Risk Management and Capital Adequacy Report - Pillar 3 - 2014

EnterCard Holding AB

Table of Contents

Risk Management and Capital Adequacy Report

Pillar III 2014

1. Introduction

The Pillar 3 report 2014 provides information on EnterCard's capital adequacy and risk management. The report is based on regulatory disclosure requirements set out in the Capital Requirements Regulation and the SFSA regulation FFFS 2014:12 and 2010:7.

Information in this report is based on performance as of 31st December 2014. The report is submitted by the EnterCard Group; 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. All entities are fully consolidated in accordance with CRR article 18.1. The document has not been audited and do not form part of EnterCard's financial statements.

- Pillar I provides rules for calculating the minimum capital requirements for credit risk, market risk and operational risks. EnterCard is not exposed to any market risk under Pillar I, as it has no trading book
  EnterCard's pillar I capital requirement for credit risk and operational risk is calculated using the standardised approach.
- Pillar II 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 the company considers adequate to cover the nature and level of the risks to which the business of the company is or might be exposed to.
- Pillar III requires institutions to disclose comprehensive information on risks management and associated capital.

1.1 Information EnterCard

EnterCard Holding AB is the parent company of a credit institution group 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 clients and approximately 440 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

Currently, the EnterCard Group cooperate through various card programs with partners such as British Airways, Svenska Golfförbundet and LO in Sweden. In Norway the partners are Pareto Bank and KLP. Coop and LO are partners in both Norway as well as Denmark. EnterCard also distributes credit cards and business cards for Swedbank and several local savings banks on the Swedish and Norwegian market.
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.

EnterCard Holding AB is owned by Swedbank AB, 60% and Barclays Bank PLC, 40% through a joint venture. EnterCard Norway AS and EnterCard Sweden AB are wholly owned subsidiaries of EnterCard Holding AB.

2 Risk management and governance

In the context of the company´s field of activity different types of risks arises, 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 credit card portfolio with a diversification of risk and a broad customer base within the Group´s field of business, along with a sound control of default development in its portfolios.

The Board of Directors and Management are ultimately responsible for risk management. The purpose of risk management is maintaining the total risk level not exceeding the risk appetite set by the Board. EnterCard is continuously thriving to reduce the operational risks through improvement of processes, availability and assurance

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

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.

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 person who is responsible for each business unit.

Risk management is executed within each business unit under the supervision of and communication with the risk unit and other staff functions.

The risk control function continuously monitors and reports to the CEO and board of directors. The responsibilities of legal and ethical risks are assigned to the legal and compliance functions.

EnterCard has an internal audit function which on behalf of the board of directors evaluates and audits the group’s operations. The board of directors decide which audits to be made. Additional single audits can be made, when deemed necessary. The internal audit function is outsourced to KPMG.

The EnterCard local boards and the Holding board, guides the business on how to operate through the EnterCard policies (note, there are other communication channels except for the policies). The policies are further detailed by instructions and guidelines (where applicable). The boards follow up on policies and risk management through regular reporting from the 2nd line risk and compliance functions.

“Control” is one of the stakeholders and focus areas for the EnterCard strategy which set control high on the EnterCard agenda and is an important part of how EnterCard run its business.

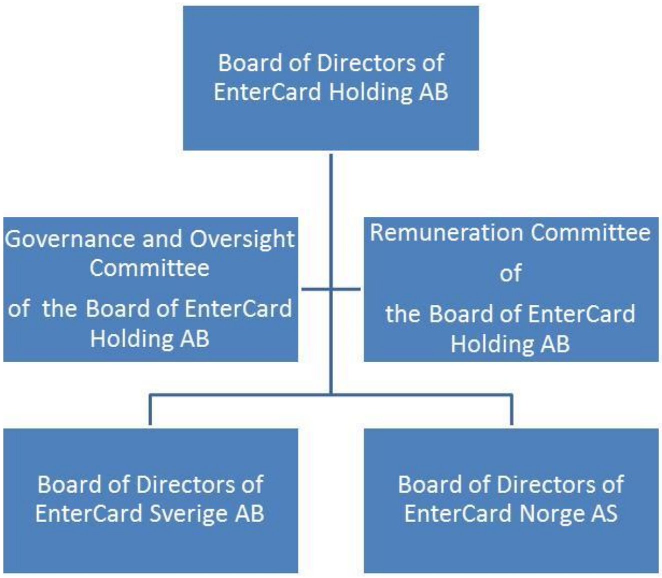

Fig. EnterCard governance structure

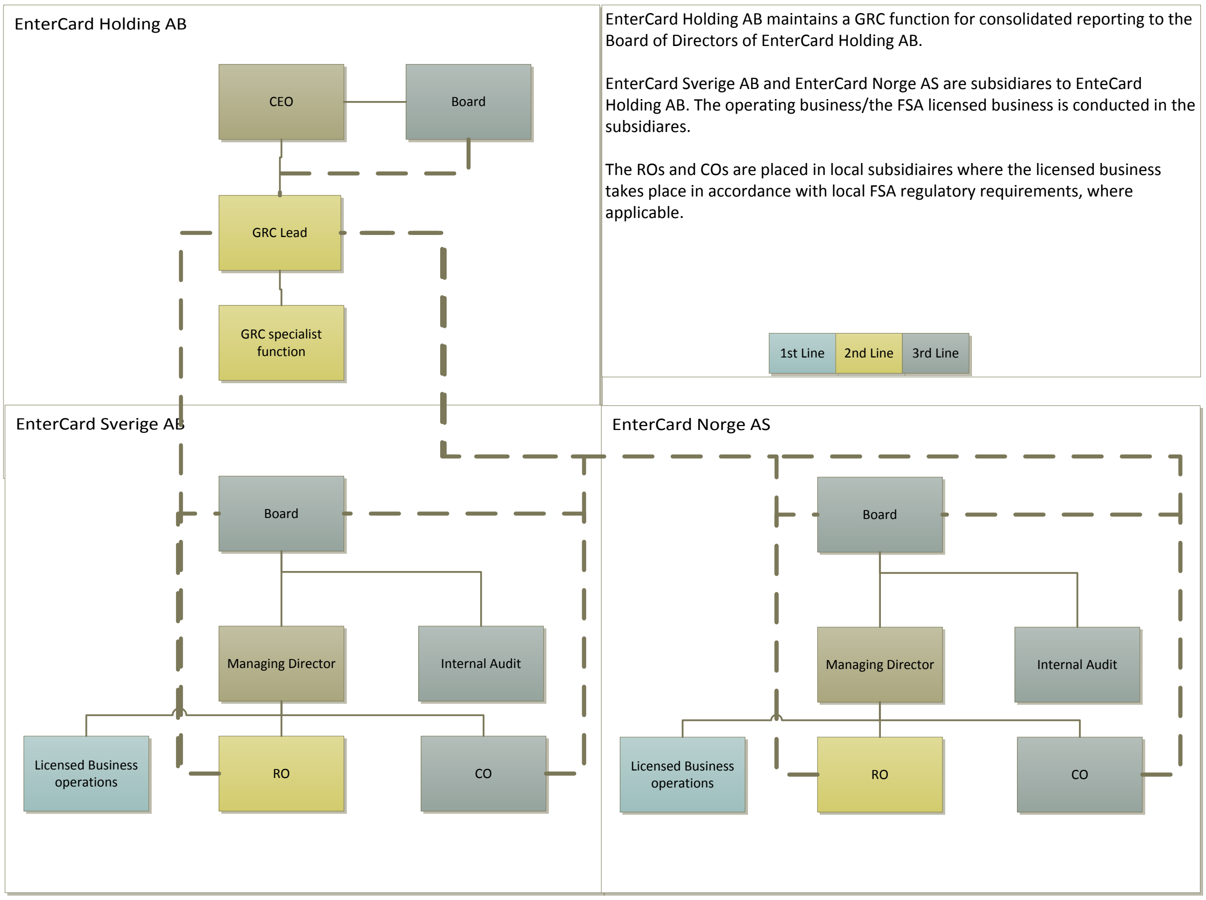

Fig EnterCard Risk Operating Model

To leverage Barclays and Barclaycard's long history and experience of managing credit card businesses, EnterCard has replicated the approaches used by Barclays and Barclaycard in the management of risks, capital usage and business performance. These approaches are both appropriate to the business undertaken and are consistent with Swedbank's risk and capital policy.

Risk management is executed within every business area under the supervision and communication with Governance, Risk and Compliance (GRC).

2.1 The Risk and Control Framework

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

First line of defence refers to all risk management activities carried out by the business operations and its support functions. Second line of defence refers to the GRC function, local Risk Officer (RO) and Compliance Specialist (CS) which report to the CEO/MD. Third line of defence refers to the Internal Audit function which is governed by and reports to the board. According to EnterCard's risk and control framework, risk owners are appointed in the first line for the risks for which they are responsible. The risk owners are supported by Quality Assurance Officers (QAOs) which are placed in the first line to support the risk profiling process.

Second line provides independent reporting on the risk profile to the MDs, the CEO; and to the boards of the different entities on the different risk profiles.

Risk

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

Risk identification and assessment

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

Role of QAO

The QAO'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 QAO also supports the risk owners with control self-assessments; linkage between materialised risks (incidents) and risk identification; update of business continuity plans and follow up on possible audit observations.

The second line 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 second line function also conducts yearly control assessments of first line's self-assessments of the controls to ensure that controls are operating efficiently.

Steering documents

The comprehensive set of rules regarding control and internal control is one of the fundamental instruments that the board of directors and management have to ensure business control and an appropriate internal control. The board of directors sets the risk level of the business and the assignment of responsibilities and authorities regarding the risk management. The assignment sets a structure for decision making in the respective risk areas. The decision makers are the board of directors, CEO, MDs and Lead of each business function. The overall policy for all risks included in the EnterCard risk universe is the ERM policy.

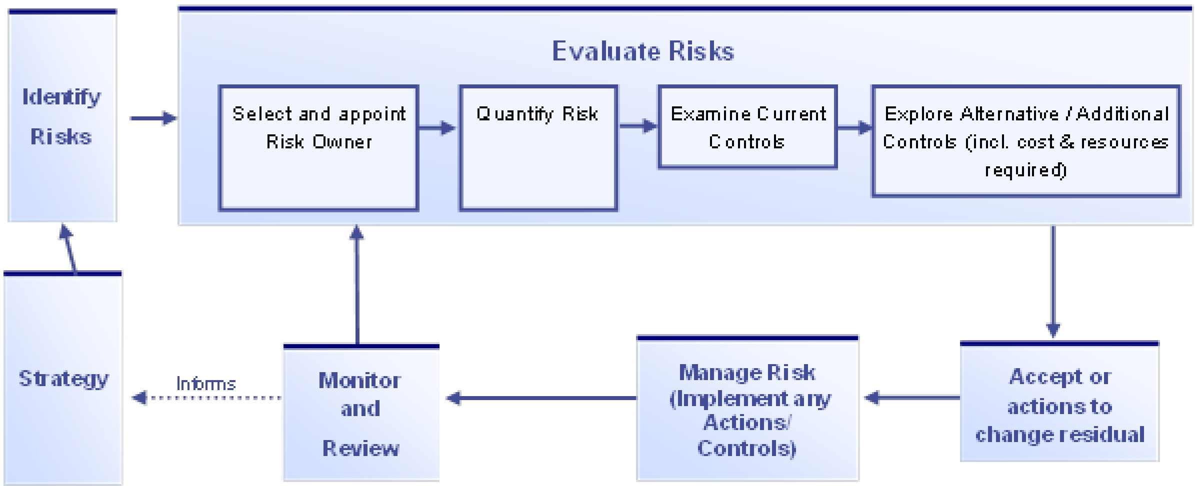

Fig. EnterCard risk management cycle

2.2 Risk Strategy and Appetite

The board sets a risk strategy through the overall risk appetite which is regularly evaluated and if necessary revised in order to ensure that the level of risk acceptable to EnterCard is consistent with the achievement of strategic targets. 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.

The EnterCard Group's overall risk appetite is defined as follows:

The exposure to the risks that can be taken by the EnterCard Group should remain within known, acceptable and controlled levels and activities.

EnterCard reports its risk exposures through the board, which sets the risk appetite. 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 group. The risk universe is documented in the ERM policy.

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

3 Capital requirements

3.1 Capital adequacy regulation

The capital adequacy regulation is the legislator's requirement of how much capital, designated as the capital base, a credit institution must have in relation to the size of the risks it faces. The rules strengthen the connection between risk taking and required capital in the Group's operations.

In 2013, the European Union adopted a legislative package and implemented the Basel III agreement in the EU legal framework. The Regulation contains the detailed prudential Capital Requirements Regulation (CRR) for credit institutions and investment firms while the new Directive covers areas of the current Capital Requirements Directive (CRD IV) where EU provisions need to be transposed by Member States in a way suitable to their respective environment. The package applies as of 1 January 2014.

In June 2014 EnterCard was granted permission from the Swedish Financial Supervisory Authority's (SFSA) (Sw. Finansinspektionen) to include interim profits in common equity tier 1 capital under the condition that any foreseeable charge or dividend has been deducted from the amount of those profits verified by persons responsible for the auditing of the accounts of the institution in accordance with European Parliament’s and the Council’s regulation (EU) No 575/2013 and calculation in accordance with EU's regulation no 241/2014. Deloitte performs this review.

The regulations also requires institutions to have procedures that make it possible to continuously assess and maintain a capital as to amount, types and distribution are sufficient to cover the nature and level of risks at presence or that an institution may be exposed to. Swedish Financial Supervisory Authority has decided to call such a method for the company's Internal Capital Adequacy Assessment Process.

EnterCard has documented methods and processes to continuously monitor and evaluate its current capital need. The capital need is systematically assessed on the basis of the total level of risks the company is or may be exposed to. The capital need is monitored monthly and the capital structure is planned on the basis of given forecasts.

3.2 Capital planning

In accordance with Swedish law, Lag (2014:968) om särskild tillsyn över kreditinstitut och värdepappersbolag, and the FSA regulatory code FFFS 2014:12 the capital base must, at a minimum, correspond to the sum of the capital requirement for credit risks, market risks and operational risks. EnterCard's credit risks and operational risks are calculated according to the standardised methods.

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.

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.

EnterCard complies with the requirements from CRD IV and CRR. As part of a forward looking approach, EnterCard's current total internal capital target considers the countercyclical buffer to be implemented during 2015. Also, EnterCard monitors the pending implementation of the leverage ratio, with potential minimum regulatory requirement of 3%. EnterCard is projected to have Tier 1 capital well in excess of the requirement.

3.3 Capital base and capital adequacy 2014

The capital adequacy regulation is the legislator's requirement of how much capital, designated as the capital base, a credit institution must have in relation to the size of the risks it faces. The rules strengthen the connection between risk taking and required capital in the Group's operations.

In 2013, the European Union adopted a legislative package and implemented the Basel III agreement in the EU legal framework. The Regulation contains the detailed prudential Capital Requirements Regulation (CRR) for credit institutions and investment firms while the new Directive covers areas of the current Capital Requirements Directive (CRD IV) where EU provisions need to be transposed by Member States in a way suitable to their respective environment. The package applies as of 1 January 2014.

EnterCard has documented methods and processes to continuously monitor and evaluate its current capital need. The capital need is systematically assessed on the basis of the total level of risks the company is or may be exposed to. The capital need is monitored monthly and the capital structure is planned on the basis of given forecasts.

EnterCard is deemed to have a satisfactory Capital Base given the legal minimum capital requirements and additional risks according to the internal capital adequacy assessment. Both credit risk and operational risk is calculated in accordance with the standardised approach.

Total capital ratio for the EnterCard group amounted to 21.22% (17.62%) at year end.

Table 1: Capital adequacy

Consolidated situation	2014	2013
Common Equity Tier 1 capital ratio	20,9%	17,3%
Tier 1 capital ratio	20,9%	17,3%
Total capital ratio	21,2%	17,6%

Capital Adequacy	2014	2013
Shareholders' equity	4 216 732	3 326 713
Intangible assets	-119 668	-99 217
Deferred taxes	-24 224	-20 006
Dividends and other foreseeable charges	-490 940	0
Tier 1 capital	**3 581 900**	**3 207 490**
Tier 2 capital		
Tier 2 instruments	50 397	50 812
Total capital base	**3 632 297**	**3 258 302**
Capital Requirement		

Risk exposure amount and own funds requirements for credit risks 2014 (Basel 3)

Exposure classes	Risk exposure amount	Own funds requirement
Institutional exposures	350 498	28 040
Regional governments or local authorities exposures	0	0
Retail exposures	12 431 405	994 512
Regional governments or local authorities exposures	879	70
Corporate exposures	14 286	1 143
Other exposures	520 865	41 669
Total	**13 317 933**	**1 065 435**

Total capital requirement for credit risk according to the standardised approach	**1 065 435**
Capital reqirements for operational risk	
Risk exposure amount	3 795 422
Capital requirements according to the standardised approach	303 634
Total Capital requirement for operational risk	**303 634**
Total capital requirements	**1 369 069**

Table 2: Capital buffers

Capital buffer requirement, %	2014
CET1 capital requirement including buffer requirements	7,0
of which capital conservation buffer	2,5
of which countercylical capital buffer	
of which systemic risk buffer	
CET1 capital available to meet buffer requirement	12,9

3.4 Pillar I calculations

For calculation of Pillar I capital requirement, EnterCard uses the standardised approach for credit risk and standardised approach for operational risk. EnterCard is not exposed to market risk under Pillar I, as it has no trading book. Additionally, EnterCard, operationalizes and quantifies its operational risks in order to effectively manage, measure the exposure and calculate the need for capital related to these risks.

EnterCard has measures and methods available to mitigate risks that may require capital and therefore holds capital only for those material risks for which capital is an effective mitigate. Other risk may not be mitigated by capital but instead is managed and mitigated effectively by management measures.

- Pillar I:
  The minimum capital requirement under Pillar I is the sum of the minimum requirements for credit and operational risks calculated according to the standardised approaches. EnterCard is not exposed to any market risk under Pillar I. EnterCard's pillar I capital requirement for credit risk is calculated using the standardised approach and for calculating the Operational risk the standardised approach is used.

- Capital buffers:
  In accordance with regulatory requirements, EnterCard holds a capital conservation buffer corresponding to 2,5% of its total risk exposure amount. EnterCard has proactively, prior to full legal implementation, applied a countercyclical buffer of 1% since January 2014. EnterCard monitors the countercyclical buffer rates in Sweden, Norway and Denmark. All buffers are to be held in Common Equity Tier 1 capital.

3.5 Pillar II calculations and stress testing

The internal capital adequacy assessment process (ICAAP) aims to ensure that the Group is adequately capitalised to cover the risks that the Group is or might be exposed to. EnterCard continuously evaluate the need for capital from financial goals, risk profiles and implement business strategies.

The evaluation of the capital need is done regularly and is an integrated part of business with the Group's business development. Besides regularly making sure that the minimum legal requirements are fulfilled and reporting of the capital coverage, a detailed review is performed at least annually.

Scenario-based stress testing is an important element in the planning and risk management processes. It helps EnterCard to identify, analyse and manage the risks within its business.

EnterCard regularly performs stress test exercises to capture the capital needed on the company level under a stressed condition. Stress testing is based on EnterCard's MTP considering EnterCard's specific business and circumstances during the coming three years. In H2 2014, a scenario-based stress testing exercise was undertaken by EnterCard. Spanning over 3 years, 2015-2017, the scenario describes global events and the expected impacts on various macro variables. Used macro variables are specific for each of EnterCard's home market (Sweden, Norway and Denmark).

The stress testing process by its nature should take a forward-looking view into risk management, strategic planning and capital planning when assessing the firms' capital requirements under Pillar II.

EnterCard considers its credit risk to be stressed via scenario analysis at a company level. This is on the basis that credit risk represents a substantial part of the risk exposure in this company level scenario analysis. Credit concentration risk is assessed using the Herfindahl-index.

Operational risk is stressed via scenario analysis. The process for scenario selection and the scenarios that are mitigated by capital are presented in chapter.

EnterCard's market risk under Pillar II is calculated by a stress analysis on interest rate risk.

3.6 Capital Contingency Plan

EnterCard has developed a capital contingency plan applicable for both the EnterCard Group and each individual EnterCard entity. 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 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 or imposed by the government or 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. Therefore, the contingency plan does not focus on the precise action plan.

4 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.

4.1 Credit risk

Credit-/counterparty risk is the risk that EnterCard not receive payment in accordance with agreements and / or will suffer a loss due to a counterparty's inability to fulfil its obligations. The Board has overall responsibility for the Group'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 the Group's single largest risk exposure, credit losses in relation to outstanding credit volume are relatively small.

Credit risk also includes concentration risk, which comprises, among other things, large exposures or concentrations in the credit portfolio to specific counterparties, sectors or geographies. The risk occur when EnterCard offers lending to the public in Sweden, Norway and Denmark. The loan portfolio is dominated by credits without collateral and is spread out on a large number of lenders within each country. EnterCard conducts active monitoring and optimising of the portfolios' credit risk. The decision to grant credit requires that there are good grounds to expect that the borrower can fulfil his or her commitment to the Group. The assessment is primarily performed through so called credit scoring.

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 cancelled. The maximum credit risk corresponds to the financial assets' book value.

Follow-up are also made from a credit portfolio point of view in each country with focus within and between different risk groups. The continuous follow-up is still showing a low risk.

4.1.1 Governance of credit risk

The board has provided management with mandate to ensure that the annualised charge off rate does not exceed 6,3%. The risk appetite represents the level at which EnterCard is at risk of destroying shareholder value and is significantly above the losses expected in the business plan.

To measure adherence to risk appetite, the trigger level has been calculated by stressing the coefficient between charge-off rate and impairment.

4.1.2 Concentration risk

Credit concentration risk may arise from a large exposure to a single counterparty or from the aggregate exposure to a group of counterparties whose probability of default is driven by changes in common underlying factors.

EnterCard should not be exposed to any concentration risk beyond its home markets. This will be mitigated through geographic and product diversification within its home markets.

EnterCard's assessment of concentration risk follows the Swedish FSA's method for assessing concentration risk. For concentration risk capital requirement, EnterCard applies a percentage of its Pillar I capital requirement for credit risk based on the Herfindahl index.

EnterCard has a concentration risk when it comes to its counterparties which all originates in its home markets Sweden, Norway and Denmark, although distributed against borrowers across the entire countries and that are active in, and dependent on, several sectors.

EnterCard also has a concentration risk when it comes to the product lines, which consists of unsecured credits. However, the client portfolios are well diversified where unit exposures are low in relation to the total assets. During 2014, EnterCard also offers consumer loans in Norway and will launch consumer loans in Denmark during 2015, which further diversifies the product portfolio.

Table 3: Risk exposure amount and own funds requirements for credit risks

Risk exposure amount and own funds requirements for credit risks 2014 (Basel 3)		
Exposure classes	**Risk exposure amount**	**Own funds requirement**
Institutional exposures	350 498	28 040
Regional governments or local authorities exposures	0	0
Retail exposures	12 431 405	994 512
Regional governments or local authorities exposures	879	70
Corporate exposures	14 286	1 143
Other exposures	520 865	41 669
Total	**13 317 933**	**1 065 435**
Total capital requirement for credit risk according to the standardised approach		**1 065 435**
Capital reqirements for operational risk		
Risk exposure amount		3 795 422
Capital requirements according to the standardised approach		303 634
Total Capital requirement for operational risk		**303 634**
Total capital requirements		**1 369 069**

Risk exposure amount and own funds requirements for credit risks 2013 (Basel 2)		
Exposure classes	**Risk exposure amount**	**Own funds requirement**
Central government or central banks exposures	0	0
Institutional exposures	0	0
Regional governments or local authorities exposures	0	0
Retail exposures	14 335 261	1 146 821
Regional governments or local authorities exposures	4 465	357
Corporate exposures	5 678	454
Other exposures	636 083	50 887
Total	**14 981 487**	**1 198 519**
Total capital requirement for credit risk according to the standardised approach		**1 198 519**
Capital reqirement for operational risk		
Risk exposure amount		3 508 938
Capital requirements according to the standardised approach		280 715
Total Capital requirement for operational risk		**280 715**
Total capital requirement		**1 479 234**

Table 4: Exposure by maturity

Remaining maturity Group 2014	<3 months	3-12 months	1-5 years	No maturity	Total
Loans to credit institutions	1 750 274				1 750 274
Loans to the public	16 674 687	50 071	108 382		16 833 140
Prepaid expenses and accrued income	44 414	54 732	4 078		103 224
Other assets	68 400	24 224	38 175	127 708	258 507
Total assets	**18 537 775**	**153 316**	**8 421**	**127 708**	**18 945 145**
Amounts owed to credit institutions	1 183 221	3 949 225	8 677 530		13 809 976
Other liabilities	191 015	270 598	80 373		541 986
Accrued expenses and prepaid income	153 466	162 936	9 652		326 054
Subordinated liabilities				50 397	50 397
Equity				4 216 732	4 216 732
Total liabilities and equity	**1 527 702**	**4 382 759**	**8 767 555**	**4 267 129**	**18 945 145**

Remaining maturity Group 2013	<3 months	3-12 months	1-5 years	No maturity	Total
Loans to credit institutions	1 276 777				1 276 777
Loans to the public	18 734 742	55 108	116 121		18 905 971
Prepaid expenses and accrued income	119 941				119 941
Other assets	78 969	20 006		108 350	207 325
Total assets	**20 210 429**	**153 316**	**8 421**	**108 350**	**20 510 014**
Amounts owed to credit institutions	7 597 807	2 355 247	7 029 560		16 982 614
Deposits and borrowing from the public					0
Other liabilities	307 062				307 062
Accrued expenses and prepaid income	263 500	82 967			346 467
Subordinated liabilities				50 812	50 812
Equity				3 326 713	3 326 713
Total liabilities and equity	**8 168 369**	**2 438 214**	**7 029 560**	**3 377 525**	**21 013 668**

Table 5: Loan receivables allocates between following industries and loan types

Group 2014 **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	17 406 813	0	926 027	16 480 786	340 691
Corporate customers	362 879	10 524	0	352 355	2 604
Loans	**17 769 692**	**10 524**	**926 027**	**16 833 141**	**343 295**
Credit institutions	-	-	-	**0**	-
Total lending to credit institutions and public	**17 769 692**	**10 524**	**926 027**	**16 833 141**	**343 295**

Group 2013 **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	19 872 842	0	882 159	18 990 683	423 076
Corporate customers	440 005	10 069	0	429 936	0
Loans	**20 312 847**	**10 069**	**882 159**	**19 420 619**	**423 076**
Credit institutions	1 277 588	-	-	**1 277 588**	-
Total lending to credit institutions and public	**21 590 435**	**10 069**	**882 159**	**20 698 207**	**423 076**

Table 6: Provisions and impaired loans

	Group		**Parent company**	
Provisions and impaired loans	**2014**	**2013**	**2014**	**2013**
Provisions				
Opening balance	**892 228**	**884 228**	**0**	**0**
Reported provision for probable loan losses	455	-158	-	-
Allocations/withdrawals from collective provision	46 931	26 618	-	-
Allocations/withdrawals from loan loss reserve	0	0	-	-
Exchange differences	-3 063	-18 460	-	-
Closing balance	**936 551**	**892 228**	**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)	70,6%	66,1%	0%	0%
Provision ratio for individually identified impaired loans, %	81,2%	81,8%	0%	0%
Impaired loans				
Book value of impaired loans	343 295	423 076	-	-
Impaired loans as percentage of total lending	2,0%	2,2%	0%	0%
Past due loans that are not impaired				
Valuation category, loans and receivables				
Loans past due 5-30 days	603 252	1 215 571	-	-
Loans past due 31-60 days	167 703	226 015	-	-
Loans past due more than 61 days	92 202	49 828	-	-
Total	**863 157**	**1 491 414**	**0**	**0**

4.2 Operational risk

Operational risk refer 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.

The IT-security is continuously strengthened and the internal audit examines the governance and internal control in the group, which means audit of efficiency, compliance with instructions and routines.

Self-evaluation of operative risks is continuously performed for all important processes in the Group. The method includes identification of risks and also plans of action to prevent them.

Reporting is made to local management and to the Board, the Managing Director and Group Management.

4.2.1 Governance of operational risk

Operational risks in EnterCard should be limited as far possible, whilst taking a balanced view of what is economically viable to mitigate. A risk tolerance is set to signal when a risk is in need to be mitigated to reduce the NRE (net risk exposure). The risk tolerance is breached when the total average NRE becomes “major”, or when a single operational risk is classified as “critical”.

Managers shall ensure the identification, assessment and treatment of the operational risks inherent in their respective area. Appropriate mitigation techniques should be formulated to limit or reduce the impact of these risks and the effectiveness of the mitigation techniques should be periodically monitored.

Operational risks that could damage the EnterCard’s reputation and brand should be taken into account and be limited.

To mitigate operational risks within EnterCard, the following criteria shall be met:

- Managers shall ensure that all employees have the necessary competence to enable them to perform their duties.
- Work procedures and controls implemented to mitigate operational risks shall be adequate documented.
- Responsibilities and work shall be allocated in such a manner that the risk of conflicts of interest is avoided.
- Dual control and segregation of duties shall be present in relevant processes.
- Continuity in the operations and protecting EnterCard’s assets and customers should be ensured through adequate controls.

4.3 Market risk

Market risk refers to the risk that the value of a financial instrument of future cash flows from a financial instrument is affected by the changes in market rates. The Group is exposed to market risks in the form of interest rate risk and currency 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 risks by offering credits with variable interest rates. The interest rate risk is deemed low and is continuously monitored by the Treasury function. See below for a sensitivity analysis. See appendix 7.3.

Currency risk occurs as assets and liabilities denominated in foreign currencies are not equal. The group has a limited currency risk since lending and borrowing is in the countries is in same currency. The group has no derivatives.

4.3.1 Governance of interest rate risk

The risk appetite is that the interest rate exposure relative to a 200 bps-parallel shift should be less than 20% of EnterCard's net interest income. The interest rate exposure equals to EnterCard's capital requirement related to interest rate risk.

EnterCard also monitors the interest rate exposure relative to 200 bps-parallels shift in relation to the capital base, which should be less than 20%.

In accordance with set business strategy, EnterCard should have no currency risk beyond that implied by the business model. EnterCard's parent companies hedges the net position in NOK and DKK on behalf of EnterCard. The amount is based on regular reporting from EnterCard to the parent companies. EnterCard is not subject to capital requirement for foreign exchange risk.

EnterCard does not take trading positions in the stock market or other markets, and is therefore not exposed to equity trading risk.

Table 7: Market interest

	Market interest - 1 percent		Market interest +1 percent	
Group	**2014**	**2013**	**2014**	**2013**
< 3 months	11 587	1 372	-11 459	-1 357
3-6 months	-2 841	634	2 803	-626
6-12 months	-11 211	-2 423	11 017	2 382
1-2 years	-56 376	-18 970	54 991	18 506
2-3 years	-55 692	-4 796	53 788	4 634
Total	**-114 533**	**-24 183**	**111 140**	**23 539**

4.4 Liquidity risk

Liquidity risk refers to the risk of not being able to meet payment obligations at maturity without significant increase in cost for obtaining means of payment due to high funding costs. Since the Group has a substantial cash surplus which is mainly short term the liquidity risks are considered low. Governance and control over liquidity risks is monitored by Management and the Board.

The liquidity and funding processes are fundamental for EnterCard's daily operations. All EnterCard funding is sourced through the parent companies, in accordance with the joint venture agreement.

4.4.1 Governance of liquidity risk

The risk appetite is managed by using the Survival Horizon as a metric understand the length of time EnterCard can survive without receiving funding infusions from the parents. EnterCard's survival horizon risk appetite is set to 20 days.

The survival horizon risk appetite is complemented with EnterCard's liquidity risk strategy, based on the regulatory requirements, which states that the exposure to liquidity risk should be low and that EnterCard shall maintain a sufficient stock of high quality liquid assets to meet its short term obligations (next 30 days). A cushion equivalent to 20% of the Liquidity Coverage Ratio (LCR) is added on top of the regulatory LCR regulatory level to absorb asset value fluctuations. I.e. EnterCard's internal target will be 120% when the LCR is fully implemented.

Pending implementation of the 60% LCR regulatory requirement in October 2015, EnterCard holds a liquidity reserve according to FFFS 2010:7. EnterCard's reserve is placed short-term on depository accounts at Swedbank, and is supplemented through an agreement with Swedbank Group Treasury who holds a liquidity buffer of HQLA on behalf of EnterCard, as well through an overdraft facility within Swedbank available on demand. The minimum level of liquidity (nominal liquidity hurdle) on depository accounts is 100 mSEK, and has been agreed to in the Treasury Forum.

4.4.2 Funding strategy

Funding has exclusively been provided through Swedbank AB and Barclays Bank PLC. The Group liquidity is secured through credits and loans provided by the owners. At EnterCard, this relates primarily to debt-funding of receivables. Funding is secured every quarter. The funding provided is for operational needs for the coming three months. EnterCard forecasts future funding needs as part of its quarter, annual and three year forecasting processes. As per EnterCard's risk appetite, EnterCard shall have sufficient stable funding to limit liquidity risk arising from long-term assets.

Table 8: Liquidity as LCR 31 Dec 2014

Unit	EnterCard Group	SEK	NOK	DKK
Liquidity	1 772 mSEK	1 004 mSEK	589 mNOK	109 mDKK

Net cash outflow	2 753 mSEK	1 463 mSEK	963 mNOK	219 mDKK
LCR*	64%	69%	61%	50%

* Alternative LCR where deposits available the next day are not included as liquid inflows but rather included in the liquidity reserve.

4.4.3 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 is about 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".

4.4.4 Financial Recovery Plan

EnterCard has developed a 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.

4.5 Strategic and business risk

Business and strategic risk refer to the current and future risk of losses caused by chances in market conditions (changes in volumes, interest margins and other price changes concerning deposit and lending) and inaccurate and misguided business decision. The Group regularly evaluates business and strategic risks. During board meetings these risks are discussed and decisions on potential change of business strategies are approved.

4.5.1 Governance of strategic risk

EnterCard's long term objective is to be the leading provider of consumer financing in Scandinavia while maintaining sound profitability. The overall long term plan and strategy is followed up on and included in the ERM report presented to management and the boards on a quarterly basis. In order to reach its strategy goals, EnterCard have identified the following key strategic areas: Identify new sources for a sustainable growth, reach the customer Key Value Driver targets to maximise the business, ensure that the operating model is aligned with EnterCard's strategies, being compliant with applicable regulations, and act as responsible citizens.

4.5.2 Reputation risk

Reputation risk is defined as secondary risk. This means that reputation risk arises as a result of other risks that are poorly controlled or poorly managed. Reputation risk appears when management for example unsuccessfully manages a credit loss, operational risk incident or market risk exposure.

Reputation risk cannot be mitigated by capital, and are not subject to a risk appetite, because reputational risk is not the primary risk. EnterCard however controls the exposure toward reputational risks though a strong internal control of all other identified material risks. Reputational risk is considered as a part of the methodology to when evaluating operational risks. Also, when evaluating the financial impact for the operational risk stress test scenarios, reputational risk costs (as a generic addition considering reputational risk) is included into the evaluation of the scenarios.

5 EnterCard's compensation

The Group's overall approach to compensation is that it, as far as possible, should be individually designed and related to the employee's contribution to the business with a healthy balance between fixed and variable remuneration. The group believes it is important that compensation works as an incentive for value-creating actions for the benefit of the group and a balanced risk-taking to create long-term customer and shareholder value. The variable remuneration is linked to individual employee targets and the Group's overall performance. Notwithstanding any effectiveness, the Board has the right to take a discretion decision of which total amount, if any, to be paid out as variable remuneration or already promised variable remuneration that not is paid out, shall be retained. The Group differs on the variable compensation for staff who are risk takers and variable remuneration for other staff. A higher proportion of variable compensation is deferred for risk takers compared to other staff. The policy is reviewed annually, and otherwise when necessary. All compensation programs are cash based and the employees will not receive shares in the group.

Decision-making process

The principle of variable compensation is governed in the remuneration policy decided by the Board, which covers all employees of the company. HR staff are responsible for the preparation of a draft remuneration policy. The process surrounding the gathering of comments on the proposed remuneration policy follows the company's internal rules of policy-making. Executive Team recommends that the proposal should be submitted to the Board for decision.

The policy is prepared by the Remuneration Committee before the Board's decision concerning the policy. A more comprehensive description of EnteCards remuneration policy and compensation outcomes can be found in the report "Information om ersättningar i EnterCard AB".

Description of compensation outcomes 2014

The outcome of the expense total amount of remuneration divided into categories of senior executives, risk-takers and other employees. Senior management refers to Managing Director of the parent company. EnterCard has decided that employees in the following categories, who is exercising or could exercise a non-significant influence on the risk level, is considered to be risk-takers:

Employees in leading positions
- Employed within control functions
- Employees in leading strategic positions
- Staff responsible for credit loans

Table 10: Distribution of compensation

Group	Senior Management 10 persons	Risk takers 44 persons	Other 403 persons
Fixed remuneration	14 866	37 080	171 090
Variable remuneration earned during 2014	6 556	8 005	23 319
Paid out variable remuneration, earned during 2014 and earlier years	7 589	10 319	23 252
Deferred variable remuneration earned this and previous years	8 920	13 329	-