

# Risk Management and Capital Adequacy Report

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Entercard Group AB  
Pillar 3 – 2022



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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

**CEO:** Chief Executive Officer

**CCO:** Chief Compliance Officer

**CFO:** Chief Financial Officer

**CRO:** Chief Risk Officer

**CS:** Compliance Specialist

**CRD V:** 5<sup>th</sup> Capital Requirement Directives (2019/878/EU)

**CRR II:** Capital Requirements Regulation (2019/876/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

**kSEK:** thousands of Swedish Krona

**LCR:** Liquidity Coverage Ratio

**LGD:** Loss Given Default

**mSEK:** millions of Swedish Krona

**MTP:** Medium Term Plan /Strategy plan; 3-year financial forecast

**NSFR:** Net Stable Funding Ratio

**PD:** Probability of default

**REA:** Risk Exposure Amount

**SH:** Survival Horizon

**SPK:** Sparinstitutens Pensionskassa

**STP:** Short Term Plan; 1-year financial forecast

**TF:** Treasury Forum

# 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 Article 433b, Disclosure by small and non-complex 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, a low risk profile and strictly adheres to the capital adequacy regulation and minimum requirement for regulatory capital. Table 1 shows the capital requirements under Pillar 1 and Pillar 2, and the internally set risk appetite and capital base before and after dividends.

Entercard is exposed to several risks such as credit risk, market risk, liquidity risk, operational risk, strategic and business risk. This report describes each risk area along with the corresponding risk appetite. As of 31 December 2022, all risks are within the risk appetite.

**Table 1: Capital Requirements Under Pillar 1 and Pillar 2**

Entercard Group AB, as of December 31st, 2022 in kSEK		
	<b>Foreseeable Dividends</b>	<b>Before Dividends</b>
<b>Total Risk Exposure Amount</b>	28,421,014	28,421,014
<b>Capital Requirement - Pillar 1</b>	2,273,681	2,273,681
<b>Capital Requirement - Pillar 2</b>	570,308	570,308
<b>Total Pillar 1 + 2 Capital Requirement</b>	2,843,989	2,843,989
<b>Total Capital Base</b>	4,983,053	5,369,602
<b>CET 1 Ratio</b>	17.5%	18.9%
<b>Tier 1 Ratio</b>	17.5%	18.9%
<b>Total Capital Ratio</b>	17.5%	18.9%
<b>Leverage Ratio</b>	11.3%	12.2%
<b>Capital Ratio Risk Appetite</b>	14.8%	14.8%
<b>Sum Internal Capital Requirement</b>	4,195,171	4,195,171
<b>Surplus of Capital (above Risk Appetite)</b>	787,883	1,174,431

## **2. Purpose and Scope**

This report is submitted by Entercard Group AB, with registration number 556673-0585, the report will disclose information about the company's capital- and risk management and is based on performance as per 31 December 2022.

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: the Annual Report, ICAAP, ILAAP and the Sustainability Report.

## 3. Introduction

Entercard Group AB (hereafter referred to as Entercard) is a Swedish authorized credit institution with a Scandinavian presence through branches in Norway and Denmark. Through a joint venture, Entercard is owned 60% by Swedbank AB and 40% by Barclays Principal Investments Limited. Rights to the earnings and net assets of the company are owned equally (50%) by the parent companies. The company is governed by the Board of Directors of Entercard.

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

- **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 is calculated using the standardised approach. Entercard's Pillar 1 capital requirement for operational risk is calculated using the alternative standardised approach.
- **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 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 spread risk, credit concentration risk, credit counterparty risk, and operational risk for Entercard.

- **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, the largest credit institution providing credit cards financing in Europe, and Swedbank, a leading banking group in the Nordics and Baltics.

The business focus of Entercard is to issue credit cards and consumer loans under its own brand, re:member, in Denmark, Norway and Sweden, as well as issuing credit cards and loans under different partners' brands and through their own distribution channels; including Swedbank, several Swedish savings banks, Coop and LO in Sweden, and LO in Denmark. Today, Entercard has approximately 1,7 million customers and 481 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

It is important for Entercard to act as a responsible provider of consumer credit by continually securing that customers use their credit facilities, whether credit cards or loans, in a safe and sound way and to ensure that reasonable credit levels are given.

## 3.2 Future Developments

Entercard is a credit market company providing credit cards, corporate cards, and consumer loans. Core to Entercard's strategy is continued focus on existing products and geographic markets – namely Sweden, Norway, and Denmark. In terms of product and geographical footprint, plans for the coming year are to launch consumer loans in Finland and to improve the current corporate card offering together with Swedbank in Sweden (Entercard issues all consumer and corporate credit cards for Swedbank).

Other significant investment areas for 2023 include further strengthening of key technical capabilities, e.g. through the implementation of a new core system.

The current volatile macroeconomic environment is expected to continue with central banks taking measures to cool economies to fight inflation. Combined with rising energy prices and geopolitical unrest this is expected to dampen growth.

Consumer expectations around personalisation and convenience will continue as drivers of loyalty. Customers will reward good experiences with higher willingness to pay and penalize bad experiences by moving to a competitor.

Entercard will continue to strengthen the customer experience and engagement, operational excellence, investments into simple and efficient digital customer interfaces to maintain the position as a market leader for credit cards in Scandinavia and a top tier provider of consumer finance. Furthermore, advanced data and analytics capabilities are expected to play an even greater role going forward, in particular in Marketing, Sales and the healthy balance between Risk and Reward.

In addition to the trends of changing consumer behaviour and a tougher competitive landscape, actual and anticipated regulatory developments will be important for Entercard going forward. Regulators across Europe and within Scandinavia continue to be active in putting forth measures that will provide more security, access, and protection for consumers. Entercard will continue to operate as a responsible lender with strong focus on compliance and robust risk control and make investments to ensure continued compliance (i.e., AML Package, the banking package (CRD III/CRD VI), Schrems II, the new Consumer Credit Directive, the Norwegian Finance Agreement Act).

Entercard will continue to build a sustainable business for customers, employees and shareholders.

## 3.3 Forthcoming Regulations and Key Regulatory Changes

### **An EU single rule book on AML/CTF (EU)**

On 20 July 2021, the European Commission presented an ambitious package of legislative proposals to strengthen the EU's AML/CFT rules. This package aims at implementing the Commission's Action Plan on AML/CFT of 7 May 2020.

The package consists of four legislative proposals:

- A Regulation establishing a new EU AML/CFT Authority (AMLA).
- A Regulation on AML/CFT, containing directly applicable rules, including in the areas of Customer Due Diligence and Beneficial Ownership.
- A sixth Directive on AML/CFT ("AMLD6"), replacing the existing Directive 2015/849/EU (the fourth AML directive as amended by the fifth AML directive), containing provisions that will be transposed into national law, such as rules on national supervisors and Financial Intelligence Units in Member States.
- A revision of the 2015 Regulation on Transfers of Funds to trace transfers of crypto assets (Regulation 2015/847/EU).

### **New Consumer Credit Directive**

The Commission has published a proposal for a new Consumer Credit Directive inter alia to meet profound changes in digitalisation and consumer habits, also being part of the New Consumer Agenda launched last year. The revised rules significantly broaden the scope of products that will need to comply with stricter lending obligations. They will comprise so called "buy-now-pay-later" products

increasingly offered to consumers online. In addition, the Commission proposes interest rate caps and/or total cost of credit.

### **CRR III & CRD VI “Banking Package”**

On 27 October 2021 the European Commission adopted a review of the EU banking rules. The package finalises the implementation of Basel III agreement in the EU (also known as the Basel IV package). The package consists of the following parts:

- a legislative proposal to amend the Capital Requirements Directive 2013/36/EU
- a legislative proposal to amend the Capital Requirements Regulation 2013/575/EU
- a separate legislative proposal to amend the Capital Requirements Regulation in the area of resolution

### **Government inquiry regarding over indebtedness**

The Swedish government has appointed an inquiry to examine the consumer credit market. The inquiry will take into account the European Commission’s proposal for a new directive on consumer credit and shall:

- Examine the market for consumer credits and assess the extent to which there is a risk of credits being offered to consumers who lacks financial means to repay the debts and, if necessary, propose adequate preventative measures.
- Assess the type of documentation that should form the basis for the assessment of a consumer’s repayment capacity and suggest how creditors can get a better overall picture of consumer’s debts
- Unless there are strong reasons against it, propose a system for a debt register, and assess appropriate measures to give over-indebted consumers better conditions to repay their debts.

### **Digital Operational Resilience Act**

The Regulation on digital operational resilience for the financial sector, also known as the Digital Operational Resilience Act or DORA, was published in the Official Journal of the European Union on 27 December 2022. The Regulation entered into force on 16 January 2023 and will apply from 17 January 2025. DORA aims to improve ICT risk management. In contrast to other EU legislation in the field of cybersecurity (most notably the GDPR and NIS), DORA is not a principle-based piece of legislation but contains detailed lists of requirements designed to boost operational and security capabilities of financial entities. DORA will harmonise qualitative requirements on ICT risk management at an EU-level.

### **Corporate Sustainability Reporting Directive**

On December 16, 2022, after adoption by the European Parliament and the Council of the European Union (EU), the final Corporate Sustainability Reporting Directive (CSRD) was published.

The CSRD is designed to drive changes in company behaviour and bring sustainability reporting on par with financial reporting over time. EU Member States will have 18 months to transpose the CSRD into their own national laws. timeline for adoption of EU ESG reporting requirements that are expected to affect companies worldwide. Smaller institutions, as Entercard, will have to be compliant by 2026.

## **3.4 Sustainability**

Entercard acknowledges that its business affects society. Entercard strives to measure this impact through the non-financial targets we present in this chapter using central performance indicators. These indicators relate to four of the United Nation’s (UN) universal goals, which are a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

Visualising how Entercard’s business contributes to this huge global effort might be difficult to grasp, but Entercard believes that through its role as an employer, lender, and actor in society, it can do its small part in helping reach the sustainability goals that UN has set.

Entercard has chosen to focus its efforts on the following four goals: quality education, gender equality, decent work and economic growth and sustainable cities and communities.



### **Quality education**

Entercard uses its strengths to help others. Entercard's sustainability initiatives are activities where its diverse staff can contribute with their time, knowledge, and skills to local initiatives. An important element of Entercard's efforts within sustainability is to encourage engagement among its employees. Entercard believes this is a stronger approach than just donating money or participating in an Environmental Social and Governance (ESG) network. When staff actively engage the learning effect is higher.

### **Gender equality**

Gender equality is of high importance. Entercard is proud to be a company where women hold around 42 percent of the leadership positions. Entercard makes sure all employees can maintain a healthy balance between career and family life. In addition to gender equality, Entercard believes that diversity is a strength. With employees from more than 40 different nationalities, respect for different religious and cultural backgrounds is important.

### **Decent work and economic growth**

Decent work and economic growth are a core part of Entercard's business model. Entercard does its very best to make sure that our employees are satisfied, have equal opportunities and the ability to grow professionally. Entercard contributes to society's economic growth through stability. Entercard continues to develop its services and products to ensure that it can offer economic growth and employment. Entercard views responsible lending as a crucial part of ensuring sustainable growth and financial stability, and its employees respect the impact Entercard's products have on customer's everyday lives.

### **Sustainable cities and communities**

Entercard acts responsibly in its local communities. Part of this is to make it easier for employees to reduce their environmental footprint. The offices are centrally located close to buses, trains, subway, and trams. In addition, there is a bicycle-parking garage in the office's basement. The bicycle parking-garage provides electrical outlets for chargers for electrical bicycles.

In Entercard's offices, employees contribute to cleaner cities by taking part in picking litter in the city centre and participating in cleaning the local beaches. We have initiated the Entercard Cleaning Day, as a part of World Cleaning day and take part in the organisation's annual campaigns.

## 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.

Entercard's capital need is assessed through regulatory minimum requirements, internal risk assessment 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 Regulation (EU) 2020/873 of the European Parliament and of the Council on 24 June 2020 amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (prudential regulation) and (EU) 2019/876 as regards certain adjustments in response to the Covid-19 pandemic, act (2014: 966) on capital buffers, and the Swedish Financial Supervisory Authority (SFSA) (Sw. Finansinspektionen) FFFS 2014: 12 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 regarding 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 numbers show the capital requirements under Pillar 1 and Pillar 2, and the internally set capital risk appetite and the capital base before and after dividends. Dividend is proposed in the Financial Statements and Annual Report for the year ending 31 December 2022.

Entercard's capital ratio after dividend, 17.5% as per 31 December 2022, is well above the internal risk appetite of 14.8%, which gives a capital surplus of 787,883 kSEK above internal requirements. Entercard thereby holds sufficient capital as per 31 December 2022.

	<b>Foreseeable Dividends</b>	<b>Before Dividends</b>
<b>Total Risk Exposure Amount</b>	28,421,014	28,421,014
<b>Capital Requirement - Pillar 1</b>	2,273,681	2,273,681
<b>Capital Requirement - Pillar 2</b>	570,308	570,308
<b>Total Pillar 1 + 2 Capital Requirement</b>	2,843,989	2,843,989
<b>Total Capital Base</b>	4,983,053	5,369,602
<b>CET 1 Ratio</b>	17.5%	18.9%
<b>Tier 1 Ratio</b>	17.5%	18.9%
<b>Total Capital Ratio</b>	17.5%	18.9%
<b>Leverage Ratio</b>	11.3%	12.2%
<b>Capital Ratio Risk Appetite</b>	14.8%	14.8%
<b>Sum Internal Capital Requirement</b>	4,195,171	4,195,171
<b>Surplus of Capital (above Risk Appetite)</b>	787,883	1,174,431

## 4.1.2 Tier 1 and Tier 2 Capital

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

**Table 3: Tier 1, Tier 2, and Capital Base**

Entercard Group AB, as of December 31st, 2022 in kSEK

	Foreseeable dividend 31/12/2022	Before dividends 31/12/2022
<b>Share capital</b>	5,000	5,000
<b>Retained earnings</b>	5,012,056	5,398,605
<b>Accumulated other comprehensive income</b>	0	0
<b>Deductions intangible assets</b>	-15,098	-15,098
<b>Deductions deferred tax assets</b>	-18,905	-18,905
<b>Total Common Equity Tier I Capital</b>	<b>4,983,053</b>	<b>5,369,602</b>
<b>Additional Tier 1 Capital</b>	0	0
<b>Total Tier 1 Capital</b>	<b>4,983,053</b>	<b>5,369,602</b>
<b>Subordinated loan</b>	0	0
<b>Total Tier II Capital</b>	<b>0</b>	<b>0</b>
<b>Total Capital</b>	<b>4,983,053</b>	<b>5,369,602</b>

Entercard's capital base amounted to 4,983 mSEK per 31 December 2022, of which 100% is Common Equity Tier 1.

## 4.1.3 Capital Requirement Pillar 1 and Pillar 2

In accordance with Swedish law and regulations the capital base must, at a minimum, correspond to the sum of the capital requirement for credit risk, market risk and operational risk. Entercard's credit risk is calculated according to the standardised approach. For operational risk, Entercard uses the Alternative Standardized Approach (ASA). Regarding market risk, Entercard has no trading book and thereby no capital requirement for interest rate risk but calculates a capital requirement for currency risk under Pillar 1. Entercard holds a regulatory minimum capital corresponding to 8% of its total risk exposure amount.

The calculation of Pillar 2 capital is an individual requirement, which is mainly assessed by performing scenario- and stress testing. Entercard 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 for credit risk and that no additional capital under Pillar 2 is required. For operational risk, additional capital under Pillar 2 is required.

The stress testing is described in more detail in section 4.2.2. Pillar 2 additionally 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 credit spread risk. The internal capital adequacy assessment process (ICAAP) ensures that Entercard identifies, measures, reports and controls its risks; and are adequately captured under the Pillar 2 framework. Table 4 shows a summary of the capital requirements.

<b>Table 4: Capital Requirements</b>		
Entercard Group AB, as of December 31st, 2022 in kSEK		
	<b>Foreseeable dividends</b>	<b>Before dividends</b>
	<b>31/12/2022</b>	<b>31/12/2022</b>
<b>Risk Exposure Amount:</b>		
Credit risk	26,083,161	26,083,161
Operational risk	1,939,063	1,939,063
Market risk	398,789	398,789
<b>Total risk exposure amount</b>	<b>28,421,014</b>	<b>28,421,014</b>
<b>Pillar 1 Capital Requirement:</b>		
Credit risk	2,086,653	2,086,653
Operational risk	155,125	155,125
Market risk	31,903	31,903
<b>Total Capital requirement - Pillar 1</b>	<b>2,273,681</b>	<b>2,273,681</b>
<b>Pillar 2 Capital Requirement:</b>		
Market Risk, of which:	192,591	192,591
Interest rate risk in the banking book	162,064	162,064
Basis risk	0	0
Credit spread risk	30,527	30,527
Operational risk	30,400	30,400
Credit Concentration risk	347,177	347,177
Pension risk	0	0
Counterparty credit risk	140	140
<b>Total Capital requirement - Pillar 2</b>	<b>570,308</b>	<b>570,308</b>
<b>Total Capital Requirement - Pillar 1 &amp; 2</b>	<b>2,843,989</b>	<b>2,843,989</b>

#### 4.1.4 Capital Buffers

In accordance with regulatory requirements, Entercard holds a capital conservation buffer and a countercyclical buffer on top of the Pillar 1 regulatory minimum and Pillar 2 internal assessments. The capital conservation buffer corresponds to 2.5% of Entercard's total risk exposure amount. The industry specific countercyclical buffer is 1.3% (weighted average of the three countries where Entercard operates). Supervisory authorities in Sweden, Norway and Denmark have communicated that they will increase the countercyclical buffer rate to 2%, 2.5% and 2.5%, respectively in 2023.

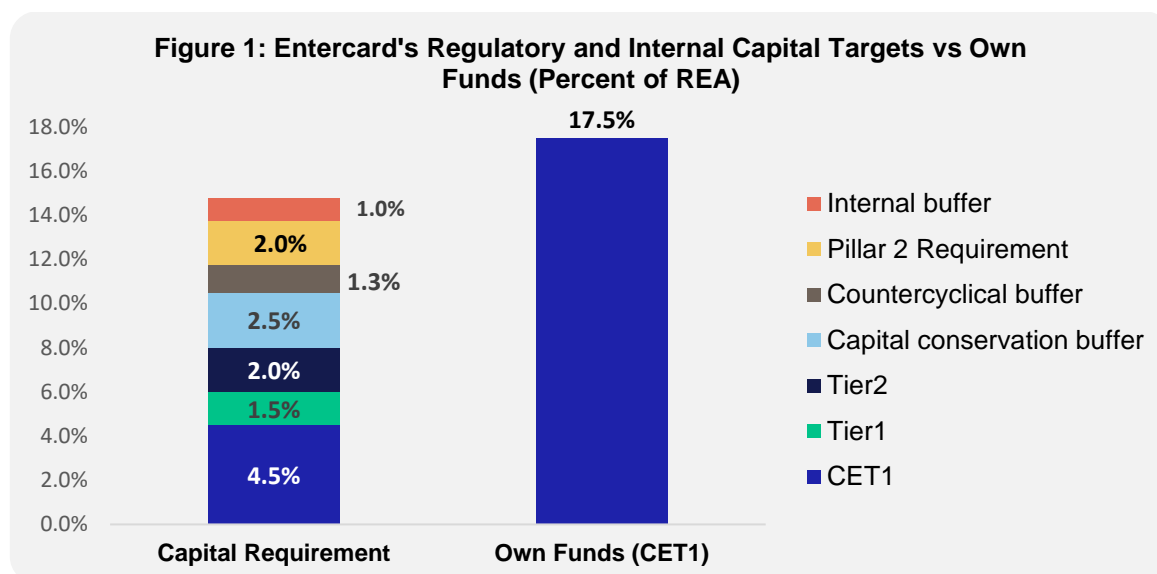
Entercard's internal capital risk appetite includes an internal buffer of 1.0% on top of its regulatory target as a safety margin to minimise the risk of breaching the regulatory target. This has been approved by the Board and is reviewed annually. As of 31 December 2022, Entercard's total internal capital requirement was equal to 14.8%. Table 5 shows an overview in numbers.

All buffers are held in Common Equity Tier 1 capital.

<b>Table 5: Capital Buffers</b>	
Entercard Group AB, as of December 31st, 2022 in kSEK	
	<b>31/12/2022</b>
<b>Capital conservation buffer</b>	710,525
<b>Institution-specific countercyclical buffer</b>	356,446
<b>Internal buffer</b>	284,210

Figures 1 below show 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. The total capital ratio

before dividend was 18.9%. Considering the proposed dividend of 387 mSEK, the total capital ratio is 17.5% after dividend.



## 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) aim to identify and measure Entercard's need of capital and liquidity. The ICAAP shows that Entercard holds adequate capital in relation to its risk profile, and the ILAAP shows 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 both idiosyncratic and macro-economic stress.

The assessment 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. The assessment is an integrated part of the business development. Besides the continuous monitoring and reporting to meet the regulatory minimum requirements regarding capital adequacy and liquidity coverage, a more detailed assessment 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 2022. 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 Survival Horizon (SH), Liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) as per 31 December 2022.

## 4.2.2 Stress Testing

Entercard regularly performs stress testing to measure the capital needed at a company level under stressed conditions. Stress testing is based on the Medium-Term Plan (MTP) considering Entercard's specific business and circumstances during this period.

In Q4 2022, a scenario-based stress testing exercise was undertaken by Entercard. Spanning over the period 2023-2025, the scenarios describe global events leading to an adverse and a severely adverse macro-economic downturn. Entercard performs a reasonable stress testing of impairment, profit & loss and capital estimates.

### Credit Risk Stress Testing

The ICAAP includes two stressed scenarios, which are 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, and GDP are considered when stressing the portfolio.

The approach stresses the underlying assumptions of the base scenario to forecast the impact of potentially adverse but plausible events. The main assumptions which feed the forecasting models, and which affect the financial performance are the unemployment rate affecting credit losses, the GDP growth rate affecting income and balances, and the base rate of borrowing rate affecting funding costs. Therefore, the forecasts are revised 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 were to occur in reality.

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

### P/L stress testing

The P/L, together with different Key Value Drivers (KVDs) have been stressed using the 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 Entercard can maintain profitability during a stress.

### Capital plan stress testing

Based on the outcome of the credit risk and P/L stress testing, the impact on capital adequacy is also assessed. The P/L and impairment will affect 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 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 result of the operational risk stress testing is higher than the Pillar 1 requirement for operational risk, and it is therefore deemed necessary to hold additional capital for operational risk under Pillar 2.

### 4.2.3 Capital Contingency Plan

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

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 approaches. Therefore, the Capital Contingency Plan does not focus on the precise action plan but rather sets the general framework of actions, which should help in improving capitalisation in case the contingency situation becomes a reality.

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

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

Any requests for capital from parent companies would need to follow the capital application process as defined by the parent companies. This would typically require at least six weeks for the parent companies to review and grant their approval.

## 5. Risk

### 5.1 Statement on Risk Management and Risk Declaration

#### 5.1.1 CRR Article 435 (1) (e) 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 enough capital and liquidity. Risk, in this context, is defined as a potentially negative impact on a company that can arise due to current internal processes or future internal and external events. The concept of risk comprises both the likelihood that an event will occur and the impact it would have on Entercard.

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

#### 5.1.2 CRR Article 435 (1) (f) Risk Statement

Entercard's board of Directors are overall responsible for ensuring that Entercard's operations are conducted in accordance with current laws and regulations. The board sets basic risk management requirements through the Enterprise Risk Management Policy. 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 2022.

##### 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. Table 6 shows an overview of set risk appetite levels versus the actual levels at year-end.

Entercard Group AB, as of December 31st, 2022			
	Sweden	Norway	Denmark
Credit Cards <i>risk appetite</i>	8.0%	16.0%	8.2%
Credit Cards <i>actual</i>	3.0%	2.4%	2.9%
Consumer Loans <i>risk appetite</i>	18.0%	21.0%	n/a*
Consumer Loans <i>actual</i>	8.9%	6.9%	n/a*

*\*The Denmark Loans risk appetite is a limit on the proportion of new loans booked that are considered high risk.*

##### 5.1.2.2 Market Risk

Market risk generally includes interest rate risk, currency risk and equity risk. Entercard has no exposure to equity risk.

Interest rate risk is measured using Economic Value of Equity (EVE) and Net Interest Income (NII) calculations. EVE measures the value of Entercard's assets and liabilities being negatively affected by a change in the interest rates. NII measures how Entercard's net interest income will be affected by a change in the interest rates.



Entercard's interest rate risk appetite states that the EVE and NII effect of a 200 basis points parallel shift up/down shall not exceed 10% of the capital base, no risk reduction from risks in different currencies is allowed in the calculation of the total interest rate risk. Table 7 illustrates the interest rate risk sensitivity analysis per 31 December 2022 and is well within the risk appetite for both EVE and NII.

200bp parallel shift as a percent of the capital base, as of December 31st, 2022	
<b>Entercard Group</b>	
<i>Risk appetite</i>	-10%
<i>Risk tolerance</i>	-7%
<i>Actual (EVE)</i>	-3.2%
<i>Actual (NII)</i>	-1.8%

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.

In December 2021, the SFSA approved Entercard's application to exclude positions deliberately taken to hedge against the adverse effect of the exchange rate on the capital ratio from the calculation of net open currency position. The amounts excluded from the net open position are the maximum open position in NOK and DKK, which are the open positions neutralising the sensitivity of the capital ratio to changes in the exchange rate.

The Currency Exposure for NOK (DKK) shall not deviate from the maximum open position by an amount larger than 400 mNOK (100 mDKK), calculated on a quarterly basis in accordance with EBA's Guidelines On the treatment of structural FX under Article 352(2) of CRR. Table 8 below shows the currency risk deviation per 31 December 2022, it is within the risk appetite.

Deviation from maximum open position (MaxOp), as of December 31st, 2022		
	<b>NOK</b>	<b>DKK</b>
Deviation from MaxOP <i>risk appetite</i>	+/- 400 mNOK	+/- 100 mDKK
Deviation from MaxOp <i>actual</i>	+313.6 mNOK	+26.8 mDKK

### 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 7 mSEK per quarter

Entercard is per 31 December 2022 within the risk appetite.

### 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 all liquidity risk metrics. The figures below show Entercard's internal liquidity measure, the Survival Horizon (SH), and the regulatory liquidity measures, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio

(NSFR). LCR is reported monthly to the SFSA, with the NSFR being reported quarterly, see chapter 5.3.6.1 for more information.

**Table 9: Liquidity Risk Metrics**

Entercard Group AB, as of December 31st, 2022			
	SEK	NOK	DKK
LCR risk appetite	100%	100%	100%
LCR risk tolerance	120%	120%	120%
LCR actual	228%	462%	179%
NSFR risk appetite	100%	100%	100%
NSFR risk tolerance	110%	110%	110%
NSFR actual	127%	152%	147%
SH risk appetite	60 days	60 days	60 days
SH risk tolerance	75 days	75 days	75 days
SH - actual	115 days	207 days	210 days

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.

## 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.

Within Entercard's business activities, different types of risks arise such as credit risk, operational risk, market risk, liquidity risk and capital risk. For Entercard, credit risk is the dominating risk. Entercard is striving for a well-balanced credit portfolio with diversification through a broad customer base combined with a sound and comprehensive control of the development of losses in its portfolios.

### 5.2.1 Risk Management Processes

The Board of Directors and the CEO are ultimately responsible for risk management. The purpose of risk management is to secure that the risks taken in the business do not threaten Entercard's solvency or liquidity and are balanced in regard to the possible return. This is ultimately managed through securing that the risk levels do not exceed the risk appetite, set by the Board of Directors.

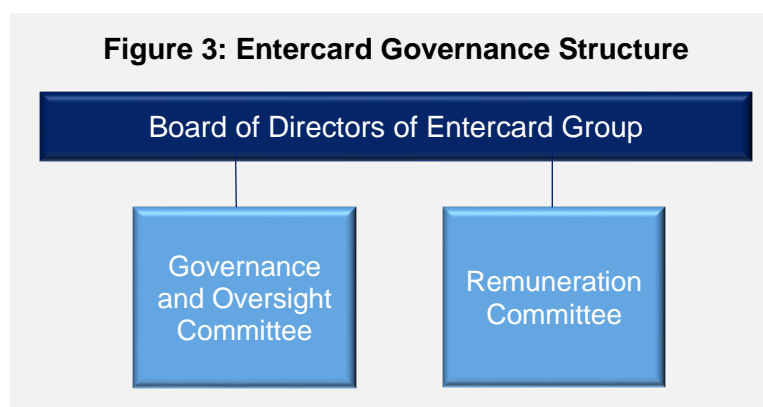
Entercard is continuously working with the management of the operational risks through improvement of processes, system, availability and assurance.

### 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 Executive Committee. The Board also functions as Entercard's audit committee. Risk management is executed within each business unit, under the supervision of, and communication with, the Risk Control function and other staff functions. The Risk Control function continuously monitors and reports to the CEO and Board of Directors on risk topics.

The risk management steering documents include the Enterprise Risk Management (ERM) policy which includes all material risks to which Entercard is exposed to. 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 and Control.



### 5.2.3 The Risk and Control Framework

Entercard's risk and control framework is built on the three lines of defence model as shown in Figure 7.

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 both report to the CEO. The Risk Control function provides an independent reporting of the risk profile to the CEO, GOC, and the Board. The Compliance function reports to the CEO and 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 managing the risks that they are directly associated with. The risk owners are supported by Business Risk Specialists (BRS), placed in the first line to support the risk profiling process.

#### Role of Business Risk Specialist (BRS)

The BRS' primary task is to support the risk owners with the identification and assessment of the risks, management responses 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 respective functional chiefs of the key operational risk areas in first line.

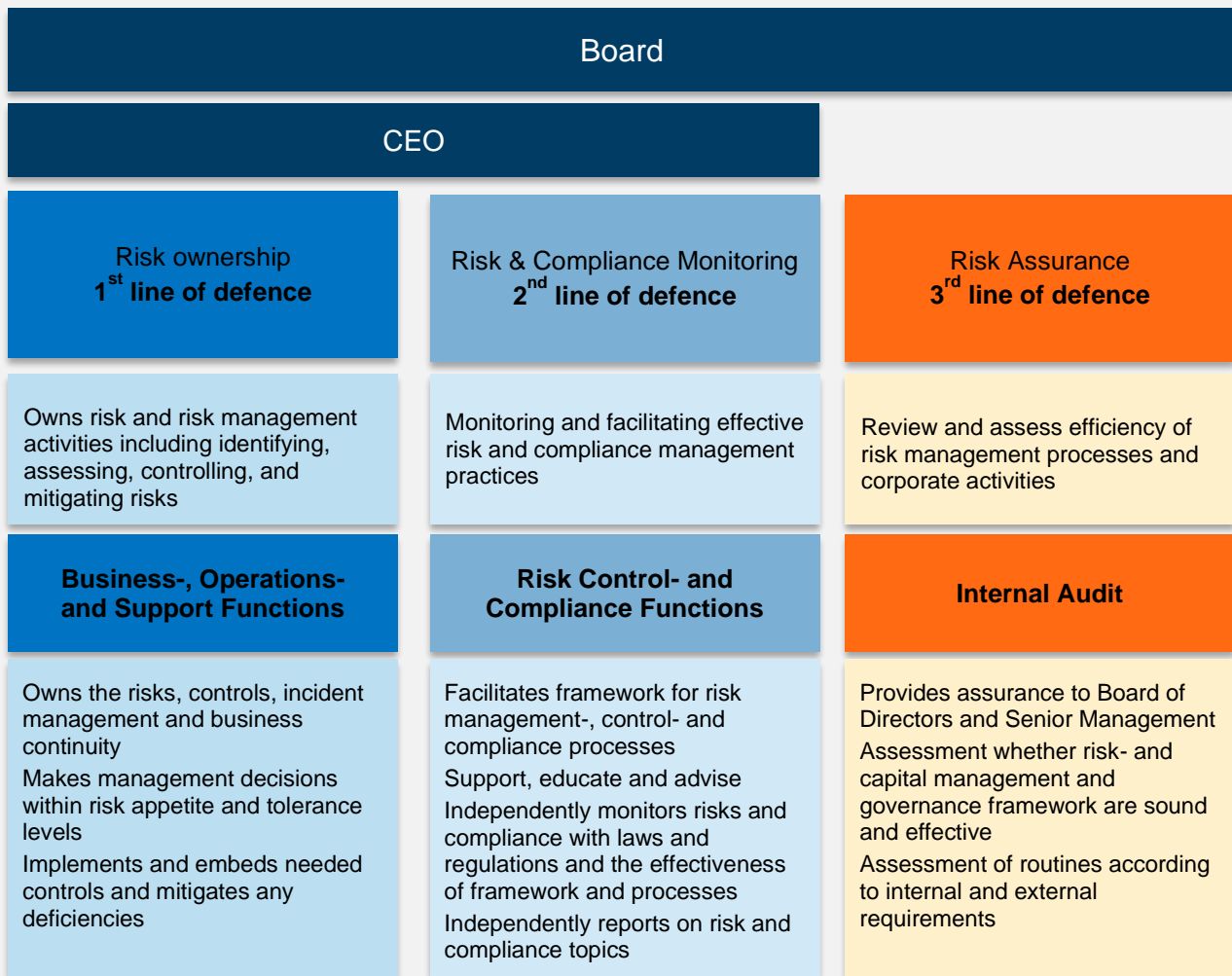
#### Risk

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

**Figure 4: Entercard's 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 comprises of representatives from both Barclays and Swedbank. The Board is responsible for the overall strategic management, setting the risk appetites and supervision. The Board will actively decide on the principles for issuance of policies and evaluate all relevant risks and their corresponding risk appetites. The Board is also responsible for managing all audit related matters. These include monitoring the integrity of Entercard's financial statements, reviewing all significant financial reporting issues and judgements communicated to it by External Audit and ensuring that the financial statements, taken as a whole, are fair, and understandable and provide the necessary information for the shareholders to assess Entercard's performance, business model and strategy.

#### Governance Oversight Committee

The Governance and Oversight Committee (GOC) is responsible for monitoring the effectiveness of Entercard's governance framework and system of internal controls. Responsibilities include review of the overall governance and risk profile of Entercard, and in addition reviewing and challenging the effectiveness of overall governance, risk management, internal controls, 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 and 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 that meet on an annual basis. The committee prepares and recommends decisions 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 entire Board conducts the duties of an audit committee.

### **Chief Executive Officer (CEO)**

The CEO is responsible for the management of day-to-day operations in line with the Board of Directors' policies and instructions. Additional responsibilities of the CEO include integrating the risk strategies into the decision-making process, day-to-day management and control of risk exposures, monitoring Entercard's overall capitalisation and the capital adequacy situation, ensuring effective governance, risk management and control by establishing the appropriate routines and finally ensuring that the organisation can identify all risks inherent in Entercard's activities. The CEO's responsibilities and authority comply with the regulations of the Swedish Companies Act, 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, the Chairman of the GOC, and the Board. The CRO has the responsibility to ensure timely delivery of risk reporting to the CEO and GOC.

### **Chief Compliance Officer (CCO)**

The Chief Compliance Officer leads the Compliance function and reports to the CEO, the Chairman of the GOC, and the Board. The Compliance function has a responsibility to support the business to comply with all regulations by both conducting independent monitoring and providing timely compliance reports to the CEO and 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 overall credit risk management within Entercard.

### **Risk Steering Documents**

The Enterprise Risk Management (ERM) policy includes all material risks to which Entercard is exposed to. 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 and Control.

### **Treasury Forum**

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

### Credit 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 that appropriate controls are instituted in relation to credit risk matters that contribute to the strategic, performance and capability goals of the organization.

### Impairment Committee

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

### Model Forum

The purpose of the Model 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.

### Risk Forum

The purpose of the Risk Forum is to review the risk exposure for all risks that Entercard is exposed to. The Risk Forum is chaired by the CRO.

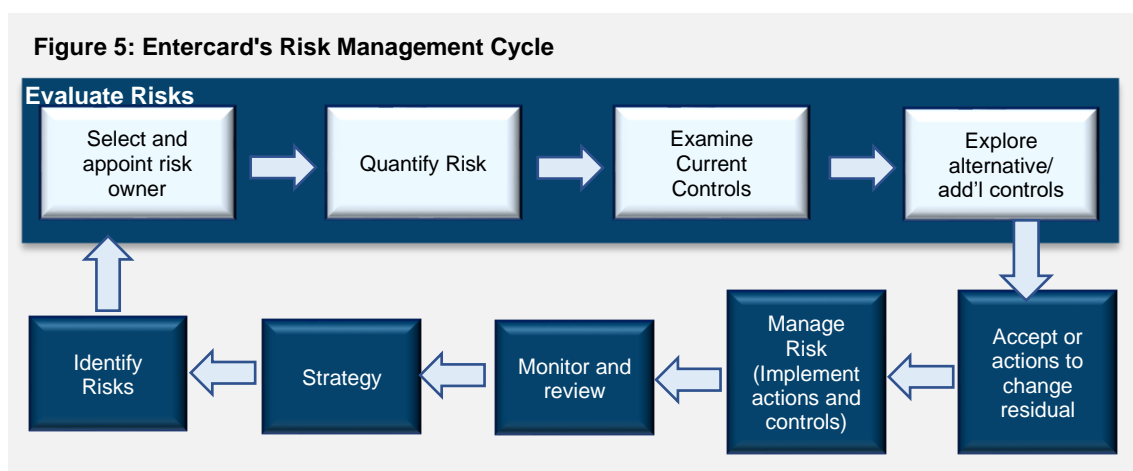
### Asset Liability Management Forum

The purpose of the ALM forum is to present and review actions to manage assets and liabilities of Entercard Group, including overall liquidity and capital management. In addition, a review of risk measures and the connected risk appetites including limits for liquidity risk, market risk and capital risk is performed. Participants of the ALM forum include the CFO, CRO, CCO as well as personnel from both the treasury and risk control functions.

## 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 the set risk appetite.

### 5.2.4.1 Entercard's Risk Management Cycle



## 5.3 Risk Areas

Section 5.3 defines the risk areas that Entercard has identified to be material.

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

### 5.3.1 Credit Risk

Credit risk and counterparty credit risk captures the exposure that counterparties cannot fulfil their payment obligations, resulting in that Entercard receives payment too late or not at all. Entercard's lending is striving towards ambitious objectives in terms of ethics, responsible lending, credit quality and control. Even though credit risk, through retail lending, is the Group's largest risk exposure, credit losses in relation to the outstanding balances are relatively small. Credit risk also includes concentration risk, i.e., large exposures or concentrations in the credit portfolio to specific counterparties, sectors, or geographic areas.

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 credit scoring models to measure each counterparty's ability to fulfil payment obligations.

The credit risk is constantly monitored to ensure that counterparties are fulfilling their commitments towards Entercard. Follow-ups are additionally made from a credit portfolio point of view in each country with focus within and between different risk groups.

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, governments, and credit institutions. Entercard is not using derivatives and is therefore not exposed to counterparty credit risk in that area.

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 which estimates capital requirement for single-name concentration, industry concentration and geographical concentration. The single-name concentration is assessed to be the largest concentration risk for Entercard primarily due to the cash deposits held with Swedbank. This is included in the total Pillar 2 add-on.

Total loans to the public excluding provisions of anticipated loan losses amounted to 35,455m SEK. Impaired loans amounted to a book value of 1,676.3m SEK which constitutes 5.2 percent of the total credit portfolio. Total provisions amounts to 2,997.8m SEK.

**Table 10: Risk Exposure Amount and Own Funds Requirements**

Entercard Group AB, as of December 31st, 2022 & 2021				
kSEK	2022		2021	
	Risk exposure amount	Own funds requirement	Risk exposure amount	Own funds requirement
Exposure classes				
Institutional exposures	866,028	69,282	889,271	71,142
Covered bonds	32,306	2,584	72,019	5,762
Retail exposures	23,001,986	1,840,159	21,631,795	1,730,544
Regional governments or local authorities exposures	2,125	170	1,913	153
Corporate exposures	2,716	217	2,756	220
Exposures in default	1,720,596	137,648	1,577,339	126,187
Other exposures	457,405	36,592	416,982	33,359
Total capital requirement for credit risk according to the standardised approach	26,083,161	2,086,653	24,592,075	1,967,366

### 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, and damage to physical assets. All operational risk categories can include the compliance risk aspect in addition.

Entercard continually performs self-evaluation of operational risk and control for all processes. There is a comprehensive framework in place to mitigate operational risk, including incident management, business continuity and approval of change process.

The total capital need for operational risk under Pillar 2, as the sum of the above scenario outcomes, is estimated to 185 m SEK, compared to regulatory minimum of 155m SEK. This means that the outcome of the stress test is 30m SEK higher than the Pillar 1 requirement according to the Alternative Standardized Approach. This difference is added as a Pillar 2 requirement for Operational Risk.

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.

**Table 11: Capital Requirements for Operational Risk**

Entercard Group AB, as of December 31st, 2022 & 2021		
kSEK	2022	2021
<b>Risk exposure amount</b>	1,939,063	1,882,696
<b>Capital requirements according to the alternative standardised approach</b>	155,125	150,616
<b>Pillar 2 add-on for Operational Risk</b>	30,527	72,434
<b>Total Capital requirement for Operational risk</b>	185,505	223,050

#### 5.3.2.1 Reputational Risk

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



Reputational risk arises as a result of other risks that are poorly controlled or poorly managed. Reputational risk appears when management unsuccessfully manages e.g., a credit loss, operational risk incident or market risk exposure.

Reputational risk cannot be mitigated by capital, and is not subject to a risk appetite, because reputational risk is not the primary risk. However, Entercard controls the exposure toward reputational risks through internal audits and 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.

### **5.3.3 Market Risk**

Market risk is defined as the risk of losses or reduced future economic value or earnings due to adverse market rate movements. It includes interest rate risk, currency risk, credit spread risk, basis risk and equity risk. 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.

#### **5.3.3.1 Interest Rate Risk**

Interest rate risk is defined as the risk that Entercard's economic value or income will be negatively affected by a change in the interest rates; the exposure for changes in underlying interest rates from both an economic value of equity (EVE) and net interest income (NII) perspective is considered.

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 from both an EVE and NII perspective. Since these are two perspectives of the same risk, the worse of the two outcomes are used to assess the capital requirement.

The methodology for assessing the capital requirement, from an EVE perspective, is based on six different interest rate scenarios in the EBA guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). The methodology used to assess the capital requirement, from an NII perspective, is based on a sensitivity analysis (+/-2 percentage point interest shock) of the NII based on contractual commitments, assuming a 12-month analysis period.

Entercard assesses the capital need based on the worst of these six scenarios without diversification, which is 162.1m SEK. Entercard assesses the capital need for net interest income to 90.8m SEK. However, since this is lower than the 162.1m SEK that Entercard holds for interest rate risk from an EVE perspective, and these are two different effects from similar interest rate changes, this is not included in the total Pillar 2 add-on for interest rate risk.

##### **5.3.3.1.1 Credit Spread Risk**

Credit spread risk is defined by the risk that the value of the assets in Entercard's liquidity portfolio will be negatively affected by a change in the credit spread.

Credit spread risk is measured by using the methodology prescribed by the SFSA. Transferable instruments, which for Entercard is the liquidity portfolio consisting of HQLAs, are subject to requirement for this Pillar 2 add-on. Entercard assesses the capital need for credit spread risk to 30.5 mSEK. This is included in the total Pillar 2 add-on.

### **5.3.3.1.2 Basis Risk**

Basis risk refers to the risk that prices for positions with a similar interest rate duration but using different reference rates will be repriced differently due to different interest rate changes for different reference rates.

Basis risk is measured by using the methodology prescribed by the SFSA in the Pillar 2 guidelines for IRRBB, published in December 2020. FI indicates in several places that derivatives are the main positions to be included in the calculation of basis risk. Further, FI highlights in its definition of basis risk the basic premise that pricing must take place against different indices. At present, Entercard has no derivatives.

Entercard assesses the capital need for basis risk to be 0m SEK, thus there is no Pillar 2 add-on.

### **5.3.3.2 Currency Risk**

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

The operations in the respective countries consist solely of local currency. However, when consolidating the countries' operations to SEK, the own funds held in NOK and DKK is converted to SEK, which gives a currency exposure to the value of own funds since the value in SEK fluctuates with the FX rate. Entercard's strategy for currency risk is to have a relatively neutral currency exposure to the capital ratio. This is achieved by having a similar currency distribution in own funds as the currency distribution in REA. Entercard thereby accepts having a currency exposure to the value of own funds. The exposure to the own funds is continually reported to the parents, so they can hedge the exposure in their books if desired.

In December 2021, the SFSA approved Entercard's application to exclude positions deliberately taken to hedge against the adverse effect of the exchange rate on the capital ratio from the calculation of net open currency position. The amounts excluded from the net open position are the maximum open position in NOK and DKK, which are the open positions neutralising the sensitivity of the capital ratio to changes in the exchange rate. This means that Entercard does not need to hold capital for the whole exposure to the own funds but for positions that exceed these amounts.

The sum of the absolute value of the deviations converted to SEK gives a total Pillar 1 capital requirement for currency risk of 31.9 mSEK.

### **5.3.4 Strategic and Business Risk**

Entercard continuously monitors and assesses the strategic and business risks, which may affect the business strategy and execution. The process includes identification of relevant responses to each respective risk identified.

Entercard offers two main products: credit cards and consumer loans. While volatility in the macroeconomic environment has increased (see above), both consumer loans and credit cards represent mature product categories. Therefore, quick and capital intense responses to changing market conditions are generally not required.

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 continuously 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 was holding capital for pension risk under pillar 2 in Norway until 2021. As per new guidelines issued in 2022, financial institutions need not hold additional capital for pension risk if such commitments are managed by an external regulated entity. The pension commitments of Entercard in Norway are managed by an external regulated entity.

Hence in line with new regulations, Entercard is not required to hold any capital for pension risk under pillar 2.

### 5.3.6 Liquidity Risk

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

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

**Table 12: Remaining Maturities**

Entercard Group AB, as of December 31st, 2022 & 2021							
<b>Remaining maturity 2022</b>	<3 Months	3-12 Months	1-5 Years	5-10 Years	10-15 Years	No maturity	Total
Deposits	4,329,568	-	-	-	-	-	4,329,568
Loans to the public, net	16,455,552	9,039	66,863	2,888,791	12,937,879	-	32,340,046
Bonds and other interest-bearing securities	-	255,793	1,904,548	-	-	-	2,160,341
Prepaid expenses and accrued income	28,010	62,555	-	-	-	-	90,565
Other assets	304,227	11,638	61,548	-	-	16,165	393,578
<b>Total assets</b>	<b>21,117,357</b>	<b>320,948</b>	<b>2,032,959</b>	<b>2,888,791</b>	<b>12,937,879</b>	<b>16,165</b>	<b>39,314,099</b>
Amounts owed to credit institutions	2,732,208	8,489,799	22,300,924	-	-	-	33,522,931
Other liabilities	244,319	-	24,083	-	-	-	268,402
Accrued expenses and prepaid income	77,159	169,488	6,529	-	-	-	253,176
Equity	-	-	-	-	-	5,403,605	5,403,605
<b>Total liabilities and equity</b>	<b>3,053,686</b>	<b>8,659,288</b>	<b>22,331,536</b>	<b>-</b>	<b>-</b>	<b>5,403,605</b>	<b>39,448,114</b>
<b>Remaining maturity 2021</b>	<b>&lt;3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	<b>No maturity</b>	<b>Total</b>
Deposits	4,446,056	-	-	-	-	-	4,446,056
Loans to the public, net	15,974,695	3,556	504,782	3,152,861	10,838,379	-	30,474,272
Bonds and other interest-bearing securities	-	130,364	2,013,982	731,096	-	-	2,875,442
Prepaid expenses and accrued income	14,275	58,028	-	-	-	-	72,302
Other assets	286,494	13,548	55,694	-	-	23,688	379,425
<b>Total assets</b>	<b>20,721,520</b>	<b>205,495</b>	<b>2,574,459</b>	<b>3,883,957</b>	<b>10,838,379</b>	<b>23,688</b>	<b>38,247,497</b>
Amounts owed to credit institutions	4,038,204	5,512,672	21,652,722	-	-	-	31,203,598
Other liabilities	221,802	-	27,953	-	-	-	249,755
Accrued expenses and prepaid income	84,527	172,204	12,761	-	-	-	269,492
Equity	-	-	-	-	-	6,524,651	6,524,651
<b>Total liabilities and equity</b>	<b>4,344,533</b>	<b>5,684,876</b>	<b>21,693,437</b>	<b>-</b>	<b>-</b>	<b>6,524,651</b>	<b>38,247,497</b>

### 5.3.6.1 Liquidity Risk Measures

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

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

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

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 is 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 Executives and the Board.

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

#### 5.3.6.1.1 LCR

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

#### 5.3.6.1.2 NSFR

Net Stable Funding Ratio (NSFR) shows Entercard's ability to manage liquidity situations over a one-year horizon. It ensures that Entercard's long-term illiquid assets are funded with a minimum amount of stable long-term funding. Entercard's risk appetite for NSFR is equal to regulatory requirement of 100%. There is also a risk tolerance limit, set by the CEO, of 110%. The NSFR is measured and limited in each individual currency 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. 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 explain the securities allowed regarding issuers, time to maturity, etc. To ensure that the market value is valid, and that the portfolio is liquid, part of the assets defined as level 2 under LCR need to be sold and repurchased on a regular basis. This is not done regularly for assets defined as level 1, since the credit quality and liquidity of these assets are deemed as higher.

Entercard held an HQLA portfolio of 2,160m SEK as of December 31st, 2022. The DKK portfolio contained only Danish sovereign bonds, which are level 1 instruments where no haircuts are applied. The SEK portfolio contained mainly level 1 municipal bonds and two covered bonds. The NOK portfolio contained level 1 instruments (municipal bonds and supranational issuers).

**Table 13: Liquidity Reserve and Liquidity Risk**

Entercard Group AB, as of December 31st, 2022 & 2021

	Total	Distribution by currency in SEK		
		SEK	NOK	DKK
<b>2022 All country values presented in SEK</b>				
Securities issued or guaranteed by government or central bank	138,994	-	-	138,994
Securities issued or guaranteed by municipalities or non-governmental public entities	1,078,423	908,847	169,576	-
Covered bonds issued by others	323,060	323,060	-	-
Securities issued or guaranteed by multilateral development banks	619,864		619,864	-
<b>Total</b>	<b>2,160,341</b>	<b>1,231,907</b>	<b>789,440</b>	<b>138,994</b>
<b>Distribution by currency, %</b>		<b>57%</b>	<b>37%</b>	<b>6%</b>
<b>2021</b>				
<b>All country values presented in SEK</b>	<b>Total</b>	<b>SEK</b>	<b>NOK</b>	<b>DKK</b>
Securities issued or guaranteed by government or central bank	130,364	-	-	130,364
Securities issued or guaranteed by municipalities or non-governmental public entities	1,915,820	1,423,088	492,732	-
Covered bonds issued by others	720,189	327,518	392,670	-
Securities issued or guaranteed by multilateral development banks	109,070		109,070	-
<b>Total</b>	<b>2,875,442</b>	<b>1,750,606</b>	<b>994,472</b>	<b>130,364</b>
<b>Distribution by currency, %</b>		<b>61%</b>	<b>35%</b>	<b>5%</b>

#### **5.3.6.4 Funding Strategy**

Funding is sourced through the parent companies only. Entercard's funding is provided in the local currencies. Entercard has the right to go for external funding since June 2015, in accordance with the 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

The Company'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 the Company: we keep our promises, we always improve, we make a difference, and we win together, and supports the Company's business strategy, targets, long-term interests, and vision.

As far as possible, the total compensation should be individually determined 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 (the "WHAT") and behaviour (the "HOW"). The compensation process secures a healthy balance between fixed and variable pay, with a maximum percentage of 0% to 50% of the base salary, based on respective corporate grades. The Company believes it is important that compensation works as an incentive for value-creation for the benefit of the long-term sustainable growth of the Company, with a balanced approach to risk-taking, employee satisfaction and well-being, and long-term customer and shareholder value.

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

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

### 6.1.1 Decision-Making Process

The principles of variable pay are governed in the Remuneration Policy. This policy is approved by the Board of Directors and includes all employees of the Company. The Chief of Staff 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, Risk Control, Compliance, and Internal Audit. Based on the recommendation of the Remuneration Committee, the Board of Directors will endorse the Remuneration Policy.

### 6.1.2 Principles of deferred payment

For employees identified as risk takers, 50% of the variable pay will be deferred over a period of two 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 2022

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:

- CEO and employees on the Executive Committee
- Leaders of control functions
- Risk-taker, as defined by EU regulation, No 604/2014 and FFFS 2011:1

**Table 14: Distribution of compensation**

Entercard Group AB, as of December 31st, 2022 & 2021		
	<i><b>Executive management</b></i>	<i><b>Other employees</b></i>
2022 <b>(k-SEK)</b>	<b>11 employees</b>	<b>470 employees</b>
Fixed remuneration	22,546	274,047
Variable remuneration earned during 2022	8,005	49,757
Paid out variable remuneration, earned during 2022 and previous years	9,686	49,504
Deferred variable remuneration earned this and previous years	7,758	713
2021 <b>(k-SEK)</b>	<i><b>Executive management</b></i>	<i><b>Other employees</b></i>
	<b>11 employees</b>	<b>441 employees</b>
Fixed remuneration	24,504	250,288
Variable remuneration earned during 2021	9,336	40,072
Paid out variable remuneration, earned during 2021 and previous years	9,752	39,844
Deferred variable remuneration earned this and previous years	8,911	424