Risk Management and Capital Adequacy Report

Pillar 3 – 2018

EnterCard

EnterCard Group AB as of 31 December 2018

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Definitions

Board	Board of Directors of EnterCard Group AB
BRS	Business Risk Specialist
Capital ratio	Total capital expressed as a percentage of total Risk Exposure Amount
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CRD IV	4th Capital Requirement Directives (2013/36/EU)
CRR	Capital Requirements Regulation (575/2013/EU)
EAD	Exposure At Default
ERM	Enterprise Risk Management
ExCo	Executive Committee of EnterCard Group AB (Senior Management)
FSA	Financial Supervisory Authority; Finansinspektionen in Sweden
FFFS	Regulatory code from the Financial Supervisory Authority; Finansinspektionens Föreskrifter
GOC	Governance and Oversight Committee, accountable to the Board of Directors of EnterCard Group AB
GRC	Group Risk & Control
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MTP	Medium Term Plan /Strategy plan; 3-year financial forecast
NSFR	Net Stable Funding Ratio
PD	Probability of Default
REA	Risk Exposure Amount
SH	Survival Horizon
SPK	Sparinstitutens Pensionskassa
STP	Short Term Plan; 1 year financial forecast
TC	Treasury Committee

1

Executive summary

1 Executive summary

EnterCard Group AB is required to provide information on EnterCard's capital adequacy and risk management in accordance with regulatory disclosure requirements defined in Part Eight "Disclosure by institutions" of the CRR No 575/2013 and the Swedish FSA regulation FFFS 2014:12 and FFFS 2010:7.

EnterCard has a solid capital situation and a low risk profile; the company strictly adheres to the capital adequacy regulation and minimum requirement for regulatory capital. Table 1 shows the capital requirements under Pillar 1 and Pillar 2, and the capital risk appetite set by the Board and capital base.

Table 1. Capital Requirements under Pillar 1 and Pillar 2 2018

31.12.2018 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	30,083,688	30,083,688
Capital requirement - Pillar 1	2,406,695	2,406,695
Capital requirement - Pillar 2	215,609	215,609
Total Pillar 1 + 2 capital requirement	2,622,304	2,622,304
Total capital base	4,941,811	5,591,811
CET 1 ratio	16.4%	18.6%
Tier 1 ratio	16.4%	18.6%
Total capital ratio	16.4%	18.6%
Leverage ratio	12.6%	14.2%
Capital Ratio Risk Appetite	15.1%	15.1%
Sum Internal Capital Requirement	4,538,308	4,538,308
Surplus of Capital (above Risk Appetite)	403,503	1,053,503

EnterCard is exposed to several key risks such as credit risk, market risk, liquidity risk, operational risk, pension risk, strategic and business risk. The report describes each risk area along with the corresponding risk appetite. All risks are within the risk appetite per 31 December 2018.

2
Purpose and scope

2 Purpose and scope

This report is submitted by EnterCard Group AB, with registration number 556673-0585. The report will disclose information about EnterCard's capital and risk management and is based on performance as per 31 December 2018.

This document has not been audited and does not form part of EnterCard Group AB's audited financial statements. However, all the information provided in this report are from sources which have been approved by the Board, e.g. the annual report, ICAAP and ILAAP.

3

Introduction

3 Introduction

EnterCard Group AB (hereby referred to as EnterCard) is a Swedish authorised credit institution with a Scandinavian presence through branches in Norway and Denmark. The company was established as part of a joint venture between Barclays Bank and Swedbank, owning 40% and 60% of EnterCard respectively with rights of earnings and net assets split equally between its parents. EnterCard is governed by the Board of EnterCard.

The pillar 3 report is part of the comprehensive capital adequacy disclosure framework and is built upon three pillars:

Pillar 1

Pillar 1 provides rules for calculating the minimum capital requirements for credit risk, market risk and operational risk. EnterCard is not exposed to any interest rate risk under Pillar I, as it has no trading book. EnterCard's Pillar 1 capital requirement for credit risk and operational risk is calculated using the standardised approach.

Pillar 2

Pillar 2 requires institutions to prepare and document their own internal capital adequacy assessment process (ICAAP) and liquidity assessment (ILAAP). The FSA states that credit institutions shall have in place a sound, effective and complete strategies and processes to assess the amount, types and distribution of internal capital and liquidity that the management of EnterCard considers adequate to cover the nature and level of the risks to which the business of EnterCard is or might be exposed to.

In accordance with the different capital assessment frameworks in EnterCard, each risk type is captured in the assessment of capital requirement. Additional capital under Pillar 2 is held for interest rate risk in the banking book, credit concentration risk, credit counterparty risk and pension risk for EnterCard Norway.

Pillar 3

Pillar 3 requires institutions to disclose comprehensive information on risk management and associated capital, including a comprehensive explanation of how regulatory capital ratios are calculated.

3.1 EnterCard's business areas

EnterCard operates in the Scandinavian market, with issuance of credit cards and consumer loans. The company was founded in 2005 by Barclays Bank, one of the largest credit institution providing credit cards financing in Europe, and Swedbank, a leading banking group in the Nordics and Baltics. The business focus of EnterCard is to issue credit cards and consumer loans under its own brand, re:member, in all three Scandinavian countries, as well as issuing credit cards and loans under different partners' brands and through their own distribution channels; including Swedbank and LO in Sweden, Coop in Norway and LO in Denmark.

EnterCard has in 2018 entered into a card distribution agreement with Coop Sverige AB and purchased their card portfolio from MedMera Bank AB.

It is important for EnterCard to act as a responsible loan provider by continuously advising the customers to use their credit cards in a safe and secure way and ensure that reasonable credit levels are given to each individual customer.

Today, EnterCard has over 1.7 million customers and approximately 480 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

3.2 Future developments

The development towards more digital solutions continues as a result both to increased customer needs for convenience, speed and simplicity and advancements in technology. High market activity by different players is evident:

- Investments in fintech is increasing in Scandinavia, with many new players aspiring to disrupt the value chain both for payments and lending
- Large international players, both within and outside the payments industry, are indicating an aspiration to take on a larger presence in the Scandinavian market by offering new and enhanced payment solutions
- Traditional banks have increased their activities within the fintech and payments area, both through partnerships, acquisitions, launch of accelerators and own development

As a response to this, EnterCard is continuously active in developing simple and efficient digital customer interfaces, including enhancing all existing customer touch points and upcoming launches within digitalised payment solutions and eWallet. EnterCard is continuously exploring new ways of providing financing and create engagement with the customers throughout the customer lifecycle. Efficiency and control is further improved through consolidation and modernization of EnterCard's IT platforms and automation of back-end processes.

With an increased trend in digitalisation it is crucial to ensure EnterCard's continued success through the safeguarding of IT systems and information, and to ensure that EnterCard remains compliant with laws and regulations. As one of EnterCard's main areas of focus, EnterCard continues to strengthen defences through the monitoring of technical risk, strong controls, testing and regular audits, as well as new sophisticated fraud scenarios.

3.3 Forthcoming regulations

The growth within consumer credit is continuing while at the same time the market is becoming more regulated to the consumers' advantage. EnterCard is exposed to upcoming regulations and standards, including PSD2 and PCIDSS. During 2018, projects have been in operation in order to ensure compliance with GDPR. PSD2 may have a disruptive effect on the value chain for payments. EnterCard are working actively to assess possible implications and how to leverage the opportunities and mitigate threats that may be the result of the regulations.

New regulatory changes in Norway will have impact on our industry:

New regulations with the purpose of enforcing more restrictions on consumer credit products, inclusive hard rules and stress testing on affordability assessments and tenure of loans to be reduced.

4
Capital

4 Capital

The capital adequacy regulations set the minimum requirement for the amount of capital a credit institution must hold in relation to the size of the risks it faces. The regulations strengthens the link between EnterCard's current risk profile and future risk profile.

EnterCard's capital need is assessed through regulatory minimum requirements, internal risk measurements and buffers, as well as stress testing. The branches in Norway and Demark are not subject to local capital adequacy regulation but are included in the group level capital requirements under Swedish law.

4.1 Capital adequacy regulation

Calculation of capital requirements is conducted in accordance with CRR 575/2013 on prudential requirements for credit institutions (prudential regulation) act (2014: 966) on capital buffers, and the Swedish FSA on regulatory requirements and capital buffers.

Information in this report is submitted in accordance with CRR, Commission Implementing Regulation EU no 1423/2013 on implementing technical standards with regard to the disclosure requirements of capital for institutions under prudential regulation, the Swedish FSA's regulations and general guidelines (FFFS 2008: 25) on Annual Reports in credit institutions and investment firms; and the Swedish FSA's regulation regarding prudential requirements and capital buffers (FFFS 2014:12).

4.1.1 Key ratios dashboard

The table below shows the capital adequacy before and after dividend. The table shows the capital requirements under Pillar 1 and Pillar 2, and the internally set capital risk appetite and the capital base before and after dividends. Dividend is proposed in the Financial Statements and Annual Report for the year ending 31 December 2018.

EnterCard's capital ratio after dividend is 16.4% as per 31 December 2018, well above the internal risk appetite of 15.1%, which gives a capital surplus of 403,503k SEK above internal requirements. EnterCard thereby holds sufficient capital as per 31 December 2018.

Table 2. Key Ratios EnterCard 2018

31.12.2018 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	30,083,688	30,083,688
Capital requirement - Pillar 1	2,406,695	2,406,695
Capital requirement - Pillar 2	215,609	215,609
Interest rate risk in the banking book	10,754	10,754
Credit Concentration risk	114,216	114,216
Pension risk	90,457	90,457
Counterparty credit risk	183	183
Total Pillar 1 + 2 capital requirement	2,622,304	2,622,304
Total capital	4,941,811	5,591,811
CET 1 ratio	16.4%	18.6%
Tier 1 ratio	16.4%	18.6%
Total capital ratio	16.4%	18.6%
Leverage ratio	12.6%	14.2%
Capital Ratio Risk Appetite	15.1%	15.1%
Sum Internal Capital Requirment	4,538,308	4,538,308
Surplus of Capital (above Risk Appetite)	403,503	1,053,503

4.1.2 Tier 1 and Tier 2 capital

The figure below shows the calculation of Tier 1, Tier 2 and capital base.

Table 3. Tier 1, Tier 2 and Capital Base 2018

31.12.2018 (kSEK)	Foreseeable dividends	Before dividends
Share capital	5,000	5,000
Retained earnings	5,070,967	5,720,967
Accumulated other comprehensive income	0	0
Deductions intangible assets	-94,152	-123,206
Prudent Valuation	-5,287	-94,152
Deductions deferred tax assets	-5,287	-5,664
Total Common Equity Tier 1 Capital	**4,941,811**	**5,591,811**
Additional Tier 1 Capital	0	0
Total Tier 1 Capital	**4,941,811**	**5,591,811**
Subordinated loan	0	0
Total Tier 2 Capital	**0**	**0**
Total Capital	**4,941,811**	**5,591,811**

EnterCard's capital base amounted 4,941m SEK per 31 December 2018, of which 100% is Common Equity Tier 1.

4.1.3 Capital requirement Pillar 1 and Pillar 2

The minimum capital requirement under Pillar 1 is the sum of the minimum requirements for credit and operational risks.

EnterCard applies the standardised approach to calculate the capital requirement for credit risk. Credit risk is calculated on all asset items and off-balance sheet items unless deducted from own funds. Capital requirements for operational risk are calculated using the standardised approach. Capital requirement is calculated as the three-year average for the last three year's financial operating revenue in each business multiplied by the corresponding beta factor. EnterCard holds a regulatory minimum capital corresponding to 8% of its total risk exposure amount. EnterCard also holds capital for currency risk under Pillar 1.

On top of the Pillar 1 there are additional capital requirements for Pillar 2. The calculation of Pillar 2 capital is an individual requirement, which is assessed by performing scenario- and stress testing. Pillar 2 covers risks which are not covered by Pillar 1, nor by any capital buffer. EnterCard' s Pillar 2 captures risk such as credit concentration risk, credit counterparty risk, interest rate risk in the banking book and pension risk for the Norwegian branch. The internal capital adequacy assessment process (ICAAP) ensures that EnterCard identifies, measures, reports and controls its risks; and are adequately captured under the Pillar 2 framework. EnterCard also performs stress testing to challenge the Pillar 1 requirement for credit risk and operational risk. The conclusion from the stress testing is that EnterCard's Pillar 1 requirement is sufficient and that no additional capital under Pillar 2 is required. The stress testing is described in more detail in section 4.2.2.

Table 4. Capital requirements

31.12.2018 (kSEK)	Foreseeable before dividends
Total risk exposure amount	**30,083,688**
Credit risk	22,961,330
Operational risk	4,268,360
Market risk	2,853,998
Capital requirement - Pillar 1	**2,406,695**
Credit risk	1,836,906
Operational risk	341,469
Market risk	235 217
Capital requirement - Pillar 2	**215,609**
Interest rate risk in the banking book	10,754
Credit Concentration risk	114,216
Pension risk	90,457
Counterparty credit risk	183
Total Pillar 1 & 2 capital requirement	**2,622,304**

4.1.4 Capital buffers

In accordance with regulatory requirements, EnterCard holds a capital conservation buffer and a countercyclical buffer on top of the Pillar 1 regulatory minimum and Pillar 2 internal assessments. The capital conservation buffer corresponds to 2.5% of EnterCard's total risk exposure amount and the industry specific countercyclical buffer is set at 1.8%. The increased countercyclical buffer in Denmark, active from March 2019, has been added as an additional internal buffer from December 2018. The increased countercyclical buffer in Denmark from 0.0% to 0.5% leads to an increase of EnterCard's countercyclical buffer of 0.04%.

EnterCard's internal capital risk appetite includes an internal buffer of 2.0% on top of its regulatory target as a safety margin to minimise the risk of breaching the regulatory target. This has been approved by the Board and is reviewed annually. As of 31 December 2018, EnterCard's total internal capital requirement was equal to 15.1%.

All buffers are held in Common Equity Tier 1 capital.

Table 5. Capital buffers 2018

31.12.2018 (kSEK)	Foreseeable before dividends
Capital conservation buffer (2,5%)	752,092
Institution-specific countercyclical buffer (1,8%)	549,092
Internal buffer (2.0%)	614,819

The diagram below shows EnterCard's regulatory capital requirement plus the internal capital buffer. All percentage targets are corresponding to EnterCard's total risk exposure amount, i.e. the amount of capital corresponding to the required percentage of total risk exposure amount. Total capital ratio before dividend was 18.6%. Considering the proposed dividend of 650m SEK, the total capital ratio is 16.4% after dividend.

Fig. 1. EnterCard regulatory and internal capital targets per 31 December 2018

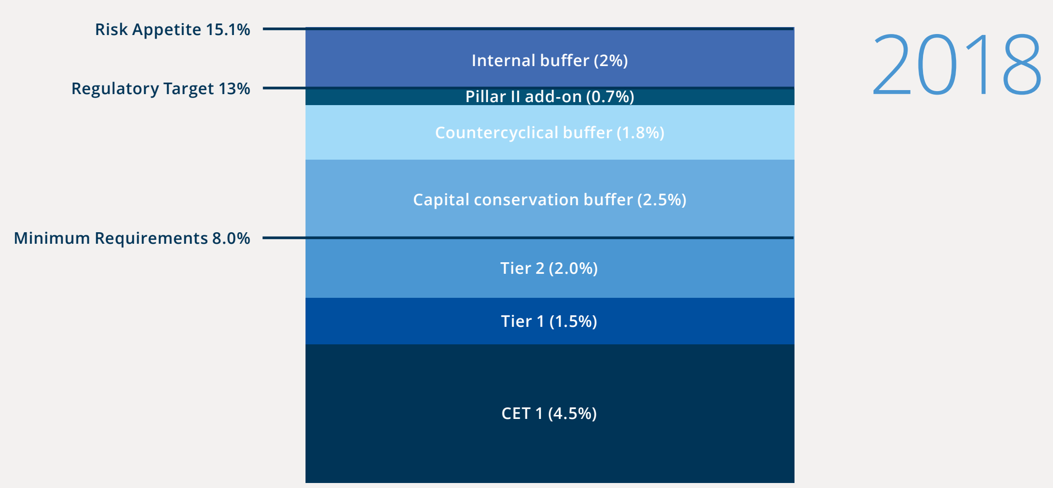
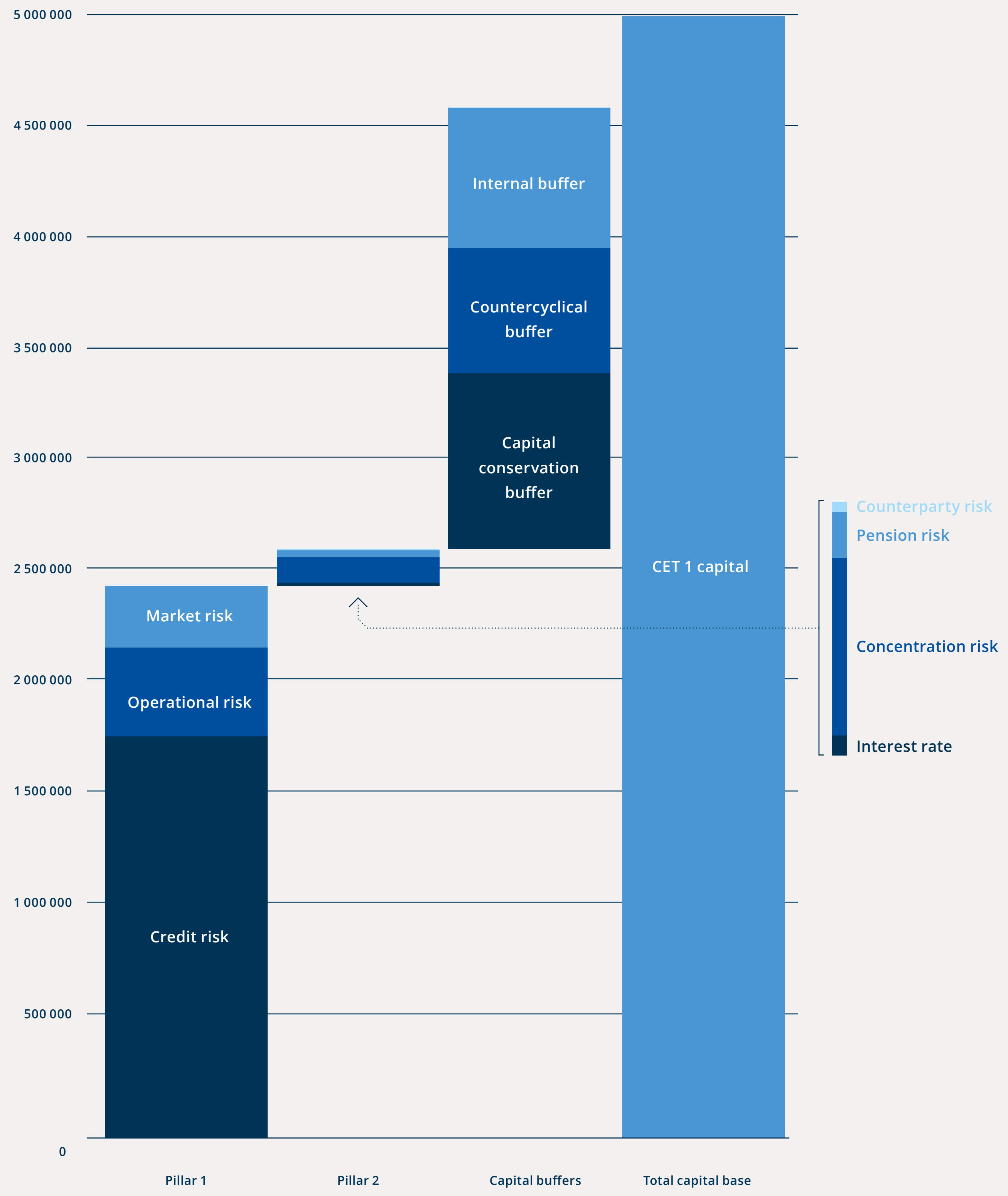


Fig 2. EnterCard minimum total capital requirement as per 31 December 2018 (kSEK)



4.2 Capital management and control

EnterCard ensures that capital management remains within the risk appetite and policy framework which is set by the board. Risk appetite levels are reviewed at least on a yearly basis.

EnterCard's approach to capital planning and management is conservative and robust and adheres to the risk and capital frameworks of the parent companies. Risk and capital planning follows as an extension of the Medium Term Plan (MTP) and Short Term Plan (STP) processes in EnterCard and is reviewed regularly.

4.2.1 ICAAP/ILAAP

EnterCard's internal capital adequacy assessment process (ICAAP) and assessment on liquidity adequacy (ILAAP), aims to identify and measure EnterCard's need of capital and liquidity for all risk areas; the ICAAP shows that EnterCard holds adequate capital in relation to its risk profile, and that EnterCard holds sufficient high quality liquid assets (HQLA) in relation to its payment obligations. Based on stressed scenarios, EnterCard's ICAAP evaluates how robust the company is towards internal and macro economical changes.

The evaluation of the capital and liquidity need is done regularly based on financial goals, risk profile and business strategy, in addition to stressed scenarios defining the need over a forward looking horizon. Besides the continuous monitoring and reporting to meet the minimum regulatory requirements regarding capital and liquidity coverage, a detailed review is performed and documented at least annually.

The regulations stipulate that EnterCard shall use the ICAAP/ILAAP as a tool, which ensures that the company identifies, assesses and manages the risks in a clear and transparent manner to which its business activities are or might be exposed to and may have an impact on capital and liquidity.

The outcome of EnterCard's ICAAP shows that EnterCard holds sufficient capital as per 31 December 2018. It also shows that EnterCard will hold sufficient capital in a stressed scenario the next three years.

The outcome of EnterCard's ILAAP shows that EnterCard holds sufficient liquidity when considering both Survival Horizon (SH) and Liquidity coverage ratio (LCR) as per 31 December 2018.

4.2.2 Stress testing

EnterCard regularly performs stress test exercises to capture the capital needed on the company level under stressed conditions. Stress testing is based on EnterCard's Medium Term Plan (MTP) considering EnterCard's specific business and circumstances during this period. In Q4 2018, EnterCard undertook a scenario-based stress testing exercise. Impairment in the stressed scenarios is simulated using IFRS9 principles.

Spanning over the period 2019-2021, the scenarios describes global events leading to an adverse and severely adverse recession. EnterCard undertakes reasonable stress testing of impairment, profit & loss and capital estimates.

Credit Risk Stress Testing

This ICAAP includes two stressed scenarios, endorsed by the Board in the beginning of the process.

- Two macro-economic scenarios of varying severity have been used to stress the portfolio.
- The Adverse recession scenario is a global recession with a likelihood of occurring approximately once in 7 years.
- The Severely adverse scenario is a global recession with a likelihood of occurring approximately once in 25 years.
- A series of macro-economic forecasts including unemployment rate, base rate of borrowing, GDP and debt sale prices are considered when stressing the portfolio.
- The descriptions below detail the Adverse and Severely adverse scenarios.

The approach stresses the underlying assumptions of the base scenario to forecast the impact of potentially plausible events. The main assumptions which feed the forecasting models and which are affecting the financial output are the unemployment rate and the GDP growth rate in EnterCard's core markets. Therefore, the forecasts are flexed to reflect the impact of changes in these parameters. The output forms part of EnterCard's decision-making process as to what the management response would be if such a situation was to occur in reality.

The credit risk stress testing shows that unexpected credit losses are lower than the Pillar 1 requirement for credit risk in both the adverse and the severely adverse scenario, and therefore it is not deemed necessary to hold additional capital for credit risk under Pillar 2.

IFRS9
EnterCard implemented IFRS9 impairment standards from January 1st 2018. The forecasted impairment for the next three years has been simulated according to IFRS9 standards. Since impairment according to IFRS9 reacts faster to decreased economic conditions compared to impairment calculated according to IAS39 standards, the short-term impairment effect is higher in the stressed scenarios than what had been the case prior to 2018 under IAS39 standards.

P/L Stress Testing
The P&L, together with different Key Value Drivers (KVDs) have been stressed using the macro scenarios described above. The KVDs used are turnover, gross balances and Interest Earning Lending (IEL).

Capital Plan Stress Testing
Based on the outcome of the credit risk and P&L stress testing, the effects on the capital plan are also assessed. The effects on the P/L and impairment will affect on the capital base, while the Risk Exposure Amount (REA) will be affected by changes in gross balances. The aim of the capital plan stress testing is to ensure that EnterCard still has a capital surplus during the stress scenarios.

Operational Risk Stress Testing
Stress testing of the operational risk has also been done. EnterCard has developed three separate complementing simulations for the quantification of capital needs for operational risk. The simulations are based on EnterCard's own view on the largest operational risks in the business as well as industry standard. The simulations used are deemed to be significantly stressed.

The assessed Pillar 2 capital requirement is calculated as the sum of the operational risk events and the two risk scenarios. EnterCard's view is that these are overlapping to a large extent. However, since it is not known to exactly what extent and for precaution, the sum of them is used instead of estimating a correlation.

The results of the operational risk stress testing is significantly lower than the Pillar 1 requirement for operational risk, and it is therefore not deemed necessary to hold additional capital for operational risk under Pillar 2.

4.2.3 Capital Contingency Plan
The purpose of the capital contingency plan is to establish which potential actions could be taken if the capitalisation of EnterCard is deviating from the desired level and which triggers that necessitate consideration or proposal of such actions. The main aim of planning for capital contingency is to avoid a capital deficit situation and consequently non-compliance with internal targets and with the minimum capital requirement stipulated by the applicable capital adequacy regulations.

In order to adjust the capitalisation, different actions are available including adjusting either the capital base or the risk exposure amount. The capital contingency plan lists the potential actions for both types of activities. Therefore, the contingency plan does not focus on the precise action plan but rather sets the general framework of actions, which should help to promptly focus on improving capitalisation in case the contingency situation becomes a reality.

Depending on the state of the capitalisation, different scenarios (modes) could occur within the forecast period. A very sudden and instant drop in the capitalisation could occur, which would be difficult to plan for. Each mode will trigger different responses and actions.

For the purposes of capital contingency planning, six different modes are created with increasing severity escalation from "business as usual" to "Action mode 3". The Recovery Mode, which is more severe than Action Mode 3, is documented in the Financial Recovery Plan.

Any requests for capital from parent companies would need to follow the capital application process within the parent companies, requiring at least six weeks for the parent companies to review and give their approval.

Potential actions for restoring capitalisation are described in EnterCard's Capital Contingency Plan.

5

Risk

5 Risk

5.1 Board's declaration of risk management

5.1.1 Declaration of Risk Management

The Board is ultimately responsible for the business, the associated risks that this entails and the correct and efficient management of these risks, including the responsibility to ensure there is a sufficient amount of capital and liquidity. Risk, in this context, is defined as a potentially negative impact on a company that can arise due to current internal processes or future internal and external events. The concept of risk comprises both the likelihood that an event will occur and the impact it would have on EnterCard.

In accordance with the ICAAP/ILAAP, the Board declares that EnterCard has an overall satisfactory risk management and it is within all risk appetite levels.

5.1.2 Risk statement

A risk statement, which was approved by the Board, is required in accordance with CRR. In this chapter EnterCard describes its overall risk profile including key ratios and figures.

All risks are within the risk appetite per 31 December 2018.

The predominant risk in EnterCard is credit risk, which arises in unsecured lending for consumer financing. EnterCard measures its credit risk appetite by charge-off ratio divided into its different products and markets, see chapter 5.3.1.

Table 6. Charge-off 2018

31.12.2018	Sweden	Norway	Denmark
Charge-off ratio Credit Cards *risk appetite*	5.5%	10.3%	8.2%
Charge-off ratio Credit Cards *actual*	3.10%	6.89%	5.47%
Charge-off ratio Consumer Loans *risk appetite*	18.0%	21.0%	n/a
Charge-off ratio Consumer Loans *actual*	9.37%	15.83%	n/a

EnterCard holds sufficient liquid assets according to its payment obligations, its risks and underlying stress tests. EnterCard is in good control and well within the risk appetite for liquidity risk; the figures below show EnterCard's internal liquidity measure, the Survival horizon, and the regulatory liquidity measure, the Liquidity Coverage Ratio (LCR), and Net Stable Funding Ratio (NSFR) which is reported to the local FSA on a monthly basis, see chapter 5.3.6.1 for more information.

Fig. 3. Survival horizon per 31 December 2018

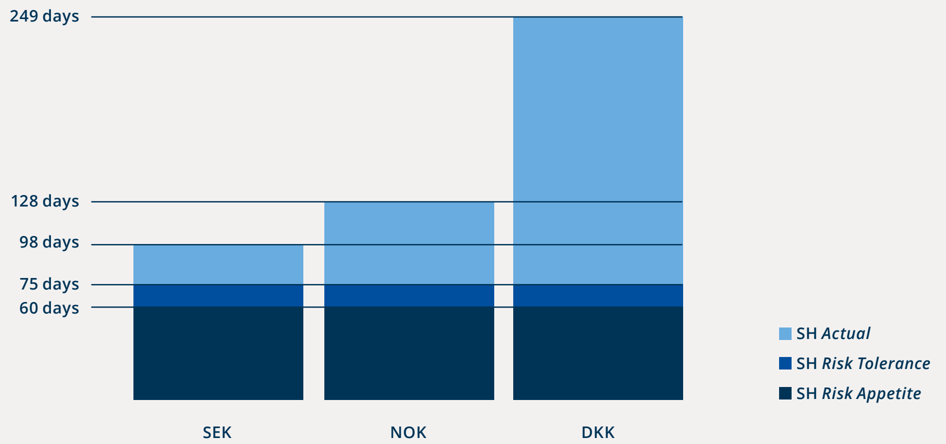
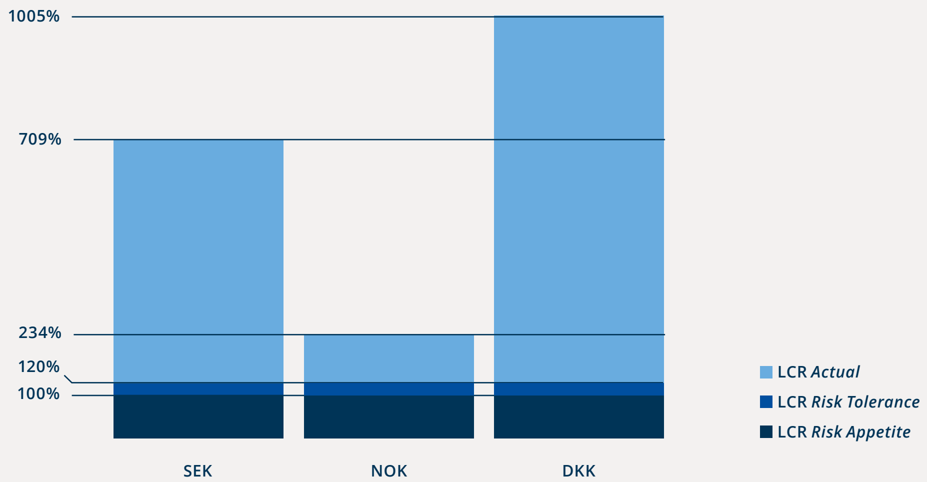
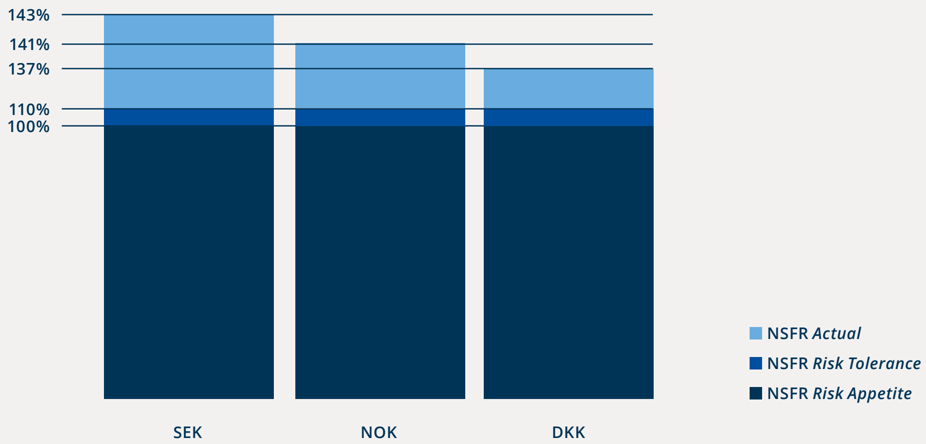


Fig. 4. Liquidity Coverage Ratio per 31 December 2018



Net Stable Funding Ratio (NSFR) shows EnterCard's ability to manage liquidity situations over a one-year horizon. It ensures that EnterCard's long-term illiquid assets are funded with a minimum amount of stable long-term funding. For more information on NSFR please see chapter 5.3.6.1.2.

Fig. 5. Net Stable Funding Ratio per 31 December 2018



Interest rate risk measures the value of EnterCard's assets and liabilities being negatively affected by a change in the interest rates. EnterCard's risk appetite for interest rate risk is the effect on the total value of the portfolio of a 200 basis points up/down parallel shift shall not exceed 10% of the capital base, without any risk reduction from risks in different currencies. The table below illustrates the interest rate risk sensitivity analysis per 31 December 2018 is well within the risk appetite

Table 7. Interest rate risk sensitivity, risk % of capital base 2018

31.12.2018 (kSEK)	EnterCard Group
200 bp parallel shift risk appetite	10%
200 bp parallel shift risk tolerance	7%
200 bp parallel shift actual	-0.26%

5.2 Risk management and control

To achieve EnterCard's business goals regarding growth, profitability and economic stability it is necessary to continuously balance the goals of EnterCard against the associated risks. These risks are analysed through the enterprise view EnterCard has on business processes.

In the context of EnterCard´s field of activity, different types of risks arise, such as credit risk, operational risk, market risk and liquidity risk. For EnterCard, credit risk is the most central risk for the business model. EnterCard is striving for a well-balanced consumer financing portfolio with a diversification of risk and a broad customer base within EnterCard´s field of business, along with a sound control of default development in its portfolios.

5.2.1 Risk management processes

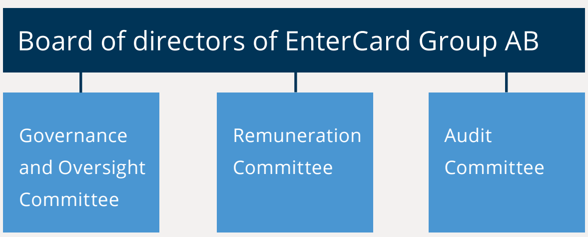
The Board of Directors is ultimately responsible for risk management. The purpose of the risk management is to secure that the risks taken in the business do not threaten EnterCard's solvency or liquidity, and are balanced in regards to the possible return. This is ultimately managed through securing that the risk levels do not exceed the risk appetite level, set by the Board. EnterCard is continuously striving to reduce the operational risks through improvement of processes, availability and assurance. The Board sets the risk level of the business and the assignment of the responsibilities and authorities regarding the risk management. The assignment sets a structure for decision making in risk areas.

5.2.2 EnterCard governance structure

The comprehensive set of rules regarding internal governance and control is one of the fundamental instruments for the Board of Directors and Senior management for business control and robust internal control. The Board also functions as EnterCard's audit committee. Risk management is executed within each business function under the supervision of and communication with the risk control function. The risk control function regularly monitors and reports to the CEO and Board of Directors. The responsibility for monitoring and reporting regulatory and ethical risks are assigned to the compliance function.

The Risk and Compliance steering documents includes the overall policy for all risks, which is the Enterprise Risk Management ("ERM") policy and the Compliance Policy. The ERM policy functions as a starting point from which relevant risk policies and instructions are referred to such as the Credit Policy, Liquidity and Funding Strategy, Capital Policy, Operational Risk Policy, Incident Management Policy, Business Continuity Management Policy and the CEO Risk & Control Instruction. The Compliance Policy functions as a steering point from which Ethics, Gender Equality and Diversity Policy, Conflicts of Interest, Business Conduct Standards are derived.

Fig. 6. EnterCard governance structure



5.2.3 The Risk and Control Framework

EnterCard's risk and control framework is built on the three lines of defence model.

First line of defence refers to all risk management activities carried out by the business operations and its support functions. Second line of defence refers to the Risk Control and Compliance functions, led by the Chief Risk Officer and the Chief Compliance Officer respectively, who reports to the CEO. The Risk Control function provides independent reporting on the risk profile to the CEO and to the GOC and the Board on the risk profile. Third line of defence refers to the Internal Audit function which is governed by and reports to the GOC and the Board. In accordance with EnterCard's risk and control framework, Risk Owners are appointed in the first line for the risks for which they are responsible. The Risk Owners are supported by Business Risk Specialists (BRS), placed in the first line to support the risk profiling process.

Risk

Risk is defined as a potentially negative impact on a company that can arise due to current internal processes or future internal or external events. The concept of risk comprises both the likelihood that an event will occur and the impact it would have on the company. To achieve the company's business goals regarding growth, profitability and economic stability, it is necessary to continuously balance the financial targets of the company against the risks that EnterCard is or can be exposed to.

Risk identification and assessment

EnterCard has an enterprise wide process for risk identification, risk assessment, control design and implementation. There is also a control self-assessment routine with detailed remediation initiatives to secure operation within set Risk Appetite. The risk profiling process takes place in the first line supported by the BRSs. Risk profiles are held at business unit level, country level and group level. See figure 5 for the risk management cycle.

Role of Business Risk Specialist (BRS)

The BRS' primary task is to support the Risk Owners with the identification and assessment of the risks as well as management response and mitigating actions. In addition, the BRS supports the Risk Owners with control self-assessments; linkage between materialised risks (incidents) and risk identification; update of business continuity plans and follow up on audit observations. The BRSs report to the BUCO (Business Unit Conformance Officer), who leads the work with operational risks in 1st line.

Fig. 7. EnterCard three lines of defence model

Board

CEO

Risk ownership 1st line of defence	Risk & Compliance Functions 2nd line of defence	Risk Assurance 3rd line of defence
Owns risk and risk management activities	Establishes policies and framework, facilitates risk identification and follow-up	Tests, validates and assesses efficiency in risk management processes and activities
Business Management on all levels and BRS's	**Risk & Compliance Functions**	**Internal Audit**
Owns risks, controls, incident management and business continuity Makes management decisions in line with risk appetite Implements and embeds needed controls	Own and maintain Risk Management, Control, and Compliance governance framework and processes Support, educate, advise Independently monitor the effectiveness of framework and processes	Assessment of effectiveness risk management and governance framework and implementation

The Three Lines of Defence model clarify roles and responsibilities with risk management, control, and governance activities

5.2.3.1 Entercard operating model

EnterCard Board

EnterCard is governed by the Board of Directors of EnterCard , which consists of representatives from both Barclays and Swedbank. The Board is responsible for the overall strategic management, setting the risk appetites and supervision of EnterCard. The Board will actively decide on principles for the issuance of policies and evaluate financial, credit, operational and other relevant risks including appetites for such risks. The Board also functions as EnterCard's audit committee.

Governance and Oversight Committee

The Governance and Oversight Committee (GOC) is responsible for monitoring the effectiveness of EnterCard's governance framework and system of internal control. Responsibilities include review of the overall governance and risk profile for EnterCard, review and challenge the effectiveness of governance, risk management, internal control and compliance. The Committee also prepares issues for evaluation by the Board. The GOC is appointed by the Board after consultation with Swedbank and Barclays. The GOC consists of two Board members, one from each of the parent companies, Barclays and Swedbank, and also one risk specialist from each of the parent companies. In addition to the GOC members, the quarterly GOC meetings are attended by the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Compliance Officer and the Chief Credit Officer.

Remuneration Committee
The Remuneration Committee (RemCo) consists of two members from the Board and two representatives of the shareholders. The committee prepares and recommends decision for the Board regarding remuneration. All matters regarding variable remuneration are decided by the Board based on recommendations from the RemCo.

Chief Executive Officer (CEO)
The CEO is responsible for the management of the day-to-day operations in line with the Board of Directors' policies and instructions. The CEO is responsible for integrating the risk strategies into the decision-making process and is responsible for the day-to-day management and control of risk exposures. The CEO is responsible for monitoring EnterCard's overall capitalisation and the capital adequacy situation ensuring effective governance, risk management and control by establishing the appropriate routines and ensuring that the organisation is adequate to facilitate that all risks inherent in EnterCard's activities are identified. The CEO's responsibilities and authority comply with the regulations of the Swedish Companies Act and the Banking and Financing Business Act and the Swedish Financial Supervisory Authority's regulations. The CEO reports to the Board of Directors.

Chief Financial Officer (CFO)
The CFO has the responsibility for capital and liquidity management, financial report and accounting. The CFO reports to the CEO.

Chief Risk Officer (CRO)
The CRO leads the Risk Control function and reports to the CEO and the chairman of the GOC. The CRO has the responsibility to provide risk reports to the CEO and to the GOC.

Chief Compliance Officer (CCO)
The Chief Compliance Officer leads the Compliance function and reports to the CEO and the chairman of the GOC. The Compliance function has a responsibility to provide compliance reports to the CEO and to the GOC.

Chief Credit Officer
The Chief Credit Officer leads the Credit Risk function and reports to the CEO. The Chief Credit Officer has the overall responsibility for credit granting and credit risk management within EnterCard,

Risk & Compliance steering documents
The Enterprise Risk Management (ERM) policy includes all material risks to which EnterCard is exposed. The ERM policy functions as a starting point from which relevant risk policies and instructions are referred to such as the Credit Policy, Liquidity and Funding Strategy, Capital Policy, Operational Risk Policy, Incident Management Policy, Business Continuity Management Policy and the CEO Risk & Control Instruction.

Treasury Committee
The Treasury Committee (TC) consists of treasury and market risk function representatives of the parent companies, Barclays and Swedbank, together with EnterCard representatives. The main purpose of the Treasury Committee is to agree on terms for EnterCard's funding and to inform the external members of the Treasury Committee on matters regarding capital and liquidity.

Risk Management Committee
The purpose of the Risk Management Committee is to review, oversee and optimise the credit risk performance of the lending portfolios. The Committee is accountable to the CEO for both setting the direction and ensuring the appropriate control of credit risk matters that contribute to the Strategic, Performance and Capability Agendas.

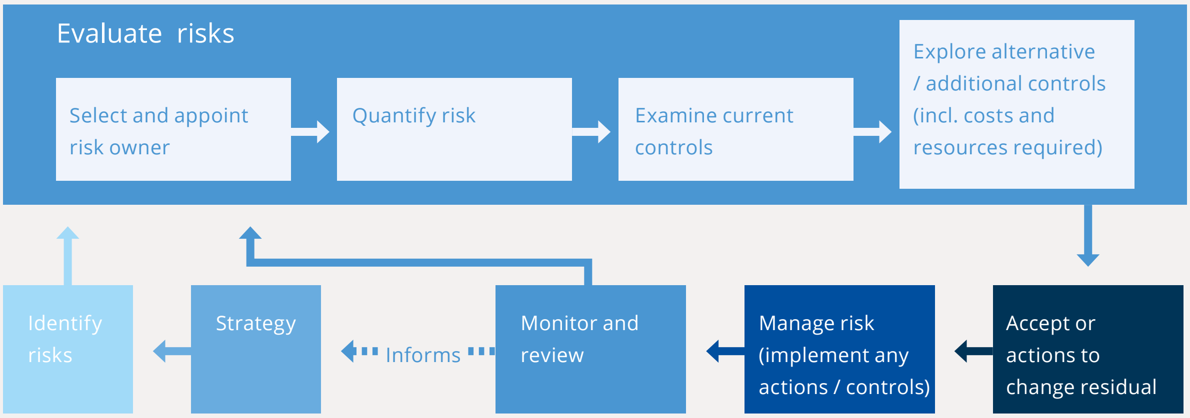
Impairment Committee
The Purpose of the Impairment Committee is to review and approve the impairment calculations according to IFRS9 standards.

5.2.4 Risk Appetite and Enterprise Risk Management Policy
EnterCard has an enterprise wide process for risk identification, risk assessment, control design and implementation, presented in the figure below "EnterCard risk management cycle".

There is also a control self-assessment routine with detailed remediation initiatives to secure operation within set Risk Appetite.

5.2.4.1 Entercard risk management cycle

Fig. 8. EnterCard's risk management cycle



5.3 Risk areas

EnterCard has identified the risk areas that are material to EnterCard. In the following chapter, each risk area is defined along with the corresponding risk appetite.

EnterCard maintains sufficient capital adequacy to enable it to pursue its business objectives under normal and stressed conditions. Risk appetite is also addressed more generally in EnterCard's strategy and risk processes. Financial volatility is reviewed annually as part of the medium-term planning process incorporating key income and cost sensitivity analysis in the plan.

5.3.1 Credit risk

Credit risk, including counterparty credit risk, is the risk that EnterCard's counterparties cannot fulfil their payment obligations, resulting in that EnterCard receives payment too late or not at all. The Board of Directors has overall responsibility for EnterCard's credit risk exposure. EnterCard's lending is striving towards ambitious objectives in terms of ethics, credit quality and control. Even though credit risk, through retail lending, is the Group's single largest risk exposure, credit losses in relation to the outstanding balances are relatively small

EnterCard conducts active monitoring and optimisation of the portfolios' credit risk. The risk is managed so that the decision to grant credit is based on good grounds to expect that the borrower can fulfil his or her commitment. The assessment is done through general credit rules as well as so called credit scoring, i.e. models that measure each counterparty's ability to fulfil payment obligations.

The credit risk is monitored through different surveillance systems to ensure that counterparties are fulfilling their commitments towards EnterCard. In case of a late payment or an assessment that the counterparty is not able to fulfil his or her commitment, the credit card will be blocked. Follow-up is also made from a credit portfolio point of view in each country with focus within and between different risk groups. The continuous follow-up is still showing a relatively low risk.

EnterCard's risk appetite is set on the charge-off in relation to the end net receivables, and varies for different products and markets. The risk appetite level has been set to be triggered when the portfolio is at risk of consuming capital reserves. In the event of a breach, this is reported to the Board and an action plan is agreed to bring the exposure down within the risk appetite.

EnterCard has also, to a limited extent, an investment risk through a buffer in liquid assets, held to mitigate EnterCard´s liquidity risk. The credit quality of these assets is very high and mainly consists of exposures to municipalities and governments. EnterCard is not using derivatives and is therefore not exposed to counterparty credit risk to derivatives counterparties.

EnterCard should not be exposed to any concentration risk beyond its home markets. This is mitigated through geographic and product diversification within its home markets. EnterCard uses the Swedish FSA's method based on the Herfindahl index to assess the credit concentration risk, the capital requirement for single-name concentration, industry concentration and geographical concentration. The geographic concentration is assessed to be the largest concentration risk for EnterCard. The loan portfolio is dominated by credits without collateral and is spread out on a large number of lenders within each Scandinavian countries. This is included in the total Pillar 2 add-on.

Table 8. Distribution by exposure amount by classes for EnterCard per 31 December 2018 and 2017 (kSEK)

Risk exposure amount and own funds requirements for credit risks 2018

Exposure classes	Risk exposure amount	Own funds requirement
Institutional exposures	740,465	59,237
Covered bonds	46,564	3,725
Retail exposures	20,925,781	1,674,062
Regional governments or local authorities exposures	1,876	150
Corporate exposures	6,914	553
Exposures in default	861,895	68,952
Other exposures	377,835	30,227
Total	**22,961,330**	**1,836,906**
Total capital requirement for credit risk according to the standardised approach		**1,836,906**

Risk exposure amount and own funds requirements 2017

Exposure classes	Risk exposure amount	Own funds requirement
Institutional exposures	530,202	42,416
Covered bonds	24,476	1,958
Retail exposures	17,644,425	1,411,554
Regional governments or local authorities exposures	1,506	120
Corporate exposures	8,017	641
Exposures in default	752,030	60,162
Other exposures	224,993	17,999
Total	**19,185,647**	**1,534,852**
Total capital requirement for credit risk according to the standardised approach		**1,534,852**

Total loans to the public excluding provisions of anticipated loan losses amounted to 30,650.4m SEK. Impaired loans amounted to a book value of 853,5m SEK which constitutes 3.0 % of the total credit portfolio. Total provisions amounts to 1,748.7m SEK

5.3.2 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes products/services, IT risks, internal and external fraud, damage to physical assets and card scheme compliance risks, where all operational risk categories can include the compliance risk aspect.

EnterCard continually performs self-evaluation of operational risk for all important processes. Managers shall ensure the identification, assessment and treatment of the operational risks inherent in their respective area. Appropriate mitigation techniques should be formulated to limit or reduce the impact of these risks and the effectiveness of the mitigation techniques should be continually monitored. Operational risks that could damage EnterCard's reputation and brand should be taken into account and be limited.

EnterCard considers the Pillar 1 capital requirement, calculated using the standardized approach, to be sufficient and no additional capital should be held for operational risk.

The assessed Pillar 2 capital requirement is calculated as the sum of the estimated occurrence of operational risk events given a 99.9 percent confidence level and two significantly stressed risk scenarios. EnterCard's view is that these, to a large extent, are overlapping.

However, since it is not known to exactly what extent and for precaution, the sum of them is used instead of estimating a correlation.

The total capital need for operational risk under Pillar 2 is estimated to 179,3m SEK compared to regulatory minimum of 341,5m SEK. This leaves a surplus of 162,1m SEK.

Table 9. Capital requirements for operational risk per 31 December 2018 and 2017 (kSEK)

Capital requirements for operational risk	2018	2017
Risk exposure amount	4,268,360	4,250,245
Capital requirements according to the standardised approach	341,469	340,020
Total Capital requirement for operational risk	**341,469**	**340,020**

5.3.2.1 Reputational risk

Reputational risk is defined as the risk of a decline in reputation from the point of view of stakeholders, customers, staff and/or the public.

Reputational risk arises from poorly managed incidents or external and internal events that affect EnterCard. For the operational risk scenarios, the financial impact of a reputational risk is considered when applicable. There is a generic add-on of 10% for applicable scenarios. A reputational risk is also considered for scenarios where EnterCard loses customers that may be a consequence of a reputational impact. For example, one of the scenarios includes downtime in one of EnterCard's systems, which results in loss of confidence from customers.

Reputational risk is not assessed to be successfully mitigated by capital, and EnterCard therefore do not add any capital under Pillar 2 for reputational risk.

5.3.3 Market risk

Market risk is defined as the risk of losses or reduced future income due to adverse market rate movements. It includes interest rate risk, currency risk and equity risk, however EnterCard has no exposure to equity risk.

EnterCard is not exposed to any interest rate risk under Pillar 1, as it has no trading book, but holds capital for FX risk under Pillar 1.

5.3.3.1 Interest rate risk

Interest rate risks are structural and arise when there is a mismatch between the interest rate duration of assets and liabilities, leading to changes in interest rates that do not affect the value of the assets and liabilities to the same extent. EnterCard minimises this risk through balancing the interest rate duration of assets and liabilities as far as possible, and since most of EnterCard's lending is with floating interest rates, EnterCard takes up most of its funding with floating interest rates as well. The interest rate risk is deemed low and is continuously monitored by Treasury and by the Risk Control function.

EnterCard assesses the capital need for interest rate risk, which is 10.8m SEK. This is included in the total Pillar 2 add-on.

Table 10. Interest rate risk sensitivity per 31 December 2018 and 2017 (kSEK)

	Market interest rate -1 percent		Market interest rate +1 percent	
	2018	2017	2018	2017
< 3 Months	-1,645	1,651	1,626	-1,632
3-6 Months	47	-1,480	-47	1,460
6-12 Months	0	1,453	0	-1,428
1-2 Years	3,850	2,914	-3,754	-2,842
2-3 Years	3,413	0	-3,296	0
3-4 Years	0	817	0	-781
Total	**5,665**	**5,354**	**-5,470**	**-5,222**

The above sensitivity analysis shows the impact on the value of assets and liabilities when market interest rates increase/decrease by one percentage point (+/-1%). The total shows the effect of a parallel shift of the same size.

5.3.3.2 Currency risk

Currency risk is defined by the risk that the value of EnterCard's assets and liabilities will be negatively affected by a change in exchange rates.

The operations in the respective countries consist solely of local currency. However, when consolidating the countries' operations to SEK, the own funds held in NOK and DKK is converted to SEK, which gives a currency exposure since the value in SEK fluctuates with the FX rate. Accumulated profits in NOK and DKK are in general not exchanged to SEK. EnterCard has a significant amount of own funds in NOK and the value of EnterCard's own funds is significantly exposed to the NOK/SEK rate, and there is also a small exposure to the DKK/SEK rate. EnterCard has a REA of 2,854m SEK and a capital requirement of 228.3m SEK for FX risk under Pillar 1.

A change in the currency rate will never threaten EnterCard EnterCard's ability to fulfil capital requirements. This is because both the Swedish and the Norwegian businesses are well capitalised in local currency, with both own funds and REA in local currency. If the NOK/SEK rate would approach zero, EnterCard's capital ratio would approach the capital ratio for the Swedish business. If the NOK/SEK rate would approach eternity, EnterCard's capital ratio would approach the capital ratio for the Norwegian business. Since both the Swedish and the Norwegian businesses, on their own, has a capital ratio above internal and external capital requirements, an FX rate movement can never threaten EnterCard's ability to fulfil capital requirements. It is therefore deemed that there is no need to hold additional capital under Pillar 2.

5.3.4 Strategic and business risk

EnterCard is aware of the need to assess its strategic and business risks continually. Underlying strategic risks tend to remain relatively constant over time; however, the severity of these risks can change. Business cycles in the global and local economy influence the demand for EnterCard's products and services. During periods of austerity and low consumer confidence, a business risk could materialise. However, the customer base is broad and the customer profile is well diversified. This risk and the consideration for a capital add-on is an integrated part of the stress testing scenarios.

EnterCard's business can be affected by changes in legislation. EnterCard monitors laws that are under preparation and anticipates their impact. EnterCard has a process to contingently evaluate and adapt its strategies. The processes include a strong control environment where deviations in the strategies are identified and adapted in an early stage which limits or prevents the risk of larger losses. Considering the strong control environment, there is no need to hold additional capital for strategic and business risk.

5.3.5 Pension Risk

Defined benefit plans for current and former employees of EnterCard represent a potential risk when changes in pension obligations and pension assets can affect EnterCard's capital negatively. This risk is not seen as significant, due to relatively few employees with defined benefit pension plans.

EnterCard assesses the capital need for pension risk to 90.5m SEK. This is included in the total Pillar 2 add-on.

5.3.6 Liquidity risk

Liquidity risk refers to the risk of not being able to meet payment obligations at maturity without a significant increase in cost for obtaining means of payment due to increased funding costs. EnterCard manages the liquidity risk through funding with longer duration and a considerable buffer of liquid assets. The HQLA comprise of interest-bearing securities with high credit quality and a very good market liquidity, to secure that they can be sold with short notice to a relatively predictable price, in a situation with lacking access to funding. As an extra liquidity reserve, EnterCard has a cash surplus in accounts at Swedbank as well as a credit facility with Swedbank.

The table below shows the summary of maturities. The non-discounted contractual cash flows are distributed from remaining time to maturity.

Table 11. Remaining maturities per 31 December 2018 and 2017 (kSEK)

Remaining maturity 2018	<3 Months	3-12 Months	1-5 Years	5-10 Years	5-10 Years	No maturity	Total
Loans to credit institutions	3,701,886	0	0	0	0	0	3,701,886
Loans to the public	18,534,669	15,820	992,031	3,600,319	5,758,895	0	28,901,734
Bonds and other interest-bearing securities	0	98,751	2,040,791	361,710	0	0	2,501,252
Prepaid expenses and accrued income	64,782	76,565	0	0	0	0	141,346
Other assets	167,046	34,717	63,150	0	0	100,445	365,358
Total assets	**22,468,383**	**225,853**	**3,095,972**	**3,962,028**	**5,758,895**	**100,445**	**35,611,577**
Amounts owed to credit institutions	2,649,844	5,760,410	20,764,573	0	0	0	29,174,827
Other liabilities	301,509	80,392	39,649	0	0	0	421,551
Accrued expenses and prepaid income	80,760	192,334	16,138	0	0	0	289,232
Equity	0	0	0	0		5,725,967	5,725,967
Total liabilities and equity	3,032,113	6,033,136	20,820,360	0	0	5,725,967	35,611,577

Remaining maturity 2017	<3 Months	3-12 Months	1-5 Years	5-10 Years	5-10 Years	No maturity	Total
Loans to credit institutions	2,650,169	0	0	0	0	0	2,650,169
Loans to the public	24,109,850	13,322	63,397	0	0	0	24,186,570
Bonds and other interest-bearing securities	0	237,823	1,519,415	235,001	0	0	1,992,239
Prepaid expenses and accrued income	107,622	49,289	2,346	0	0	0	159,258
Other assets	98,920	5,664	60,707	0	0	126,769	292,060
Total assets	**26,966,562**	**306,099**	**1,645,865**	**235,001**	**0**	**126,769**	**29,280,296**
Amounts owed to credit institutions	1,578,940	5,852,962	15,535,023	0	0	0	22,966,924
Other liabilities	191,355	175,492	20,750	0	0	0	387,597
Accrued expenses and prepaid income	101,183	182,539	23,541	0	0	0	307,263
Equity	0	0	0	0	0	5,618,512	5,618,512
Total liabilities and equity	1,871,477	6,210,992	15,579,314	0	0	5,618,512	29,280,296

5.3.6.1 Liquidity risk measures

This chapter describes EnterCard's liquidity risk measures and risk appetite, which form the basis for the execution of EnterCard's liquidity strategy.

The risk appetite set by the Board is managed by using the Survival Horizon as a metric to calculate how many days EnterCard can survive under a stressed scenario. EnterCard has defined a macro driven scenario, EnterCard specific scenario and a combination of macro and EnterCard specific scenario. For the combined scenario the survival horizon risk appetite is set to 60 days and a risk tolerance of 75 days.

To secure that EnterCard does not fall below the minimum internal acceptable level of liquidity, a Nominal Liquidity Hurdle has been set for EnterCard to be used as a short term liquidity measure. The threshold limit is set by analysing the net cash outflow in each currency and represents several days of normal net cash outflow assuming a disruption of inflow. The Nominal Liquidity Hurdle is followed up on a continuous basis by the Treasury team. The cash balance forecast is updated with actual cash position on a continuous basis to make sure that any shift in forecasted curves are captured and updated to make sure that EnterCard does not breach the tolerance limit, set by the CEO, of 100m SEK, 100m NOK and 50m DKK.

To make sure that EnterCard does not have too large funding maturities in a short period of time, EnterCard aims to spread out the funding maturities. The concentration of funding maturities is used as a structural liquidity measure. The concentration of maturities are followed up regularly to make sure that EnterCard does not breach the tolerance limit, set by the CEO, saying that funding maturities within one calendar month should not exceed 10% of the funding portfolio for new funding. The limit is set for each individual currency.

Control and supervision of liquidity risk is managed by the Treasury and the Risk Control function, who frequently report to the Senior management and the Board.

The Treasury team creates a monthly liquidity pack for the CFO which includes a variance analysis on the daily cash balances the last month compared to forecast, together with the liquidity risk measures used, i.e. LCR, Survival Horizon and Nominal Liquidity Hurdle.

5.3.6.1.1 LCR

EnterCard reports the Liquidity Coverage Ratio (LCR) to the FSA in accordance with EU standards and regulations. LCR measures EnterCard's amount of HQLA relative to the net cash outflow in each of the currencies in which it conducts business under a stressed scenario over the coming 30 days. The LCR risk appetite is equal to the regulatory requirement, i.e. 100%. There is also a risk tolerance limit, set by the CEO, with a safety margin of 20%, meaning that the risk tolerance is 120%.

5.3.6.1.2 NSFR

Net Stable Funding Ratio (NSFR) shows EnterCard's ability to manage liquidity situations over a one-year horizon. It ensures that EnterCard's long-term illiquid assets are funded with a minimum amount of stable long-term funding. EnterCard's risk appetite for NSFR is equal to the coming regulatory requirement. There is also a risk tolerance limit, set by the CEO, of 110%. Both the risk appetite and the risk tolerance limit were set up in Q3 2017. The NSFR is measured and limited in each individual currency, in order to avoid a situation with a too large gap between funding and lending in any single currency.

5.3.6.2 Liquidity contingency plan

EnterCard has developed a Liquidity Contingency Plan. The purpose of the plan is to ensure a return to "business as usual" in the event of major liquidity disruption and to limit the damage and losses caused by serious events and maintain EnterCard's operation in prioritised functions. In order to be prepared for a liquidity shortfall, different measures for handling the consequences of different types of crisis are described in the plan. The contingency plan does not focus on the precise action plan but rather sets out the general framework of actions, which should help to promptly focus on improving liquidity in the case the contingency situation becomes a reality.

5.3.6.3 High quality liquid assets

EnterCard assesses its liquidity coverage by currency on a continuous basis based on the regulatory LCR requirements and the internal view on the need for liquidity. EnterCard assesses each month's stressed net cash outflow and holds a liquidity buffer enough to cover the stressed outflow from the credit card and loan products, plus the funding maturity that occurs within 30 days.

The investment mandates explains the securities allowed regarding issuers, time to maturity, etc. To ensure that the market value is valid and that the portfolio is liquid, part of the assets defined as level 2 under LCR need to be sold and repurchased on a regular basis. This is not done regularly for assets defined as level 1, since the credit quality and liquidity of these assets are deemed as higher.

EnterCard held an HQLA portfolio of 1,016m SEK, 1,091m NOK (corresponding to 1,120m SEK) and 266m DKK (corresponding to 365m SEK) as per December 31st 2018. The DKK portfolio contained only Danish government bonds, which are level 1 instruments where no haircuts are applied. The SEK portfolio also contained level 1 instruments only, but where a haircut is applied for the covered bonds. The NOK portfolio also contained mainly level 1 instruments, but also one level 2 covered bond. The SEK portfolio amounted to 1,015m SEK and the NOK portfolio to 1,056m NOK (corresponding to 1,084m SEK) after haircuts.

Table 12. Liquidity reserve and liquidity risk per 31 December 2018 and 2017

2018	Total	Distribution by currency SEK	NOK	DKK
Securities issued or guaranteed by government or central bank	**388,006**	0	22,957	365,049
Securities issued or guaranteed by municipalities or non-governmental public entities	**1,576,523**	990,325	586,198	0
Covered bonds issued by others	**439,892**	25,748	414,144	0
Securities issued or guaranteed by multilateral development banks	**96,831**	0	96,831	0
Total	**2,501,252**	**1,016,073**	**1,120,130**	**365,049**
Distribution by currency, %		40,6%	44,8%	14,6%

2017	Total	Distribution by currency SEK	NOK	DKK
Securities issued or guaranteed by government or central bank	**196,693**	0	23,017	173,675
Securities issued or guaranteed by municipalities or non-governmental public entities	**1,523,954**	1,413,287	110,668	0
Covered bonds issued by others	**245,023**	0	245,023	0
Securities issued or guaranteed by multilateral development banks	**59,643**	0	59,643	0
Total	**2,025,314**	**1,413,287**	**438,352**	**173,675**
Distribution by currency, %		69,8%	21,6%	8,6%

5.3.6.4 Funding strategy

Funding is sourced through the parent companies only. EnterCard's funding is provided in the local currencies. EnterCard has the right to go for external funding since June 2015, in accordance with the new joint venture agreement, but this has not been utilised so far.

The funding primarily relates to debt-funding of receivables. Funding is agreed every quarter with Swedbank's and Barclays' Treasury departments. The funding provided is for operational needs for the coming three months. EnterCard forecasts future funding needs as part of its quarterly, annual and three-year forecasting processes and stress tests. The forecast of the funding need is prepared on a regular basis in accordance with internal procedures and presented to the Treasury Committee for review and discussion. Beforehand, the material is presented to and endorsed by the CFO.

The Treasury team is responsible for executing EnterCard's funding process and that an adequate liquidity reserve is established and maintained, both from a regulatory perspective and based on EnterCard's own view of the need for liquidity. Like the funding for operational purposes, funding of the liquidity reserve is agreed on a quarterly basis.

6
Remuneration

6 Remuneration

Enter Card's overall approach to compensation is that the total compensation must be competitive and conform to market conditions as well as aligned with the requirements in the collective agreements. It also reflects the fundamental values of EnterCard: passionate, innovative and genuine, and supports business strategy, targets, long-term interests and vision.

As far as possible, the total compensation should be individually designed based on the employee's role, corporate grade, competence and experience as well as the contribution to the business, both when it comes to the performance and behaviour. The compensation process secures a healthy balance between fixed and variable pay, with a maximum percentage of 20% to 50% of the base salary, based on respective corporate grades. EnterCard believes it is important that compensation work as an incentive for value-creation for the benefit of the long-term sustainable growth, with a balanced approach to risk-taking, employee satisfaction and well-being, and long-term customer and shareholder value.

The variable compensation is linked to individual employee targets and EnterCard's overall performance. The Board of Directors has the right to take a discretionary decision on whether a part of the variable compensation that has been promised, should be held back. Whilst the guiding principle is to reward performance, it is possible that the total variable compensation could be set to zero under specific circumstances.

EnterCard diverges on the variable compensation for risk takers, i.e. staff whose professional activities have a material impact on the business' risk profile. The variable compensation program is cash based and the employees do not receive shares.

6.1.1 Decision-Making Process

The principles of variable compensation are governed in the Remuneration Policy. This policy is approved by the Board of Directors and includes all employees of EnterCard. The Chief HR & Strategy Officer is responsible for a recommendation to the Remuneration Committee of any applicable and necessary amendments and additions to the Remuneration Policy, based on a risk-analysis, and on input from the CEO, the Executive Committee, the Compliance function, and Internal Audit. Based on the recommendation of the Remuneration Committee, the Board of Directors will endorse the Remuneration Policy.

Variable compensation can be earned annually, based on assessments of financial and non-financial performance over a minimum of two years. This is to ensure both that the assessment is based on long-term sustainable profit earnings and that underlying business cycles and risks are considered when the profit-based compensation is paid out.

6.1.2 Principles of deferred payment

For employees identified as Risk-Takers, 60% of the variable compensation will be deferred over a period of three years. The deferred component is not awarded to the employee, until defined conditions have been satisfied by the Remuneration Committee, and confirmed by the Board. The deferred portion is paid out in cash.

6.1.3 Compensation 2018

The table below shows the outcome of the expense total amount of compensation divided into categories of senior executives, risk-takers and other employees.

EnterCard has the following categories, which are exercising or could exercise a significant influence on the risk level: The definition of Risk-Taker is further defined in Regulation (EU) No 604/2014, and FFFS 2011:1, but will typically include, although not limited to, the following group of employees: Employees in leading strategic- and control positions.

Table 13. EnterCard's distribution of compensation as per 31 December 2018 and 2017

2018	Senior management/ Risk-takers, 11 employees	Other staff, 441employees
Fixed remuneration	18,370	249,430
Variable remuneration earned during 2018	9,397	39,863
Paid out variable remuneration, earned during 2018 and previous years	3,367	2,952
Deferred variable remuneration earned this and previous years	11,740	7,702

2017	Executive management/ Risk takers 10 employees	Other staff 414 employees
Fixed remuneration	17,217	206,778
Variable remuneration earned during 2017	9,532	36,286
Paid out variable remuneration, earned during 2017 and previous years	3,174	4,160
Deferred variable remuneration earned this and previous years	7,435	5,316

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