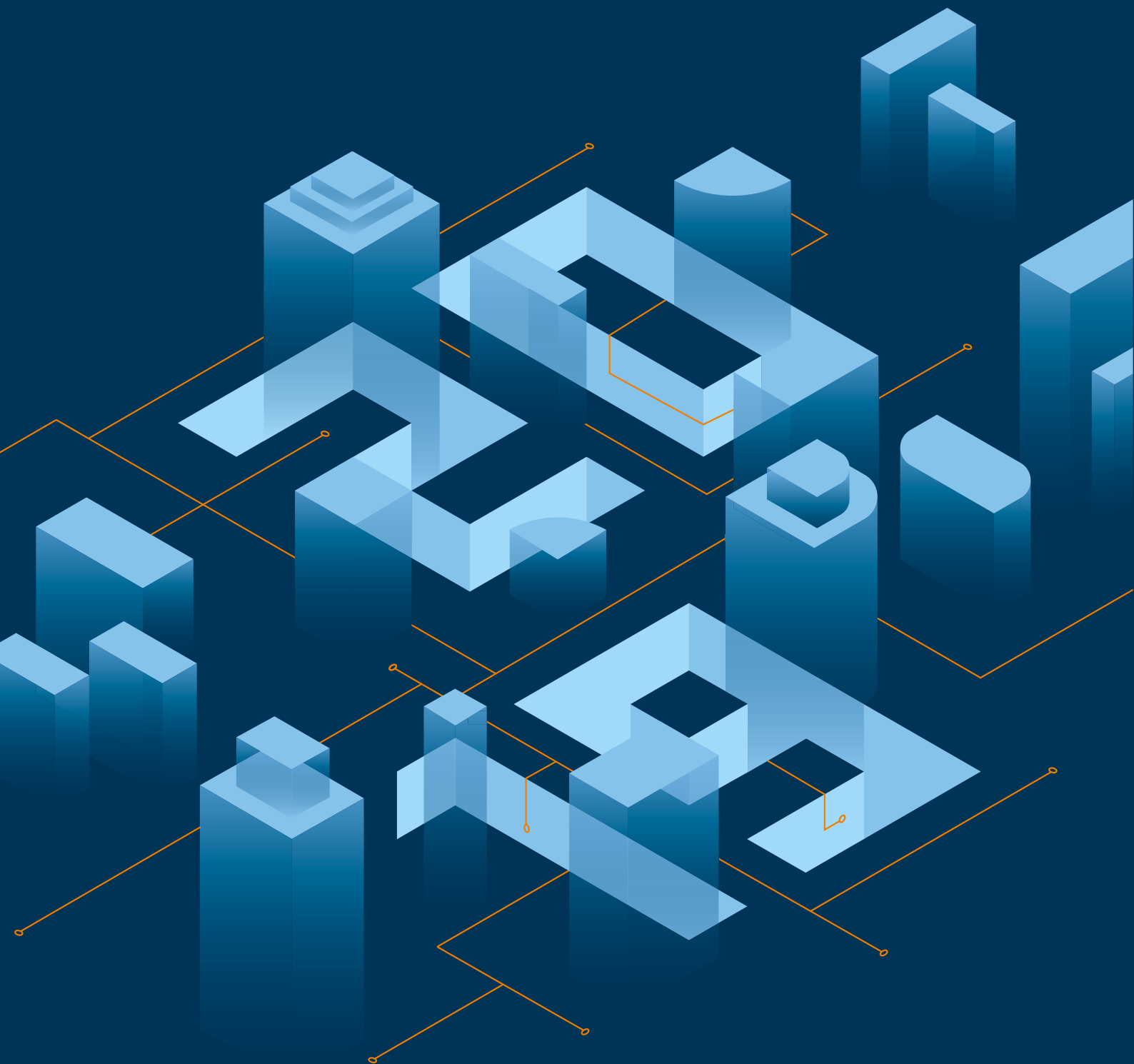


Risk Management and Capital Adequacy Report

Pillar 3 – 2019



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Definitions

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

1

Executive summary



1 Executive summary

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

EnterCard has a solid capital situation and a low risk profile; the company strictly adheres to the capital adequacy regulation and minimum requirement for regulatory capital. Table 1 also shows the capital requirements under Pillar 1 and Pillar 2, and the internally set risk appetite and capital base before and after dividends. It will be proposed not to pay dividend for 2019, in the Financial Statements and Annual Report for the year ending December 31st 2019.

Table 1: Capital Requirements under Pillar 1 and Pillar 2

| 31.12.2019 (kSEK) | Foreseeable dividends | Before dividends |
|------------------------------------------|-----------------------|------------------|
| Total Risk Exposure Amount | 30,744,199 | 30,744,199 |
| Capital Requirement - Pillar 1 | 2,459,536 | 2,459,536 |
| Capital Requirement - Pillar 2 | 274,183 | 274,183 |
| Total Pillar 1 + 2 Capital Requirement | 2,733,719 | 2,733,719 |
| Total Capital Base | 6,058,965 | 6,058,965 |
| CET 1 Ratio | 19.7% | 19.7% |
| Tier 1 Ratio | 19.7% | 19.7% |
| Total Capital Ratio | 19.7% | 19.7% |
| Leverage Ratio | 14.1% | 14.1% |
| Capital Ratio Risk Appetite | 14.8% | 14.8% |
| Sum Internal Capital Requirement | 4,541,995 | 4,541,995 |
| Surplus of Capital (above Risk Appetite) | 1,516,970 | 1,516,970 |

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 2019 ¹.

¹ Including the temporary waiver detailed in section 5.1.2.1

The background features a dark blue field with several light blue geometric shapes, including triangles and trapezoids, some of which are layered to create a 3D effect. Two prominent orange lines, one diagonal and one zigzag, cross the scene.

2

Purpose and scope

2 Purpose and scope

This report is submitted by EnterCard Group AB, with registration number 556673-0585, the report will disclose information about EnterCard's capital and risk management and is based on performance as per 31 December 2019.

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

The background features a dark blue field with several overlapping, semi-transparent light blue geometric shapes, primarily triangles and quadrilaterals, creating a layered effect. A single, solid orange line runs diagonally from the top right towards the center of the page.

3

Introduction

3 Introduction

EnterCard Group AB (hereby referred to as EnterCard) is a Swedish authorized credit institution with a Scandinavian presence through branches in Norway and Denmark. The company was established as part of a joint venture between Barclays Bank and Swedbank, owning 40% and 60% of EnterCard. Rights to the earnings and net assets of the company are owned equally (50%) by the parent companies. EnterCard is governed by the Board of Directors of EnterCard Group AB.

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

Pillar 1

Pillar 1 provides rules for calculating the minimum capital requirements for credit risk, market risk and operational risk. EnterCard is not exposed to any interest rate risk under Pillar 1, as it has no trading book, 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) and Internal Liquidity Adequacy Assessment Process (ILAAP). The SFSA states that credit institutions shall have in place a sound, effective and complete strategies and processes to assess the amount, types and distribution of internal capital and liquidity that the management of EnterCard considers adequate to cover the nature and level of the risks to which the business of EnterCard is or might be exposed to.

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

Pillar 3

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

3.1 EnterCard's business areas

EnterCard operates in the Scandinavian market, with the issuance of credit cards and consumer loans. The company was founded in 2005 by Barclays Bank, one of the largest credit institutions 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, under different partners' brands, as well as consumer loans.

It is important for EnterCard to act as a responsible lender by continually advising the customers to use their credit cards in a safe and secure way; and to ensure that reasonable credit limits are given to each individual customer. EnterCard is responsible for credit card related products for Independent Savings banks (ISBs) and COOP in Sweden and Norway respectively, Swedbank, Landsorganisationen i Sverige (LO) and Swedish Golf Association (Golf). EnterCard has also successfully introduced and distributed re:member credit cards and consumer loans. EnterCard Denmark is responsible for credit card related products issued by its own brand re:member, LO and FlexKredit.

Today, EnterCard has over 2 million customers and approximately 480 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

3.2 Future developments

The development towards more digital solutions continues as a result both to increased customer needs for convenience, speed and simplicity and advancements in technology. EnterCard is continuously active in developing simple and efficient digital customer interfaces, including enhancing all existing customer touch points and upcoming launches within digitalized payment solutions and eWallet. EnterCard is continuously exploring new ways of providing financing and create engagement with the customers throughout the customer lifecycle. Efficiency and control is further improved through consolidation and modernization of EnterCard's IT platforms and automation of back-end processes.

EnterCard is exposed to several regulations. During 2019 EnterCard has worked actively to ensure compliance with PSD2 as well as realizing business opportunities that especially PSD2 enables, which may have a disruptive effect on the value chain within the industry.

During 2019, new regulations introduced in Norway enforcing more restrictions on consumer credit products, including more stringent rules, stress testing on affordability assessments and reduced tenure of loans. In addition, three debt registries were introduced in Norway during the year increasing the transparency over unsecured debt. The regulations have reduced the growth in the lending market and is expected to continue for a period going forward.

EnterCard's response to COVID-19 is in line with the general approaches within the finance industry, while taking employees, our societal responsibility as well as the company's future into consideration, and balancing the effort of the measures against the consequences they might have. EnterCard is following the development and evaluates the next steps, based on recommendations or steer from the government and health authorities, and takes measures to respond to these.

3.3 Forthcoming regulations and key regulatory changes

AMLD5

AMLD5 further tightens the conditions under which electronic money products can be issued anonymously, with limits for anonymous electronic money will be reduced further. The usability of anonymous electronic money products for online payments will be severely limited. Acquirers may only process payments using anonymous prepaid cards from a third country if these cards were issued in the third country with similar restrictions. AMLD5 will be in effect beginning 2020 in Denmark and Sweden, with no planned implementation date in Norway.

BRRD II

The BRRD aims to create a standardized resolution handling across the European Union, with requirements for recovery plans and resolution capital (MREL). The BRRD II is harmonizing MREL with the existing TLAC-standard, as they are both measures to ensure that institutions and entities established in the EU have sufficient loss-absorbing and recapitalization capacity.

CRR II & CRD V

CRR II and CRD V amend the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV), which provide the legal architecture for the prudential regulation for financial institutions in the EU. EnterCard monitors the implementation of CRR II and CRD V. The impact of these regulations are deemed to be of limited impact to EnterCard.

Norwegian systemic risk buffer

The Norwegian Ministry of Finance intends to introduce a systemic risk buffer for all institutions operating in Norway, and also to step-wise increase the buffer from 3.0% to 4.5%. The change, if approved, it will have a significant, but not unmanageable impact on EnterCard.

Backstop Regulation

Based on a common definition of non-performing loans, the new rules introduce a “prudential backstop”, i.e. a minimum loss coverage for the amount of money institutions need to set aside to cover losses caused by future loans that turn non-performing. The prudential backstop requires a deduction from own funds where NPEs are not sufficiently covered by provisions or other adjustments. The applicable amount of own funds deductions depends mainly on the size of the exposure, the number of years the exposure has been classified as NPE, the type and value of collateral and the amount of provisions. The regulation is considered EEA relevant.

Countercyclical buffer changes 2020

Following the impact of Covid-19, Norway, Sweden and Denmark has independently decided to reduce or maintain their countercyclical buffers to prevent tighter lending standards from amplifying a possible economic downturn. The new countercyclical buffers are 0%, 1% and 0 %, for Sweden, Norway and Denmark respectively.

4

Capital

4 Capital

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

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

4.1 Capital adequacy regulation

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

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

4.1.1 Key ratios dashboard

The table below shows the capital adequacy before and after dividend. The 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. It will be proposed not to pay dividend for 2019, in the Financial Statements and Annual Report for the year ending 31 December 2019.

EnterCard's capital ratio after dividend is 19.7% as per 31 December 2019, well above the internal risk appetite of 14.8%, which gives a capital surplus of 1,516,970k SEK above internal requirements. EnterCard thereby holds sufficient capital as per 31 December 2019.

Table 2. Key Ratios EnterCard

| 31.12.2019 (kSEK) | Foreseeable dividends | Before dividends |
|-------------------------------------------------|-----------------------|-------------------|
| Total risk exposure amount | 30,744,199 | 30,744,199 |
| Capital requirement - Pillar 1 | 2,459,536 | 2,459,536 |
| Capital requirement - Pillar 2 | 274,183 | 274,183 |
| Interest rate risk in the banking book | 4,899 | 4,899 |
| Credit Concentration risk | 163,742 | 163,742 |
| Pension risk | 105,433 | 105,433 |
| Counterparty credit risk | 109 | 109 |
| Total Pillar 1 + 2 capital requirement | 2,733,719 | 2,733,719 |
| Total Capital Base | 6,058,965 | 6,058,965 |
| CET 1 Ratio | 19.7% | 19.7% |
| Tier 1 Ratio | 19.7% | 19.7% |
| Total Capital Ratio | 19.7% | 19.7% |
| Leverage Ratio | 14.1% | 14.1% |
| Capital Ratio Risk Appetite | 14.8% | 14.8% |
| Sum Internal Capital Requirement | 4,541,995 | 4,541,995 |
| Surplus of Capital (above Risk Appetite) | 1,516,970 | 1,516,970 |

4.1.2 Tier 1 and Tier 2 capital

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

EnterCard's capital base amounted 6,058m SEK per 31 December 2019, of which 100% is Common Equity Tier 1.

Table 3. Tier1, Tier 2 and Capital Base

| 31.12.2019 (kSEK) | Foreseeable dividends | Before dividends |
|-------------------------------------------|-----------------------|------------------|
| Share capital | 5,000 | 5,000 |
| Retained earnings | 6,142,744 | 6,142,744 |
| Accumulated other comprehensive income | 0 | 0 |
| Deductions intangible assets | -73,890 | -73,890 |
| Deductions deferred tax assets | -14,889 | -14,889 |
| Total Common Equity Tier 1 Capital | 6,058,965 | 6,058,965 |
| Additional Tier 1 Capital | 0 | 0 |
| Total Tier 1 Capital | 6,058,965 | 6,058,965 |
| Subordinated loan | 0 | 0 |
| Total Tier 2 Capital | 0 | 0 |
| Total Capital | 6,058,965 | 6,058,965 |

4.1.3 Capital requirement Pillar 1 and Pillar 2

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

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

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

Table 4. Capital requirements

| 31.12.2019 (kSEK) | Foreseeable dividends | Before dividends |
|---------------------------------------------------|-----------------------|-------------------|
| Total risk exposure amount | 30,744,199 | 30,744,199 |
| Credit risk | 25,623,415 | 25,623,415 |
| Operational risk | 4,632,277 | 4,632,277 |
| Market risk | 488,507 | 488,507 |
| Capital requirement - Pillar 1 | 2,459,536 | 2,459,536 |
| Credit risk | 2,049,873 | 2,049,873 |
| Operational risk | 370,582 | 370,582 |
| Market risk | 39,081 | 39,081 |
| Capital requirement - Pillar 2 | 274,183 | 274,183 |
| Interest rate risk in the banking book | 4,899 | 4,899 |
| Credit Concentration risk | 163,742 | 163,742 |
| Pension risk | 105,433 | 105,433 |
| Counterparty credit risk | 109 | 109 |
| Total Pillar 1 & 2 capital requirement | 2,733,719 | 2,733,719 |

4.1.4 Capital buffers

In accordance with regulatory requirements, EnterCard holds a capital conservation buffer and a countercyclical buffer on top of the Pillar 1 regulatory minimum and Pillar 2 internal assessments. The capital conservation buffer corresponds to 2.5% of EnterCard’s total risk exposure amount and the industry specific countercyclical buffer is set at 2.4% (weighted average of the three countries where EnterCard operates).

the regulatory target. This has been approved by the Board and is reviewed annually. As of 31 December 2019, EnterCard’s total internal capital requirement was equal to 14.8%.

All buffers are held in Common Equity Tier 1 capital.

EnterCard’s internal capital risk appetite includes an internal buffer of 1.0% on top of its regulatory target as a safety margin to minimise the risk of breaching

Table 5. Capital buffers

31.12.2019 (kSEK)

Foreseeable before dividends

| | |
|----------------------------------------------------|---------|
| Capital conservation buffer (2.5%) | 768,605 |
| Institution-specific countercyclical buffer (2.4%) | 732,229 |
| Internal buffer (1.0%) | 307,442 |

The figure below shows EnterCard’s regulatory capital requirement and the internal capital buffer. All percentage targets are corresponding to EnterCard’s total risk exposure amount, i.e. the amount of capital corresponding to the required percentage of total risk exposure amount. Total capital ratio before dividend was 19.7%. Since it is proposed not to pay dividend for 2019, the total capital ratio is 19.7% also after dividend.

Fig. 1. EnterCard regulatory and internal capital targets per 31 December 2019

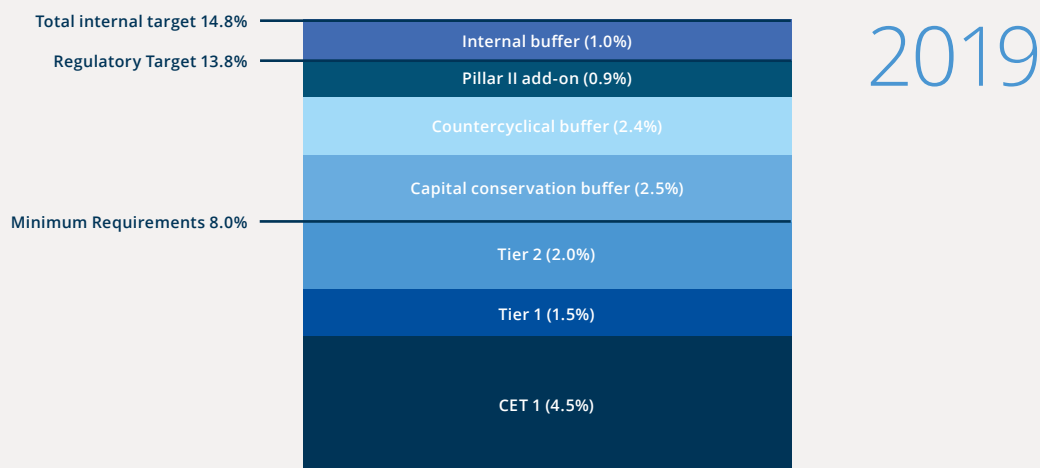
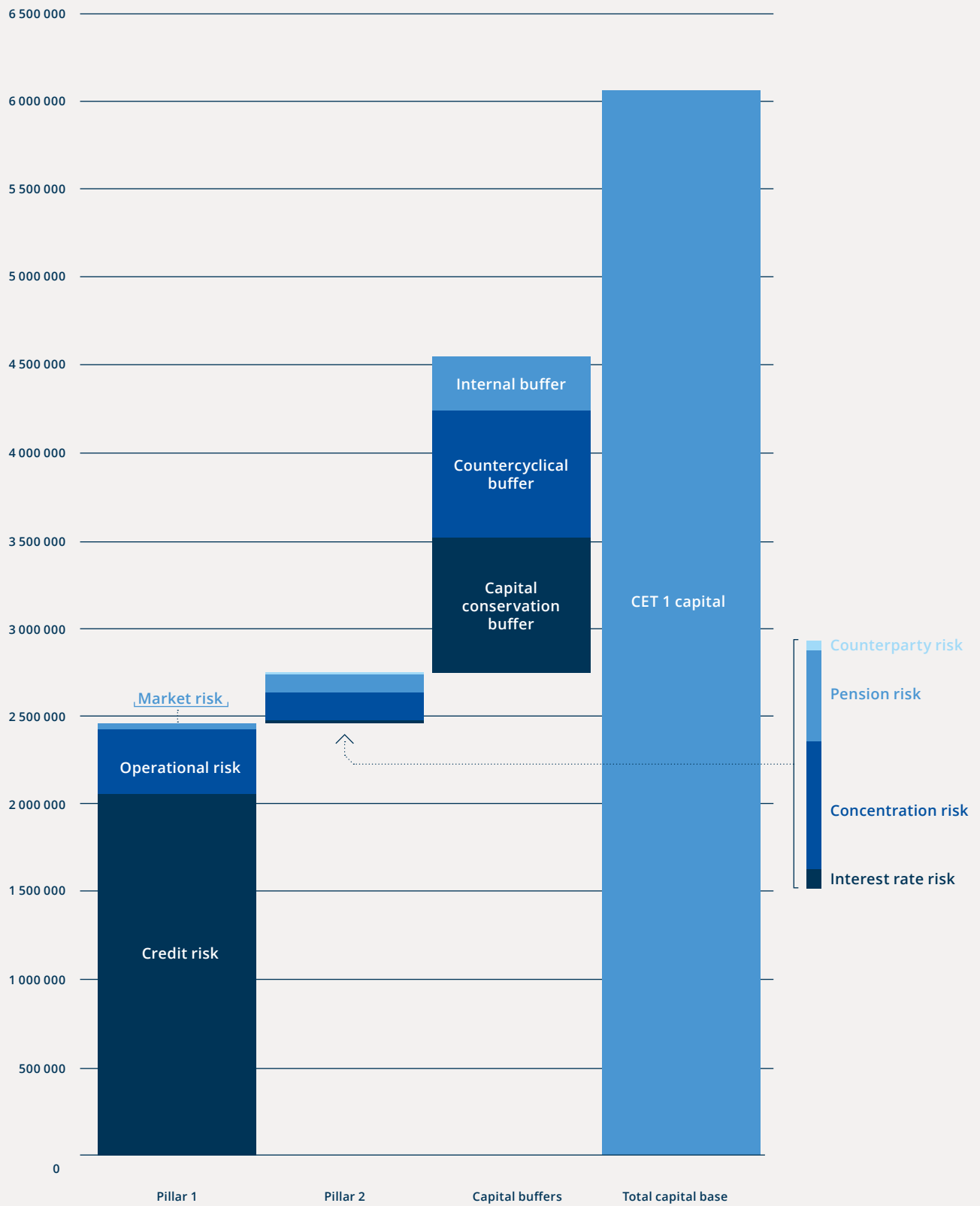


Fig. 2. EnterCard minimum total capital requirement as per 31 December 2019 (kSEK)



4.2 Capital management and control

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

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

4.2.1 ICAAP/ILAAP

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

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

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

The outcome of EnterCard's ICAAP shows that EnterCard holds sufficient capital as per 31 December 2019. It also shows that EnterCard will hold sufficient capital in a stressed scenario the next three years.

The outcome of EnterCard's ILAAP shows that EnterCard holds sufficient liquidity when considering both Survival Horizon (SH), Liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) as per 31 December 2019.

4.2.2 Stress testing

EnterCard regularly performs stress test exercises to capture the capital needed on the company level under stressed conditions. Stress testing is based on EnterCard's Medium Term Plan (MTP) considering EnterCard's specific business and circumstances during this period. In Q4 2019, a scenario-based stress testing exercise was undertaken by EnterCard. Impairment in the stressed scenarios is simulated using IFRS 9 principles.

Spanning over the period 2020-2022, the scenarios describes global events leading to an adverse and severely adverse recession. EnterCard undertakes reasonable stress testing of impairment, profit & loss and capital estimates.

Credit Risk Stress Testing

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

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

The approach stresses the underlying assumptions of the base scenario to forecast the impact of potentially plausible events. The main assumptions which feed the forecasting models and which are affecting the financial output are the unemployment rate, affecting credit losses, the GDP growth rate, affecting income and balances, and the interest rates and funding credit spreads, affecting funding costs. Therefore, the forecasts are flexed to reflect the impact of changes in these parameters.

The output forms part of EnterCard's decision making process as to what the management response would be if such a situation was to occur in reality.

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

IFRS9

EnterCard implemented IFRS 9 impairment standards from January 1st 2018. The forecasted impairment for the next three years has been simulated according to IFRS 9 standards. Since impairment according to IFRS 9 reacts faster to decreased economic conditions compared to impairment calculated according to IAS 39 standards, the short-term impairment effect is higher in the stressed scenarios than what had been the case prior to 2018 under IAS 39 standards.

P/L Stress Testing

The P/L, together with different Key Value Drivers (KVDs) have been stressed using the macro scenarios described above. The KVDs used are turnover, gross balances and Interest Earning Lending (IEL). The results of the P/L stress testing are used to assess if a capital planning buffer is required.

Capital Plan Stress Testing

Based on the outcome of the credit risk and P/L stress testing, the effects on the capital plan are also assessed. The effects on the P/L and impairment will affect on the capital base, while the 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 stressed scenarios.

Operational Risk Stress Testing

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

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

The results of the operational risk stress testing is lower than the Pillar 1 requirement for operational risk, and it is therefore not deemed necessary to hold additional capital for operational risk under Pillar 2.0

4.2.3 Capital Contingency Plan

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

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

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

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

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

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

5

Risk



5 Risk

5.1 Board’s declaration of risk management

5.1.1 Declaration of Risk Management

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

In accordance with the ICAAP/ILAAP, the Board declares that EnterCard has an overall satisfactory risk management and it is within all risk appetite levels, including the temporary waiver for Norway loans credit risk.

5.1.2 Risk statement pursuant to article 435 of the CRR

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 2019, including the temporary waiver.

5.1.2.1 Credit risk

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.

In December 2019 the Board authorised a waiver allowing EnterCard to be above the risk appetite for Norway consumer loans for three quarters between Q4 2019 and Q2 2020. This was done to mitigate the stress seen in both balance recruitment and charge-off balances after the implementation of the new consumer financing regulations and the debt registry in 2019.

Table 6. Charge-off

| 31.12.2019 | Sweden | Norway | Denmark |
|------------------------------------------------------|--------|--------|------------------|
| Charge-off ratio Credit Cards <i>risk appetite</i> | 5.5% | 10.3% | 8.2% |
| Charge-off ratio Credit Cards <i>actual</i> | 2.88% | 9.76% | 5.87% |
| Charge-off ratio Consumer Loans <i>risk appetite</i> | 18.0% | 21.0% | n/a ¹ |
| Charge-off ratio Consumer Loans <i>actual</i> | 11.27% | 26.96% | 4.13% |

¹ For Denmark Consumer Loans, EnterCard has not yet launched that product fully, but only performed tests in order to collect data and prepare for a full launch. Therefore, there is currently no charge-off risk appetite for this product, but a risk-appetite based on the proportion of high-risk accounts.

5.1.2.2 Market risk

Market risk includes interest rate risk, currency risk and equity risk, however EnterCard has no exposure to equity risk.

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 parallel shift up/down shall not exceed 10% of the capital base, without any risk reduction from risks in different currencies. The table below illustrates the interest rate risk sensitivity analysis per 31 December 2019 is well within the risk appetite.

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

| 31.12.2019 (kSEK) | EnterCard Group |
|---------------------------------------------|-----------------|
| 200 bp parallel shift <i>risk appetite</i> | 10% |
| 200 bp parallel shift <i>risk tolerance</i> | 7% |
| 200 bp parallel shift <i>actual</i> | 0.05% |

EnterCard’s currency risk strategy is to focus on having a low exposure to the capital ratio rather than a low exposure to the own funds. EnterCard should have no currency risk beyond that implied by the business model. EnterCard operates in Sweden, Norway and Denmark and therefore it is a natural part of the business model to have assets and liabilities in all three currencies. EnterCard’s currency risk exposures are not beyond what is implied by the business model and is therefore within the risk appetite.

5.1.2.3 Operational risk

Operational risks should be limited as far as possible, whilst taking a balanced view of what is economically viable to mitigate. The definition of the risk appetite is as follows:

- Total average NRE (Net Risk Exposure) should be below Major
- No single operational risk should be Critical
- The number of level 1 incidents should be below 2 and the number of level 2 incidents should be below 12 per quarter
- The total direct cost of incidents should be below 7m SEK per quarter

EnterCard is per 31 December 2019 within the risk appetite. No risks are assessed to have Net Risk Exposure Critical and the average Net Risk Exposure on group level is below Major.

5.1.2.4 Liquidity risk

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

Fig. 3. Survival horizon per 31 December 2019

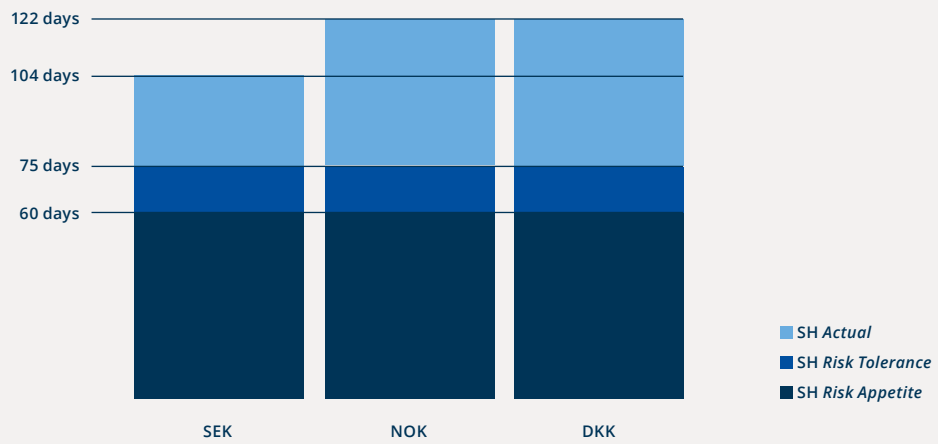
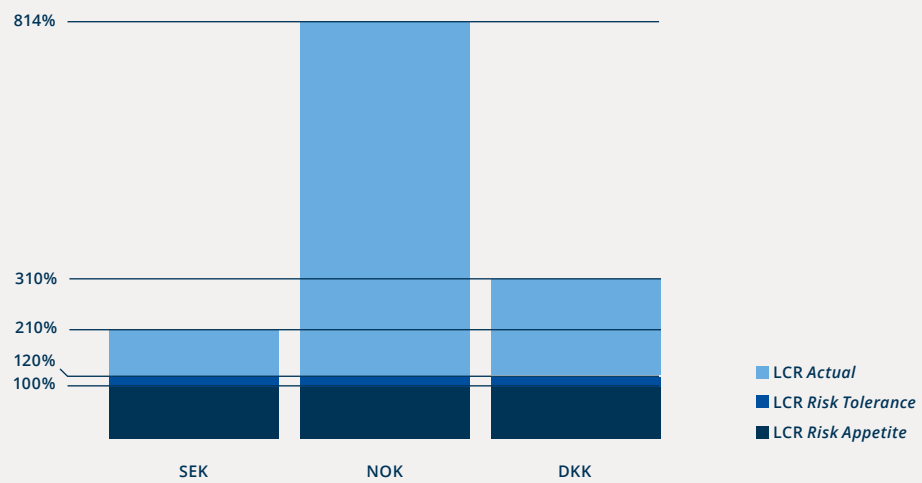
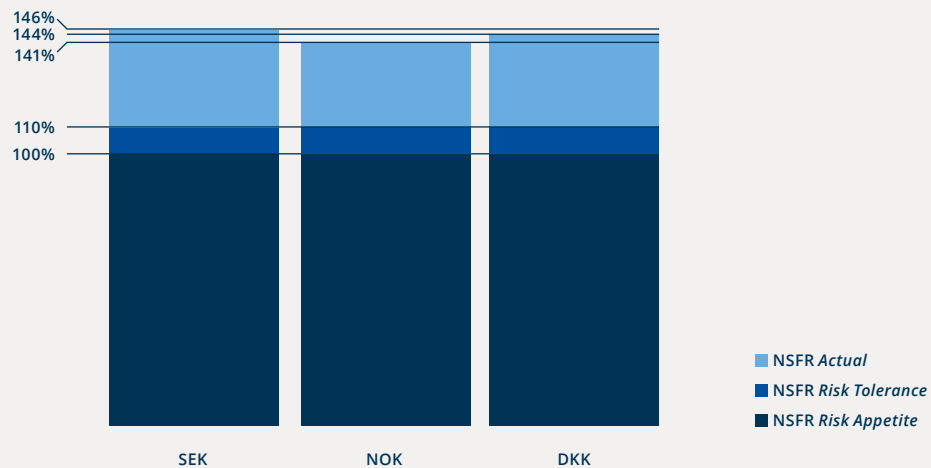


Fig. 4. LCR per 31 December 2019



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

Fig. 5. NSFR per 31 December 2019



5.2 Risk management and control

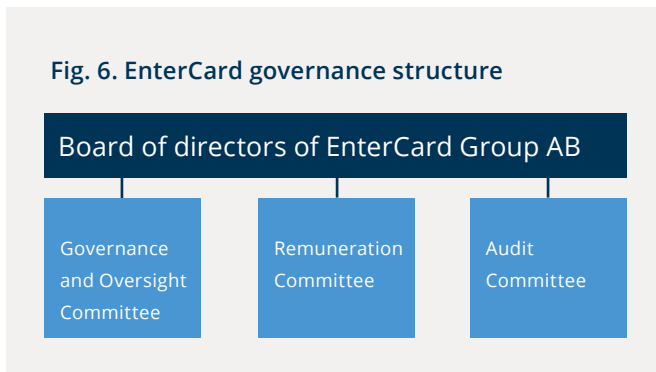
To achieve EnterCard’s business goals regarding growth, profitability and economic stability it is necessary to continuously balance the goals of EnterCard against the associated risks. These risks are analysed through the enterprise view EnterCard has on business processes.

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

5.2.1 Risk management processes

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

5.2.2 EnterCard governance structure



The comprehensive set of rules regarding internal governance and control is one of the fundamental instruments for the Board of Directors and Senior Management for business control and robust internal control. The Board also functions as EnterCard’s audit committee. Risk management is executed within each business function under the supervision of and communication with the risk control function. The risk control function regularly monitors and reports to the CEO and Board of Directors.

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

5.2.3 The Risk and Control Framework

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

First line of defence refers to all risk management activities carried out by the business operations and its support functions. Second line of defence refers to the Risk Control function and the Compliance function, led by the Chief Risk Officer and the Chief Compliance Officer respectively, who reports to the CEO. The Risk Control function provides independent reporting on the risk profile to the CEO and to the GOC and the Board on the risk profile. The Compliance function reports to the CEO and the GOC on the compliance status. Third line of defence refers to the Internal Audit function which is governed by and reports to the GOC and 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 Business Risk Specialists (BRS), placed in the first line to support the risk profiling process.

Risk

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

Risk identification and assessment

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

Role of Business Risk Specialist (BRS)

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

Fig. 7. EnterCard three lines of defence model



5.2.3.1 EnterCard operating model

EnterCard Group AB Board

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

Governance and Oversight Committee

The Governance and Oversight Committee (GOC) is responsible for monitoring the effectiveness of EnterCard’s governance framework and system of internal

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

Remuneration Committee

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

Audit Committee

The purpose of the Audit Committee is to monitor the integrity of EnterCard's financial statements, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by External Audit. The Audit Committee should ensure that the financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for the shareholders to assess EnterCard's performance, business model and strategy. The Audit Committee is comprised of the entire Board and has a committee Chairman that is not the Chairman of the Board.

Chief Executive Officer (CEO)

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

Chief Financial Officer (CFO)

The CFO has the responsibility for capital and liquidity management. The Treasury department reports to the CFO. The CFO reports to the CEO.

Chief Risk Officer (CRO)

The CRO leads the Risk Control function and reports to the CEO and the Chairman of the GOC. The CRO has the responsibility to provide risk reports to the CEO and to the GOC.

Chief Compliance Officer (CCO)

The Chief Compliance Officer leads the Compliance function and reports to the CEO and the Chairman of the GOC. The Compliance function has a responsibility to support the business to stay compliant, conduct independent monitoring, and provide compliance reports to the CEO and to the GOC.

Chief Credit Officer

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

Risk Steering Documents

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

Treasury Forum

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

Risk Management Committee

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

Impairment Committee

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

Modelling Forum

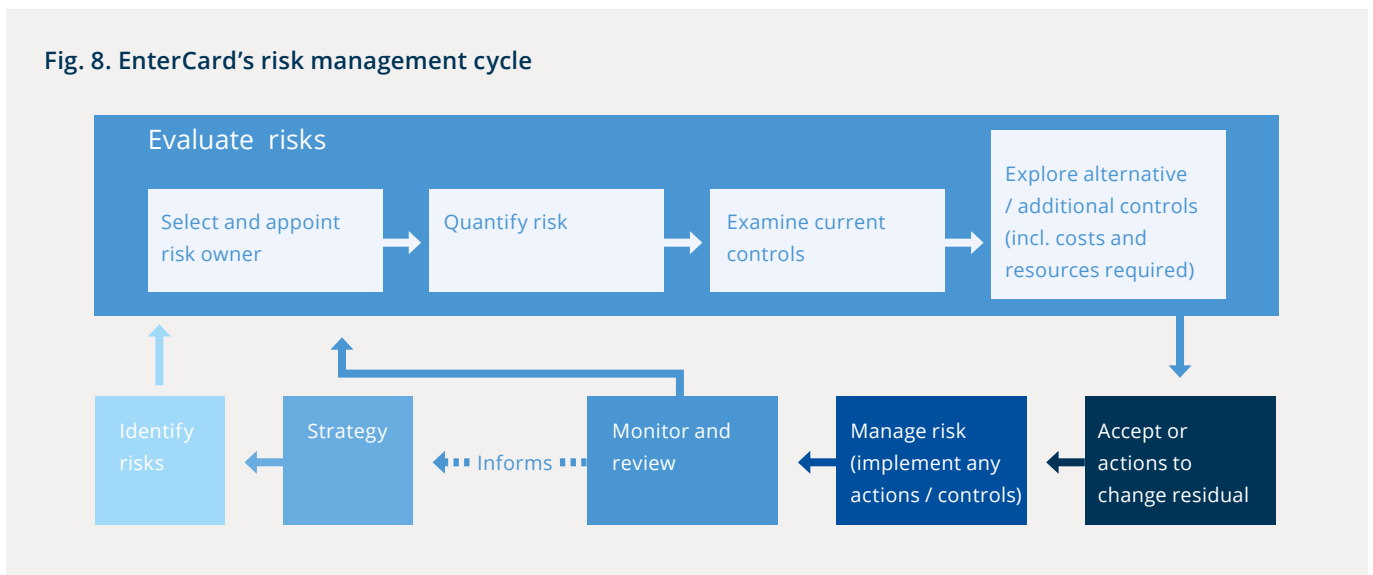
The purpose of the Modelling Forum (MF) is to regularly review EnterCard's models. This includes credit risk models used both for taking credit decisions and to calculate the impairment according to IFRS 9, as well as marketing models.

5.2.4 Risk Appetite and Enterprise Risk Management Policy

EnterCard has an enterprise wide process for risk identification, risk assessment, control design and implementation, presented in the figure below “EnterCard risk management cycle”.

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

5.2.4.1 Entercard risk management cycle



5.3 Risk areas

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

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

5.3.1 Credit risk

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

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

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

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

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

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

Table 8. Distribution by exposure amount by classes for EnterCard per 31 December 2019 and 2018 (kSEK)

| Exposure classes | 2019 | | 2018 | |
|-----------------------------------------------------------------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | Risk exposure amount | Own funds requirement | Risk exposure amount | Own funds requirement |
| Institutional exposures | 700,581 | 56,046 | 740,465 | 59,237 |
| Covered bonds | 112,891 | 9,031 | 46,564 | 3,725 |
| Retail exposures | 22,974,243 | 1,837,939 | 20,925,781 | 1,674,062 |
| Regional governments or local authorities exposures | 1,727 | 138 | 1,876 | 150 |
| Corporate exposures | 4,524 | 362 | 6,914 | 553 |
| Exposures in default | 1,309,590 | 104,767 | 861,895 | 68,952 |
| Other exposures | 519,859 | 41,589 | 377,835 | 30,227 |
| Total | 25,623,415 | 2,049,873 | 22,961,330 | 1,836,906 |
| | | | 2019 | 2018 |
| Total capital requirement for credit risk according to the standardised approach | | | 22,961,330 | 1,836,906 |

Total loans to the public excluding provisions of anticipated loan losses amounted to 33,965.1m SEK. Impaired loans amounted to a book value of 1,301.6m SEK which constitutes 4.1 % of the total credit portfolio. Total provisions amounts to 1,967.5m SEK.

Table 9. Loan Losses (net) for EnterCard per 31 December 2019 and 2018 (kSEK)

| | 2019 | 2018 |
|---------------------------------------------------------------------------|-----------------|-----------------|
| Loans at amortized cost | | |
| Change in provisions - stage 1 | 25,953 | -128,819 |
| Change in provisions - stage 2 | -103,159 | -57,649 |
| Change in provisions - stage 3 | -177,167 | 238,921 |
| Total | -254,373 | 52,453 |
| The year's write-off for established loan losses | -615,143 | -1,859,115 |
| Recoveries from previously established loan losses | 114,919 | 1,164,371 |
| Total | -500,224 | -694,744 |
| Loan losses net, loans at amortized cost | -754,597 | -642,292 |
| Provisions for commitments, credit limits granted but not utilized | | |
| Change in provisions - stage 1 | 14,326 | -9,167 |
| Change in provisions - stage 2 | -498 | 2,132 |
| Change in provisions - stage 3 | - | - |
| Loan losses net, loan commitments | 13,828 | -7,035 |
| Total loan losses, net | -740,770 | -649,326 |

5.3.2 Operational risk

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

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

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

The assessed Pillar 2 capital requirement is calculated as the sum of the estimated occurrence of operational risk events given a 99.9 % confidence level and two significantly stressed risk scenarios. EnterCard’s view is that these to a large extent are overlapping. However, since it is not known to exactly what extent and for precaution, the sum of them is used instead of estimating a correlation.

The total capital need for operational risk under Pillar 2, as the sum of the above scenario outcomes, is estimated to 267.6m SEK, compared to regulatory minimum of 370.6m SEK.

Table 10. Capital requirements for operational risk per 31 December 2019 and 2018 (kSEK)

| Capital requirements for operational risk | 2019 | 2018 |
|-------------------------------------------------------------|----------------|----------------|
| Risk exposure amount | 4,632,277 | 4,268,360 |
| Capital requirements according to the standardised approach | 370,582 | 341,469 |
| Total Capital requirement for operational risk | 370,582 | 341,469 |

5.3.2.1 Interest rate risk

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

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

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

5.3.3 Market risk

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

EnterCard is not exposed to any interest rate risk under Pillar 1, as it has no trading book, but holds capital for currency risk under Pillar 1 and for interest rate risk in the banking book under Pillar 2.

5.3.3.1 Interest rate risk

The interest rate risk is the risk that underlying earnings are adversely affected by movements in the level of interest rates. The risk is measured by a traditional sensitivity analysis of the value of the whole portfolio based on contractual commitments.

Interest rate risk materialises when there is a mismatch between the interest rate duration of assets and

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

EnterCard assesses the capital need for interest rate risk through the six scenarios in the EBA guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02), which is 4.9m SEK. This is included in the total Pillar 2 add-on.

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

Table 11. Interest rate risk sensitivity per 31 December 2019 and 2018 (kSEK)

| | Market interest rate -1 percent | | Market interest rate +1 percent | |
|--------------|------------------------------------|--------------|------------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| < 3 Months | -1,615 | -1,645 | 1,597 | 1,626 |
| 3-6 Months | 19 | 47 | -19 | -47 |
| 6-12 Months | 372 | - | -366 | - |
| 1-2 Years | 948 | 3,850 | -924 | -3,754 |
| 2-3 Years | - | 3,413 | - | -3,296 |
| Total | -276 | 5,665 | 288 | -5,470 |

5.3.3.2 Currency risk

Currency risk is defined as 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, and as such EnterCard has currency risk in the form of own funds in NOK and DKK. When consolidating the countries’ operations to SEK, the own funds held in NOK and DKK is converted to SEK, which gives a currency exposure since the value in SEK fluctuates with the FX rate. Accumulated profits in NOK and DKK are in general not exchanged to SEK.

EnterCard was given permission to exempt structural positions used to hedge against adverse effect on the exchange rates for NOK and DKK, subject to criteria, limits and amounts set by the SFSA. The permission was granted for 1 year and will allow such exposures to be excluded from the calculation of net open currency positions of the aforementioned currencies.

5.3.4 Strategic and business risk

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

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

5.3.5 Pension Risk

Defined benefit plans for current and former employees of EnterCard represent a potential risk when changes in pension obligations and pension assets can affect EnterCard's capital negatively.

EnterCard assesses the capital need for pension risk to 105.4m SEK. This is included in the total Pillar 2 add-on.

5.3.6 Liquidity risk

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

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

Table 12. Remaining maturities per 31 December 2019 and 2018 (kSEK)

| Remaining maturity 2019 | <3 Months | 3-12 Months | 1-5 Years | 5-10 Years | 10-15 Years | No ma- turity | Total |
|---------------------------------------------|-------------------------|------------------------|----------------------|-----------------------|-----------------------|------------------------|-------------------|
| Loans to credit institutions | 3,501,872 | | | | | | 3,501,872 |
| Loans to the public, net | 20,121,309 | 18,871 | 1,203,999 | 4,593,617 | 6,059,779 | | 31,997,575 |
| Bonds and other interest-bearing securities | | 49,301 | 2,522,267 | 201,428 | | | 2,772,996 |
| Prepaid expenses and accrued income | 17,163 | 59,906 | | | | | 77,069 |
| Other assets | 360,678 | 11,408 | 74,244 | | | 81,758 | 528,088 |
| Total assets | 24,001,022 | 139,485 | 3,800,510 | 4,795,045 | 6,059,779 | 81,758 | 38,877,600 |
| Amounts owed to credit institutions | 2,426,639 | 5,720,834 | 23,834,726 | | | | 31,982,199 |
| Other liabilities | 290,727 | 102,225 | 49,571 | | | | 442,524 |
| Accrued expenses and prepaid income | 95,796 | 193,513 | 15,824 | | | | 305,133 |
| Equity | | | | | | 6,147,744 | 6,147,744 |
| Total liabilities and equity | 2,813,162 | 6,016,572 | 23,900,121 | | | 6,147,744 | 38,877,600 |
| Remaining maturity 2018 | <3 Months | 3-12 Months | 1-5 Years | 5-10 Years | 5-10 Years | No maturity | Total |
| Loans to credit institutions | 3,701,886 | | | | | | 3,701,886 |
| Loans to the public, net | 18,534,669 | 15,820 | 992,031 | 3,600,319 | 5,758,895 | | 28,901,734 |
| Bonds and other interest-bearing securities | | 98,751 | 2,040,791 | 361,710 | | | 2,501,252 |
| Prepaid expenses and accrued income | 64,782 | 76,565 | | | | | 141,346 |
| Other assets | 167,046 | 34,717 | 63,150 | | | 100,445 | 365,358 |
| Total assets | 22,468,383 | 225,853 | 3,095,972 | 3,962,028 | 5,758,895 | 100,445 | 35,611,577 |
| Amounts owed to credit institutions | 2,649,844 | 5,760,410 | 20,764,573 | | | | 29,174,827 |
| Other liabilities | 301,509 | 80,392 | 39,649 | | | | 421,551 |
| Accrued expenses and prepaid income | 80,760 | 192,334 | 16,138 | | | | 289,232 |
| Equity | | | | | | 5,725,967 | 5,725,967 |
| Total liabilities and equity | 3,032,113 | 6,033,136 | 20,820,360 | | | 5,725,967 | 35,611,577 |

5.3.6.1 Liquidity risk measures

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

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

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

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

Control and supervision of liquidity risk is managed by the Treasury and the Risk Control function, who frequently report to the Senior management and the Board. The Treasury team creates a monthly liquidity pack for the CFO which includes a variance analysis on the daily cash balances the last month compared to forecast, together with the liquidity risk measures used, i.e. LCR, Survival Horizon and Nominal Liquidity Hurdle.

5.3.6.1.1 LCR

EnterCard reports the Liquidity Coverage Ratio (LCR) to the SFSA in accordance with EU standards and regulations. LCR measures EnterCard's amount of HQLA relative to the net cash outflow in each of the currencies in which it conducts business under a stressed scenario over the coming 30 days.

The LCR risk appetite is equal to the regulatory requirement, i.e. 100%. There is also a risk tolerance limit, set by the CEO, with a safety margin of 20%, meaning that the risk tolerance is 120%.

5.3.6.1.2 NSFR

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

5.3.6.2 Liquidity contingency plan

EnterCard has developed a Liquidity Contingency Plan. The purpose of the plan is to ensure a return to "business as usual" in the event of major liquidity disruption and to limit the damage and losses caused by serious events and maintain EnterCard's operation in prioritised functions. In order to be prepared for a liquidity shortfall, different measures for handling the consequences of different types of crisis situations are described in the

plan. The contingency plan does not focus on the precise action plan but rather sets out the general framework of actions, which should help to promptly focus on improving liquidity in the case the contingency situation becomes a reality.

5.3.6.3 High quality liquid assets

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

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

EnterCard held an HQLA portfolio of 1,067m SEK, 1,505m NOK (corresponding to 1,594m SEK) and 80m DKK (corresponding to 112m SEK) as per December 31st 2019. The DKK portfolio contained only Danish government bonds, which are level 1 instruments where no haircuts are applied. The SEK portfolio also contained level 1 instruments only. The NOK portfolio also contained mainly level 1 instruments, but also one level 2 covered bond. The NOK portfolio amounted to 1,435m NOK (corresponding to 1,355m SEK) after haircuts.

Table 13. Liquidity reserve and liquidity risk per 31 December 2019 and 2018

| 2019 | Distribution by currency in SEK | | | |
|---------------------------------------------------------------------------------------|---------------------------------|------------------|------------------|----------------|
| | Total | SEK | NOK | DKK |
| Securities issued or guaranteed by government or central bank | 112,007 | | | 112,007 |
| Securities issued or guaranteed by municipalities or non-governmental public entities | 1,353,850 | 1,066,805 | 287,046 | |
| Covered bonds issued by others | 1,128,910 | | 1,128,910 | |
| Securities issued or guaranteed by multilateral development banks | 178,228 | | 178,228 | |
| Total | 2,772,996 | 1,066,805 | 1,594,184 | 112,007 |
| Distribution by currency, % | | 38,5% | 57,5% | 4,0% |

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

5.3.6.4 Overdraft facility

As an additional assurance that short term liquidity needs are met, EnterCard has access to an overdraft facility. The overdraft facility is held within Swedbank and can also be used for short term liquidity purposes.

5.3.6.5 Funding strategy

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

The funding primarily relates to debt-funding of receivables. Funding is agreed every quarter with Swedbank's and Barclays' Treasury departments. The funding

provided is for operational needs for the coming three months. EnterCard forecasts future funding needs as part of its quarterly, annual and three-year forecasting processes and stress tests. The forecast of the funding need is prepared on a regular basis in accordance with internal procedures and presented to the Treasury Forum for review and discussion. Beforehand, the material is presented to and endorsed by the CFO.

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

6

Remuneration

6 Remuneration

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

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

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

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

6.1.1 Decision-Making Process

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

Based on the recommendation of the Remuneration Committee, the Board of Directors will endorse the Remuneration Policy.

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

6.1.2 Principles of deferred payment

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

6.1.3 Compensation 2019

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

EnterCard has the following categories, which is exercising or could exercise a significant influence on the risk level:

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

Table 14. EnterCard's distribution of compensation as per 31 December 2019 and 2018

| | Executive management 11 employees | Other employees 455 employees |
|-----------------------------------------------------------------------|-----------------------------------------|-------------------------------------|
| 2019 (kSEK) | | |
| Fixed remuneration | 20,667 | 258,574 |
| Variable remuneration earned during 2019 | 10,366 | 49,593 |
| Paid out variable remuneration, earned during 2019 and previous years | 9,116 | 51,071 |
| Deferred variable remuneration earned this and previous years | 11,718 | 130 |
| | | |
| | Executive management 11 employees | Other employees 441 employees |
| 2018 (kSEK) | | |
| Fixed remuneration | 18,370 | 249,430 |
| Variable remuneration earned during 2018 | 9,397 | 39,863 |
| Paid out variable remuneration, earned during 2018 and previous years | 3,367 | 2,952 |
| Deferred variable remuneration earned this and previous years | 11,740 | 7,702 |

