

**Risk- and
capital cover**

2010

Ikano Bank SE
Reg no 517100-0051

IKANO
BANK

Risk and Capital Adequacy

This report refers to Ikano Bank SE, corporate identity number 517100-0051. Ikano Bank SE is a European Company with registered office in Älmhult, Sweden and head office in Lund, Sweden. Ikano Bank SE is owned by Ikano S.A. with registered office in Luxemburg. The bank began operations in 1995 and is part of the Ikano Group's Business Area Finance, which carries on banking and finance company operations in nine countries in Europe.

Operations

Ikano Bank SE is a niche bank with a small number of products in which the bank has developed considerable competence regarding risk management. Ikano Bank carries on banking operations in Sweden, Denmark, Norway and Finland. The operations in Denmark, Norway and Finland are carried on as branches of the Swedish operations. The bank also has a branch in the United Kingdom for the issuance of Visa cards. The operations comprise three business areas: Corporate, Sales Finance and Consumer. Sweden is divided into two business activities, Business to Business (B2B) in Stockholm and Business to Consumer (B2C) in Älmhult.

Corporate

The Corporate business area mainly comprises financial services such as leasing and rental to companies and organisations. The main emphasis is on financing office-related products. The business area is represented in Sweden, Denmark and Norway.

Sales Finance

The Sales Finance business area comprises card operations, which consists of the administration and marketing of financing services and sales support primarily to the retail sector. The business area is represented

in all our geographical areas and the services offered are sales-supporting consumer financing, Visa and MasterCard cards, loyalty cards, bonus management and sales-supporting information services. The largest partner is IKEA, in which the bank has its origin in the 1970s. Over the years a number of partners have been added, domestic partners in each country as well as Nordic partners covering several of the geographical markets.

Consumer

The Consumer business area comprises traditional banking operations and targets private individuals with simple attractive saving and lending services. The services offered are unsecured loans, mortgages and interest-bearing savings accounts. Customers do some of the work themselves online or by phone, enabling rational management.

Lending is offered in the form of various unsecured loan products, mortgages and Visa and non-Visa credit cards. Mortgages are offered in cooperation with Sveriges Bostadsfinansieringsaktiebolag (SBAB), which means that the mortgages are negotiated and issued by SBAB under the brand name Ikano Bolån. The product area includes unsecured loans and Visa cards in Sweden, Denmark and Norway, while deposits and mortgage products only are offered on the Swedish market.

Organisation

The Board of Directors and the CEO are ultimately responsible for risk management at Ikano Bank. The Board regulates the risks by means of policies stating management structure and authorities. These policies are continuously updated by at least one annual review.

The control organisation is based on the three lines of defence model and the Swedish Financial Supervisory Authority's general guidelines on steering and control of financial companies.

The first line is responsible for risk management at local level and should ensure that its operational control systems comply

with internal and external rules and regulations.

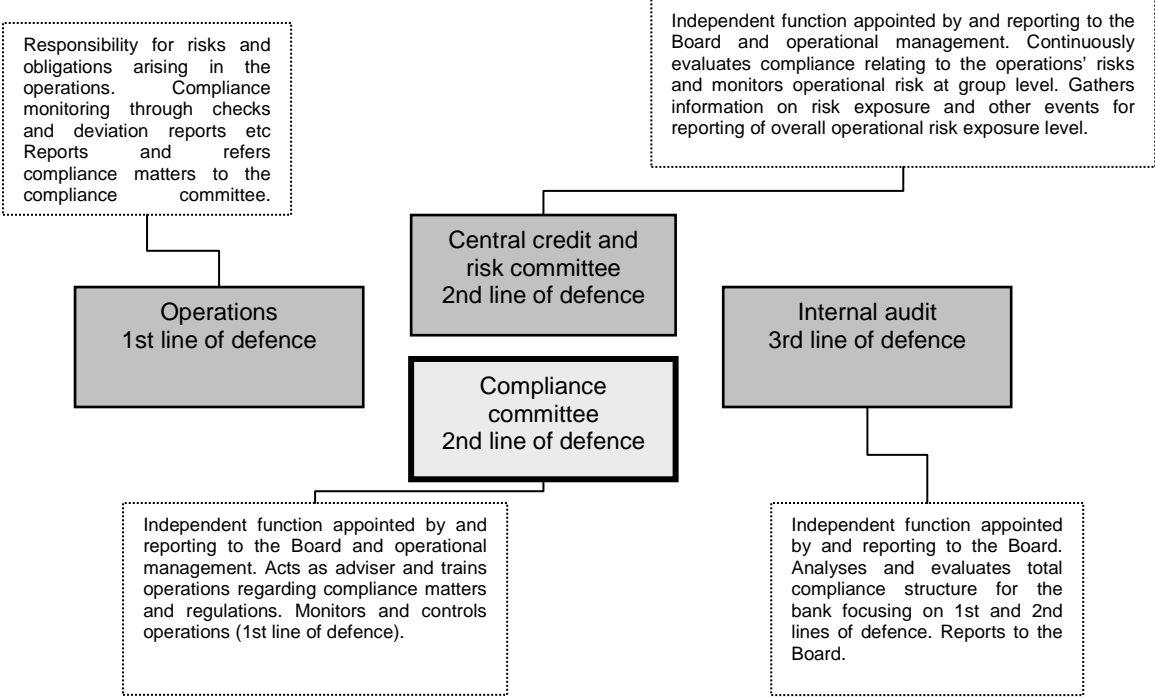
Risk assessments are carried out and monitored by the local risk committees and changes in existing procedures are approved by these bodies. The first line consists of continuous reconciliation and reporting to the Country Manager and the second line.

The second line monitors and controls the local units and central functions by means of continuous reconciliation and reporting to the CEO and the Board. The third line comprises the internal audit, which operates independently on behalf of the Board.

The central credit and risk committee decides, controls and monitors the guidelines for the individual offices based on the policies adopted by the Board. It also has responsibility for ensuring the Board receives neutral and continuous information on 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.

The major part of risk control takes place in the daily business activities, in which the respective business area manager is fully responsible for managing the risks that arise. In addition, each office has a risk organisation that controls, supports and develops risk management for the business activities. Independent risk controls are handled by the compliance and internal audit functions.

Risk Organisation



Risk Management

The following describes risk management in the bank's lending activities, which consists of three product areas: leasing, credit card lending and unsecured loans. All product areas are focused on mass management and small individual commitments.

The bank mainly uses scoring models when assessing credit risk. Scoring models and their statistical bases were introduced into the Swedish units in 1986. The Danish branch has used a scoring model strategy since 1991 and the Norwegian branch has used such a model ever since it was founded in 1991. In application scoring, the risk of default is calculated before credit is provided. The result of application scoring is a total score on a scale reflecting the probability of default. This appraisal is complemented by information from credit agencies before final approval of credit. If the risk exceeds the internal

maximum accepted risk exposure, the application is rejected. In addition to application scoring, Ikano Bank also uses various types of behavioural scoring models.

The bank's probability of default (PD) models are based on Basel II's principles for advanced models. Originally probability of default models were only used for calculating provisions for bad debts in Sweden, but in early 2009 separate models were developed for Norway and Denmark in both B2B and B2C.

The bank's risk tolerance is low and all volume growth takes place under controlled and conscious risk-taking. Risk management aims to ensure that the risks do not exceed the risk tolerance determined by the Board. This is ensured through active management of credit risks and operational risks and continuous monitoring and control, as well as various

financial instruments to reduce interest rate and currency risks.

Corporate - Leasing

The Corporate business area mainly consists of office equipment leasing (mini-leasing). The business area also includes factoring, which is a supplementary product for partners with extensive invoicing of corporate customers. Lease agreements are mainly generated by partners that sell office equipment.

Ikano Bank has cooperated for many years with a number of partners. In many cases there are repurchase agreements in case of default by the partner and a residual value guarantee when the lease agreement expires. Operations have been concentrated on a small number of types of item, where there is good internal competence regarding resale markets in cases where repurchase guarantees are missing.

Credit rating is carried out by means of credit agencies' scoring and rating models as well as regular credit information. Limits for major commitments are agreed by the local credit committees and the largest commitments are referred to the central credit and risk committee. The limits for partners and major commitments are monitored frequently during the year.

The bank's probability of default (PD) models are based on Basel II's principles for advanced models. These PD models are used for calculating provisions for bad debts.

Operational risks and business risks are strictly limited as there are only a small number of types of mini-leasing arrangements. The systems are customized for these arrangements and well-established procedures have been in place for a long time.

Sales Finance – Credit Card Lending

The Sales Finance business area consists of credit card lending with small revolving credit. Most credit card lending is in the form of a store card with or without VISA or MasterCard affiliation. Credit card lending is managed by Älmhult (Sweden), Denmark, Norway and Finland. It is generated by the bank's retail partners and by the distribution of cards via the internet.

At the time of the application, credit applications are evaluated using statistical models. These are both application scoring and behavioural scoring models. All models have been developed, monitored and adjusted for many years by the bank's statisticians. Risk managers with considerable knowledge of statistical models are based in the local operations and the Chief Risk Officer is based at head office in Lund, Sweden. The risk in the different risk classes on the balance sheet has been calculated on a continuous basis for a couple of years using advanced internal models in accordance with Basel II. Anticipated loan losses are accounted for on a continuous basis in accordance with these PD models.

Operational risks and business risks are strictly limited as there are only a small number of types of credit card lending arrangements. The bank has in-house developed systems optimised for this operation and well-developed procedures have been implemented since many years.

Since 2009 all units have had an advanced authorisation system for all transactions. International credit cards are handled by the Danish supplier PBS/NETS.

Consumer – Unsecured Loans

The Consumer business area consists of banking operations in which lending is in the form of unsecured loans to private individuals. Sales of the various unsecured loan products take place through various types of media. The various sales channels are monitored regularly. Most products are individually priced and the price is a reflection of the customer's risk class at the time of the application.

Credit assessment and credit risk monitoring are carried out in the same way for unsecured loans as for credit card lending. However, an increased degree of manual credit assessment is carried out in the case of major credit commitments.

Operational risks and business risks are strictly limited as customers are managed in the same way for each product. Ikano Bank has systems specially developed for this operation. Well-designed procedures have been used for a long time for these standardised products.

Table 1 Commitment by Product Type IKANO Bank SE 31 December 2010¹⁾

KEUR	Average amount of 5 largest commitments	Average amount of 20 largest commitments	Average amount of remaining commitments	Total commitments
Leasing	4 298	2 391	40	368 350
Credit card lending	44	38	3	559 545
Unsecured loans	80	77	10	747 245

1) Commitment by product type is based on book values after credit provisions.

Risk Types

Ikano Bank's main risk exposure 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 currency risk.

Credit Risk

Credit risk is defined as the risk that an individual counterparty cannot fulfil its obligation. In addition to the above described lending product areas, Ikano Bank also has credit risk in the liquidity portfolio, which consists of the items Lending to credit institutions and Bonds and other interest-

bearing securities. Investments refer to overnight investments, mainly in Handelsbanken, and simple securities in credit institutions and companies with a good rating, in accordance with financial policy.

The bank's management of credit risks aims to optimise credit risk management on the basis of the credit policy adopted by the Board. Credit risk management of the liquidity portfolio aims to ensure all investments maintain high credit quality.

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

Table 2 Sector Distribution of Leasing and Factoring¹⁾

mEUR	2010	2009
Property and leasing operations	28	28
Wholesale and retail trade	76	62
Construction sector	12	32
Agriculture, hunting and forestry	2	3
Manufacturing industry	45	41
Hotel and catering sector	9	11
Transport and communications	15	23
Healthcare and social services	23	35
Other public and personal services	18	37
Education	17	17
Finance and insurance	5	3
Other sectors	133	40
Total	383	333

¹⁾ Sector distribution of leasing and factoring is based on book values after provisions. Unutilised credit is not included.

Operational Risk

Ikano Bank defines operational risk as the risk of direct or indirect loss resulting from inadequate or failed processes, people and systems or from external events.

As an internet bank, Ikano Bank is highly dependent on IT systems and telephony. Following up incidents that have occurred and improving accessibility are prioritised areas. The bank has an incident reporting system. Threats and risks are analysed on a continuous basis. Policies, guidelines and procedure instructions are in place to prevent and limit damage from operational risks.

The central risk organisation coordinates work on operational risks, but the respective manager is responsible for the operational risk in the business activity. Annual risk reviews are carried out with the management of the different operations and the largest risks are evaluated and managed in an action plan. New products, partners and IT systems undergo a risk evaluation that includes operational risk.

The objective is to ensure effective processes and minimise the operational risks so that the bank's customers and other stakeholders experience that Ikano Bank has high security and accessibility.

Business Risk

Business risk is defined as the risk that the bank's earnings deteriorate and are not sufficient to cover operating expenses. When calculating business risks, credit losses and operational risks are not included. Business risks include reputational risk, which is the risk of financial losses caused by a negative reassessment of the bank's brand by customers, partners or lenders. The respective business area manager is responsible for business risks. Business risk is also the risk of loss of revenue as a result of terminated cooperation with partners. This is managed through close cooperation with and regular monitoring of major partners.

Liquidity Risk

Liquidity risk is the risk that Ikano Bank cannot fulfil payments falling due without a substantial increase in the cost of means of payment.

Liquidity risk arises when assets and liabilities including derivative instruments have different maturities.

Liquidity risk is managed through limits, measurement and good liquidity planning coordinated by the bank's treasury function. The bank regularly carries out stress tests of liquidity in order to increase preparedness and ensure that the bank can cope with situations in which normally available financing sources have ceased to function. The bank has a Contingency Funding Plan for serious liquidity situations. Liquidity forecasts, which are an essential part of liquidity management, are prepared on a continuous basis to control the operations' total liquidity. Future liquidity requirements are monitored on a daily basis. Control and monitoring take place in relation to the bank's liquidity measures, which are stated in the financial policy. The measure of the minimum permissible volume of liquidity available the same day and the measure of the minimum permissible volume for overnight investments are monitored daily. These measures of the minimum permissible volume are defined as amounts and must in each case of deviation below this amount be deemed to be able to return to the minimum permissible volume within three days. If this is not deemed possible, investments in securities should be sold or alternatively other financing sources be utilised to achieve the minimum permissible volume.

The bank's liquidity portfolio consists of intraday liquidity and the liquidity reserve. The latter is at the disposal of the treasury function and consists of assets that can be rapidly converted into cash.

Excess liquidity is placed in overnight deposits and securities normally held until maturity. Liquidity is placed in Swedish securities of very high credit quality.

The bank's borrowing is secured through customers' deposits, loans from the parent company Ikano S.A., deposits from credit institutions and the bank's own commercial paper programme. Long-term planning aims for an optimal balance between owner financing, deposits and lending, taking account of financing costs and diversification of risk.

Market Risks

Market risks refer to the risk that the fair value of a financial instrument varies 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 on its own or customers' account in securities and financial instruments. It therefore has no capital requirement in accordance with the rules for market risks. Securities are held to maintain sufficient liquidity and are with few exceptions held until maturity. Financial instruments are held to minimise positions in business balances arising in customer deposit and lending operations.

Currency Risk

Currency risk is the risk that the fair value of or future cash flows from a financial instrument vary due to changes in exchange rates.

The difference between monetary assets and liabilities in Swedish kronor (SEK) gives rise to a currency risk in the accounts, since the reporting currency is the euro. Hedge accounting is applied to give a fair result regarding this currency effect. Net investment in foreign branches also gives rise to a currency risk.

Currency risk also arises when borrowing/liquidity in Swedish kronor (SEK) is used to finance operations in euro (EUR), Norwegian kroner (NOK) or Danish kroner (DKK). This risk is hedged by currency swaps. There is also a currency risk on a small leasing stock in euro, which does not have complete matching of assets and liabilities. The currency risk on the leasing stock in euro has been hedged by a loan in euro. Other currency risks are so small that hedging has not been deemed meaningful. In accordance with the bank's financial policy, currency risks are minimised by hedging outstanding positions.

A sensitivity analysis shows that a 10% increase in the exchange rate increases total net exposure by EUR 30 million.

Interest Rate Risk

Interest rate risk is the risk that the fair value of or future cash flows from a financial instrument vary due to changes in market rates. If the maturity and volume of assets and liabilities are not matched, the bank will have an interest rate risk. In accordance with the bank's financial policy, interest rate risks should be minimised so that interest rate risk can only affect the income statement to a very limited extent.

In accordance with the Swedish Financial Supervisory Authority's regulations, the bank's interest rate risks are measured as the change in market value that arises if the market rate rises or falls by two percentage points. The bank's maximum interest rate risk must not exceed two per cent of the bank's capital base,

in accordance with the bank's financial policy. The bank also limits interest rate risk separately for investments and the borrowing portfolio respectively, which the treasury function manages. These measures involve an indirect limitation of the volume and fixed interest terms of the bank's interest-bearing

investments, as well as total net exposure. A sensitivity analysis shows that a one percentage point change in the market rate increases/decreases net interest income/expense for the coming 12-month period by EUR 1,528 thousand (1,731).

Table 3 Interest-rate Maturity

2010 mEUR	< 3 months	3 months - 6 months	> 6 months - 1 year	> 1 year - 5 years	> 5 year	without interest	Total	Remaining average fixed interest term
Assets								
Loans to credit institutions	70	-	-	-	-	-	70	0,2 år
Loans to the public	1 289	23	14	-	-	6	1 332	0,2 år
Leasing receivables	320	4	7	35	2	9	377	0,4 år
Bonds and other interest bearing securities	150	-	-	-	-	-	150	0,2 år
Other assets	3	0	0	2	-	38	44	0,1 år
Total assets	1 832	27	21	37	2	54	1 973	
Liabilities								
Liabilities to credit institutions	193	-	-	-	-	-	193	0,2 år
Deposit and borrowings from the public	1 155	1	8	25	-	0	1 189	0,2 år
Issued securities	159	33	11	-	-	-	203	0,2 år
Other liabilities	40	30	1	1	-	62	134	0,2 år
Subordinated liabilities	-	62	-	-	-	-	62	0,4 år
Equity and untaxed reserves	-	-	-	-	-	192	192	0 år
Total liabilities and equity	1 547	126	20	26	-	254	1 973	
Difference assets and liabilities	285	-99	1	11	2	-200	0	
Interest derivative, fixed interest received ¹⁾	12	2	5	30	-	-	49	1,7 år
Interest derivative, fixed interest paid ¹⁾	42	-	-	7	-	-	49	0,5 år
Cumulative exposure	255	158	164	198	200	0	0	

¹⁾ Nominal values

Capital Management and Capital Adequacy

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

The bank uses the standardised method when calculating capital requirements for credit risk and the base indicator approach when calculating capital requirements for operational risks.

Ikano Bank's capital adequacy is well above the statutory minimum requirements. The bank's capital base and statutory capital requirements in accordance with pillar 1 of the capital adequacy rules are presented in the table below.

The bank has no large exposures to report in accordance with the Capital Adequacy and Large Exposures Act.

Table 4 Capital Base and Capital Requirement

kEUR	2010	2009
Tier 1 capital	168 506	138 824
Tier 2 capital	61 502	38 151
Capital base	230 008	176 975
Capital requirements for credit risk according to the standardised method	109 918	85 977
Capital requirements for operational risks according to the base indicator approach	19 580	23 561
Capital requirements for currency risk	7 035	6 107
Total capital requirements	136 533	115 645
Capital quotient	1,68	1,53

kEUR	2010	2009
Capital base		
Tier 1 capital		
Equity in statement of financial position	157 586	145 110
Untaxed reserves (73.7%)	25 224	-
Less: - Intangible assets and deferred tax assets	-14 285	-6 282
- Unrealised changes in fair value reserve	-19	-4
Total tier 1 capital	168 506	138 824
Tier 2 capital		
Subordinated liabilities	61 502	38 151
Total tier 2 capital	61 502	38 151
Capital base	230 008	176 975
Capital requirement		
Credit risk according to the standardised method		
Institutional exposures	2 598	2 104
Corporate exposures	10 391	8 815
Domestic exposures	89 178	69 295
Unsettled items	3 744	3 482
Other items	4 007	2 281
Total capital requirements for credit risk	109 918	85 977
Operational risk		
Base indicator approach	19 580	23 561
Total capital requirements for operational risk	19 580	23 561
Currency risk		
Currency risk	7 035	6 107
Total capital requirements for currency risk	7 035	6 107
Total minimum capital requirement	136 533	115 645

Table 5 Specification of Exposures to Credit Risks^{1) s}

2010 mEUR	Total exposure	Capital requirements	Average exposure amount
States and central banks	0	-	0
Municipalities and comparable public authorities	36	-	35
Institutions	162	3	145
Companies	653	10	611
Households	3 891	89	3 487
Unsettled items	46	4	34
Other items	50	4	30
Total	4 839	110	4 343

¹⁾ Exposures refer to exposures on the balance sheet including unutilised credit and other obligations after provision for loan losses.

Table 6 Remaining Maturity by Exposure Class¹⁾

mEUR	On demand	<3 months	3-12 months	1-5 years	> 5 years	No term
States and central banks	-	0	-	-	-	-
Municipalities and comparable public authorities	-	15	7	14	0	-
Institutions	70	92	-	-	-	-
Companies	0	476	76	115	1	-
Households	4	2 607	86	351	435	396
Unsettled items	-	46	-	-	-	-
Other items	5	23	0	2	-	18
Total credit risk	78	3 259	169	483	437	416

¹⁾ Exposures refer to exposures on the balance sheet including unutilised credit and other obligations after provision for loan losses.

Table 7 Change in Provision for Doubtful Debt

KEUR	Provisions for individually assessed loan receivables	Provision for collectively assessed homogenous groups of loans and receivables	Total
Opening balance 1 Jan 2010	11 117	86 598	97 715
Acquired accumulated provisions	-	623	623
Provisions for the year	-2 301	-32 111	-34 411
Closing balance 31 Dec 2010	8 816	55 112	63 927

Capital Adequacy Assessment Process

The statutory rules on capital adequacy and large exposures contribute to strengthening resistance to financial losses and thus protect the bank's customers. The rules mean that the bank's capital base must cover with a margin the prescribed minimum capital requirements, which for Ikano Bank includes capital requirements for credit risks, operational risks and currency risks.

In order to assess whether internal capital is adequate to form a basis for current and future operations, the bank has an Internal Capital Adequacy Assessment Process. This process is a tool that ensures that the bank clearly and correctly identifies, evaluates and manages all the risks to which it is exposed, and makes an assessment of the internal capital requirement in relation to these risks. This process includes the bank having appropriate control functions and risk management systems in place.

The review of the bank's capital planning is an integrated part of the work on the bank's annual operational plan. This plan is monitored on a continuous basis during the year and an overall risk analysis is carried out annually to ensure that the risks are correctly taken into account and reflect the bank's actual risk profile and capital requirements.

The implementation and results of the capital adequacy assessment process are reported annually to the Swedish Financial Supervisory Authority.

Ikano Bank has the objective that the capital adequacy ratio should always be above 1.50, that is, 50 percentage points higher than the statutory capital requirement. This buffer provides an extra margin tailored to the bank's risk profile, identified risks on the basis of probability and financial impact, stress tests, anticipated expansion of lending, strategic freedom of action and changes in the bank's macro environment.

The bank has a capital base of EUR 230 million compared with the capital requirement of EUR 137 million, resulting in a margin of 68 percentage points. Consequently the bank has excellent capital adequacy, which fulfils both statutory and internal requirements.