

Risk Management and Capital Adequacy Report Pillar 3 - 2016

EnterCard consolidated situation
as at 31 December 2016

Approved by the Board of Directors 23 March 2017

CONTENTS

1	Executive summary	4
2	Purpose and scope	4
3	Introduction	5
3.1	EnterCard's business areas	5
3.2	Future developments	6
4	Capital	7
4.1	Capital adequacy regulation	7
4.1.1	Tier 1 and Tier 2 capital	7
4.1.2	Capital requirement Pillar 1	8
4.1.3	Capital requirement Pillar 2	8
4.1.4	Capital buffers	9
4.1.5	Key ratios and highlights 2016	10
4.2	Capital management and control	12
4.2.1	ICAAP	13
4.2.2	Stress testing	13
4.2.3	Capital Contingency Plan	14
5	Risk	14
5.1	Board's Declaration of risk management	14
5.1.1	Risk declaration	14
5.1.2	Risk statement	14
5.2	Risk management and control	16
5.2.1	Risk management processes	16
5.2.2	The Risk and Control Framework	18
5.2.3	Risk Appetite and Enterprise Risk Management Policy	19
5.3	Risk areas	20
5.3.1	Credit risk	20
5.3.2	Operational risk	25
5.3.3	Market risk	26
5.3.4	Strategic and business risk	27
5.3.5	Liquidity risk	27
5.3.6	Financial Recovery Plan	30
6	Remuneration	31

DEFINITIONS

Board: Board of Directors of EnterCard Holding

BRS: Business Risk Specialist

Capital ratio: Total capital expressed as a percentage of total risk exposure amount

CFO: Chief Finance Officer

CS: Compliance Specialist

CRD IV: 4th Capital Requirement Directives (Directive 2013/36/EU)

CRR: Capital Requirements Regulation (Regulation 575/2013/EU)

EnterCard: EnterCard consolidated Group; EnterCard Sverige AB, EnterCard Norge AS including EnterCard Danmark Branch

EnterCard Sweden: EnterCard Sverige AB

EnterCard Norway: EnterCard Norge AS (excluding EnterCard Danmark branch unless stated otherwise)

EnterCard Denmark: EnterCard Norge AS, Danish branch

ERM: The Enterprise Risk Management

ExCo: EnterCard Holding Executive committee

FSA: Financial Supervisory Authority; Finansinspektionen in Sweden

FFFS: Regulatory code from the Financial Supervisory Authority; Finansinspektionen Föreskrifter

GDPR: General Data Protection Regulation

GOC: Governance and Oversight Committee, accountable to the Holding Board

GRC: Group Risk and Control

HQLA: High quality liquid assets

ICAAP: Internal Capital Adequacy Assessment Process

ILAAP: Internal Liquidity Adequacy Assessment Process

LCR: Liquidity Coverage Ratio

NSFR: Net Stable Funding Ratio

RemCo: Remuneration committee

REA: Risk Exposure Amount

RO: Risk Officer

PSD2: Payment Service Directive 2

SH: Survival Horizon

TF: Treasury Forum

1 EXECUTIVE SUMMARY

EnterCard Group (in this document referred to as EnterCard) is required to provide information about risk and capital management in accordance with the Capital Requirements Regulation ("EU") No 575/2013 and the Swedish Financial Supervisory Authority (SFSA) regulation FFFS 2014:12. Pillar 3 report is yearly updated and published together with the annual report.

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 risk appetite and capital base.

31 December 2016 (kSEK)	Foreseeable dividends	Before dividends
Capital requirement - Pillar 1	1,928,533	1,928,533
Capital requirement - Pillar 2	150,493	150,493
Total Pillar 1 + 2 capital requirement	2,079,026	2,079,026
 Total capital base	 4,845,024	 5,110,674
Total capital ratio	20.1%	21.2%
Total internal capital target	15.1%	15.1%

Fig 1. EnterCard capital adequacy as per 31 December 2016

EnterCard is exposed to several key risks such as credit risk, market risk, liquidity risk, operational risk, pension risk and strategic & business risk. The report describes each risk area along with the corresponding risk appetite. All risks are within the risk appetite per 31 December 2016.

2 PURPOSE AND SCOPE

The purpose of this Pillar 3 report is to provide information on EnterCard's capital adequacy and risk management in accordance with regulatory disclosure requirements defined in Part Eight of the Capital Requirements Regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority (SFSA) regulation FFFS 2014:12 and 2010:7.

This report provides the market with comprehensive information about EnterCard's capital and risk management and is based on performance as per 31 December 2016.

The report is submitted by EnterCard; i.e. EnterCard Sverige AB with corporate identity number 556673-0593, EnterCard Holding AB with corporate identity number 556673-0585 and EnterCard Norge AS with corporate identity number 980 844 854. EnterCard Danmark with identity number DK30072030 is a wholly owned subsidiary of EnterCard Norge AS. EnterCard is seen as consolidated situation in accordance with European Parliament and Council Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (CRR) article 18.1, and shall thereby in accordance with applicable rules and regulations annually publish the Pillar 3 report.

The document has not been audited and do not form part of EnterCard's financial statements. However all the information provided in this report has been gathered from other sources that have been approved by the Board, such as ICAAP and annual report.

The Pillar 3 report was endorsed by the Board of Directors 23 March 2017.

3 INTRODUCTION

EnterCard consists of EnterCard Sverige AB (EnterCard Sweden), EnterCard Holding AB and EnterCard Norge AS (EnterCard Norway including the Danish branch). EnterCard Sweden and EnterCard Norway are both authorised credit institutions in each respective country. EnterCard Norway has also an established branch in Denmark. EnterCard is governed by The Board of EnterCard Holding. As described above, the entities in EnterCard is considered to constitute a consolidated situation as defined in CRR article 18.1. In accordance with the Special Supervision Act (SFS 2014:968), chapter 3 section 1, the Board of EnterCard Sverige AB is imposed the responsibility to ensure that the requirements for equity and risk management set forth in chapter 6, section 1 and section 2, second paragraph of the Banking and Financing Business Act are met on a consolidated group level. Detailed information on the Board of EnterCard Sverige AB can be found in the 2016 annual report for EnterCard Sverige AB.

The pillar 3 report is part of the capital adequacy framework that builds on the three pillars:

- **Pillar 1**
Pillar 1 provides rules for calculating the minimum capital requirements for credit risk, market risk and operational risks. EnterCard is not exposed to any interest rate risk under Pillar I, as it has no trading book, but holds capital for currency risk. 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). 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.
- **Pillar 3**
Pillar 3 requires institutions to disclose comprehensive information on risk management and associated capital.

3.1 EnterCard's business areas

EnterCard Holding AB is the parent company of EnterCard which operates in the Scandinavian market, with the issuance of credit cards as a primary business focus. The company was founded in 2005 by Barclays Bank, the largest credit institution providing credit cards financing in Europe, and Swedbank, a leading banking group in the Nordics and Baltics. EnterCard's focus of business is to distribute and market different types of credit cards under its own brand re:member as well as different partners' brands. Today, EnterCard has over 1.7 million customers and approximately 440 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

The business focus of EnterCard is to offer credit cards and consumer loans under its own brand, re:member, in all three Scandinavian countries, as well as offering credit cards and consumer loans in partnership with partners like LO in Sweden, Coop in Norway and LO in Denmark and approximately 50 different independent savings banks.

It is important for EnterCard to act as a responsible lender and provider by continually securing their customers using their credit cards in a safe and sound way and also ensure that reasonable credit levels are given to each individual customer.

EnterCard Holding AB is owned by Swedbank AB, 60% and Barclays Bank PLC, 40% through a joint venture. The Holding company holds a 100% ownership stake in two subsidiaries, EnterCard Sverige AB and EnterCard Norge AS, which also has a branch operating in the Danish market.

During 2016, EnterCard has continued its ambition of complementing the core business of issuing credit cards with also offering consumer loans through the own proprietary brand re:member, in order to further meet customer needs. Consumer loans have previously been launched in Norway and have during 2016 been expanded to Sweden, and as a test launch in Denmark. The consumer loans product is distributed through both cross selling to existing re:member credit card customers as well as through open channels, including traditional marketing channels and through agents and affiliates. Early results from the consumer loans launch indicate strong market appetite for EnterCard's products.

3.2 Future developments

The assessment is that the market for credit cards and consumer loans will increase in all the areas that EnterCard is acting in. Several new alternatives for payment, both digital as well as in-store, have been launched by different actors in the credit market during the past years. The card payment sector continues to have a good prospect for growth in all the markets where EnterCard is active.

The development towards more digital solutions continues as a result both to increased customer needs for convenience, speed and simplicity and advancements in technology. 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 creating 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.

EnterCard Group also has as an ambition to simplify its legal entity structure 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. EnterCard has during Q3 2016 submitted an application to the Swedish FSA in order to be granted authorization for EnterCard Holding AB to conduct financing business and to merge the currently authorized entities in Norway and Sweden into this company. The new legal entity structure will make it possible for EnterCard Group to a greater extent operate in line with our current strategy and thereby strengthening the internal governance and control, reduce administrative complexity and increase efficiency. Furthermore, the new legal structure is deemed to facilitate governance, risk control, effective internal audit and reduce operational risk. The legal structure after the merger process will also be more consistent with the current operational management of the company, which is already based on an integrated structure with multiple regional processes and functions.

4 CAPITAL

The capital adequacy regulation 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 regulation strengthens the connection between EnterCard's current risk profile and future risk profile. The EnterCard assessment of the capital need is assessed through regulatory minimum requirements, internal risk measurements and stress testing.

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 Financial Supervisory Authority (SFSA) FFFS 2014: 12 on regulatory requirements and capital buffers. Outcome refers to the calculation in accordance with the minimum capital requirements, called Pillar 1, the risk assessment and supervision, called Pillar 2; as well as capital under the combined buffer requirements.

EnterCard is a financial group and all companies are fully consolidated. 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 SFSA's regulations and general guidelines (FFFS 2008: 25) on Annual Reports in credit institutions and investment firms; and the SFSA's guidelines on regulatory minimum requirements and capital buffers.

Internal and external capital requirements are calculated, monitored and forecasted in the capital plan. EnterCard takes into consideration its current and future risk profile and internal risk assessment of the capital need. The regulations also require institutions to have procedures that make it possible to continuously assess and maintain capital, including specifying the amount, the type and the distribution, which are sufficient to cover the nature and level of risks already present in the business or risks that the business may be exposed to.

4.1.1 Tier 1 and Tier 2 capital

EnterCard's capital base primarily contains Common Equity Tier 1 (CET 1) capital and a subordinated loan of 48 mNOK, which is eligible as Tier 2 capital. The loan is from different Norwegian Independent Savings bank's. The figure below shows the calculation of Tier 1, Tier 2 and capital base.

	Foreseeable dividends	Before dividends
Capital Base (kSEK)	31.12.2016	31.12.2016
Share capital	5,000	5,000
Retained earnings	4,923,559	5,189,209
Accumulated other comprehensive income	0	0
Deductions intangible assets	-121,812	-121,812
Deductions deferred tax assets	-12,261	-12,261
TOTAL COMMON EQUITY TIER I CAPITAL	4,794,486	5,060,136
Additional Tier 1 Capital	0	0
TOTAL TIER 1 CAPITAL	4,794,486	5,060,136
Subordinated loan	50,538	50,538
TOTAL TIER II CAPITAL	50,538	50,538
TOTAL CAPITAL	4,845,024	5,110,674

Fig. 2. Tier1, Tier 2 and capital base as per 31 December 2016

EnterCard's capital base amounted 4,845 mSEK per 31 December 2016 after dividends, of which 99% is Common Equity Tier 1 and the remaining 1% is Tier 2.

4.1.2 Capital requirement Pillar 1

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.

4.1.3 Capital requirement Pillar 2

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 scenarios and stress testing. Pillar 2 covers risks which are not covered by Pillar 1 nor 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. For more information about the ICAAP process, see chapter 4.2.1.

The interest rate risk is the risk that the value of EnterCard's assets and liabilities will be negatively affected by a change in the interest rates. The methodology for estimating capital requirement for interest rate risk is based on six different interest rate scenarios, including both parallel and non-parallel interest rate changes. The effect on the value of the portfolio is calculated for all six scenarios and EnterCard holds capital for the worst of the six scenarios, which is 34.4 mSEK included in the Pillar 2 add-on.

EnterCard use the Swedish FSA's method based on the Herfindahl index for assessing the credit concentration risk, the capital requirement for single-name concentration, industry concentration and geographical concentration. The result of this methodology is a capital requirement under Pillar 2 of 75.4 mSEK.

Pension risk occurs when changes in pension obligations and pension assets affect EnterCard's capital negatively. EnterCard assesses the capital need for pension risk to 40.5 mSEK. This is included in the total Pillar 2 add-on.

Credit Counterparty Risk arises when EnterCard invests in securities in its liquidity reserve. The securities are of high credit quality and comply with the high quality liquid asset (HQLA) requirements of LCR, specified in CRR. EnterCard does not have credit counterparty risk from derivative transactions as no derivative transactions are made. EnterCard uses an approach based on stressed PD rates, derived from the connection between credit ratings and PD rates estimated by Moody's Corporation, which calculates a counterparty risk of 186k SEK. This is included to the total Pillar 2 add-on.

During 2016, EnterCard's interest rate risk has decreased, and credit concentration risk, credit counterparty risk and pension risk is more or less unchanged or immaterial. As a consequence, the Pillar 2 buffer has decreased from 1.3% to 0.6% during 2016.

	Foreseeable dividends	Before dividends
Capital requirements (kSEK)	31.12.2016	31.12.2016
Capital requirement - Pillar 1	1,928,533	1,928,533
- Credit risk	1,368,807	1,368,807
- Operational risk	334,194	334,194
- Market risk	225,532	225,532
Capital requirement - Pillar 2	150,493	150,493
- Interest rate risk	34,427	34,427
- Credit Concentration risk	75,411	75,411
- Pension risk	40,469	40,469
- Counterparty risk	186	186
Total Pillar 1 & 2 capital requirement	2,079,026	2,079,026

EnterCard capital requirement as per 31 December 2016

4.1.4 Capital buffers

In accordance with regulatory requirements, EnterCard holds a capital conservation 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.

The FSA will increase the countercyclical buffer from 1.5% to 2.0% from March 2017. EnterCard has chosen to implement this increase internally already from 31 December 2016, in order to be prepared for the increase.

In addition, EnterCard's risk appetite for Capital adds an internal buffer of 2.0% of its total REA on top of the regulatory capital requirements, as a safety margin to minimise the risk of breaching the regulatory requirement.

All buffers are to be held in Common Equity Tier 1 capital.

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.

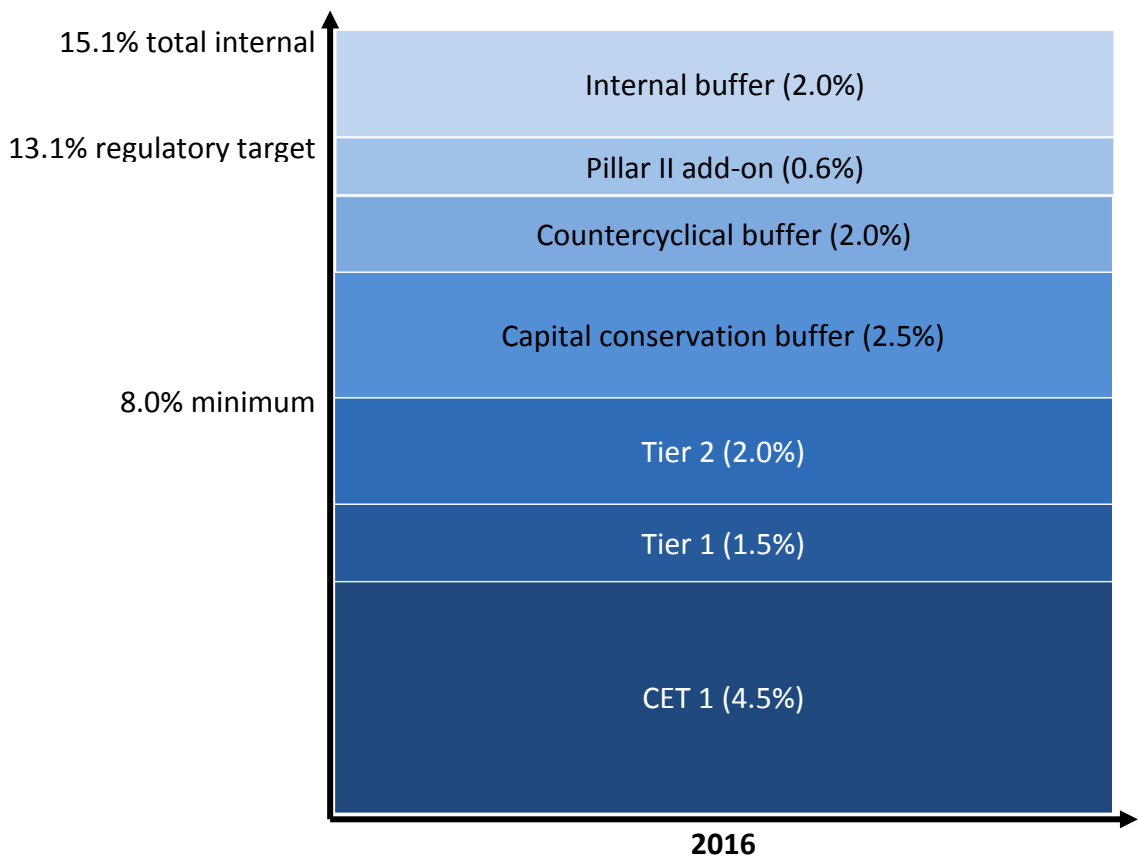


Fig. 3. EnterCard regulatory and internal capital targets per 31 December 2016

4.1.5 Key ratios and highlights 2016

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 2016.

EnterCard’s capital ratio after dividend was 20.1% as per 31 December 2016, significantly above the internal risk appetite of 15.1%, which gives a capital surplus of 1,199 mSEK above internal requirements. EnterCard thereby holds sufficient capital as per 31 December 2016.

31 December 2016 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	24,106,668	24,106,668
Capital requirement - Pillar 1	1,928,533	1,928,533
Capital requirement - Pillar 2	150,493	150,493
Total Pillar 1 + 2 capital requirement	2,079,026	2,079,026
 Total capital base	 4,845,024	 5,110,674
CET 1 ratio	19.9%	21.0%
Tier 1 ratio	19.9%	21.0%
Total capital ratio	20.1%	21.2%
Leverage ratio	16.0%	16.8%
Total internal capital target	15.1%	15.1%
Sum Internal Capital Requirement	3,645,960	3,645,960
Surplus of capital (internal target)	1,199,064	1,464,714

Fig.4. EnterCard capital adequacy per 31 December 2016

EnterCard has a solid capital situation and a low risk profile. The figure below illustrates the capital requirements under Pillar 1, Pillar 2 and capital buffers in relation to the capital base.

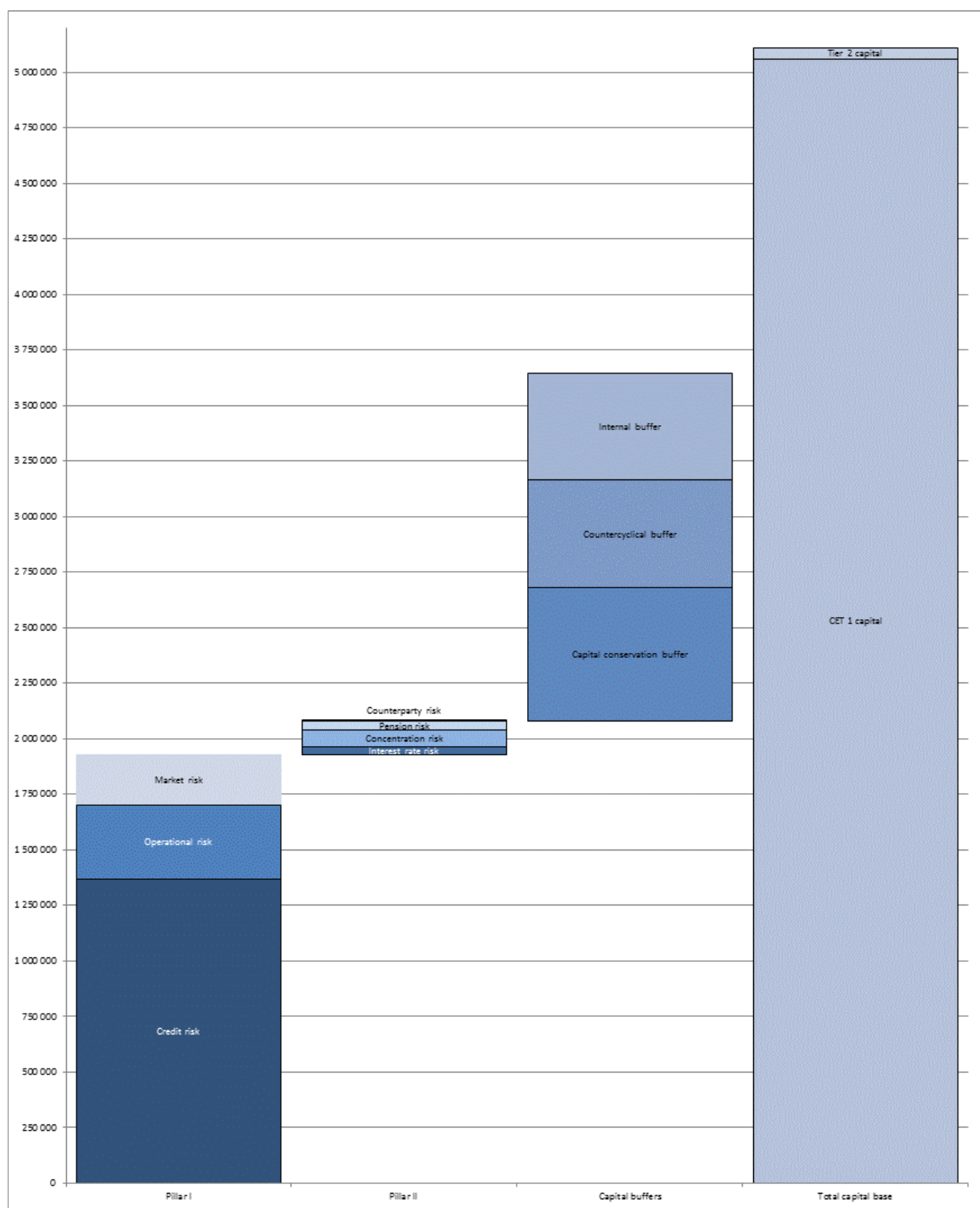


Fig. 5. EnterCard total capital requirement and capital base before dividends, as per 31 December 2016 (kSEK)

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

EnterCard's internal capital adequacy assessment process (ICAAP), including 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 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 2016. It also shows that EnterCard will hold sufficient capital in a stressed scenario the next three years.

4.2.2 Stress testing

EnterCard performs stress testing within all relevant risk areas, which could have an impact on capitalisation. Credit risk undertakes appropriate stress testing of impairment and capital estimates. The applied scenarios describe global events leading to an adverse and severely adverse recession, which are based on stress tests performed together with Barclays. All scenarios have been endorsed by the local Board.

Based on the outcome of the credit risk, the effects on the capital plan are also assessed. The effects on the impairment will have an effect 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 scenario.

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.

4.2.3 Capital Contingency Plan

EnterCard has developed a capital contingency plan; the purpose of the contingency plan is to establish which potential measures could be taken in case the capitalisation of EnterCard is deviating from the desired level and which triggers that make it necessary to consider or propose such measures. The main aim of the capital contingency planning 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 or imposed by the FSA.

In order to adjust the capitalisation, different measures 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. 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 “non-compliance”.

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 adequate capital and liquidity.

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 2016.

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. All entities are well within the risk appetite per 31 December 2016.

	EnterCard Sweden	EnterCard Norge	EnterCard Danmark
Charge-off ratio Credit Cards <i>risk appetite</i>	5.5%	7.6%	8.2%
Charge-off ratio Credit Cards <i>actual</i>	2.67%	4.68%	3.9%
Charge-off ratio Consumer Loans <i>risk appetite</i>	18.0%	13.0%	N/A
Charge-off ratio Consumer Loans <i>actual</i>	4.59%	10.28%	N/A

Fig.6. Charge-off ratio per 31 December 2016

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), which is reported to the local FSA on a monthly basis, see chapter 5.3.6.1.

	EnterCard Sweden	EnterCard Norge	EnterCard Danmark
SH <i>risk appetite</i>	60 days	60 days	60 days
SH <i>risk tolerance</i>	75 days	75 days	75 days
SH - <i>actual</i>	103 days	92 days	362 days

Fig. 7. Survival horizon per 31 December 2016

	EnterCard Sweden	EnterCard Norge	EnterCard Danmark	EC Group
LCR <i>regulatory requirement</i>	70%	70%	70%	70%
LCR <i>risk appetite</i>	84%	84%	84%	84%
LCR <i>actual</i>	371%	230%	561%	361%

Fig. 8. LCR per 31 December 2016

EnterCard's capitalisation is strong; the diagram below shows that capital ratios are well within the risk appetite.

	EnterCard Sweden	EnterCard Norge	EC Group
Capital ratio <i>risk appetite</i>	13.3%	19.5%	15.1%
Capital ratio <i>actual</i>	21.2%	21.5%	20.1%

Fig.9. Capital ratio per 31 December 2016

The implementation of IFRS9 impairment regulation will lead to a one-time reduction of the capital base and therefore an increased capital demand. Still, EnterCard does not anticipate any risks in meeting regulatory nor internal capital requirements. The company has currently an excess capital base of 1,199 mSEK.

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 20% of the capital base. The table below illustrates the interest rate risk sensitivity analysis per 31 December 2016 is well within the risk appetite, see chapter 5.3.3.

	EnterCard Sweden	EnterCard Norge	EC Group
200 bp parallel shift <i>risk appetite</i>	20%	20%	20%
200 bp parallel shift <i>actual</i>	0.5%	1%	0.7%

Fig. 10. Interest rate risk sensitivity, risk % of capital base per 31 December 2016

Operational risk measures the risk of losses resulting from inadequate or failed internal processes or procedures, human error, faulty systems or external events. EnterCard's risk appetite includes incident measurements (backward-looking/detective) and self-assessment measurements (forward looking/preventive); these measurements ensures to capture a wide spectrum of operational risks and a correct evaluation of operational risks. EnterCard operated within its risk appetite per December 2016. Controls have been implemented and continuously strengthened; additional Business Risk Specialists will be employed in order to support the business with risk management and to be the linkage between business and risk function. EnterCard will comply with the requirements pursuant to regulation (EU) 2016/679 on the protection of individuals with regard to the processing of personal data and on the free movement of such data before the regulation is applicable May 2018.

5.2 RISK MANAGEMENT AND CONTROL

Risk 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. 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 the 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 and the CEO are 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 of Directors 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. The decision makers are the Board of Directors, the CEO and the MD of each business unit.

EnterCard governance structure

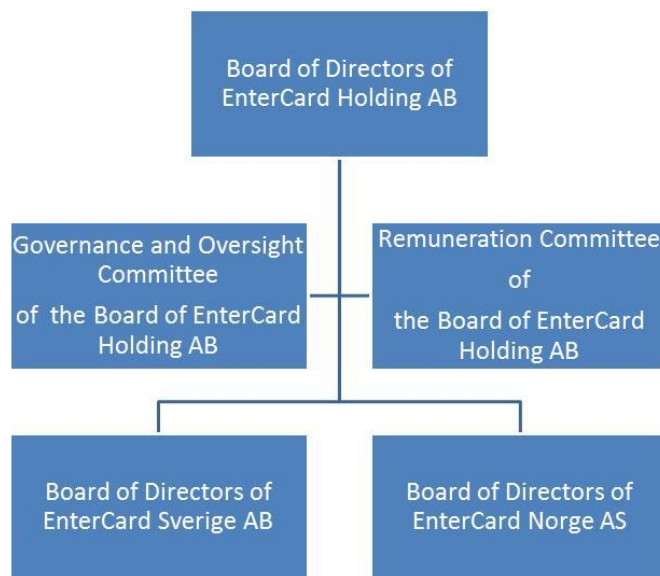


Fig 11. EnterCard governance structure

EnterCard risk operating model

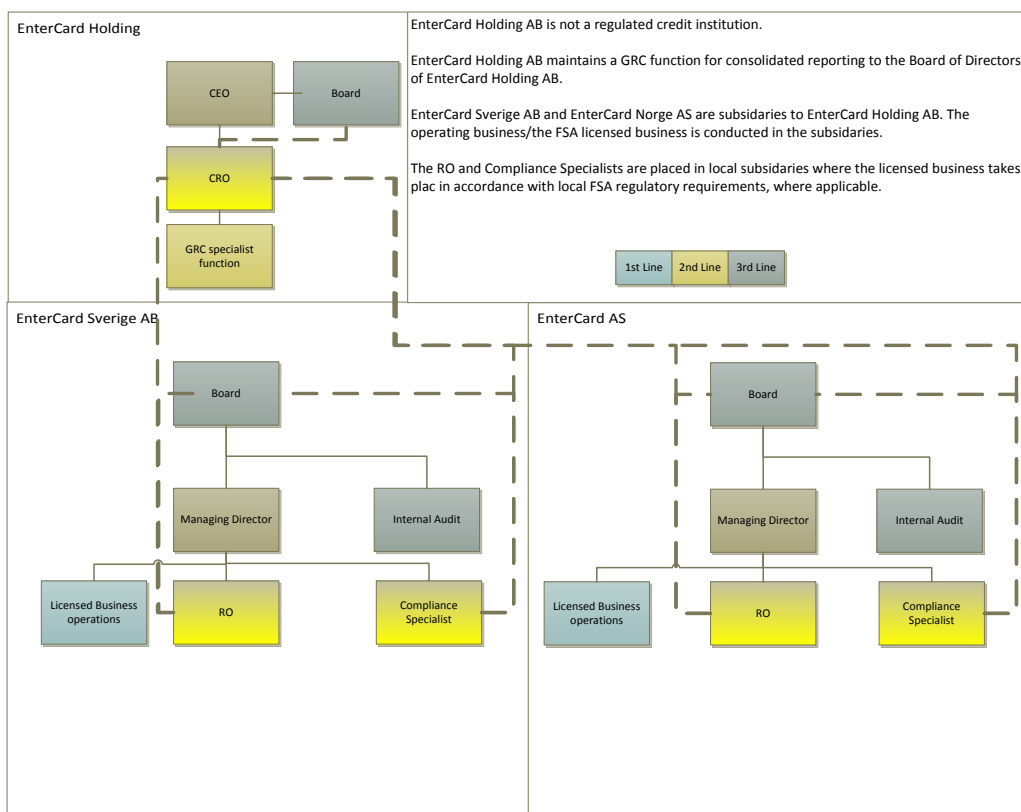


Fig 12. EnterCard Risk Operating Model

The comprehensive set of rules regarding control and internal control is one of the fundamental instruments for the Board of Directors and management for business control and good internal control. Risk management is executed within each business function under the supervision of and communication with the risk control function. The risk function regularly monitors and reports to the

CEO and Board of Directors. The responsibility for monitoring and reporting regulatory and ethical risks are on the compliance function.

The Risk and Compliance steering documents includes the overall policy for all risks 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, Financial Risk policy, Liquidity Risk policy, 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.

5.2.2 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 (BRS) which are placed in the first line to support the risk profiling process. The BRS’s 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 identification of risks and control self-assessments; linkage between materialised risks (incidents) and risk identification; 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 the EnterCard. The GRC function provides independent reporting on the risk profile to the CEO, and to the Board of Directors on the risk profile. 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 yearly 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. Additional single audits can be made, when deemed necessary, to ensure that there are adequate controls in place and that the procedures and procedural descriptions are in compliance with EnterCard policy.

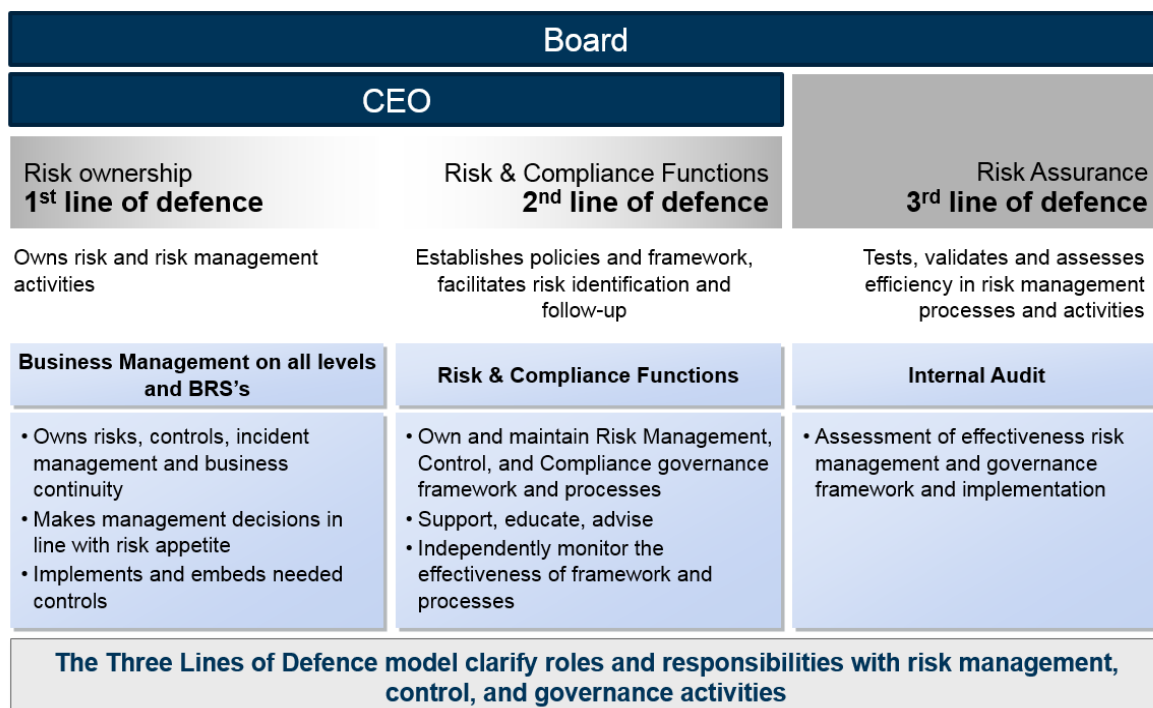


Fig. 13. EnterCard three lines of defence model

5.2.3 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.

The Board of Directors establishes the risk strategy and decides on the overall risk appetite. In order to ensure and improve the approach to the risk appetite is regularly evaluated and if necessary revised. The overall risk appetite is clarified through risk appetites for all relevant risks within the risk universe in order to present how EnterCard acts within each risk area.

The EnterCard’s overall risk appetite is defined as follows:

“The exposure to the risks that can be taken by the EnterCard should remain within acceptable and controlled levels.”

The overall policy for all risks is the Enterprise Risk Management policy, which is the policy for all material risks included in the EnterCard risk universe.

EnterCard reports its risk exposures through the Board of Directors. Limits and targets embedded in the risk appetite may be adjusted in order to establish the risk strategy within the operations of EnterCard. A disciplined approach to dealing with risk is required to ensure that material risks are identified and appropriately managed. A risk universe contains the material risks to which the business may be exposed. All risks identified are assessed and monitored as part of the overall risk management. The risk categories contained in the risk universe shall, when appropriate, be addressed in a separate policy or instruction, which shall contain the key high-level principles for appropriate management of the respective risk. Material risks are aggregated and compared so risk measures are consistent across the EnterCard. The risk universe is documented in the ERM policy.

The CEO shall ensure that operational limits (tolerance limits) when deemed relevant, are set for the risk categories set out below in order to safeguard that business performance stays within the risk appetite and to avoid unwanted risk concentration of any kind. The CEO should also ensure that there are processes for monitoring, reporting and escalation on risk appetite and risk tolerance limits.

EnterCard risk management cycle

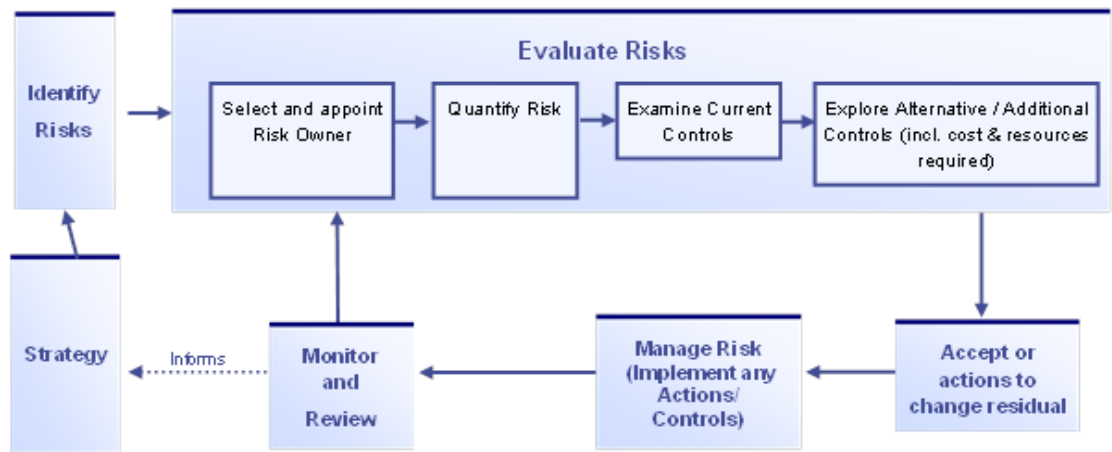


Fig. 14. EnterCard’s risk management cycle

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’s approach to risk appetite aims to limit the risk EnterCard is willing to accept on the course of pursuing its business. The overall capital risk appetite is that EnterCard will maintain 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 and credit counterparty risk are the risks that EnterCard’s counterparties does not fulfill 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.

Credit risk also encompasses 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 country.

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.

EnterCard conducts active monitoring and optimizing 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 HQLA, held to mitigate EnterCard's liquidity risk. The credit quality of the assets is very high and mainly consists of exposures to municipalities, governments and covered bonds.

The tables below show distribution of the risk exposures amount.

Risk exposure amount and own funds requirements for credit risks 2016 (Basel 3)

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
Total	17 110 656	1 368 852
Total capital requirement for credit risk according to the standardised approach		1 368 852
Capital requirements for operational risk		
Risk exposure amount		4 177 429
Capital requirements according to the standardised approach		334 194
Total Capital requirement for operational risk		334 194
Capital requirements for market risk (foreign exchange risk)		
Risk exposure amount foreign currency risk		2 819 150
Capital requirements according to the standardised approach		225 532
Total Capital requirement for market risk		225 532
Total Capital requirements		1 928 578

Requirements buffers, %	2016
Total Tier 1 capital requirement including buffer requirement	8,0
<i>whereof capital conservation buffer requirement</i>	2,5
<i>whereof countercyclical capital buffer requirement</i>	1,5
<i>whereof system risk buffer requirement</i>	0,0
Common Equity Tier 1 capital available to be used as buffer	14,8

Risk exposure amount and own funds requirements for credit risks 2015 (Basel 3)

Exposure classes	Risk exposure amount	Own funds requirement
Institutional exposures	417 231	33 378
Retail exposures	13 136 310	1 050 905
Regional governments or local authorities exposures	1 151	92
Corporate exposures	9 227	738
Other exposures	541 336	43 307
Total	14 105 255	1 128 420

Total capital requirement for credit risk according to the standardised approach **1 128 420**

Capital requirements for operational risk

Risk exposure amount	4 120 081
Capital requirements according to the standardised approach	329 606
Total Capital requirement for operational risk	329 606

Total Capital requirements **1 458 026**

Fig. 15. EnterCard's credit risk and operational risk in according to standardised approach as per 31 December 2016 compared to December 2015 (kSEK)

Riskexponeringsbelopp och kapital krav 2016 (Basel 3)	Sweden	Norway	Denmark	Total
Credit risk according to standardised approach	Risk exposure amount			
Institutional exposures	172,687	169,043	74,213	415,943
Retail exposures	7,877,174	6,079,169	1,935,614	15,891,957
Regional governments or local authorities exposures	1,166	0	0	1,166
Corporate exposures	7,773	0	0	7,773
Other exposures	432,375	298,856	62,586	793,817
Total	8,491,175	6,547,068	2,072,413	17,110,656

Fig. 16. Geographic distribution by exposure classes per 31 December 2016 (kSEK)

The table below shows EnterCard's impaired exposures by industry type per 31 December 2016 compared to 31 December 2015.

Loan receivables allocates between following industries and loan types:

Group 2016

	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
Industrial sector					
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
Loans	22 800 699	8 150	1 219 383	21 573 166	455 375
Credit institutions	2 078 654	0	0	2 078 654	0
Total lending to credit institutions and public	24 879 352	8 150	1 219 383	23 651 819	455 375

Group 2015

	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
Industrial sector					
Private customers	18 405 175	0	1 031 678	17 373 497	325 840
Corporate customers	389 188	9 549	0	379 639	2 251
Loans	18 794 363	9 549	1 031 678	17 753 136	328 091
Credit institutions	1 996 088	0	0	1 996 088	0
Total lending to credit institutions and public	20 790 451	9 549	1 031 678	19 749 224	328 091

Fig. 16. EnterCard's impaired exposures by industry type per 31 December 2016 compared to 31 December 2015 (kSEK)

Provisions and impaired loans	Group		Parent Company	
	2016	2015	2016	2015
Provisions				
Opening balance	1 041 226	936 551	0	0
Allocations/withdrawals from individual provision	1 398	-975	0	0
Allocations/withdrawals from collective provision	137 110	141 263	0	0
Exchange differences	47 799	-35 613	0	0
Closing balance	1 227 533	1 041 226	0	0
Total provision ratio for impaired loans, % (including collective reserves for individually claims assessed, in relation to book value before provision for individually identified impaired loans)	68,6%	73,2%	0,0%	0,0%
Provision ratio for individually identified impaired loans, %	84,1%	80,9%	0,0%	0,0%
<i>Impaired loans</i>				
Book value of impaired loans	455 375	328 091	0	0
Impaired loans as percentage of total lending	2,1%	1,8%	0,0%	0,0%
Past due loans that are not impaired				
Valuation category, loans and receivables				
Loans past due 5-30 days	827 561	694 542	0	0
Loans past due 31-60 days	263 192	190 454	0	0
Loans past due more than 61 days	141 183	103 522	0	0
Total	1 231 936	988 518	0	0

Fig. 17. EnterCard's provisions and impaired loans per 31 December 2016

5.3.2 Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or procedures, human error, faulty systems or external events. The definition includes legal risk and compliance risk. Through a rigorous 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 performs regular self-evaluation of operative risk for all central processes. Managers 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 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.

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, which is also included in the CEO instruction for the quantification for the ICAAP. 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 rates, 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.

If there is a perfect match between the interest rate structure for assets and liabilities, EnterCard would have no exposure to any interest rate scenarios. This is not practically possible, but EnterCard strives to match the interest rate structure enough to have a limited interest rate risk exposure. The interest rate structure is seen from a contractual perspective.

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

Group	Market interest rate -1 percent		Market interest rate+1 percent	
	2016	2015	2016	2015
< 3 months	3 539	8 261	-3 500	-8 168
3-6 months	-1 857	-3 087	1 831	3 045
6-12 months	-8 990	-15 893	8 833	15 616
1-2 years	-14 018	-25 572	13 670	24 939
2-3 years	1 336	-20 071	-1 289	19 381
Total	-19 990	-56 362	19 545	54 813

Fig 18. Market interest rate sensitivity analysis

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, i.e. all assets and liabilities of EnterCard Sweden are in SEK and all assets and liabilities of EnterCard Norway are in NOK (except for the Danish branch which is in DKK). However, when consolidating the entities to Group level, the excess capital of EnterCard Norway is converted to SEK, which gives a currency exposure since the value in SEK of this capital depends on the currency rate. The exposure amounted to 2,819m SEK as per December 31st 2016.

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 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.

5.3.5 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.

5.3.5.1 LIQUIDITY RISK MEASURES

This chapter describes EnterCard's liquidity risk measures and 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 to be used 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 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.

In addition, EnterCard reports the liquidity coverage ratio (“LCR”) to the FSA in accordance with EU standards and regulations. LCR measures EnterCard’s net cash outflow under a stressed scenario over the coming 30 days relative to the amount of HQLA, which EnterCard holds. The risk appetite adds a cushion equivalent to 20% of the LCR is on top of the regulatory LCR regulatory requirement to avoid breaching the regulatory requirement. EnterCard’s risk appetite will therefore be 120% when the LCR is fully implemented in 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. 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, and a risk appetite is also planned to be set up.

The table below shows maturity of exposure by exposure classes. In the summary of maturities the non-discounted cash flow are distributed from remaining time to maturity.

Remaining maturity Group 2016	<3 months	3-12	1-5 years	5-10	No	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
Total assets	23 914 541	315 295	1 984 358	49 386	125 757	26 390 335
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
Total liabilities and equity	2 168 646	3 790 000	15 186 942	0	5 244 747	26 390 335
Remaining maturity Group 2015						
Loans to credit institutions	1 996 088	0	0	0	0	1 996 088
Loans to the public	17 594 127	39 954	119 055	0	0	17 753 136
Bonds and other interest-bearing securities	54 442	354 165	752 253	66 194	0	1 227 054
Prepaid expenses and accrued income	104 493	45 424	3 755	0	0	153 672
Other assets	62 966	6 206	54 678	0	111 885	235 735
Total assets	19 812 116	445 749	929 741	66 194	111 885	21 365 685
Amounts owed to credit institutions	1 321 181	4 108 743	10 455 731	0	0	15 885 655
Other liabilities	144 378	139 183	31 850	0	0	315 411
Accrued expenses and prepaid income	87 994	162 085	13 788	0	0	263 867
Subordinated liabilities	0	0	0	0	45 897	45 897
Equity	0	0	0	0	4 854 855	4 854 855
Total liabilities and equity	1 553 553	4 410 011	10 501 370	0	4 900 752	21 365 685

Fig. 19. Maturity of exposure by exposure classes

5.3.5.2 HIGH QUALITY LIQUID ASSETS

EnterCard holds a portfolio of HQLA in order to meet the regulatory LCR requirements for each significant currency, i.e. SEK, NOK and DKK. 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.

EnterCard Sweden held an HQLA portfolio of 1,435m SEK per 31 Dec 2016. The portfolio consists of Swedish municipality bonds and one supranational bond. EnterCard Norway held an HQLA portfolio of 345m NOK (equivalent to 363m SEK), which after haircuts amounts to 335m NOK (352m SEK), and 351m DKK (452m SEK) per 31 Dec 2016. Figure 20 shows the distribution of the liquidity reserve.

kSEK	31.12.2016	Currency distribution		
		SEK	NOK	DKK
Cash and holdings in central banks				
Deposits in other banks available overnight				
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	554 106		102 435	451 670
Securities issued or guaranteed by municipalities or other public sector entities	1 482 202	1 387 509	94 693	
Covered bonds issued by other institutions	155 091		155 091	
Värdepapper emitterade eller garanterade av multination	58 193	47 157	11 037	
Covered bonds issued by EnterCard				
Securities issued by non-financial corporates				
Securities issued by financial corporates				
Other				
Total	2 249 591	1 434 666	363 255	451 670

Fig 20. EnterCard liquidity reserve distribution

5.3.5.3 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 is deemed to be well in line with the behavioural maturity of 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 quarterly, annual and three year forecasting processes.

5.3.5.4 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.

The liquidity plan process for handling EnterCard's liquidity is divided into two Alert Modes classified by severity of the liquidity disturbance. Each mode will trigger different responsive actions. For the purposes of liquidity contingency planning, different Alert Modes are defined with increasing severity, escalating from "business as usual" to "non-compliance".

5.3.6 Financial Recovery Plan

EnterCard has developed a Financial Recovery Plan to enable senior management to manage a severe financial crisis which threatens capital or liquidity adequacy, or viability. The objective of the plan is to put in place measures (recovery options) to restore capital, liquidity or profitability so that EnterCard can operate sustainably and viably.

In addition to this, the Recovery Plan puts in place a recovery management framework designed to ensure that a crisis is swiftly identified and adequately managed.

EnterCard's overall approach to compensation is that the total compensation must be competitive and conform to market conditions, aligned with the requirements in the collective agreement. It also reflects the fundamental values of EnterCard; passionate, innovative, genuine, and support the company's 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, competence and experience as well as the contribution to the business, both when it comes to the performance and behaviour. The compensation process is built up with a healthy balance between fixed and variable pay. EnterCard believes it is important that compensation works as an incentive for value-creation for the benefit of the company, with a balanced approach to risk-taking and long-term customer value and shareholder value.

The variable compensation is linked to individual employee targets and EnterCard's overall performance. Whilst the guiding principle is to reward performance, it is possible that the total variable compensation could be set to zero.

EnterCard diverges on the variable compensation for risk-takers, i.e. staff that is defined as specially regulated staff and staff with professional activities that have a material impact on the business risk profile, and other staff. The compensation program is cash based and the employees do not receive shares in the Group.

Remuneration Committee

The Remuneration Committee (RemCo) is established by the Board of Directors of EnterCard Holding AB and is responsible for preparing, assessing and proposing principles for compensation. The Board of Directors appoints members of RemCo, 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 scheme is appropriate, and in line with the targets, risk tolerance and long-term sustainability. In accordance with CRR 450 (1) EnterCard confirms that RemCo held four meetings during 2016.

Decision-making process

The principles of variable compensation are governed in the Remuneration Policy approved by the Board of Directors, which covers all employees of EnterCard. The Chief HR Officer is responsible for a recommendation to the RemCo 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, GRC, and Internal Audit. Based on the recommendation of the RemCo, the Board of Directors will endorse the Remuneration Policy.

Principles of deferred payment

The Board of Directors has decided that risk-takers can receive a maximum of 60% of the variable compensation the year following the year of earning. The remaining 40% will be retained by the EnterCard for at least three years before becoming available for risk-takers. This is with the exception of senior management and identified staff with particularly high amount, which may be 60% deferred for three years. The deferred portion is paid out in cash. For other staff the variable compensation is paid out the year following the year of earning.

Description of compensation outcomes 2016

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

EnterCard 2016

	ExCo	Risk-takers	Other employees
	11 employees	28 employees	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

EnterCard 2015

	ExCo	Risk-takers	Other employees
	11 employees	40 employees	449 employees
Fixed remuneration	16,366	33,185	176,305
Variable remuneration (bonus 2015)	7,781	6,563	21,890
Deferred variable remuneration 2015 and previous years	10,760	10,790	0

Fig.21. EnterCard's distribution of compensation as per 31 December 2016 (kSEK)