689 518	647 629
Commission expense	6	-157 524	-170 006	-336 354	-319 298
Net commission income		**197 588**	**142 863**	**353 164**	**328 331**
Net gains and losses on financial transactions		-10 895	4 468	-462	-6 455
Other operating income	7	98 034	46 469	151 913	268 200
Total income		**3 192 580**	**2 932 794**	**6 229 834**	**5 946 183**
General administrative expenses		-892 712	-852 670	-1 749 367	-1 670 051
Depreciation/amortisation and impairment of tangible and intangible assets	5	-1 772 854	-1 597 136	-3 436 676	-3 085 917
Other operating expenses		-90 542	-101 344	-209 344	-199 863
Total expenses before loan losses		**-2 756 108**	**-2 551 150**	**-5 395 387**	**-4 955 831**
Profit before loan losses		**436 472**	**381 644**	**834 447**	**990 352**
Loan losses, net	8	-313 386	-307 608	-475 937	-555 588
Operating result		**123 088**	**74 036**	**358 510**	**434 764**
Appropriations		320 000	-	320 000	-
Tax expense		-23 856	-55 381	-137 302	-150 903
Net result for the period		**419 232**	**18 655**	**541 208**	**283 861**

Statement of total comprehensive income

SEK 000	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Net result for the period	**419 232**	**18 655**	**541 208**	**283 861**
Other comprehensive income				
Items that can be reclassified to net profit or loss for the period				
Translation difference for the period, foreign branches	-102 736	42 549	86 933	33 309
Change in financial assets valued at fair value via other comprehensive income	-6 031	-	-6 630	-
Changes in fair value on financial assets available for sale		-2 413		2 360
Changes in fair value on cash flow hedges	15 059	-11 845	5 315	9 394
Tax related to changes in translation differences for the year	-34 716	-	-34 716	-
Tax related to changes in financial assets valued at fair value via other comprehensive income	1 593	-	1 725	-
Tax related to changes in fair value of financial assets available for sale		531		-519
Tax related to changes in fair value of cash flow hedges	-3 281	2 606	-1 137	-2 067
Other comprehensive income for the period, net of tax	**-130 112**	**31 428**	**51 490**	**42 477**
Total comprehensive income for the period, net of tax	**289 120**	**50 083**	**592 698**	**326 339**

Balance sheet

SEK 000	Note	2018	2017
Assets			
Cash		35 735	6 603
Treasury bills		1 282 293	1 172 947
Loans to credit institutions		2 150 846	1 813 843
Loans to the public	9	27 289 123	27 798 753
Bonds and other interest-bearing securities		2 231 935	2 103 980
Shares and participations		29 299	18 885
Shares and participations in group companies		-	13 322
Intangible assets		378 747	394 813
Tangible assets		9 916 416	9 318 397
- Leasing assets		*9 898 120*	*9 283 371*
- Equipment		*18 296*	*35 026*
Other assets		1 019 595	968 610
Deferred tax assets		115 452	158 824
Prepaid expenses and accrued income		281 869	313 121
Total assets		**44 731 310**	**44 082 098**
Liabilities, provisions and equity			
Liabilities to credit institutions		2 250 366	2 503 967
Deposits from the public	10	26 206 463	25 616 729
Issued securities	11	7 138 497	6 824 779
Other liabilities		1 000 226	1 128 161
Accrued expenses and deferred income		1 292 919	1 250 216
Provisions		181 123	170 098
- Provisions for pensions		*34 663*	*33 468*
- Deferred tax liabilities		*91 362*	*122 573*
- Other provisions		*55 098*	*14 058*
Subordinated liabilities		839 330	819 680
Total liabilities and provisions		**38 908 924**	**38 313 631**
Untaxed reserves		**378 157**	**698 157**
Equity			
Restricted equity		**548 965**	**515 670**
Share capital		78 994	78 994
Statutory reserve		193 655	193 655
Fund for development expenses		276 316	243 021
Non-restricted equity		**4 895 264**	**4 554 640**
Fund for fair value		204 105	166 137
Retained earnings		4 149 951	4 104 642
Net result for the year		541 208	283 861
Total equity		**5 444 229**	**5 070 310**
Total liabilities, provisions and equity		**44 731 310**	**44 082 098**

Statement of changes in equity

SEK 000	Share capital	Statutory reserve	Fund for develop-ment expenses	Fair value reserve	Translation reserve	Cash flow hedge reserve	Retained earnings or losses	Net result for the year	**Total equity**
	Restricted equity			Non-restricted equity					
				Fund for fair value					
Opening balance 2017-01-01	**78 994**	**193 655**	**149 768**	**25 078**	**97 465**	**1 117**	**3 919 047**	**278 848**	**4 743 972**
Appropriation of profits	-	-	-	-	-	-	278 848	-278 848	-
Change in fund for development expenses	-	-	93 253	-	-	-	-93 253	-	-
Net result for the year	-	-	-	-	-	-	-	283 861	283 861
Other comprehensive income for the year	-	-	-	1 841	33 309	7 327	-	-	42 477
Total comprehensive income for the year	**-**	**-**	**-**	**1 841**	**33 309**	**7 327**	**-**	**283 861**	**326 338**
Closing balance 2017-12-31	**78 994**	**193 655**	**243 021**	**26 919**	**130 774**	**8 444**	**4 104 642**	**283 861**	**5 070 310**
Opening balance 2018-01-01	**78 994**	**193 655**	**243 021**	**26 919**	**130 774**	**8 444**	**4 104 642**	**283 861**	**5 070 310**
Transitional effect IFRS 9	-	-	-	-13 522	-	-	-205 257	-	-218 779
Adjusted equity 2018-01-01	**78 994**	**193 655**	**243 021**	**13 397**	**130 774**	**8 444**	**3 899 385**	**283 861**	**4 851 531**
Appropriation of profits	-	-	-	-	-	-	283 861	-283 861	-
Change in fund for development expenses	-	-	33 295	-	-	-	-33 295	-	-
Net result for the year	-	-	-	-	-	-	-	541 208	541 208
Other comprehensive income for the year	-	-	-	-4 905	52 217	4 178	-	-	51 490
Total comprehensive income for the year	**-**	**-**	**-**	**-4 905**	**52 217**	**4 178**	**-**	**541 208**	**592 698**
Closing balance 2018-12-31	**78 994**	**193 655**	**276 316**	**8 492**	**182 991**	**12 622**	**4 149 951**	**541 208**	**5 444 229**

Cash flow statement

SEK '000	2018	2017
Operating activities		
Operating result	**+358 510**	**+434 764**
Adjustment for non-cash items	+3 404 402	+3 743 529
Cash flow from operating activities before changes in working capital	**+3 762 912**	**+4 178 293**
Cash flow from changes in working capital	-3 434 521	-4 762 502
Cash flow from operating activities	**+328 391**	**-584 209**
Cash flow from investing activities	**-58 102**	**-130 868**
Cash flow from financing activities	**+76 870**	**+810 236**
Cash flow for the year	**+347 159**	**+95 159**
Cash and cash equivalents at beginning of the year	+1 808 435	+1 707 836
Exchange rate difference	+14 225	+5 441
Cash and cash equivalents at the end of the year	**+2 169 819**	**+1 808 435**

The cash flow statement has been prepared using the indirect method. The reported cash flow includes only transactions that involve incoming or outgoing payments. Liquid assets are defined as Cash as well as Loans to credit institutions, SEK 2,187 m, with deductions for current liabilities to credit institutions SEK 17 m. The corresponding amounts for the previous year were SEK 1 820 m and SEK 12 m.

Notes

1 Accounting principles

The year-end report is prepared in accordance with IAS 34 and also complies with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual reporting for credit institutions and securities companies in accordance with the applicable transitional rules (FFFS 2008:25), as well as the Swedish Financial Reporting Board's recommendation, RFR 2 Accounting for Legal Entities. Accordingly, the Bank applies statutory IFRS.

Per 1 January 2018 IFRS 9 Financial Instruments entered into force, replacing IAS 39 Financial Instruments: Accounting and Measurement. Per 1 January 2018 also IFRS 15 entered into force. For Ikano Bank IFRS 15 comprises mainly payment brokerage commissions, lending commissions and other commissions. Ikano Bank has not identified any transitional effects following the implementation of IFRS 15. In other respects, the applied accounting policies and assessments in the Year-End Report coincide with those applied in the Annual Report for 2017.

Alternative performance measures are used by Ikano Bank when it is relevant to monitor and describe Ikano Bank's financial situation and to provide additional useful information to users of financial statements. For a definition of all measures please see the Annual Report 2017.

The year-end report is presented in Swedish kronor (SEK), rounded to the nearest thousand (SEK 000) unless otherwise stated.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Accounting and Valuation per 1 January 2018. IFRS 9 provides for an exception from the regulation in IAS 8 regarding restatement of comparative figures. Ikano Bank has chosen not to restate comparative figure. As a result, all information for comparative periods is presented in line with accounting principles in effect for 2017.

The IASB divided the project into three parts: Classification and valuation, Impairment and Hedge accounting.

Classification and valuation

The transition to classification and measurement rules in IFRS 9 has not led to any significant changes in Ikano Bank's financial reports, except for changes in disclosure requirements. The classification for existing equity instruments within the scope of IFRS 9 has changed as the Bank has chosen to follow the main rule for equity instruments and valuation will be made at fair value through profit or loss. Previously they were classified as financial assets available for sale measured at fair value with value changes reported in other comprehensive income. As a result of this change, SEK 13.5 m net of tax have been transferred between fund for fair value and retained earnings, as well as a deferred tax item of SEK 3.3 m transferred between other assets and retained earnings. In connection with the transition to IFRS 9 the Bank has reclassified financial assets and liabilities according to the new accounting principles. The table below shows the Bank's classification of financial assets and liabilities before and after the implementation of IFRS 9.

Reclassification of financial assets and liabilities at transition to IFRS 9

Financial assets	Classification 31 Dec 2017 acc. to IAS 39	Classification 01 Jan 2018 acc. to IFRS 9
Cash	Loans and receivables	Amortised cost
Treasury bills	Financial assets available for sale	Fair value through other comprehensive income
Loans to credit institutions	Loans and receivables	Amortised cost
Loans to the public	Loans and receivables	Amortised cost
Bonds and other interest-bearing securities	Financial assets available for sale	Fair value through other comprehensive income
Shares and participations	Financial assets available for sale	Fair value through profit and loss
Other assets - derivatives	Financial assets measured at fair value through profit and loss	Fair value through profit and loss
Other assets - other	Loans and receivables	Amortised cost
Accrued income	Loans and receivables	Amortised cost
Financial liabilities		
Liabilities to credit institutions	Other financial liabilities	Amortised cost
Deposit from the public	Other financial liabilities	Amortised cost
Issued securities	Other financial liabilities	Amortised cost
Other liabilities - derivatives	Financial liabilities measured at fair value through profit and loss	Fair value through profit and loss
Other liabilities - other	Other financial liabilities	Amortised cost
Accrued expenses	Other financial liabilities	Amortised cost

Financial assets measured at amortised cost in the table above are held in a business model aimed at holding financial assets and receiving contractual cash flows where these cash flows consist solely of payments of capital amount and interest on the outstanding principle amount.

Financial assets measured at fair value through other comprehensive income are held in a hold to collect or sell business model with the purpose to hold financial assets to obtain contractual cash flows as well as to sell these financial assets. Cash flows consist solely of payments of capital amount and interest on the outstanding principle amount.

Derivatives not subject to hedge accounting are mandatorily measured at fair value through profit and loss.

Impairment

The part of IFRS 9 regarding impairment rules introduces a forward-looking model with expected loan losses from the origination of the asset, as opposed to the IAS 39 model built on incurred credit losses. IFRS 9 is more extensive than IAS 39 for impairment requirements, as all assets valued at amortised cost and fair value through other comprehensive income and irrevocable loan commitments and credit commitments are subject to the assessment of impairment requirements.

Financial assets that are subject to provisioning need to be divided into three stages, depending on the degree of credit impairment. The expected credit loss model makes provisions for 12 months expected credit losses for the majority of the portfolio (stage 1) but requires provisions corresponding to the remaining lifetime of financial instruments where a significant increase in the credit risk has occurred since the initial recognition (stage 2) and for credit impaired financial instruments (stage 3), i.e. exposures in default. The Bank defines exposures in default as those that have indications that the borrower is unlikely to fulfil his payment obligations or where those payment obligations are more than 90 days past due. Following the settlement of payment obligations more than 90 days past due, the instrument is classified as in default a further 90 days before it can be classified as performing if no other deviations are observed.

The Bank's criteria for identifying if a significant increase in credit risk occurs are based on relative changes combined with thresholds in the probability of default. Qualitative factors not reflected in models can also be used to identify an increase in credit risk. An example of relevant factors is customer information that has become known to the Bank. In addition, financial instruments which are past due by more than 30 days are considered to have had a significant increase in credit risk. Those portfolios for which the Bank has chosen to apply paragraph 5.5.10 in IFRS 9 regarding financial instruments subject to low credit risk exemption are exempted from this rule.

Models for assessing the probability of default and consequently a significant increase in risk are constructed per market and segment based on the Bank's instrument specific information and attributes. To a certain extent also external attributes are used; mainly for the Corporate segment but also for some Private segment.

The regulatory framework also requires a forward-looking element where internal macro models have been built for the different markets. Macro variables are collected from official sources, for example, for gross domestic product and unemployment. The macro models are used to create three different scenarios. In addition to the best-estimate scenario there are positive and negative scenarios to capture the results of these outcomes. The forecast horizon applied to the different scenarios is three years, where after the scenarios regress to a long term average. The models are based on the Bank's history of default or credit losses, and for markets with insufficient loss history, time series from official sources have been used as a proxy for internal defaults. The macroeconomic model affects probability of default and thereby stage assessment, as well as the resulting expected credit loss.

In line with previously communicated expectations, the transition to IFRS 9 implies increased credit impairment provisions and a reduction of the Bank's equity. The effect of the introduction of IFRS 9 is an increase in expected credit losses of SEK 285 m and the net effect after tax of this Day one effect is a decrease of SEK 222 m in retained earnings. This results in a negative effect of 50 basis points on the Bank's capital adequacy at the time of transition. The EU has decided on the option of applying transitional rules for the introduction of IFRS 9. The Bank has notified the SFSA of its decision to apply the transitional rules.

The table below shows the effects of the reclassifications as well as reconciliation of credit impairment provisions in connection with the transition to IFRS 9.

Effects of the transition to IFRS 9 on the statement of financial position

kSEK	31 Dec 2017 acc. to IAS 39	One-off effect loan loss provisons 1 Jan 2018 acc. to IFRS 9	Tax effect 1 Jan 2018	1 Jan 2018 acc. to IFRS 9
Assets				
Loans to the public	27 798 753	-174 352		**27 624 401**
Leasing assets	9 283 371	-71 918		**9 211 453**
Deferred tax	252 244		3 327	**255 571**
Other assets	875 190	-7 989	62 645	**929 846**
Liabilities and provisions				
Provisions	170 098	30 492		**200 590**
Equity				
Equity	5 070 310	-284 751	65 972	**4 851 531**

Hedge accounting

The part of IFRS 9 on simplified prerequisites for hedge accounting enables adjustment of the hedge accounting to risk management in the company and introduces less detailed rules for assessing the effectiveness of hedging. IFRS 9 contains an opportunity to continue applying IAS 39 until the IASB has completed its portfolio hedging project. Ikano Bank will continue to apply IAS 39 for its portfolio hedges and will apply IFRS 9 to other hedging relationships.

2 Information about subsidiary

Per 1 October 2015, all shares in the subsidiary Ikano Insight Ltd were acquired. The Bank does not prepare consolidated statements with reference to the Annual Accounts Act §7:3a. The financial position and result of Ikano Insight Ltd have no effect on the financial position and ratios for Ikano Bank AB. The subsidiary was liquidated as of 24 January 2018.

Financial position of Ikano Insight Ltd

SEK 000	31 Dec 2018	31 Dec 2017
Assets		
Other assets	-	14 597
Total assets	**-**	**14 597**
Liabilities and equity		
Equity	-	14 597
Total liabilities and equity	**-**	**14 597**

3 Operating segments

2018 SEK m	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Shared functions	Total before eliminations	Eliminations	Total
Interest income	749	329	215	29	566	627	67	472	3 055	-717	2 338
Interest expense	-229	-83	-82	-12	-177	-81	-16	-441	-1 120	717	-403
Total net interest income	**520**	**247**	**133**	**17**	**389**	**546**	**52**	**31**	**1 935**	**-**	**1 935**
Payment service commissions	12	2	-	1	-	13	-	-	27	-	27
Lending commissions	173	36	61	22	80	20	2	0	394	-	394
Compensation, mediated insurance	117	27	36	4	-1	49	1	-	233	-	233
Other commissions	20	2	12	0	0	1	1	0	35	-	35
Commission income	**322**	**66**	**109**	**27**	**79**	**82**	**4**	**0**	**690**	**-**	**690**
Commission expense	-136	-17	-60	-9	-37	-33	-5	-1	-298	-	-298
Commission, net	**186**	**50**	**48**	**18**	**43**	**49**	**-1**	**-1**	**392**	**-**	**392**
Lease income	1 880	1 043	610	257	-	-	-	-	3 790	-	3 790
Depreciation on leasing assets	-1 687	-915	-517	-223	-	-	-	-	-3 342	-	-3 342
Leasing Income, net	**193**	**129**	**93**	**33**	**-**	**-**	**-**	**-**	**448**	**-**	**448**
Net Interest, fee and leasing income	**900**	**425**	**274**	**68**	**432**	**595**	**51**	**30**	**2 775**	-	**2 775**
Other income	77	22	8	4	22	-4	4	874	1 006	-858	149
Other direct expenses	-39	-10	-13	-6	-26	-50	-2	-5	-150	-	-150
Operating margin before net loan losses and operational expenses	**938**	**438**	**269**	**66**	**428**	**541**	**54**	**899**	**3 631**	**-858**	**2 774**
Other expenses	-870	-362	-248	-71	-472	-298	-50	-886	-3 256	875	-2 382
Allocated overhead expenses	-3	-4	-1	1	-4	-6	1	-1	-16	-17	-33
Operating result	**65**	**72**	**20**	**-4**	**-48**	**237**	**5**	**13**	**359**	**-**	**359**
Of which:											
Total internal income	*119*	*35*	*-*	*-*	*60*	*33*	*-*	*1 327*	*1 574*	*-1 574*	*-*
Total external income	*1 236*	*514*	*424*	*93*	*607*	*677*	*76*	*-*	*3 628*	*-*	*3 628*
Total internal expenses	*-602*	*-142*	*-168*	*-29*	*-245*	*-215*	*-28*	*-145*	*-1 574*	*1 574*	*-*
Appropriations	-	-	-	-	-	-	-	320	320	-	320
Tax expense	-	-11	-7	-	-10	-87	0	-23	-137	-	-137
Net result for the year	**65**	**61**	**13**	**-4**	**-58**	**151**	**5**	**310**	**541**	**-**	**541**

2017 SEK m	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Shared functions	Total before eliminations	Elimin-ations	Total
Interest income	755	324	226	27	529	659	60	436	3 016	-661	2 355
Interest expense	-221	-83	-76	-7	-147	-93	-13	-416	-1 056	661	-395
Total net interest income	**535**	**241**	**150**	**20**	**383**	**566**	**46**	**20**	**1 960**	-	**1 960**
Payment service commissions	11	2	1	1	-	12	-	-	25	-	25
Lending commissions	170	36	58	20	77	15	2	-	377	-	377
Compensation, mediated insurance	88	25	33	3	0	54	0	-	203	-	203
Other commissions	25	1	14	0	-	0	1	2	43	-	43
Commission income	**294**	**64**	**102**	**24**	**77**	**82**	**3**	**2**	**648**	**-**	**648**
Commission expense	-148	-12	-55	-7	-47	-29	-4	-2	-303	-	-303
Commission, net	**146**	**53**	**47**	**17**	**30**	**53**	0	0	**345**	**-**	**345**
Lease income	1 735	941	579	140	-	-	-	-	3 396	-	3 396
Depreciation on leasing assets	-1 563	-826	-494	-121	-	-	-	-	-3 005	-	-3 005
Leasing Income, net	**171**	**116**	**84**	**20**	**-**	**-**	**-**	**-**	**391**	-	**391**
Net Interest, fee and leasing income	**852**	**409**	**281**	**57**	**413**	**619**	**46**	**20**	**2 696**	-	**2 696**
Other income	17	207	6	1	24	6	5	971	1 237	-975	262
Other direct expenses	-46	-13	-13	-5	-21	-25	-2	-2	-126	-	-126
Operating margin before net loan losses and operational expenses	**824**	**604**	**274**	**52**	**416**	**599**	**50**	**989**	**3 808**	**-975**	**2 833**
Other expenses	-712	-355	-257	-59	-455	-440	-48	-995	-3 320	963	-2 356
Allocated overhead expenses	-21	-7	-4	-1	-9	-12	-1	1	-54	12	-42
Operating result	**91**	**242**	**13**	**-8**	**-48**	**148**	**1**	**-5**	**434**	**-**	**435**
Of which:											
Total internal income	*118*	*31*	-	-	*44*	*35*	-	*1 409*	*1 637*	*-1 637*	-
Total external income	*1 111*	*681*	*418*	*71*	*586*	*712*	*69*	*13*	*3 662*	-	*3 662*
Total internal expenses	*-562*	*-91*	*-154*	*-31*	*-253*	*-218*	*-30*	*-299*	*-1 637*	*1 637*	-
Tax expense	1	-51	0	-	9	-59	-	-50	-151	-	-151
Net result for the year	**92**	**190**	**13**	**-8**	**-39**	**89**	**1**	**-55**	**284**	**-**	**284**

External income

SEK m	2018	2017
Corporate	761	686
Sales Finance	1 773	1 938
Consumer	962	968
Other	132	70
Total external income	**3 628**	**3 662**

Neither Ikano Bank, nor any individual business line has any single customer representing 10 percent of revenues or more.

Balance Sheet

2018 SEK m	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Eliminations	Total
Fixed assets other than financial instruments	385	5	0	0	1	5	1	-	**397**
Deferred tax assets	92	-	-	-	0	24	-	-	**115**
Other assets	32 957	5 961	3 294	1 127	5 936	7 890	739	-13 685	**44 219**
Total assets	**33 434**	**5 967**	**3 294**	**1 127**	**5 937**	**7 918**	**740**	**-13 685**	**44 731**
Liabilities and provisions	**30 594**	**4 695**	**2 985**	**1 202**	**5 849**	**6 423**	**845**	**-13 685**	**38 909**

2017 SEK m	Sweden	Denmark	Norway	Finland	United Kingdom	Germany/ Austria	Poland	Eliminations	Total
Fixed assets other than financial instruments	400	19	1	0	3	6	1	-	**430**
Deferred tax assets	136	-	-	-	4	19	-	-	**159**
Other assets	32 519	5 474	3 480	968	5 980	7 586	831	-13 346	**43 493**
Total assets	**33 055**	**5 493**	**3 481**	**969**	**5 987**	**7 611**	**832**	**-13 346**	**44 082**
Liabilities and provisions	**30 173**	**4 272**	**3 166**	**1 013**	**5 841**	**6 255**	**940**	**-13 346**	**38 314**

4 Net interest income

SEK '000	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Interest income				
Loans to credit institutions	-2 391	326	-1 642	1 558
Loans to the public	1 158 718	1 176 333	2 337 836	2 351 624
Interest-bearing securities	1 210	751	1 932	1 763
Total	**1 157 536**	**1 177 410**	**2 338 126**	**2 354 945**
Of which: Interest income from financial assets not valued at fair value through profit or loss	*1 156 326*	*1 176 659*	*2 336 193*	*2 353 182*
Interest expense				
Liabilities to credit institutions	-19 881	-19 616	-40 078	-41 044
Deposits from the public	-99 793	-106 204	-203 773	-202 479
Of which: deposit guarantee fee	*-14 769*	*-21 320*	*-34 218*	*-33 877*
Issued securities	-14 735	-13 036	-27 638	-24 814
Derivatives	-43 066	-40 885	-85 693	-87 517
- Hedge accounting	*-3 317*	*-5 751*	*-8 037*	*-12 243*
- Not hedge accounting	*-39 749*	*-35 133*	*-77 656*	*-75 274*
Subordinated liabilities	-11 754	-10 959	-23 303	-21 726
Other interest expenses	-11 132	-8 269	-22 512	-17 189
Of which: Resolution/Stability fee	*-8 234*	*-7 151*	*-18 834*	*-14 302*
Total	**-200 361**	**-198 969**	**-402 997**	**-394 770**
Of which: Interest expense from financial assets not valued at fair value through profit or loss	*-157 295*	*-158 084*	*-317 304*	*-307 253*
Total net interest income	**957 175**	**978 441**	**1 935 129**	**1 960 176**

5 Leasing income

SEK '000	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Leasing income, gross	1 950 678	1 760 554	3 790 090	3 395 930
Less: Depreciation according to plan	-1 723 818	-1 549 731	-3 341 934	-3 004 753
Leasing income, net	**226 860**	**210 823**	**448 156**	**391 177**
Leasing income from financial lease agreements	1 950 678	1 760 554	3 790 090	3 395 930
Depreciation according to plan for assets that are financial lease agreements, but are recognised as operating leases	-1 723 818	-1 549 731	-3 341 934	-3 004 753
Leasing income, net for financial lease agreements	**226 860**	**210 823**	**448 156**	**391 177**
Interest income	4 825	4 077	9 531	7 723
Interest expenses	-58 571	-50 140	-112 991	-96 273
Leasing, net	**173 114**	**164 760**	**344 696**	**302 626**

6 Net commission

SEK '000	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Commission income				
Payment service commissions	14 093	14 477	26 922	25 484
Lending commissions	199 948	177 022	394 184	376 996
Other commissions	141 071	121 370	268 412	245 149
Total	**355 112**	**312 869**	**689 518**	**647 629**
Commission expense				
Payment brokerage commissions	-1 801	-1 506	-3 127	-3 728
Lending commissions	-130 305	-140 199	-280 605	-265 455
Other commissions	-25 418	-28 301	-52 622	-50 115
Total	**-157 524**	**-170 006**	**-336 354**	**-319 298**
Net commission income	**197 588**	**142 863**	**353 164**	**328 331**

7 Other operating income

SEK '000	Jul-Dec 2018	Jul-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Realised gain arising from the disposal of tangible assets	17 027	12 727	29 262	21 005
One-off revenue from loan portfolio sale[1]	-	-	-	180 864
One-off revenue from SBAB	57 133	-	57 133	-
Other operating income	23 874	33 742	65 518	66 331
Total	**98 034**	**46 469**	**151 913**	**268 200**

1) Income from a one-off portfolio sale in connection with the harmonisation of the process for debt collection.

8 Loan losses, net

The table below shows net loan losses including credit impairment provisions for credit commitments and undrawn limits.

Credit impairment provisions recognised at fair value via other comprehensive income amount to SEK 1.2 m and have been recognised in equity against the item fair value reserve. The credit impairment ratio according to IFRS 9 was 1.3 percent for 2018.

SEK 000	Jul-Dec 2018	Jan-Dec 2018
Stage 1 - Assets without significant increase in credit risk		
Change in provisions of receivables from stage 1	21 592	28 020
Write-off and removal of receivables from stage 1	-	-
Recoveries from previously determined loan losses for stage 1	-	-
Net cost for the period for loan losses - stage 1	**21 592**	**28 020**
Stage 2 - Assets with significant increase in credit risk since		
Change in provisions of receivables from stage 2	14 102	16 963
Write-off and removal of receivables from stage 2	-135 009	-227 416
Recoveries from previously determined loan losses for stage 2	34 122	61 502
Net cost for the period for loan losses - stage 2	**-86 785**	**-148 952**
Stage 3 - Credit-impaired assets		
Change in provisions of receivables from stage 3	61 980	182 830
Write-off and removal of receivables from stage 3	-514 752	-984 609
Recoveries from previously determined loan losses for stage 3	204 581	446 773
Net cost for the period for loan losses - stage 3	**-248 191**	**-355 006**
Net cost for the period for loan losses - Total	**-313 384**	**-475 937**

SEK '000	Jul-Dec 2017	Jan-Dec 2017
Specific provision for individually assessed loans receivable		
Change of provisions for the period	-20 780	-57 003
Write-off for the period for determined loan losses	-121 840	-207 509
Reversal of previous provisions for loan losses reported in the periods accounts as determined loan losses	25 483	47 566
Recoveries from previously determined loan losses	7 464	15 496
Net cost for the period for individually assessed loan receivables	**-109 673**	**-201 450**
Specific provision for collectively assessed loan receivables		
Change of provisions for the period	80 118	51 331
Write-off for the period for determined loan losses	-438 964	-607 453
Recoveries from previously determined loan losses	160 911	201 984
Net cost for the period for collectively assessed loan receivables	**-197 935**	**-354 139**
Net cost for the period for loan losses	**-307 608**	**-555 588**

9 Loans to the public

SEK 000	2018	2017
Outstanding receivables, gross		
- Swedish currency	9 567 734	9 846 847
- Foreign currency	18 581 041	18 854 370
Total	**28 148 775**	**28 701 216**
Of which: Non-performing loans	*795 351*	*957 961*
Specific provision for individually assessed receivables	-859 652	-26 276
Specific provision for collectively assessed receivables	-	-876 187
Carrying amount, net	**27 289 123**	**27 798 753**

10 Deposits from the public

SEK 000	2018	2017
Public		
- Swedish currency	12 757 321	13 456 014
- Foreign currency	13 449 142	12 160 715
Total	**26 206 463**	**25 616 729**
Deposits specified by category of borrower		
Corporate sector	1 373 023	927 174
Household sector	24 833 440	24 689 555
Total	**26 206 463**	**25 616 729**

11 Issued securities

SEK 000	2018	2017
Certificates of deposits	1 989 784	2 104 556
Bonds	5 148 713	4 720 223
Total	**7 138 497**	**6 824 779**

12 Related parties

The Bank has related party relationships with companies within the Group. Consolidated financial statements are prepared by Ikano S.A., Luxembourg.

Transactions with related parties are priced on commercial, market-based terms. No non-performing loans are attributable to the outstanding receivables with related parties.

SEK 000	Year	Income	Expenses	Receivables with related parties, 31 December	Liabilities with related parties, 31 December
Ikano S.A.	2018	**-**	**-29 711**	**-**	**2 350**
Ikano S.A.	2017	-	-34 685	955	78 031
Other Group companies	2018	**268**	**-50 605**	**7 240**	**851 273**
Other Group companies	2017	9 293	-45 700	19 144	839 424

13 Pledged assets, contingent liabilities and commitments

SEK 000	2018	2017
Contingent liabilities		
PRI	693	669
Total	**693**	**669**
Commitments		
Loan commitments, irrevocable	1 802 242	2 262 408
Unused credit limits	37 028 758	38 046 534
Total	**38 831 000**	**40 308 942**

Commitments made up of granted unused credit can be terminated effective immediately to the extent this is permitted under the Consumer Credit Act. The Bank has no pledged commitments.

14 Financial assets and liabilities

The following tables provide information on the measurement of fair value of financial instruments that are measured at fair value in the balance sheet (excluding the items included in hedge accounting). The breakdown of how fair value is determined is based on the following three levels:

Level 1: according to prices listed on an active market for the same instrument

Level 2: based on directly or indirectly observable market data that is not included in level 1

Level 3: based on input that is not observable in the market

Financial assets and liabilities

2018 SEK 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate derivatives	-	-	-	**-**
Currency derivatives	-	169 161	-	**169 161**
Shares and participations	27 764	1 535	-	**29 299**
Financial assets at fair value through other comprehensive income				
Bonds and other interest-bearing securities	1 306 864	925 071	-	**2 231 935**
Treasury bills	1 282 293	-	-	**1 282 293**
Financial liabilities at fair value through profit or loss				
Interest rate derivatives	-	7 715	-	**7 715**
Currency derivatives	-	-	-	**-**

2017 SEK 000	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Interest rate derivatives	-	1 642	-	**1 642**
Currency derivatives	-	62 194	-	**62 194**
Financial assets available-for-sale				
Bonds and other interest-bearing securities	1 393 768	710 212	-	**2 103 980**
Treasury bills	1 172 947	-	-	**1 172 947**
Shares and participations 1)	17 350	1 535	-	**18 885**
Financial liabilities at fair value through profit or loss				
Interest rate derivatives	-	6 334	-	**6 334**
Currency derivatives	-	48 433	-	**48 433**

1) The Bank owns unlisted shares, which are included in Level 2 of the valuation category Financial assets available for sale. As there are difficulties in being able to calculate a fair value reliably, this is reported at the cost of acquisition. The Bank does not intend to sell these shares in any near future.

Financial instruments offset in the Balance Sheet or subject to netting agreements

Ikano Bank is party to derivative contracts under the International Swaps and Derivatives Association's (ISDA) master agreement, which means that when a counterparty cannot fulfil its obligations, the agreement is cancelled and all outstanding dealings between the parties are settled with a net amount. In the balance sheet, no amounts have been offset in 2018.

For derivatives Ikano Bank receives and submits collateral in the form of bank deposits in accordance with the standard terms in the ISDA Credit Support Annex.

2018 SEK 000	Gross value	Offsetting in the Balance Sheet	Net in Balance Sheet	Amounts not offset in Balance Sheet Netting agreements	Issued/Received collateral	Net value
Derivatives	169 161	-	169 161	-7 715	-139 363	22 083
Total financial assets	**169 161**	**-**	**169 161**	**-7 715**	**-139 363**	**22 083**
Derivatives	7 715	-	7 715	-7 715	-	-
Total financial liabilities	**7 715**	**-**	**7 715**	**-7 715**	**-**	**-**

2017 SEK 000	Gross value	Offsetting in the Balance Sheet	Net in Balance Sheet	Amounts not offset in Balance Sheet Netting agreements	Issued/Received collateral	Net value
Derivatives	63 835	-	63 835	-49 192	-9 846	4 798
Total financial assets	**63 835**	**-**	**63 835**	**-49 192**	**-9 846**	**4 798**
Derivatives	54 767	-	54 767	-49 192	-6 840	-1 265
Total financial liabilities	**54 767**	**-**	**54 767**	**-49 192**	**-6 840**	**-1 265**

15 Capital management and liquidity

The 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 SFSA.

As of 31 December 2018, the Bank had own funds of SEK 6.4 bn (6.0) 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 (2.9). 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 746 m and is well covered by available capital. The total capital ratio was 17.2 percent with a Tier 1 capital ratio of 14.9 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 932 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 1.15 percent or SEK 427 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 1,359 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.

Summary of own funds and risk exposure amount

SEK 000	2018	2017
Tier 1 capital	5 555 103	5 211 615
Tier 2 capital	839 330	819 680
Own funds	**6 394 433**	**6 031 295**
Total risk exposure amount	**37 282 567**	**36 515 692**
Total own funds requirements	**2 982 605**	**2 921 255**
Total Capital ratio	**17.2%**	**16,5%**
Tier 1 Capital ratio	**14.9%**	**14,3%**
Common equity Tier 1 ratio	**14.9%**	**14,3%**
Available common equity Tier 1 Capital	**3 318 149**	**3 020 673**
Available common equity Tier 1 Capital in relation to Total risk exposure amount	**8.9%**	**8.3%**
Capital conservation buffer	932 064	912 892
Counter-cyclical capital buffer	427 328	367 680
Combined buffer requirement	**1 359 393**	**1 280 572**

Specification of own funds

SEK 000	2018	2017
Own funds		
Tier 1 capital		
Equity reported in the balance sheet	**5 444 229**	**5 070 310**
Share capital	78 994	78 994
Statutory reserve	193 655	193 655
Fund for development expenses	276 316	243 021
Fund for fair value	204 105	166 137
Retained earnings	4 149 951	4 104 642
Net result for the year	541 208	283 861
Adjustment for IFRS 9 one-off effect according to transitional arrangements	211 001	
Untaxed reserves (78% of which)	294 962	544 562
Deductions:		
Intangible assets	-378 747	-394 813
Cash flow hedge	-12 622	-8 444
Value adjustments due to the requirements for prudential valuation	-3 720	
Total Tier 1 Capital	**5 555 103**	**5 211 615**
Total Common Equity Tier 1 Capital	**5 555 103**	**5 211 615**
Tier 2 capital		
Subordinated liabilities	839 330	819 680
Total Tier 2 Capital	**839 330**	**819 680**
Total own funds	**6 394 433**	**6 031 295**

Specification of risk exposure amount and own funds requirements

SEK 000	2018 Risk exposure amount	2018 Own funds requirements	2017 Risk exposure amount	2017 Own funds requirements
Credit risk according to the standardised approach				
Exposures to states and central banks	-	-	32 571	2 606
Exposures to regional governments or local authorities	11 304	904	10 632	851
Exposures to public sector entities	-	-	26	2
Institutional exposure	513 564	41 085	416 933	33 355
Corporate exposure	3 872 700	309 816	1 833 137	146 651
Retail exposure	22 712 835	1 817 027	24 884 944	1 990 796
Equity exposure	29 299	2 344	32 207	2 577
Past due items	1 181 492	94 519	773 689	61 895
Covered bond exposure	107 746	8 620	113 016	9 041
Other items	428 674	34 294	620 241	49 617
Total credit risk	**28 857 614**	**2 308 609**	**28 717 397**	**2 297 391**
Operational risk according to the basic indicator approach	**5 056 084**	**404 487**	**4 840 640**	**387 251**
Foreign exchange risk according to the standardised approach	**3 328 850**	**266 308**	**2 949 096**	**235 928**
CVA risk according to the standardised approach	**40 019**	**3 202**	**8 559**	**685**
Total	**37 282 567**	**2 982 605**	**36 515 692**	**2 921 255**

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 shows capital as a percentage of asset size, without the actual risk level of the assets being taken into consideration. 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 December 2018 is 11.8 percent (10.9) and thus above the proposed binding measure.

Liquidity

Ikano Bank's liquidity is managed within the framework of the Bank's liquidity portfolio. The liquidity portfolio consists of deposits with banks, short-term lending to credit institutions and also investments in liquid interest-bearing securities, which can be sold and converted into cash on short notice. The 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. To ensure that the liquidity of Ikano Bank is adequate, an 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, together 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 shall be available within one day, and shall consist of funds in bank accounts, investments available the next banking day (overnight) and committed bank overdraft facilities in the Bank's cash pool.

The liquidity reserve shall constitute a separate reserve of high-quality liquid assets, which are to be quickly convertible in case of market stress situations that affect the Bank's 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 operating liquidity is managed in the investment 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 SEK 2.5 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 2018 totalled SEK 5.6 bn excluding overdraft facilities and constitutes 21.2 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 1.0 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 2.8 bn are available.

As of 31 December 2018, the Bank's liquidity coverage ratio (LCR) totalled 191 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.

Additional information about the Bank's capital adequacy and liquidity risk management can be found in the Annual Report for 2017 and the information on capital adequacy and risk management for 2017. The documents are published on the Bank's website www.ikanobank.se.

Summary of liquidity reserve

SEK 000	2018	2017
Securities issued by municipalities and other public units	1 282 293	1 172 947
Securities issued by financial companies	153 990	148 967
Covered bonds	1 071 660	1 123 514
Liquidity reserve	**2 507 943**	**2 445 428**
Operating liquidity invested in securities	1 006 285	831 499
Cash and balances with central banks and other financial institutes	2 125 575	1 780 779
Total liquidity portfolio	**5 639 803**	**5 057 706**
Other liquidity creating measures		
Unused committed credit facilities	2 821 579	2 954 402