

**Risk- and
capital cover**

2009

Ikano Bank SE
Reg no 517100 – 0051

IKANO
BANK

Risk and Capital Cover

This report relates to Ikano Bank SE, with corporate identity number 517100-0051. IKANO Banken AB (publ), corporate identity number 516401-9753, was converted to a euro-company with the name Ikano Bank SE on 2 January 2009. The bank was allocated a new corporate identity number in this conversion, but is the same juridical person as previously. During the same period, the two fellow subsidiaries, Ikano Finans AS in Denmark and Ikano Finans ASA in Norway, were merged. A branch in Finland was also started up during the year.

Business activities

Ikano Bank is a niche bank with just a few products, in relation to which it has acquired considerable risk management skills.

Ikano Bank carries out business activities in Sweden, Denmark, Norway and Finland. Sweden is divided into two business activities, B2B (Business to Business) in Stockholm and B2C (Business to Consumer) in Älmhult. There are three product areas within these activities: Corporate, Sales Finance and Consumer.

The Corporate product area mainly consists of leasing activities where financial services such as rental and leasing are offered to companies and organisations. Activities are mainly directed towards financing office-related products.

The Sales Finance product area consists of card activities. Card activities include administration and marketing of services for financing and sales support mainly to retail trade.

The Consumer product area consists of banking activities. These activities are simple, beneficial services for savings and loans and aimed to private individuals.

Ikano Bank SE has its origin in AB IKEA Konto, which was founded in 1974. Since 1986 loans have been granted to private individuals on the basis of advanced statistical models, so called application scoring. Application scoring involves estimating the risk of bankruptcy before the loan is granted. If the risk exceeds the internal maximum accepted risk exposure, the loan is refused. Application scoring has also been implemented in the Norwegian and Danish branches in B2C business activities. Besides the scoring of the initial application,

Ikano Bank also uses varies types of behaviour scoring models.

Merger of companies

On 2 January 2009, the two fellow subsidiaries, Ikano Finans AS in Denmark and Ikano Finans ASA in Norway, merged with Ikano Bank SE. After the merger, they operate in Denmark and Norway as branches of Ikano Bank SE.

Ikano Finans AS in Denmark began operating in 1978. The company's office is located in Glostrup, Copenhagen. The company's core activities consist of lending to private individuals through credit card loans and unsecured loans. Smaller-scale leasing activities were begun at the start of 2004 through the purchase of an existing portfolio on the Danish market. The company has also issued credit cards with VISA branding since 2006. Ikano Finans ASA in Norway began operating in 1991. The company's office is located in Asker, Oslo. As in Denmark, the company's core activities consist of loans to private individuals, smaller-scale leasing activities and issuing credit cards with VISA branding.

A branch has also been started up in Finland as per 1 October. The Finnish branch has not carried out any activities in 2009, but acquired loanbooks from its Finnish fellow subsidiary, Ikano Rahoitus Oy, at 31 December. The balance sheets at the time of the merger are described in note 37 of the 2009 Annual Accounts.

The merged companies are fully included in all tables for 2009.

Table 1 Commitment per product type IKANO Bank SE 31/12/2009 ¹⁾

kEUR	5 largest commitments	20 largest commitments	Outstanding commitments	Total commitments
	Average amount	Average amount	Average amount	Total
Leasing	4 049	2 369	30	333 066
Card credits	30	25	2	426 658
Unsecured loans	75	69	11	572 844

¹⁾ Commitment per product type is based on the book value after credit provisions

Organisation

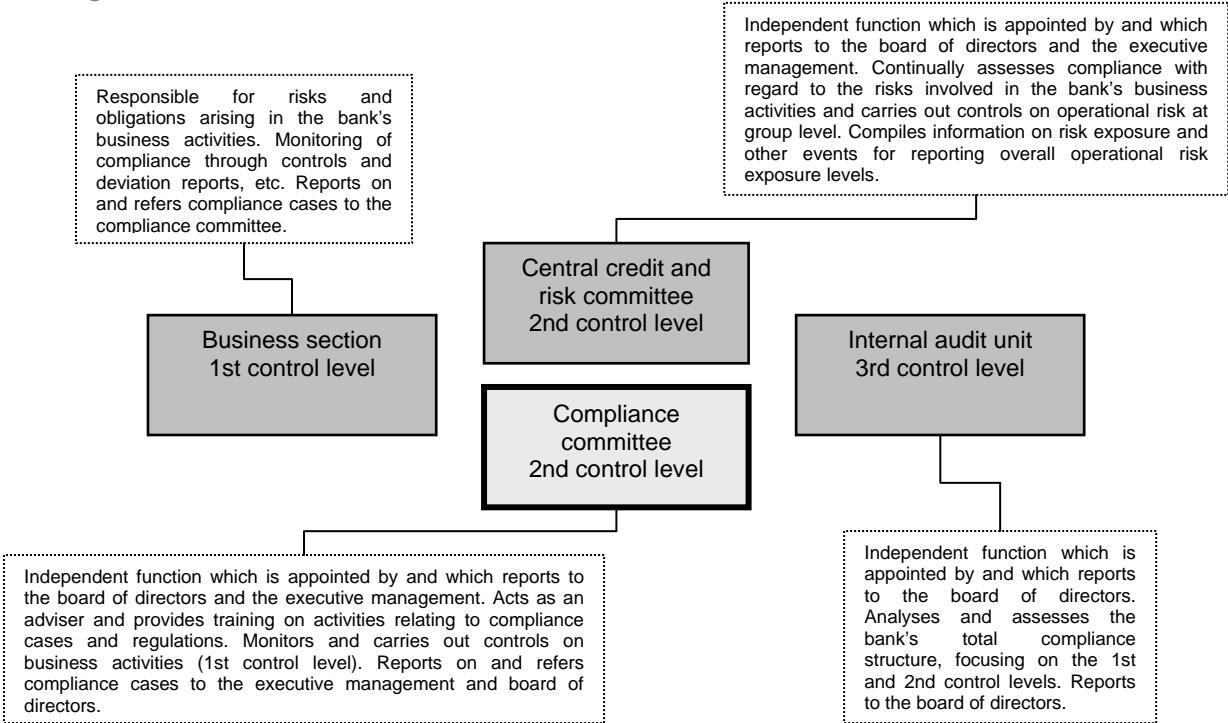
Risk management is designed so that different types of risks are managed at different stages and through a number of different bodies working independently of each other. Risks are controlled at three different levels, see the graphic below.

The central credit and risk committee adopts decisions and controls and monitors guidelines for the individual branches on the basis of policies established by the board of directors. It also has responsibility for ensuring that the board of directors receives neutral, continuous information concerning the bank's risk

management and compliance with regulations. The central credit and risk committee is also responsible for the bank's capital evaluation process.

Most of the risk controls take place in the day-to-day business activities where each head of area has full responsibility for managing the risks that arise. Furthermore, each branch has a risk organisation which controls, supports and develops risk management for the business section. Independent risk controls are managed through the compliance and internal audit functions.

Risk organisation



Risk management

The following part describes risk management in Ikano Bank SE at 31/12/2009. The bank's three product areas in lending are managed as follow:

Corporate

The Corporate product area mainly consists of leasing of office equipment (small ticket leasing) and factoring. The leasing contracts are mainly generated by partners selling office equipment. The factoring part is a

supplementary product for partners with extensive invoicing of corporate customers.

Ikano Bank has with many of its partners a long co-operation. In many cases there is a repurchase agreement if default and a guaranteed residual value when the leasing contract is expired. The leasing business is focused on few objects, where there is high level of internal competence about the second hand market when there is no repurchase agreement.

Credit rating is managed through the credit reporting bureaus scoring- and rating models

and regular credit information. Limits for more substantial commitments are decided for in the local credit committees and the largest is referred to the central credit- and risk committee.

Follow-up of partner limits and larger commitments are executed annually.

Probability of Default, so called PD-models, for calculation of provision for doubtful debts was implemented for all units in Ikano Bank before the merger. The PD models are based on the standards described in the Basel II methods for advanced models, and provision management on the B2B and B2C business area are based on these models.

Operational risks and business risks are limited because there are only a few arrangements of corporate small ticket leasing. The systems are specially adapted for this arrangements and the procedure are well working procedures.

Sales Finance

The Sales Finance product area consists of credit card loans with small revolving credits which often have a storecard with or without VISA branding linked to them. Credit card loans are managed from Älmhult, Denmark, Norway and Finland. The credits are generated through the commercial partners with which the bank cooperates and through distribution of cards via internet.

When a loan application is submitted, it is evaluated in statistical models. These models consist of both application scoring and behaviour scoring models. All models have been developed, monitored and adjusted according to the bank's statistics over a period of many years. Local business activities are under the supervision of Risk Managers with extensive knowledge of statistical models and there is a Chief Risk Officer at the main office in Lund, Sweden. The risks in the various risk

classes have been estimated in the balance sheet on a continuous basis for the past few years with the aid of advanced internal models according to the Basel II principle. Feared loan losses are recognized on a continuous basis according to these models.

Operational risks and business risks are limited since only a few variations on arrangements involving credit card loans exist. The bank has developed its own system which is optimised for these activities and well-developed procedures have been in existence for a long time.

In 2009, all units have implemented an advanced authorisation system on all transactions and all international credit cards are managed by the Danish supplier PBS.

Consumer

The Consumer product area consists of banking activities involving granting unsecured loans. Unsecured loans are loans without security for private individuals. Sales of the various unsecured loan products take place through several different kinds of media. The various sales channels are regularly monitored. Most of the products are sold subject to individual pricing where the price is a reflection of the risk classification to which the customer belongs at the time of the application.

Credit assessment and monitoring of credit risks takes place in the same way for unsecured loans as for credit card loans. Nevertheless, more extensive manual credit assessment is carried out for larger credit commitments.

Operational risks and business risks are extremely limited since the customers are managed in the same way in each product. Ikano Bank has a system which has been specially developed for these activities. Well-established procedures have been in place for these standard products for a long time.

Types of risk

The main risk exposure at Ikano Bank consists of credit risk, operational risk and business risk. The bank is also exposed to liquidity risk and market risks such as interest-rate risk and exchange risk.

Credit risk

Credit risk is defined as the risk that an individual counterparty may be unable to fulfil its obligations. Besides the product area of loans described above, Ikano Bank also has a credit risk in the liquidity portfolio which consists of the items "Loans to credit institutions" and "Bonds and other interest-bearing securities". Investments consist of

overnight investments, mainly in Handelsbanken, and simple securities in credit institutions and companies with satisfactory ratings in accordance with the finance policy.

The bank's management of credit risks aims to optimise the management of credit risks on the basis of the credit policy established by the board of directors. As far as the liquidity portfolio is concerned, credit risk management aims to ensure that all investments maintain high credit quality.

For information on the definition of doubtful debt and impairment methods, see the Annual Report.

Table 2 Distribution of Leasing and Factoring by Industry ¹⁾

mEUR	IKANO Bank SE 31/12/2009	IKANO Bank SE 31/12/2008	IKANO ASA NO 31/12/2008	IKANO A/S DK 31/12/2008
Property- and rental activity	28	16	2	2
Wholesale- and retail	62	30	9	4
Building activity	32	6	1	18
Farming, hunting and forestry	3	0	1	0
Manufacturing industry	41	35	3	7
Hotel- and restaurant business	11	2	2	1
Transport and communication	23	10	3	6
Healthcare, social services	35	17	3	11
Other social and personal services	37	11	15	6
Education	17	9	0	0
Finance and insurance	3	3	0	0
Other businesses	40	22	3	7
Total	333	161	43	63

¹⁾ The distribution of leasing and factoring by industry is based on the book value after credit provisions. Unused loans are not included.

Operational risk

Operational risk is the risk of administrative errors and errors in procedures and systems.

As an internet bank, Ikano Bank, is highly dependent on IT systems and telephony. Monitoring of incidents and improvements in accessibility are priority areas. Policies, guidelines and descriptions of procedures are available for the prevention of operational risks and damage limitation. Threats and risks are constantly analysed. In 2009, a system for reporting incidents was implemented in all the bank's business activities. An annual meeting with senior management at the various branches is held to discuss risk matters. At this meeting, the largest risks are evaluated and managed in a plan of action. New products,

partners and IT systems undergo a risk assessment which includes operational risks. The central risk organisation coordinates the work on operational risks but the respective managers are responsible for operational risks in business activities.

The aim is to minimise operational risks so that the bank's customers and other interested parties perceive Ikano Bank to be secure and accessible.

Business risk

Business risk is defined as the risk that the bank's earnings may be reduced and may be insufficient to cover the costs of its business activities. Loan losses and operational risks are not included in any calculation of business risks. Business risks include reputational risks,

which are risks of financial losses caused by a negative reappraisal of the bank's brand by customers, partners or lenders. Respective business area managers are responsible for business risks. Business risk also includes the risk of a shortfall in income when cooperation with partners ceases. This is managed through close cooperation and regular monitoring of large partners.

Market risk

Market risk is the risk that the fair value of a financial instrument may vary due to changes in market prices. Ikano Bank is exposed to market risks in the form of interest rate risk and currency risk. The bank does not trade in securities and financial instruments either on its own behalf or on behalf of its customers. The bank is therefore subject to no capital requirement under the rules for market risks. Securities are held for the purpose of retaining sufficient liquidity and are held to maturity with few exceptions. Financial instruments are held to minimise positions in business balances arising in lending and borrowing activities to customers.

Ikano Bank previously had a lower share price risk related to options belonging to a capital-protected product – *börskonto* [stock market account]. This product was discontinued in 2009.

Interest-rate risk

Interest-rate risk is the risk that the fair value of a financial instrument or future cash flows from it may vary due to changes in market interest rates. If the maturity period and the volume of assets and liabilities are not matched, it will mean an interest-rate risk for the bank. According to the bank's finance policy, interest-rate risks will be minimised so that the interest-rate risk can only affect the income statement to a limited extent.

In accordance with Swedish Financial Supervisory Authority regulations, the bank's interest-rate risks are measured as the change in market value which results from a rise or fall of two percentage points in the market interest rate. In accordance with the bank's finance policy, the maximum interest-rate risk may not exceed 2% of the capital base. The bank also limits the interest-rate risk separately for the investments and borrowing portfolio managed by the finance department. These limits mean an indirect limitation of volume and fixed-interest periods on the bank's interest-bearing investments and total net exposure. A sensitivity analysis shows that a change of one percentage point in the market rate of interest

increases the net interest income for the next 12-month period by 1,731 (1,060) kEUR.

Currency risk

Currency risk is the risk that the fair value of a financial instrument or the future cash flows from it may vary due to changes in exchange rates. The difference between monetary assets and liabilities in SEK gives rise to a currency risk in the accounts as a result of the fact that the euro is used as the accounting currency. Hedge accounting is applied to give a correct result for this currency effect. Net investment in foreign subsidiaries also gives rise to a currency risk.

A currency risk also arises when borrowing/liquidity in SEK is used to finance activities in EUR, NOK or DKK, whereupon hedging is carried out with currency swaps. A currency risk also arises on a smaller leasing stock in euro which does not have full matching of assets and liabilities. The currency risk on the leasing stock in euro has been hedged with a loan in euro. Other currency risks are so small that hedging has not been considered to be meaningful. In accordance with the bank's currency policy, currency risks are minimised by hedging outstanding positions.

A sensitivity analysis shows that a 10% rise in the exchange rate increases the net exposure by 15 mEUR.

Liquidity risk

Liquidity risk is the risk that Ikano Bank may be unable to fulfil its payments when they fall due.

A liquidity risk arises when assets and liabilities, including derivative instruments, have different terms.

The liquidity risk is managed through effective liquidity planning coordinated by the bank's finance department. Management and monitoring takes place against the bank's liquidity limits as set out in the investment policy. The limit for the minimum permitted volume of liquidity available during the same day and the limit for the minimum permitted volume of daily investment are monitored on a daily basis. These limits are defined as amounts and a return to the minimum permitted volume within three days must be considered to be possible in the event of any deviation from these amounts. If this is not considered to be possible, investments in securities must be disposed of or other sources of finance must be used to reach the minimum permitted volume.

Liquidity forecasts, which form part of the liquidity management, are drawn up on a

continuous basis to manage and control the bank's total liquidity. Surplus liquidity is invested in securities and is normally held to maturity. The bank's borrowing is safeguarded through deposits from the public, loans from the parent company, Ikano S.A., borrowing from credit institutions and the bank's own

certificate programme. The long-term planning aims to achieve an optimum balance between financing by the owner in relations to borrowing and lending, taking into consideration financing costs and distribution of risk.

Table 3 Fixed interest periods

mEUR
2009-12-31

	<3 months	3-6 months	6-12 months	1-5 years	>5 years	Without interest	Total	Remaining fixed-interest period on average
Assets								
Cash	0	-	-	-	-	0	0	-
Loans to credit institutions	52	-	-	-	-	-	52	0,2 years
Loans to the public	969	19	12	-	-	16	1 016	0,2 years
Leasing assets	284	2	5	26	3	8	329	0,4 years
Bonds and other interest bearing securities	117	-	-	-	-	-	117	0,2 years
Other assets	1	0	0	2	-	31	34	0 years
Total	1 423	22	17	28	3	55	1 548	
Liabilities and equity								
Liabilities to credit institutions	178	-	-	-	-	-	178	0,2 years
Deposits and borrowings from the public	825	1	2	37	3	0	868	0,3 years
Issued securities	135	24	16	-	-	-	175	0,2 years
Other liabilities	14	29	2	0	-	99	144	0,1 years
Subordinated liabilities	23	15	-	-	-	-	38	0,3 years
Equity	-	-	-	-	-	145	145	0 years
Total	1 175	69	20	37	3	244	1 548	
Positions not included above								
Long position, interest swap	20	3	15	20	-	-	58	1,1 years
Short position, interest swap	-41	-	-1	-16	-	-	-58	0,8 years
Difference assets and liabilities including off-balance positions								
	227	-44	11	-5	0	-189	0	

Capital

When estimating the capital requirement in accordance with Financial Supervisory Authority regulations, the bank uses the standardised approach for credit risks and the base indicator approach for operational risks.

Ikano Bank's capital adequacy far exceeds the minimum requirements. The bank has no exposures to report in accordance with the Swedish Large Exposures Act.

Table 4 Capital base and capital requirement

kEUR	2009	2008
Capital base		
Primary capital	138 824	96 499
Supplementary capital	38 151	6 368
Net capital base	176 975	102 868
Capital requirement credit risk according to the standardised approach	85 977	53 092
Capital requirement operation risk according to the base indicator approach	23 561	11 916
Capital requirement exchange rate risk	6 107	-
Total capital requirement	115 645	65 008
Capital adequacy quotient	1,53	1,58
Primary capital		
Equity recognized in the balance sheet.	145 109	99 103
Tax allocation reserve (73.7% thereof)	-	-
Less:		
Intangible assets	-6 282	-2 604
Non-realised value changes Fair value reserve	-4	-
Total primary capital	138 824	96 499
Supplementary capital		
Non-realised value changes Fair value reserve	-	-
Subordinated liabilities	38 151	6 368
Total supplementary capital	38 151	6 368
Total capital base	176 975	102 868
Capital requirement		
Credit risks according to the standardised approach		
Exposures against states and central banks	-	-
Exposures against local government and comparable associations and authorities	-	-
Exposures against institutions	2 104	1 456
Corporate exposures	8 815	1 612
Domestic exposures	69 295	48 728
Unsettled items	3 482	972
Exposures in the form of ensured bonds	-	-
Other items	2 281	324
Total capital requirement for credit risks	85 977	53 092
Operational risks		
Base indicator approach	23 561	11 916
Total capital requirement for operational risks	23 561	11 916
Currency risk		
Currency risk	6 107	-
Total capital requirement for currency risks	6 107	-
Total minimum capital requirement	115 645	65 008

Table 5 Credit exposure ¹⁾

Specification of exposure for credit risk 31/12/2009 mEUR	Total exposure	Capital requirements	Average exposure
States and central banks	2	-	3
Municipalities and other comparable associations	35	-	34
Institutes	131	2	125
Corporate	584	9	554
Domestic	3 065	69	2 963
Unsettled items	42	3	35
Other items	29	2	23
Total	3 887	86	3 736

Table 6 Remaining terms per type of exposure ¹⁾

mEUR	On demand	<3 months	3-12 months	1-5 years	> 5 years	Without maturity
States and central banks	-	0	-	-	-	2
Municipalities and other comparable associations	-	22	2	9	0	1
Institutes	53	75	-	2	-	-
Corporate	444	65	9	63	3	1
Domestic	1 911	214	62	437	436	4
Unsettled items	-	12	0	0	0	30
Other items	-	0	-	-	-	29
Total credit risk	2 408	388	73	511	439	67

¹⁾ With exposures means exposure in the balance sheet including unused loans and other obligations or provisions for loan losses.

Table 7 Changes in provisions for doubtful debts

kEUR	Provisions for doubtful debts assessed individually	Provision for doubtful debts assessed collectively	Total
Opening balance Jan 1 2009	-29 276	-9 043	-38 319
Merger of accumulated provisions	-10 116	-11 456	-21 572
Current year's provision for loan losses	-24 188	-2 566	-26 754
Reversal of provisions for loan losses no longer required	-	-	-
Closing balance Dec 31/12/2009	-63 580	-23 065	-86 715

The capital evaluation process

Statutory capital requirements are established in accordance with the Capital Adequacy and Large Exposures Act (2006:1371) and the Swedish Financial Supervisory Authority regulations and general guidelines (FFFS 2007:1) on capital adequacy and large exposures.

The rules help to strengthen resistance to financial losses and thereby protect the bank's customers. In accordance with the rules, the bank's capital base must cover the prescribed

minimum capital requirement, which for Ikano Bank includes the capital requirement for credit risks, operational risks and currency risks, by some margin. Ikano Bank's aim is to ensure that the capital adequacy quota always exceeds 1.50, i.e. is 50 percentage points higher than the statutory capital requirement. This buffer constitutes an additional margin adapted to the bank's risk profile, identified risks on the basis of probability and economic effects, stress tests, anticipated lending

expansion, strategic freedom of action and changes in the surrounding environment.

Supervision of the bank's capital planning forms an integral part of the work carried out on the bank's annual business plan. That plan is monitored continuously throughout the year. An overall risk analysis is carried out each year.

The bank has a capital base of 177 mEUR, compared to the capital requirement of 116 mEUR, which means a margin of 53 percentage points.

The bank therefore has good capital adequacy which fulfils both statutory and internal requirements.