



# Risk Management and Capital Adequacy Report

## Pillar 3 – 2017



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# Definitions

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

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# 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 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. Figure 1 shows the capital requirements under Pillar 1 and Pillar 2, and the internally set capital target and capital supply.

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 2017.

31.12.2017 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	26 370 445	26 370 445
Capital requirement - Pillar I	2 109 636	2 109 636
Capital requirement - Pillar II	125 704	125 704
Total Pillar I + II capital requirement	2 235 339	2 235 339
Total capital base	4 972 717	5 522 717
CET 1 ratio	18.9%	20.9%
Tier 1 ratio	18.9%	20.9%
Total capital ratio	18.9%	20.9%
Leverage ratio	15.1%	16.7%
Total internal capital target	14.8%	14.8%

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# 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 capital and risk management and is based on performance as per 31 December 2017.

This document has not been audited and does not form part of EnterCard Group AB 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.



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# Introduction



# 3 Introduction

EnterCard Group AB (hereby referred to as EnterCard) is a Swedish authorized credit institution with a Scandinavian presence through branches in Norway and Denmark. The company was established in 2005 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 1, 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 and offer 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. EnterCard is responsible for credit card related products for; Independent Savings banks (ISBs), The Co-operative Housing Federation of Norway (NBBL) and COOP in Norway; and Swedbank, Independent Savings banks, Landsorganisationen i Sverige (LO), Swedish Golf Association (Golf) and British Airways (BA) in Sweden; and LO in Denmark.

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

Today, EnterCard has approximately 1.7 million customers and approximately 420 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

## 3.2 EnterCard legal structure

### 3.2.1 New Company Structure

EnterCard simplified its legal entity structure, effective October 2nd 2017, by establishing one authorized credit market company in Sweden, with operational branches in the countries where EnterCard is currently active, i.e. Norway and Denmark. The new legal structure has made it possible for EnterCard to, to a larger extent, operate in line with the current strategy and thereby strengthening the internal governance and control, reduce administrative complexity and increase efficiency. The new legal structure is more consistent with the current operational management of the company.

## 3.3 Future developments

It is expected that the increasing acceptance of credit cards as a payment instrument continues. This forms the basis for continued growth in the number of cards and related loans in the market. EnterCard is planning further growth in prioritized segments of the market for credit and payment cards as well as consumer loans. It is expected that the company will have a positive economic development in the coming years. EnterCard expects a positive development based on the growing market for its products, specifically in the consumer loans segment, and general market- and economic situation.

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 booming 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 e-Wallet. 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 process improvements, 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.

## 3.4 Forthcoming regulations

The growth within consumer credit is continuing while at the same time the market is becoming more regulated. EnterCard is exposed to several upcoming regulations, including PSD2, and GDPR. During 2017, a number of projects have been in operation in order to have a focused approach in understanding the implications of these regulations, ensuring compliance and identifying commercial opportunities.

### 3.4.1 General Data Protection Regulation

The General Data Protection Regulation, GDPR, enters into force May 25th 2018. It is applicable in EU and EEA, impacting how personal data is handled in all countries where EnterCard operates. The regulation strengthens the data subject's rights and ownership of information about him or her by giving the data subjects more extensive rights and by imposing new or stricter demands on how EnterCard as a controller handles personal data, including what EnterCard must demand of third parties who process personal data on EnterCard's behalf. The regulation aims to harmonize how personal data is processed throughout the EU and the EEA. There are minor differences in the applicable legislation in the countries EnterCard operates, but the main principles, duties and rights are the same. In order to comply with the regulation, EnterCard has established a cross border GDPR project working to safeguard the implementation in all systems and processes, both externally towards customers, potential customers and third parties and internally towards EnterCard's employees.

### 3.4.2 Payment Services Directive II

The second payment service directive (PSD2) will enable third party suppliers to provide payment services using banks' and credit institutions' infrastructure and customer information. PSD2 will open the market to new third party payment suppliers increasing competition with the aim of making payments more innovative, efficient and swift. The purpose is also to ensure that payments are safe and secure. EnterCard will as an account servicing payment service provider be required to ensure that third party payment service providers can get secure access to customers' account information and initiate payments if this is requested by the customer. The non-technical requirements of PSD2 will be implemented into the payment service act in Sweden as of May 1st 2018 and the technical requirements of PSD2 will come into force Q3 2019.

### 3.4.3 IFRS9

In January 2018 EnterCard replaced IAS 39 with IFRS 9, the new accounting standard published by the

International Accounting Standards Board addressing classification and measurement of financial instruments, hedge accounting and impairment of financial assets. The latter of which is the only change expected to have a material impact on EnterCard's financial reporting. Under IFRS 9, all credit exposure that is subject to Impairment accounting will be subject to an Expected Credit Loss (ECL) calculation and thus will incur a credit loss provision. This compares to IAS 39, under which only exposure hitting certain "triggers" would incur a credit loss provision. As a result, EnterCard will incur a one-off increase in credit loss provisions, as provision levels for existing credit exposures are adjusted to the new standard.

#### 3.4.4 Consumer Credit Market

During 2017, several new rules regulating the consumer credit market have been proposed or implemented. In July 2017 The Norwegian FSA issued new guidelines on consumer loans, implementing:

- New limits for how long a loan term may be
- An obligation to demand down payments and set a specific term
- Terms for refinancing and credit assessment, including an obligation to calculate for a 5 % interest increase
- Boundary for loans which result in a total debt of over 5 times household income before taxes.

The guidelines apply to Norwegian institutions and branches operating in Norway. The Norwegian FSA has stated that adherence to the new guidelines will be a focus point for their supervision in 2017. A questionnaire was issued in January, aiming to chart the banks' and credit institutions' compliance with the guidelines.

#### 3.4.5 Marketing Act (Norway)

Rules on the marketing of credit were also changed and made stricter by enforcing restrictions in the marketing legislation and industry standards in Norway. In December a new Finansavtalelov (law on financial agreements) was proposed that included a duty to deny consumer loan. Under the present regulation, the credit institution is obliged to advise the customer against taking the loan. The new Finansavtalelov also suggests a prohibition against unreasonable high interest rates. It is not yet decided what will be regarded as unreasonable interest rates, however as a responsible lender EnterCard does not expect to be impacted by the regulations. EnterCard will monitor the development closely.

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# Capital



## 4 Capital

The capital adequacy regulations sets 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.

# 18.9%

EnterCard's capital ratio after dividend as per 31 December 2017

### 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 figure 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 will be proposed in the Financial Statements and Annual Report for the year ending 31 December 2017.

EnterCard's capital ratio after dividend 18.9% as per 31 December 2017, significantly above the internal risk appetite of 14.8%, which gives a capital surplus of 1,079 mSEK above internal requirements. EnterCard thereby holds sufficient capital as per 31 December 2017.

Table 1. Key Ratios EnterCard 2017

31.12.2017 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	26 370 445	26 370 445
Capital requirement - Pillar I	2 109 636	2 109 636
Capital requirement - Pillar II	125 704	125 704
Interest rate risk	10 318	10 318
Concentration risk	91 583	91 583
Pension risk	23 616	23 616
Counterparty risk	186	186
<b>Total Pillar I + II capital requirement</b>	<b>2 235 339</b>	<b>2 235 339</b>
Total capital base	4 972 717	5 522 717
CET 1 ratio	18.9%	20.9%
Tier 1 ratio	18.9%	20.9%
Total capital ratio	18.9%	20.9%
Leverage ratio	15.1%	16.7%
Total internal capital target	14.8%	14.8%
Sum internal capital requirement	3 893 128	3 893 128
Surplus of capital above risk appetite	1 079 588	1 629 588

#### 4.1.2 Tier 1 and Tier 2 capital

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

EnterCard's capital base amounted 4,972mSEK per 31 December 2017, of which 100% is Common Equity Tier 1.

Table 2. Tier1, Tier 2 and Capital Base 2017

Capital Base (kSEK)	Foreseeable dividends	Before dividends
	31.12.2017	31.12.2017
Share capital	5 000	5 000
Retained earnings	5 096 587	5 646 587
Accumulated other comprehensive income	0	0
Deductions intangible assets	-123 206	-123 206
Deductions deferred tax assets	-5 664	-5 664
<b>Total Common Equity Tier I Capital</b>	<b>4 972 717</b>	<b>5 522 717</b>
Additional Tier 1 Capital	0	0
<b>Total Tier 1 Capital</b>	<b>4 972 717</b>	<b>5 522 717</b>
Subordinated loan	0	0
<b>Total Tier II Capital</b>	<b>0</b>	<b>0</b>
<b>Total Capital</b>	<b>4 972 717</b>	<b>5 522 717</b>

### 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, market and operational risks.

EnterCard holds capital for credit risk and operational risk. 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. 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 3. Capital requirements**

Capital requirements (kSEK)	31.12.2017
<b>Total risk exposure amount</b>	<b>26 370 445</b>
Credit risk	19 179 983
Operational risk	4 250 245
Market risk	2 940 218
<b>Capital requirement - Pillar I</b>	<b>2 109 636</b>
Credit risk	1 534 399
Operational risk	340 020
Market risk	235 217
<b>Capital requirement - Pillar II</b>	<b>125 704</b>
Interest rate risk	10 318
Concentration risk	91 583
Pension risk	23 616
Counterparty risk	186
<b>Total Pillar I &amp; II capital requirement</b>	<b>2 235 339</b>

### 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 latter being the weighted average of the countercyclical buffer in the three countries that EnterCard operates in (2.0% in Sweden, 2.0% in Norway and 0.0% in Denmark).

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 2017, EnterCard’s total internal capital requirement was equal to 14.8%.

All buffers are held in Common Equity Tier 1 capital.

**Table. 4. Capital buffers 2017**

Capital buffers (kSEK)	31.12.2017
Capital conservation buffer (2.5%)	659 261
Institution-specific countercyclical buffer (1.8%)	471 119
Internal buffer (2%)	527 409

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, e.g. the amount of capital corresponding to the required percentage of total risk exposure amount. Total capital ratio before dividend was 20.9%. Considering the proposed dividend of 550 MSEK, the total capital ratio is 18.9% after dividend.

**Fig. 1. EnterCard regulatory and internal capital targets per 31 December 2017**

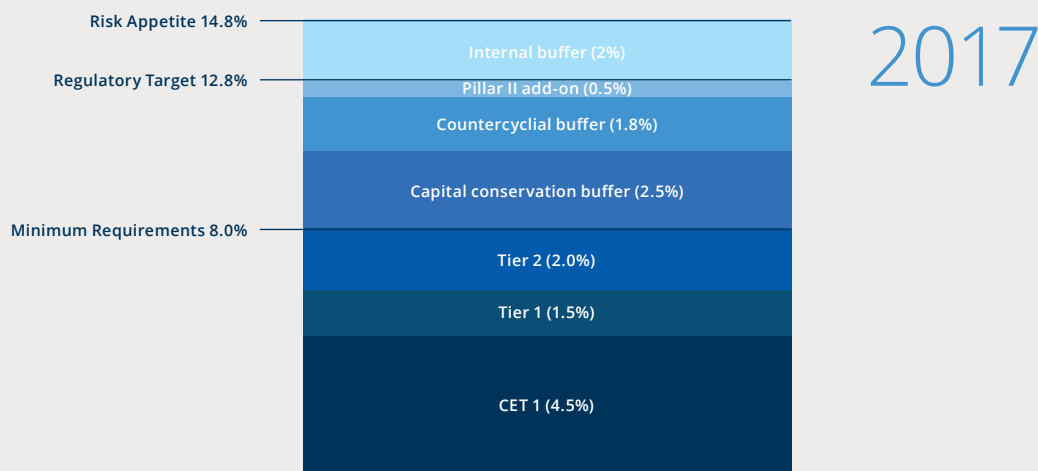
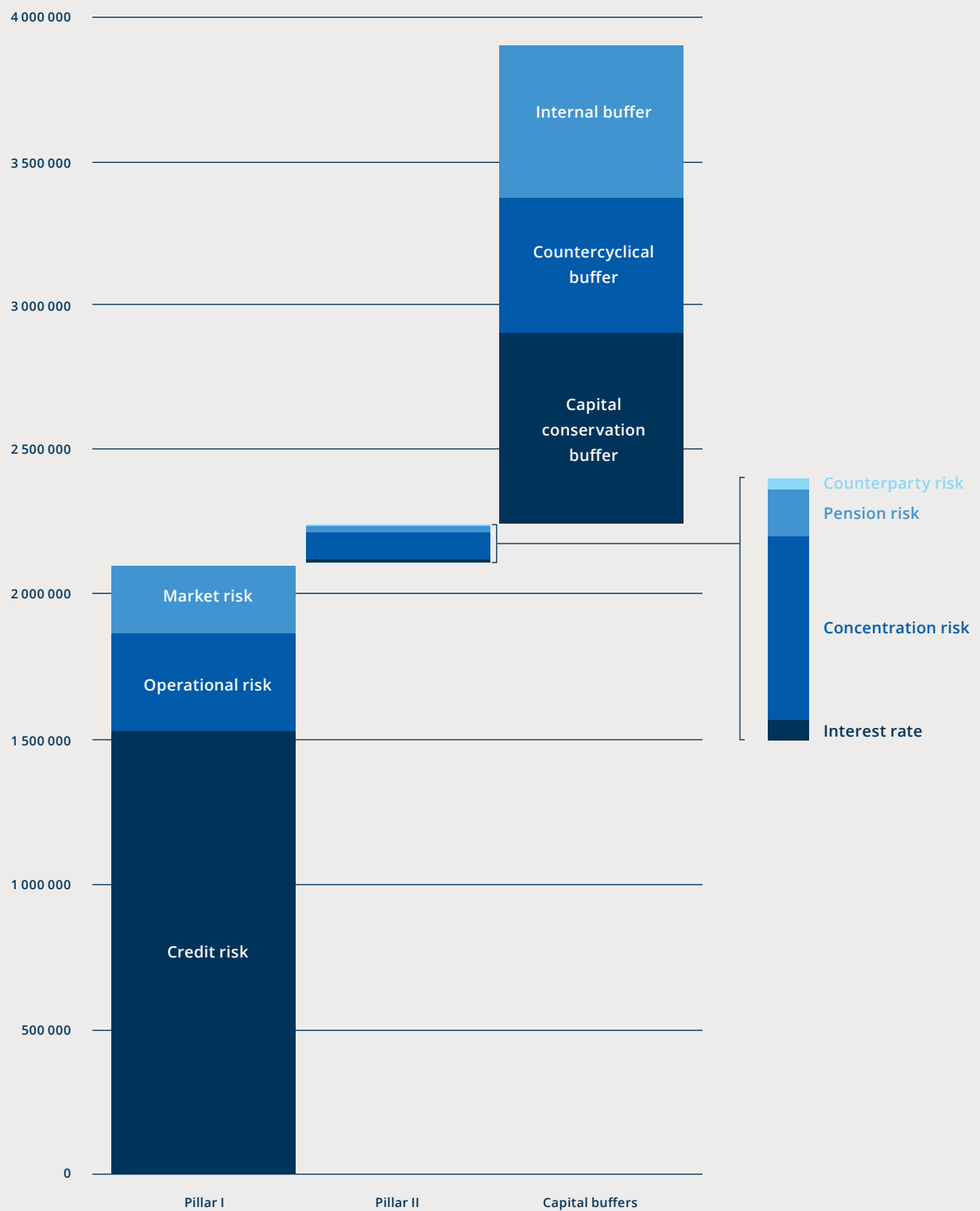




Fig 2. EnterCard minimum total capital requirement per 31 December 2017 (kSEK)



## 4.2 Capital management and control

EnterCard ensures that capital management remains within the internal 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 and short term plan 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 2017. It also shows that EnterCard will hold sufficient capital in a stressed scenario the next three years.

### 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 2017, a scenario-based stress testing exercise was undertaken by EnterCard. Impairment in the stressed scenarios is simulated using IFRS9 principles.

Spanning over the period 2018-2020, 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 macroeconomic forecasts including unemployment rate, base rate of borrowing, inflation and GDP are considered when stressing the portfolio.

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.

### P/L Stress Testing

The P&L, together with different Key Value Drivers (KVDs) have been stressed using the aforementioned macro scenarios above. The KVDs used are turnover, gross

balances and Interest Earning Lending (IEL). EnterCard has a PBT well above zero in both the adverse and severely adverse scenario.

#### 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 have an effect on the capital base, while the 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 scenario.

#### Operational Stress Testing

A 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.

These three simulations significantly stress the operational risk exposure and are applied to estimate EnterCard's capital need for Pillar 2. 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, different modes are established 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.

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Risk



# 5 Risk

## 5.1 Board's declaration of risk management

### 5.1.1 Risk declaration

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.

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 2017.

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. 5. Charge-off per 31 December 2017**

	Sweden	Norway	Denmark
Charge-off ratio Credit Cards <i>risk appetite</i>	5.5%	7.6%	8.2%
Charge-off ratio Credit Cards <i>actual</i>	2.87 %	7.09%	3.98%
Charge-off ratio Consumer Loans <i>risk appetite</i>	18.0%	18.0%	n/a
Charge-off ratio Consumer Loans <i>actual</i>	8.95%	14.59%	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 shows EnterCard's internal liquidity measure, the Survival horizon, and the regulatory liquidity measure, the Liquidity coverage ratio (LCR), and 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 2017

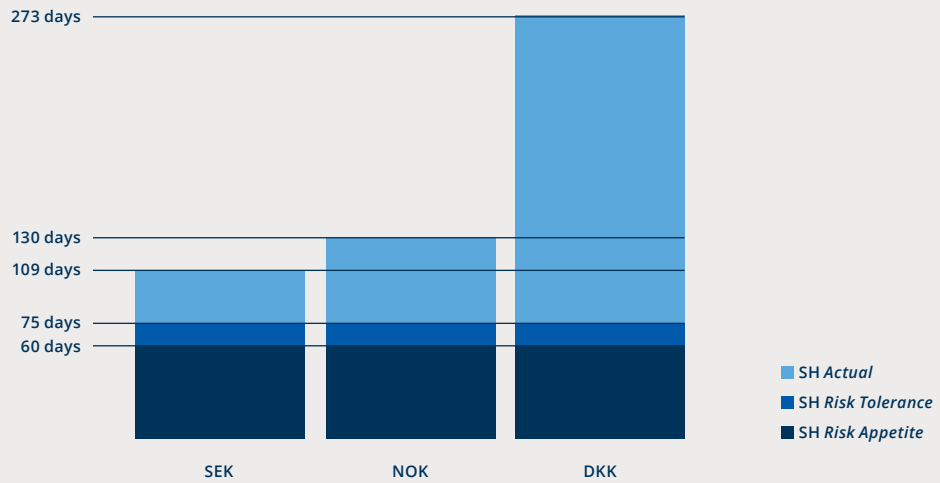
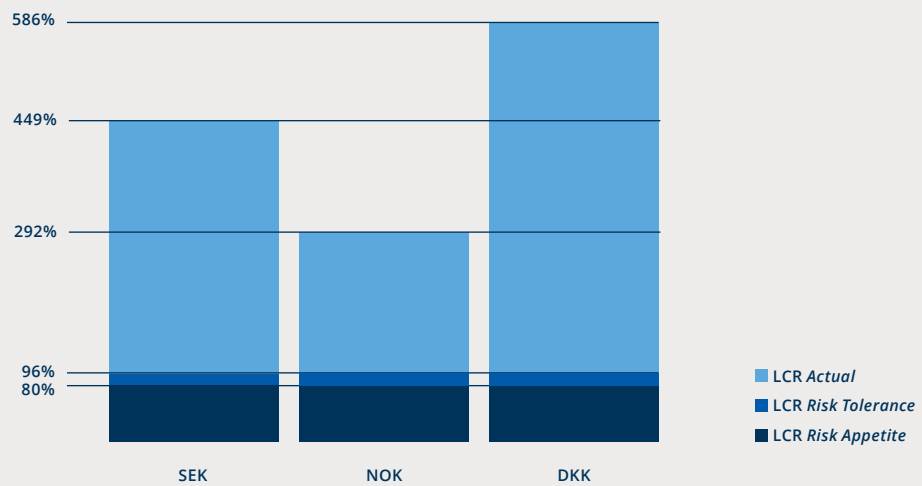
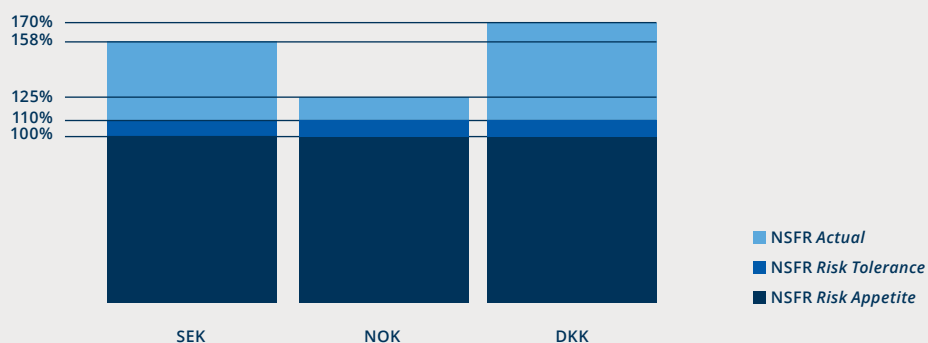


Fig. 4. LCR per 31 December 2017



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. NSFR per 31 December 2017



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. The table below illustrates the interest rate risk sensitivity analysis per 31 December 2017 is well within the risk appetite.

Table. 6. Interest rate risk sensitivity, risk % of capital base per 31 December 2017

	EnterCard Group
200 bp parallel shift risk appetite	10%
200 bp parallel shift risk tolerance	7%
200 bp parallel shift actual	0.21%

EnterCard will implement IFRS9 impairment standards from January 1st 2018. The implementation will result in decreasing the capital base due to increased impairment with 473m SEK. This does not affect the profit and loss, but the capital base will be reduced with 369m SEK (after tax) from January 1st, both in the base case and in the stressed scenarios.

## 5.2 Risk management and control

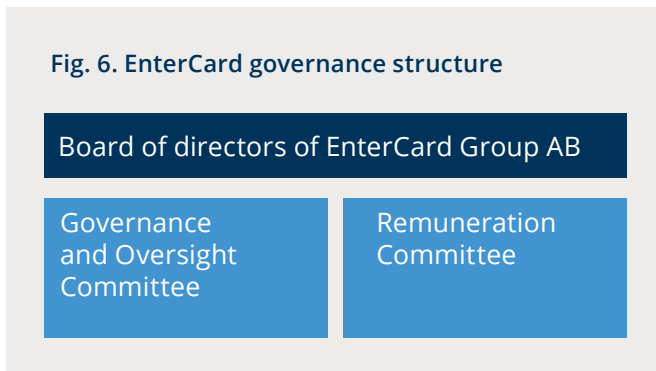
To achieve EnterCard’s business goals regarding growth, profitability and economic stability it is necessary to continuously balance the goals of EnterCard against the associated risks. These risks are analysed through the enterprise view EnterCard has on business processes.

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 dominating risk. 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**



**Fig. 6. 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. 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, Internal Control Policy, Compliance Policy and the CEO Instruction for Risk and Control.

**5.2.3 The Risk and Control Framework**

EnterCard’s risk and control framework is built on the three lines of defences.

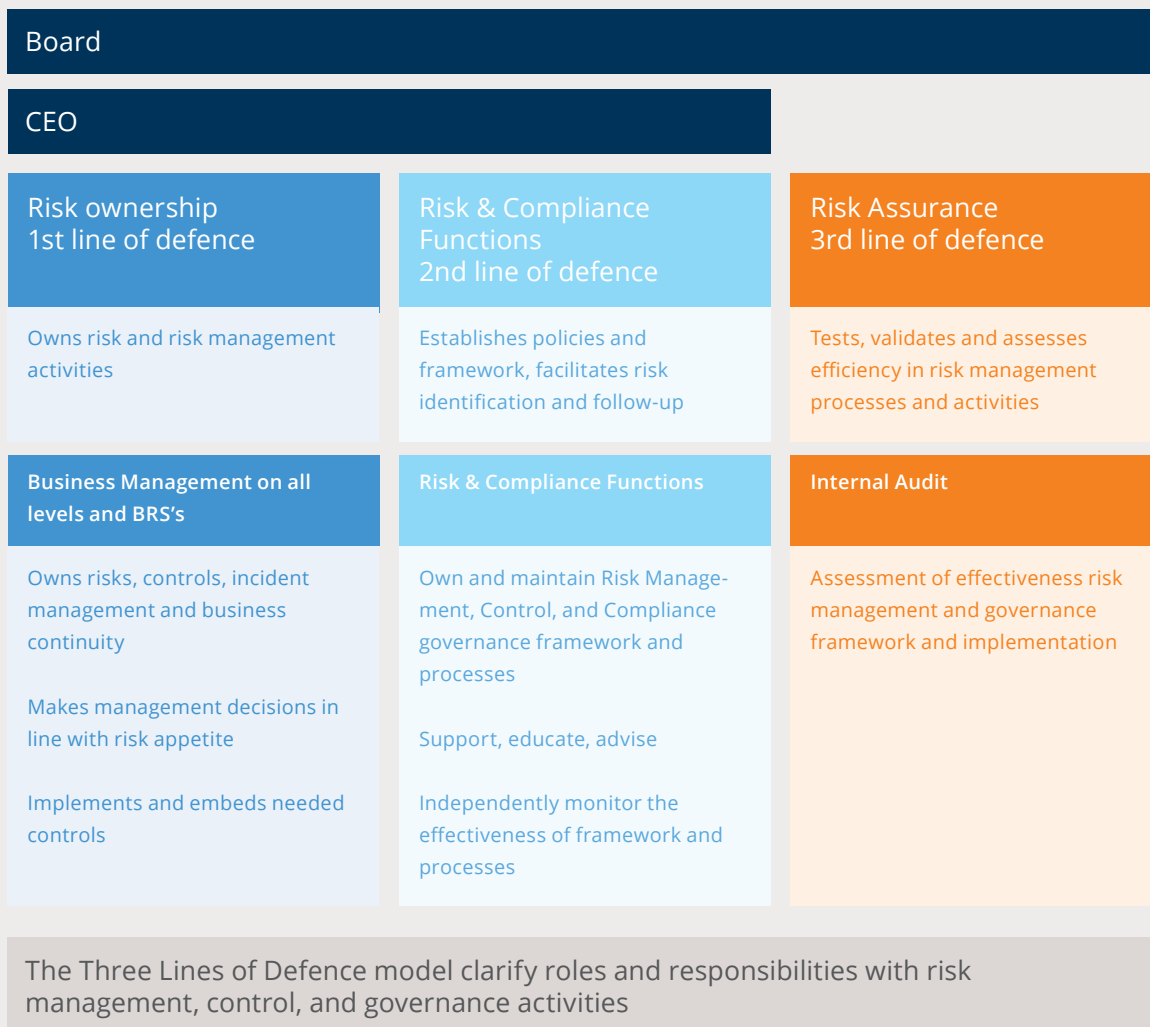
The first line of defence refers to all risk management activities carried out by the business operations and its support functions. The risk owners are supported by Business Risk Specialist (BRSS) which are placed in the first line to support the risk profiling process. The BRSS’ primary task is to support the risk owners with the identification and assessment of the risks as well as management response and mitigating actions. In addition, the BRSS support the risk owners with update of business continuity plans and follow up on eventual audit observations.

The second line of defence refers to the Group Risk and Control (“GRC”) function, responsible for keeping a competence pool for all risk categories and to aggregate and give an independent and holistic view of the risks faced by EnterCard. The GRC function provides independent reporting on the risk profile to the CEO and to the Board of Directors. The GRC function will review/challenge the risk assessments to ensure that the business operates within the tolerance limits set and escalate whether risk appetite levels are at risk and also challenge the risk owners on the assessment if necessary. The GRC function will also conduct a control assessment of first line’s self-assessment of the controls to ensure that controls are operating efficiently. The compliance specialist is responsible for the compliance management within the EnterCard operating entities.

The third line of defence refers to the Internal Audit function which is governed by and reports to the Board of Directors. EnterCard has an internal audit function which on behalf of the Board of Directors evaluates and audits.



Fig. 7. EnterCard three lines of defence model



**5.2.3.1 Entercard operating model**

**EnterCard Board**

EnterCard Group AB is governed by the Board of Directors of EnterCard, which consists of representatives from both Barclays Bank and Swedbank. The Board is responsible for the overall strategic management and supervision of EnterCard. The Board will actively decide on principles for the issuance of policies, instructions and other documents and evaluate financial, credit, operational and other relevant risks including appetites for such risks.

**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 GOC also prepares issues for evaluation by the Board. The GOC is appointed by the Board after consultation with the parents. The GOC consists of two Board members and two risk specialists from each of EnterCard's parent companies, Barclays Bank and Swedbank. In addition to the GOC members, the quarterly GOC meetings are attended by the CEO, Chief Financial Officer, Chief Credit Officer and the Chief Risk Officer.

**Remuneration Committee**

The Remuneration Committee is established by the Board of Directors, and is responsible for preparing, assessing and proposing principles for compensation. The Board of Directors appoints members of Remuneration Committee, two board members amongst whom the chair alternates; and two representatives of the shareholders, one of whom is a representative of Barclays Bank Plc and one of whom is a representative of Swedbank AB. The representatives shall possess proven experience of compensation and risk analysis in order to assess if the compensation program is appropriate, and in line with the Remuneration Policy, the set targets, risk tolerance and long-term sustainability. The Committee convenes quarterly bi-annually, or with the frequency decided by the chair. During 2017 the Remuneration Committee has had 3 meetings.

**Chief Executive Officer (CEO)**

The CEO is responsible for the management of the day-to-day operations of EnterCard in line with the Board’s policies and instructions. The CEO is also 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. Further, the CEO is responsible for monitoring the overall capitalisation and the capital adequacy as well as the overall liquidity 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 the Group’s activities are identified. The CEO’s responsibilities and authority complies 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 Risk Officer (CRO)**

The CRO leads the Group Risk and Control function (the “GRC”) 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.

**Compliance**

The Compliance function is, from a second line point of view, responsible for the compliance management within EnterCard. The CS reports to the CRO. In addition, the Compliance function has a responsibility to provide compliance reports to the CEO and to the GOC.

**Risk Management Committee**

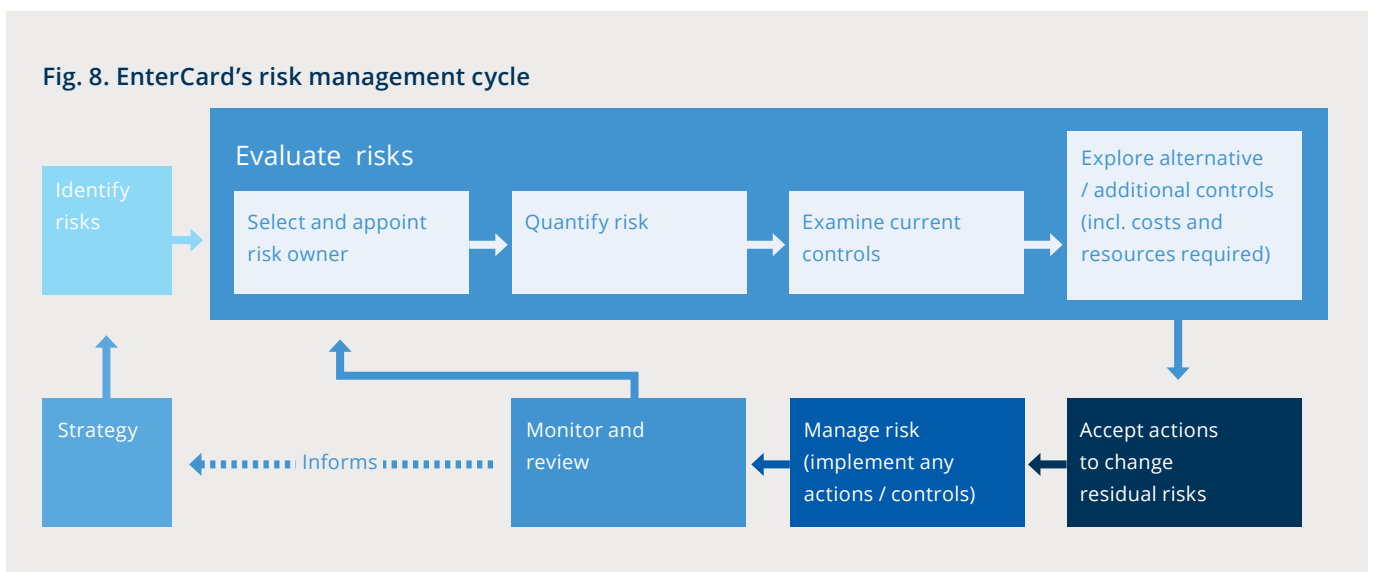
The purpose of the EnterCard Risk Management Committee is to review, oversee and optimise the credit risk performance of the lending portfolios. The Committee is accountable to the CEO for both setting the direction and ensuring the appropriate control of credit risk matters that contribute to the Strategic,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

**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**



## 5.3 Risk areas

EnterCard has identified the relevant 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

The predominant risk facing EnterCard is credit risk. Credit risk, and subsequently counterparty credit risk, are the risks that EnterCard's counterparties does not fulfil their payment obligations, with EnterCard either receiving late or non-receipt of payments. The Board holds the overall responsibility and oversight for EnterCard's credit risk exposure.

EnterCard lending is striving towards ambitious objectives in terms of ethics, quality and control. Even though credit risk, through lending to the public, is EnterCard's single largest risk exposure, credit losses in relation to outstanding credit volume are relatively small at 2.2%.

EnterCard conducts active monitoring and optimising of the portfolios' credit risk. The decision to grant credit requires that there are sound grounds to expect that the borrower can fulfil his or her commitment to EnterCard. The assessment is primarily performed through both general credit rules and internal and external credit scoring models.

Credit risks are monitored through different surveillance systems to ensure that counterparties are fulfilling their commitments towards EnterCard. In case of late payment or an assessment that the counterparty is not able to fulfil his or her commitment, the credit card will be blocked. The maximum credit risk corresponds to the financial assets' book value.

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 a limited investment risk through a portfolio of HQLA, held to mitigate EnterCard's liquidity risk. The credit quality of the assets is very high and consists of exposures to municipalities, governments and covered bonds.

Credit risk also encompass concentration risk, estimated using the Herfindahl index, which examines exposures and concentrations in the credit portfolio specific to counterparties, sectors or geographical areas. The risk occurs mainly in the form of geographical concentration when EnterCard offers lending to the public in Scandinavia. 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 7. Distribution by exposure amount by classes for EnterCard per 31 December 2017 and 2016 (kSEK)**

## Risk exposure amount and own funds requirements for credit risks 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
<b>Total</b>	<b>19 185 647</b>	<b>1 534 852</b>
<b>Total capital requirement for credit risk according to the standardised approach</b>		<b>1 534 852</b>

## Risk exposure amount and own funds requirements 2016

Exposure classes	Risk exposure amount	Own funds requirement
Institutional exposures	415 943	33 275
Retail exposures	15 891 957	1 271 357
Regional governments or local authorities exposures	1 166	93
Corporate exposures	7 773	622
Other exposures	793 817	63 505
<b>Total</b>	<b>17 110 656</b>	<b>1 368 852</b>
<b>Total capital requirement for credit risk according to the standardised approach</b>		<b>1 368 852</b>

The table below shows EnterCard's impaired exposures by industry type per 31 December 2017 compared to 31 December 2016.

**Table. 8. EnterCard provisions and impaired loans per 31 December 2017 and 2016**

2017 Industrial sector	Book value before provisions	Specific provisions for individually assessed loans	Provisions for collectively assessed homogenous groups	Book value of loans after provisions	Book value for impaired loans
Private customers	25 121 594	0	1 348 983	23 772 611	750 430
Corporate customers	421 983	8 025	0	413 959	1 600
<b>Loans</b>	<b>25 543 578</b>	<b>8 025</b>	<b>1 348 983</b>	<b>24 186 570</b>	<b>752 030</b>
Credit institutions	2 650 169	0	0	2 650 169	0
<b>Total lending to credit institutions and public</b>	<b>28 193 747</b>	<b>8 025</b>	<b>1 348 983</b>	<b>26 836 739</b>	<b>752 030</b>

2016 Industrial sector	Book value before provisions	Specific provisions for individually assessed loans	Provisions for collectively assessed homogenous groups	Book value of loans after provisions	Book value for impaired loans
Private customers	22 409 828	0	1 219 383	21 190 445	453 833
Corporate customers	390 871	8 150	0	382 721	1 542
<b>Loans</b>	<b>22 800 699</b>	<b>8 150</b>	<b>1 219 383</b>	<b>21 573 166</b>	<b>455 375</b>
Credit institutions	2 078 654	0	0	2 078 654	0
<b>Total lending to credit institutions and public</b>	<b>24 879 352</b>	<b>8 150</b>	<b>1 219 383</b>	<b>23 651 819</b>	<b>455 375</b>

### 5.3.2 Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or procedures, human errors, faulty systems or external events. The definition includes legal risk and compliance risk. Through a rigorous Information and IT security framework, combined with internal controls and audit, operational risk events are limited as far possible, whilst taking a balanced view of what is economically viable to mitigate. The majority of operational risk events are due to external fraud.

EnterCard periodically performs self-evaluation of operational risk for all important processes. Managers ensures identification, assessment and treatment of

operational risks inherent in their respective area. Appropriate mitigation techniques are set to limit or reduce the impact of these risks and the effectiveness of the mitigation techniques should be periodically monitored.

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 147m SEK compared to regulatory minimum of 340m SEK. This leaves a surplus of 193m SEK.

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

#### Capital requirements for operational risk

Risk exposure amount	4 250 245
Capital requirements according to the standardised approach	340 020
<b>Total Capital requirement for operational risk</b>	<b>340 020</b>

#### 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 general public. Reputational risk is a secondary risk and 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 which may be a consequence of a reputational impact. For example, one of the scenarios includes downtime in one of EnterCard's systems which result in loss of confidence from customers.

#### 5.3.3 Market risk

Market risk refers to the risk that the market value of a financial instrument or future cash flows from a financial instrument is affected by the changes in market prices. EnterCard is exposed to market risks in the form of interest rate risk and currency risk.

#### 5.3.3.1 Interest rate risk

Interest rate risks are structural and arise when there is a mismatch between the interest fixing periods of assets and liabilities. EnterCard minimises the interest rate risk by matching the interest rate duration of the liabilities with the interest rate duration of the assets. Since EnterCard's lending mainly consists of floating interest rate, EnterCard has chosen to fund a large part of these assets with a floating interest rate. The interest rate risk is deemed low and is continuously monitored by Treasury and by the Risk Control function.

The below 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 in of a parallel shift of the same size.

**Table. 10. Interest rate risk sensitivity per 31 December 2017, compared to 2016 (kSEK)**

	Market interest rate -1 percent		Market interest rate +1 percent	
	2017	2016	2017	2016
< 3 Months	1 651	3 539	-1 632	-3 500
3-6 Months	-1 480	-1 857	1 460	1 831
6-12 Months	1 453	-8 990	-1 428	8 833
1-2 Years	2 914	-14 018	-2 842	13 670
2-3 Years	0	1 336	0	-1 289
3-4 Years	817	0	-781	0
<b>Total</b>	<b>5 354</b>	<b>-19 990</b>	<b>-5 222</b>	<b>19 545</b>

### 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 are converted to SEK, which gives a currency exposure since the value in SEK fluctuates with the FX rate. EnterCard will exchange profits in DKK to SEK on a regular basis, when the amount of own funds in DKK are deemed significant, but the accumulated profits in NOK is in general not exchanged to SEK. This means that EnterCard has a significant amount of own funds in NOK and that the value of EnterCard's own funds is significantly exposed to the NOK/SEK rate. EnterCard has a REA of 2,940 MSEK and a capital requirement of 235.2 MSEK for currency risk under Pillar 1.

A change in the currency rate will never threaten 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 on local currency.

### 5.3.4 Strategic and business risk

EnterCard is aware of the need to continuously assess its strategic and business risks. 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 for EnterCard 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

EnterCard's benefit plans for current and former employees represent a potential risk when changes in pension obligations and pension assets can affect Enter-

Card's capital negatively. Pension benefits are provided in accordance with formal plans or other formal agreements between EnterCard and individual employees or their representatives, such as firms' collective agreements for occupational pensions.

The pension risk is the risk that these obligations and the managed pension assets referable there to may increase. 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 23.6m 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 2017 and 2016 (kSEK)**

Remaining maturity 2017	<3 Months	3-12 Months	1-5 Years	5-10 Years	No maturity	Total
Loans to credit institutions	2 650 169	0	0	0	0	2 650 169
Loans to the public	24 109 850	13 322	63 397	0	0	24 186 570
Bonds and other interest-bearing securities	0	237 823	1 519 415	235 001	-	1 992 239
Prepaid expenses and accrued income	107 622	49 289	2 346	0	0	159 258
Other assets	98 920	5 664	60 707	0	126 769	292 060
<b>Total assets</b>	<b>26 966 562</b>	<b>306 099</b>	<b>1 645 865</b>	<b>235 001</b>	<b>126 769</b>	<b>29 280 296</b>
Amounts owed to credit institutions	1 578 940	5 852 962	15 535 023	0	0	22 966 924
Other liabilities	191 355	175 492	20 750	0	0	387 597
Accrued expenses and prepaid income	101 183	182 539	23 541	0	0	307 263
Subordinated liabilities	0	0	0	0	0	0
Equity	0	0	0	0	5 618 512	5 618 512
<b>Total liabilities and equity</b>	<b>1 871 477</b>	<b>6 210 992</b>	<b>15 579 314</b>	<b>0</b>	<b>5 618 512</b>	<b>29 280 296</b>
Remaining maturity 2016	<3 Months	3-12 Months	1-5 Years	5-10 Years	No maturity	Total
Loans to credit institutions	2 078 654	0	0	0	0	2 078 654
Loans to the public	21 424 846	36 979	111 341	0	0	21 573 166
Bonds and other interest-bearing securities	190 472	203 839	1 805 894	49 386	0	2 249 591
Prepaid expenses and accrued income	107 236	62 216	2 547	0	0	171 999
Other assets	114 333	12 261	64 575	0	125 757	316 926
<b>Total assets</b>	<b>23 915 541</b>	<b>315 295</b>	<b>1 984 358</b>	<b>49 386</b>	<b>125 757</b>	<b>26 390 335</b>
Amounts owed to credit institutions	1 841 252	3 427 739	15 118 771	0	0	20 387 761
Other liabilities	227 378	174 582	52 546	0	0	454 506
Accrued expenses and prepaid income	100 016	187 678	15 626	0	0	303 320
Subordinated liabilities	0	0	0	0	50 539	50 539
Equity	0	0	0	0	5 194 209	5 194 209
<b>Total liabilities and equity</b>	<b>2 168 646</b>	<b>3 790 000</b>	<b>15 186 942</b>	<b>0</b>	<b>5 244 747</b>	<b>26 390 335</b>

### 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 internal risk appetite 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 as a short term liquidity measure. 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 threshold of 100m SEK, 100m NOK and 50m DKK.

Control and supervision of liquidity risk is managed by the Treasury and the GRC function, who frequently report to the Senior management and the Board. Treasury creates a weekly dashboard and a monthly liquidity pack for the management and CFO which



includes survival horizon, Nominal Liquidity Hurdle and HQLA reserve.

#### 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 the regulatory requirement. The tolerance limit, decided by the CEO, includes a buffer of 20%, i.e. for 2017 the risk appetite was 80% and the tolerance limit was 96%.

#### 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. NSFR is reported externally on a regular basis. From 2018, there will be a quantitative regulatory requirement on NSFR, in accordance with EU standards and regulations. During 2017, EnterCard implemented a risk appetite of 100% and a risk tolerance level of 110% for NSFR.

According to EnterCard’s view on the Basel Committee’s most recent proposal the NSFR of 148% at a consolidated level with SEK, NOK and DKK at 158%, 125% and 170%, respectively.

#### 5.3.6.2 Liquidity contingency plan

EnterCard has developed a liquidity contingency plan. The purpose is to ensure a return to “business as usual” in the event of major liquidity disruption. The main purpose of liquidity continuity planning is to limit the damage and losses caused by serious events and maintain EnterCard’s operation in prioritised functions. The liquidity contingency plan aims to reducing risks, responding effectively and restoring normality. In order to adjust for liquidity shortfall, different measures for handling the consequences of different types of crisis situations 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 largest funding maturity that could occur in a 30-day period with current funding maturity structure.

The investment mandate 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 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 1,413m SEK, 438m NOK (corresponding to 438m SEK) and 132m DKK (corresponding to 174m SEK) as per December 31st 2017. The SEK and DKK portfolio contained only Swedish municipality bonds and Danish government bonds, which are level 1 instruments where no haircuts are applied. The NOK portfolio also contained level 1 instruments

Table. 12. Liquidity reserve and liquidity risk per 31 December 2017 and 2016

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
<b>Total</b>	<b>2 025 314</b>	<b>1 413 287</b>	<b>438 352</b>	<b>173 675</b>
<b>Total</b>	<b>2 025 314</b>	<b>1 413 287</b>	<b>438 352</b>	<b>173 675</b>
Distribution by currency, %		69.8%	21.6%	8.6%

2016	Total	Distribution by currency		
		SEK	NOK	DKK
Securities issued or guaranteed by government or central bank	554 106	0	102 435	451 670
Securities issued or guaranteed by municipalities or non-governmental public entities	1 482 202	1 387 509	94 693	0
Covered bonds issued by others	155 091	0	155 091	0
Securities issued or guaranteed by multilateral development banks	58 193	47 157	11 037	0
<b>Total</b>	<b>2 249 591</b>	<b>1 434 666</b>	<b>363 255</b>	<b>451 670</b>
<b>Total</b>	<b>2 249 591</b>	<b>1 434 666</b>	<b>363 255</b>	<b>451 670</b>
Distribution by currency, %		63.8%	16.1%	20.1%

only, but where a haircut is applied for the covered bonds. The NOK portfolio amounted to 421m NOK (corresponding to 421 MSEK) after haircuts.

#### 5.3.6.4 Funding strategy

Funding is exclusively provided through EnterCard's parents Swedbank AB and Barclays Bank PLC. EnterCard's is funded by unsecured loans from parents with a maturity that matches behavioural outstanding balances and ensures long term funding.

Funding is agreed every quarter through the Treasury Forum; however, if required, additional funding can be requested at any time. The funding provided is for operational needs and for acquiring HQLA for the coming three months. EnterCard forecasts future funding needs as part of its quarter, annual and three year forecasting processes.

#### 5.3.7 Financial recovery plan

EnterCard has in place a financial recovery plan to manage a severe financial crisis which threatens capital or liquidity adequacy to avoid a state of non-viability. The objective of the plan is to put in place measures (recovery options) to restore capital or liquidity so that EnterCard can operate sustainably and viably. The recovery plan follows 11§ of FFFS 2016:20, in accordance with decision from the FSA, which establishes a framework for the recovery and resolution of credit institutions, investment firms and related entities. The principle of proportionality has been applied as EnterCard does not fall into the category of a systemically important financial institution.

6

# Remuneration



# 6 Remuneration

EnterCards overall approach to compensation is that 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, 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 behavior. 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 works 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 GRC, 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 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 2017

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 is exercising or could exercise a significant influence on the risk level:

- Employees on the Executive Committee
- Employees in leading strategic positions
- Leaders of control functions
- Employees responsible for granting credit
- Risk-taker, as defined by EU regulation, No 604/2014

Table 13. EnterCard's distribution of compensation per 31 December 2017 compared to 2016

	Senior 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

	Senior management 11 employees	Risk-takers 28 employees	Other staff 396 employees
Fixed remuneration	17 804	25 100	182 363
Variable remuneration (bonus 2016)	7 063	6 240	25 675
Paid out (March 2017) Variable remuneration 2016 and deferred previous years	6 646	7 114	25 675
Deferred variable remuneration 2016 and previous years	11 030	11 166	0

