Risk Management and Capital Adequacy Report

Pillar 3 – 2021

entercard

Entercard Group AB 556673-0585

Contents

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 V	5th 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
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
SPK	Sparinstitutens Pensionskassa
STP	Short Term Plan; 1 year financial forecast
TF	Treasury Forum

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Executive summary

1 Executive summary

Entercard Group AB is required to provide information on Entercard's capital adequacy and risk management in accordance with regulatory disclosure requirements defined in Part Eight "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, a low risk profile and 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.

Table 1. Capital Requirements under Pillar 1 and Pillar 2 2021

31.December 2021 (kSEK)	Foreseeable dividends	Before dividends
Total Risk Exposure Amount	26,703,616	26,703,616
Capital Requirement - Pillar 1	2,136,289	2,136,289
Capital Requirement - Pillar 2	433,096	433,096
Total Pillar 1 + 2 Capital Requirement	2,569,385	2,569,385
Total Capital Base	4,686,884	6,486,884
CET 1 Ratio	17.6 %	24.3 %
Tier 1 Ratio	17.6 %	24.3 %
Total Capital Ratio	17.6 %	24.3 %
Leverage Ratio	11.0 %	15.3 %
Capital Ratio Risk Appetite	13.3 %	13.3 %
Sum Internal Capital Requirement	3,556,869	3,556,869
Surplus of Capital (above Risk Appetite)	1,130,015	2,930,015

Entercard is exposed to several risks such as credit risk, market risk, liquidity risk, operational risk, strategic and business risk. The report describes each risk area along with the corresponding risk appetite. All risks are within the risk appetite per 31 December 2021.

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Purpose and scope

2 Purpose and scope

This report is submitted by Entercard Group AB, with registration number 556673-0585, the report will disclose information about the company's capital- and risk management and is based on performance as per 31 December 2021.

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 and sustainability report.

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. Entercard is owned by Swedbank AB, 60 % and Barclays Principal Investments Limited, 40 % through a joint venture. 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

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

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, basis risk, credit spread risk, credit concentration risk, credit counterparty risk, operational risk and pension risk for Entercard.

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

The business focus of Entercard is to issue credit cards and consumer loans under its own brand, re:member, in all three Scandinavian countries, as well as issuing credit cards and loans under different partners' brands and through their own distribution channels; including Swedbank, Coop and LO in Sweden, Coop in Norway and LO in Denmark. Today, Entercard has approximately 2 million customers and approximately 470 employees in Stockholm, Copenhagen, Oslo, and Trondheim.

It is important for Entercard to act as a responsible provider of credit by continually ensuring that only reasonable credit levels are given to each individual customer and securing that customers use their credit facilities in a safe and sound way.

3.2 Future developments

The development towards more digital solutions continues with a focus to enhance convenience, speed and simplicity for the customer while not compromising on security.

- The market for consumer finance products is expected to return to growth, but at a slower pace.
- Consumer preferences continue to change, further accelerated by Covid-19. Consumers have become mobile first, increasingly shifting in-store to online purchases and are ever more familiar with digital solutions.
- Tougher competition rise in the payment and financing market. Buy Now, Pay Later (BNPL) and instant account-to-account payments through i.e. Swish, Vipps and MobilePay have established significant market shares in the online market.

As a response to this, Entercard will further strengthen the customer experience and engagement, operational excellence and already strong analytics capabilities in order to maintain the position as a market leader for credit cards in Scandinavia and a top tier provider of consumer finance. Entercard continues developing simple and efficient digital customer interfaces, including enhancing all existing customer touch points in order to build loyalty and engagement throughout the customer lifecycle.

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.

- The Swedish Financial Supervisory Authority has issued new guidelines regarding consumer credit assessments for the Swedish market, effective from November 1, 2021. The new guidelines are clarifying what information lenders should gather for credit assessments and how this information should be used. Entercard has an implementation project running in order to secure timely implementation. At the beginning of 2020, Finansinspektionen initiated a thematic review into how creditors comply with section 12 of the Consumer Credit Act regarding credit assessment. In October 2021, Finansinspektionen decided to initiate a sanction review regarding some of the creditors who participated in the survey. A decision on a possible sanction is expected in the spring of 2022. Entercard was not included in the review but monitors developments.
- In July 2020 the European Court of Justice (ECJ) decided that the Privacy Shield could no longer be used as a basis for transfer of personal data to the US (Schrems II). At the same time, the court recognized that EU's Standard Contractual Clauses (SCC) contained sufficient security mechanisms provided that these are used correctly. The court confirmed that transfers from EU/EEA to third countries under SCCs (as well as other approved transfer mechanisms) will only be valid if the data exporter can verify, on a case by case basis, that the level of protection provided to the personal data following the transfer is essentially equivalent to and does not undermine the level of protection guaranteed to data subjects under GDPR. Following the finalized recommendations from the European Data Protection Board (EDPB) published in June 18th 2021, Entercard has initiated processes that will ensure that all transfers of personal data to a third country are identified, that Transfer Impact Assessment (TIA) are carried out and (if needed) that necessary supplementary measured are implemented and documented.

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)
The European Commission has on 20 July 2021 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"
The European Commission has on 27 October 2021 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 indebtness
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 i.a:

- 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.

3.4 Sustainability

ESG stands for Environmental, Social and Governance, this is also commonly referred to as sustainability. The work for a sustainable society is an integral element in realizing Entercard's vision. Entercard strives to measure its impact on society through the non-financial targets and is related 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, Entercard 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, which are integrated in Entercard's business processes and sustainability activities:

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

Meeting stakeholders outside Entercard, alongside non-Governmental organisation (NGO) partners, helps our employees gain new insights. These initiatives contribute to local society, and create a more social environment at Entercard.

Entercard staff spend time and competence in volunteer-programs for youth through My Dream Now in Sweden, and the Initiative for Young Entrepreneurship in Denmark and Norway.

Gender equality
Gender equality is of high importance to us. We are proud to be a company where women hold around 50 percent of the leadership positions. We make sure all employees can maintain a healthy balance between career and family life. In addition to gender equality, we believe that diversity is a strength. With employees from more than 40 different nationalities, respect for different religious and cultural backgrounds is important to us.

Decent work and economic growth
Decent work and economic growth is a core part of our business model. We do our very best to make sure that our employees are satisfied, have equal opportunities and the ability to grow professionally. Our business contributes to society's economic growth through stability.

We continue to develop our services and products to ensure that we can offer economic growth and employment. We view responsible lending as a crucial part of ensuring sustainable growth and financial stability, and our employees respect the impact our products have on our customer's everyday lives.

Sustainable cities and communities
Entercard acts responsibly in our local communities. Part of this is to make it easier for our employees to reduce their environmental footprint. Therefore, our company offices are located close to public transportation. The offices are centrally located close to buses, trains, subway and trams.

In addition, we have a bicycle-parking garage in our office's basement. The bicycle parking-garage provides electrical outlets for chargers for electrical bicycles.

In our offices our employees contribute to cleaner cities by taking part in picking up litter in the city centre and participating in cleaning the local beaches. We have joined Hold Norge Rent, Hold Danmark Rent and Håll Sverige Rent and take part in the organisations' annual campaigns.

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.

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 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 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 2021.

Entercard's capital ratio after dividend, 17.6 % as per 31 December 2021, is well above the internal risk appetite of 13.3 %, which gives a capital surplus of 1,130,015 kSEK above internal requirements. Entercard thereby holds sufficient capital as per 31 December 2021.

Table 2. Key Ratios Entercard 2021

31.12.2021 (kSEK)	Foreseeable dividends	Before dividends
Total Risk Exposure Amount	**26,703,616**	**26,703,616**
Capital Requirement - Pillar 1	**2,136,289**	**2,136,289**
Capital Requirement - Pillar 2	**433,096**	**433,096**
Total Pillar 1 + 2 Capital Requirement	**2,569,385**	**2,569,385**
Total Capital Base	**4,686,884**	**6,486,884**
CET 1 Ratio	**17.6 %**	**24.3 %**
Tier 1 Ratio	**17.6 %**	**24.3 %**
Total Capital Ratio	**17.6 %**	**24.3 %**
Leverage Ratio	**11.0 %**	**15.3 %**
Capital Ratio Risk Appetite	**13.3 %**	**13.3 %**
Sum Internal Capital Requirement	**3,556,869**	**3,556,869**
Surplus of Capital (above Risk Appetite)	**1,130,015**	**2,930,015**

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 2021

31.12.2021 (kSEK)	Foreseeable dividends	Before dividends
Share capital	5,000	5,000
Retained earnings	6,061,858	7,861,858
Accumulated other comprehensive income	-387,956	-387,956
Profit net, after deduction of foreseeable cost's and dividend's, verified by auditors	-954,251	-954,251
Total adjustments of CET 1 Capital	-37,767	-37,767
Total Common Equity Tier I Capital	**4,686,884**	**6,486,884**
Additional Tier 1 Capital	0	0
Total Tier 1 Capital	**4,686,884**	**6,486,884**
Subordinated loan	0	0
Total Tier 2 Capital	**0**	**0**
Total Capital	**4,686,884**	**6,486,884**

Entercard's capital base amounted to 4,687 mSEK per 31 December 2021, of which 100 % is Common Equity Tier 1.

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. Entercard uses the alternative standardized approach for calculating the own funds requirement for operational risk. Under this method, for the business lines retail and commercial banking, total outstanding loans and advances, averaged over the past three years and multiplied by a fixed factor, is used as the exposure indicator. The approval for calculating the own funds requirement for operational risk using the alternative standardised approach was granted by the SFSA in December of 2021. 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. 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; nor a capital planning buffer is necessary as Entercard holds sufficient capital in a stressed situation. 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, basis risk, credit spread 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. Table 4 shows a summary of the capital requirements.

Table 4. Capital requirements 2021

31.12.2021 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	**26,703,616**	**26,703,616**
Credit risk	24,592,075	24,592,075
Operational risk	1,882,696	1,882,696
Market risk	228,845	228,845
Capital requirement - Pillar 1	**2,136,289**	**2,136,289**
Credit risk	1,967,366	1,967,366
Operational risk	150,616	150,616
Market risk	18,308	18,308
Capital requirement - Pillar 2	**433,096**	**433,096**
Market risk, of which:	122,704	122,704
Interst rate risk in the banking book	22,263	22,263
Basis risk	12,805	12,805
Credit spreak risk	87,636	87,636
Operational risk	72,434	72,434
Credit Concentration risk	158,524	158,524
Pension risk	79,226	79,226
Counterparty credit risk	208	208
Total Pillar 1 & 2 capital requirement	**2,569,385**	**2,569,385**

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 0.2 % (weighted average of the three countries where Entercard operates), which were decreased significantly as a response to the economic downturn after the outbreak of Covid-19 by authorities.

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 2021, Entercard's total internal capital requirement was equal to 13.3 %. Table 5 shows an overview in numbers.

All buffers are held in Common Equity Tier 1 capital.

Table 5. Capital buffers 2021

Capital buffers (kSEK)	31.12.2021
Capital conservation buffer (2.5 %)	667,590
Institution-specific countercyclical buffer (0.2 %)	52,857
Internal buffer (1.0 %)	267,036

Figures 1 and 2 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 24.3 %. Considering the proposed dividend of 1,800 mSEK, the total capital ratio is 17.6 % after dividend.

Fig. 1. Entercard regulatory and internal capital targets per 31 December 2021

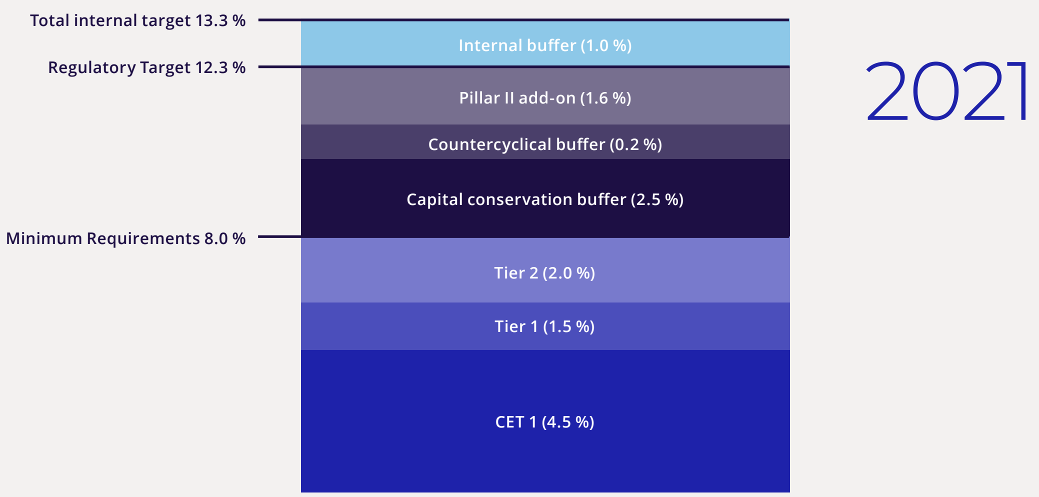
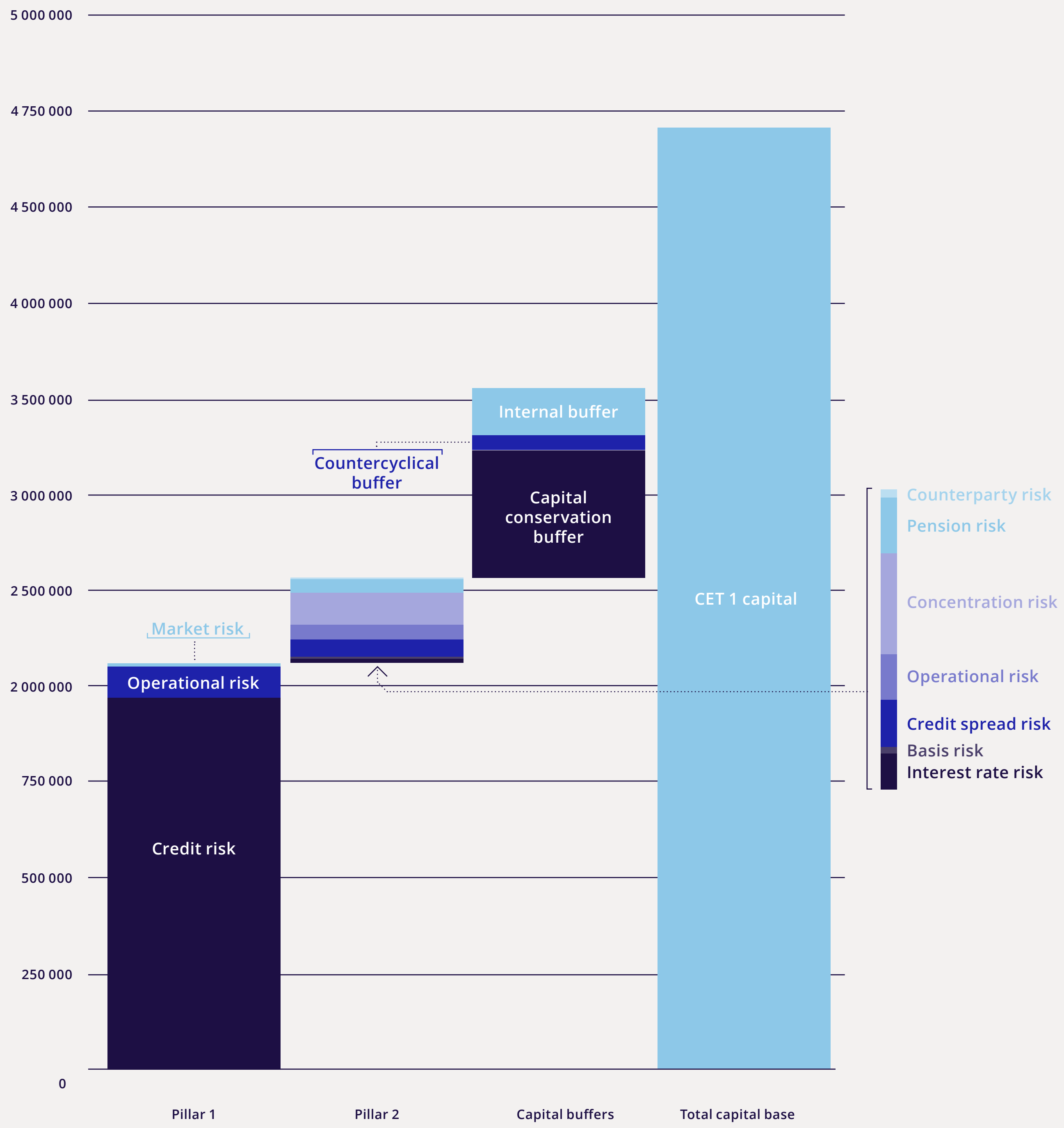


Fig. 2. Entercard minimum total capital requirement as per 31 December 2021 (kSEK)



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 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 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 2021. 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 2021.

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 Q1 2022, a scenario-based stress testing exercise was undertaken by Entercard. Spanning over the period 2022-2024, the scenarios describe global events leading to an adverse and severely adverse recession. Entercard undertakes reasonable stress testing of impairment, profit & loss and capital estimates. Impairment in the stressed scenarios is simulated using IFRS 9 principles.

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, funding costs and GDP are considered when stressing the portfolio.

The approach stresses the underlying assumptions of the base scenario to forecast the impact of potentially plausible events. The main assumptions which feed the forecasting models and which are affecting the financial output are the unemployment rate, affecting credit losses, the GDP growth rate, affecting income and balances, and the funding 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.

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. Since all three years that have been stressed show a positive P/L after management actions, a capital planning buffer is not deemed necessary.

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. Since both scenarios show a positive PBT over the period as a whole, it is deemed that a capital planning buffer is not required.

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

In order to adjust the capitalisation, different actions are available including adjusting either the capital base or the risk exposure amount. The capital contingency plan lists the potential actions for both types of activities. Therefore, the contingency plan does not focus on the precise action plan but rather sets the general framework of actions, which 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. Each mode will trigger different responses and actions.

For the purposes of capital contingency planning, six different modes are documented 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.

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.

5.1.2 Risk statement pursuant to article 435 of 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 2021.

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.

Table 6. Charge-off per 31 December 2021

31.12.2021	Sweden	Norway	Denmark
Charge-off ratio Credit Cards *risk appetite*	5.5 %	10.3 %	8.2 %
Charge-off ratio Credit Cards *actual*	2.8 %	3.9 %	2.9 %
Charge-off ratio Consumer Loans *risk appetite*	18.0 %	21.0 %	n/a [1]
Charge-off ratio Consumer Loans *actual*	9.2 %	10.7 %	16.4 %

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 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 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. Table 7 illustrates the interest rate risk sensitivity analysis per 31 December 2021 is well within the risk appetite.

[1] As for the Denmark Consumer Loans portfolio, the risk appetite is based on the proportion of newly booked accounts with high risk each quarter. The current risk appetite states that the proportion of loans booked within each quarter, with a PD above or equal to 7.9 % should not exceed 60 %.

Table 7. Interest rate risk sensitivity, risk % of capital base 2021

31.12.2021	Entercard Group
200 bp parallel shift *risk appetite*	10 %
200 bp parallel shift *risk tolerance*	7 %
200 bp parallel shift *actual (EVE)*	-0.05 %
200 bp parallel shift *actual (NII)*	-0.5 %

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

Entercard measures its currency risk appetite by setting maximum deviation levels towards own benchmark levels. The currency exposure to NOK shall not deviate more than 400 mNOK from the benchmark of 950 mNOK and currency exposure to DKK shall not deviate more than 100 mDKK from the benchmark of 232 mDKK, respectively. These benchmark amounts would give Entercard a neutral capital ratio from a currency risk perspective. Table 8 below shows that currency risk per 31 December 2021 is well within the risk appetite.

Table 8. Currency risk, deviation from the benchmark per 31 December 2021

31.12.2021	NOK	DKK
Deviation from the benchmark *risk appetite*	+/- 400 mNOK	+/- 100 mDKK
Deviation from the benchmark *actual*	145.5 mNOK	57.7 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 2021 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 2021

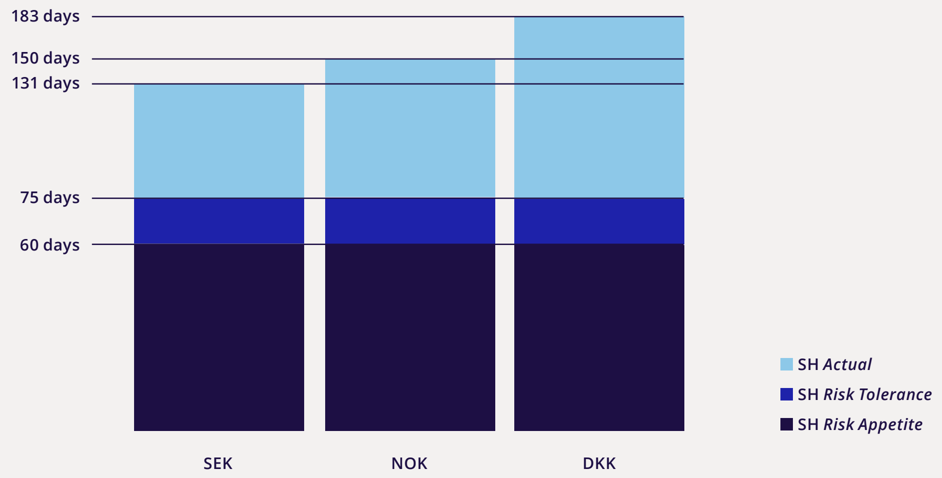
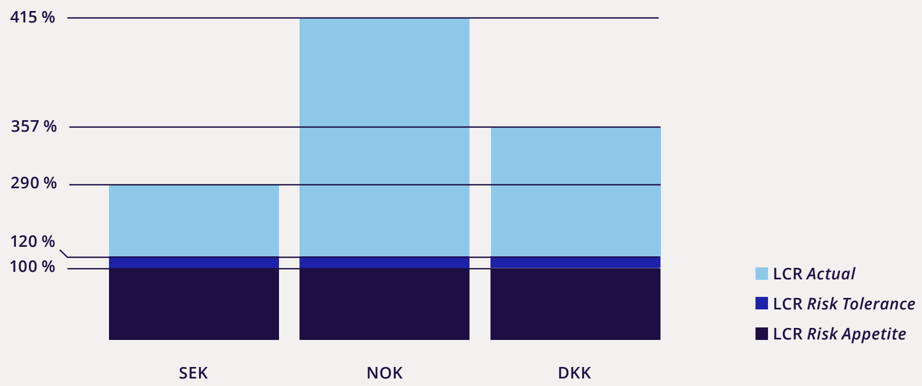
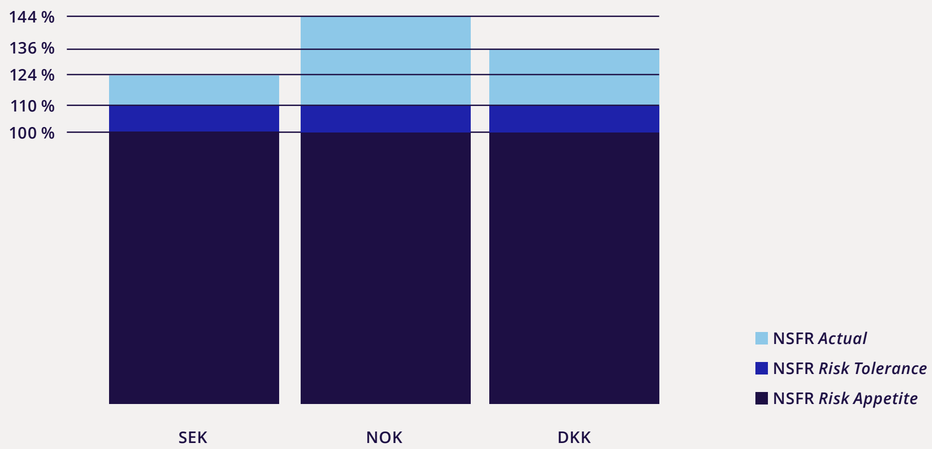


Fig. 4. LCR per 31 December 2021



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 2021



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.

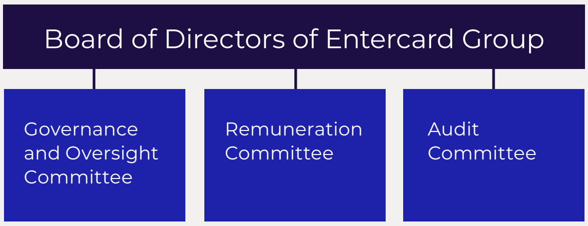
In the context of Entercard's field of activity, different types of risks arise, such as credit risk, operational risk, market risk and liquidity risk. For Entercard, credit risk is the most central risk for the business model. Entercard is striving for a well-balanced consumer financing portfolio with 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

Fig. 6. Entercard governance structure



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

The risk management steering documents include 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 Instruction for Risk & 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 report to the CEO. The Risk Control function provides independent reporting on the risk profile to the CEO and to the GOC and the Board. The Compliance function reports to the CEO, the GOC, and the Board 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.

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.

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 appetites. 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 8 for the risk management cycle.

Fig. 7. Entercard three lines of defence model

Board

CEO

Risk ownership **1st line of defence**	Risk & Compliance Management **2nd line of defence**	Risk Assurance **3rd line of defence**
Owns risk and risk management activities including identifying, assess-ing, controlling and mitigating risks	Managing and facilitating effective risk and compliance management practices	Review and assess efficiency of risk management processes and corporate activities
Business-, Operations- and Support Functions	**Risk Control- and Compliance Functions**	**Internal Audit**
Owns the risks, controls, incident management and business continuity Makes management decisions in line with risk appetite- and tolerance levels Implements and embeds needed controls and mitigates any deficiencies	Facilitate framework for risk management-, control- and compli-ance processes Support, educate, advise Independently monitor risks and compliance with laws and regulations and the effectiveness of framework and processes Independently report on risk and compliance topics	Provide assurance to the compa-ny's board of directors and senior management. Assessment whether risk- and capital management and gover-nance framework are sound and effective Assessment of routines according to internal an external requirements

5.2.3.1 Entercard operating model

Entercard Group AB Board

Entercard Group AB is governed by the Board of Directors of Enterard 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 also functions as Entercard's Audit Committee.

Governance Oversight Committee

The Governance 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 entire Board conducts the duties of an audit committee.

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 is responsible for ensuring compliance with laws and regulations. The CEO's responsibilities and authority is set out in the Swedish Companies Act and the Banking, 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, the GOC and the Board.

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 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.

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 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.

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.

ALM Forum
The purpose of the ALM Forum is to review and discuss all Asset Liability Management (ALM) related topics. The ALM Forum is chaired by the CFO.

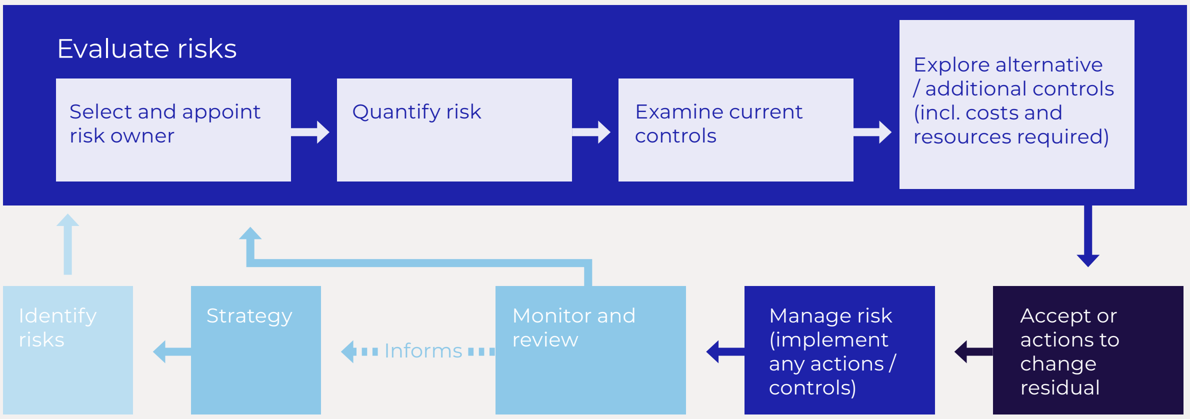
5.2.4 Risk Appetite and Enterprise Risk Management Policy

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

Fig. 8. Entercard's risk management cycle



5.3 Risk areas

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

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, 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 the 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 Entercard'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 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 9. Distribution by exposure amount by classes for Entercard per 31 December 2021 and 2020 (kSEK)

	2021		2021	
Exposure classes	Risk exposure amount	Own funds requirement	Risk exposure amount	Own funds requirement
Institutional exposures	889,271	71,142	914,051	73,124
Covered bonds	72,019	5,762	64,458	5,157
Retail exposures	21,631,795	1,730,544	22,285,364	1,782,829
Regional governments or local authorities exposures	1,913	153	1,438	115
Corporate exposures	2,756	220	2,345	188
Exposures in default	1,577,339	126,187	1,427,787	114,223
Other exposures	416,982	33,359	276,378	22,110
Total	**24,592,075**	**1,967,366**	**24,971,821**	**1,997,746**

	2021	2020
Total capital requirement for credit risk according to the standardised approach	**1,967,366**	**1,997,746**

Total loans to the public excluding provisions of anticipated loan losses amounted to 33,455.3 mSEK. Impaired loans amounted to a book value of 1,577.3 mSEK which constitutes 5.2 % of the total credit portfolio. Total provisions amounts to 2,971.0 mSEK.

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.

The total capital need for operational risk under Pillar 2 is estimated to 223.1m SEK, compared to regulatory minimum of 150.6m SEK. This means that the outcome of the stress test is 72.4m 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 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.

Table 10. Capital requirements for operational risk per 31 December 2021 and 2020 (kSEK)

Capital requirements for operational risk	2021	2020
Risk exposure amount	1,882,696	5,068,212
Capital requirements according to the standardised approach	150,616	405,457
Pillar 2 add-on for Operational Risk	72,434	
Total Capital requirement for operational risk	**223,050**	**405,457**

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 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 economic value or earnings 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.

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.

Table 11. Interest rate risk sensitivity per 31 December 2021 and 2020 (kSEK)

	Market interest rate -1 percent		Market interest rate +1 percent	
	2021	2020	2021	2020
< 3 Months	301	-1,724	-297	1,705
3-6 Months	-13	11	13	-11
6-12 Months	-314	791	325	-778
Total	**-27**	**-922**	**41**	**916**

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

Entercard assesses the capital need for net interest income to be 22.3 mSEK. This is included in the total pillar 2 add-on.

Entercard assesses the capital need for EVE to 5.1 mSEK. However, since this is lower than the outcome of NII, 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 87.6 mSEK. This is included in the total Pillar 2 add-on.

5.3.3.1.2 Basis risk
Basis risk is the risk that the value of Entercard's asset and liabilities will be negatively affected by a change in the interest rate for products that have similar maturity but are priced using different reference rates. Basis risk is measured by using the methodology prescribed by the SFSA, the net position against any other reference index than the 3M STIBOR is subject to a capital requirement. A stress in terms of 10 basis points is applied to the required net positions for each currency.

Entercard assesses the capital need for basis risk to 12.8 mSEK. This is included in the total 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, 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.

During 2021, Entercard was granted a permanent approval to exempt certain structural currency positions from the calculation of the capital requirement, namely such positions that has been taken deliberately in order to hedge the capital ratio against adverse changes in the currency rates. Entercard only needs to hold capital for FX exposures exceeding the benchmarks of 950 MNOK and 232 MDKK, which are the levels where Entercard has an FX rate neutral capital ratio.

The sum of the absolute value of the deviations converted to SEK gives a total Pillar 1 capital requirement for currency risk of 18.3 mSEK.

5.3.4 Strategic and business risk
Entercard assesses its strategic and business risks continually. 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 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. This risk is not seen as significant, due to relatively few employees with defined benefit pension plans.

Entercard assesses the capital need for pension risk to 79.2 mSEK. This is included in the total Pillar 2 add-on.

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

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

Table 12. Remaining maturities per 31 December 2021 and 2020 (kSEK)

Remaining maturity 2021	<3 Months	3-12 Months	1-5 Years	5-10 Years	10-15 Years	No maturity	Total
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
Total assets	**20,721,520**	**205,495**	**2,574,459**	**3,883,957**	**10,838,379**	**23,688**	**38,247,497**
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
Total liabilities and equity	**4,344,533**	**5,684,876**	**21,693,437**			**6,524,651**	**38,247,497**

Remaining maturity 2020	<3 Months	3-12 Months	1-5 Years	5-10 Years	5-10 Years	No maturity	Total
Deposits	4,570,206						4,570,206
Loans to the public, net	16,044,791	5,081	617,546	3,400,307	11,111,255		31,178,980
Bonds and other interest-bearing securities		104,536	1,773,668				1,878,204
Prepaid expenses and accrued income	12,728	61,779					74,507
Other assets	134,904	15,563	63,116			46,160	259,743
Total assets	**20,762,629**	**186,958**	**2,454,330**	**3,400,307**	**11,111,255**	**46,160**	**37,961,639**
Amounts owed to credit institutions	2,068,861	11,677,941	17,193,934				30,940,736
Other liabilities	-37,719	209,178	41,579				213,038
Accrued expenses and prepaid income	54,298	184,065	15,066				253,430
Equity						6,554,435	6,554,435
Total liabilities and equity	**2,085,440**	**12,071,184**	**17,250,580**			**6,554,435**	**37,961,639**

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.

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 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 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 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, 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 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, 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 2,875m SEK as per December 31st 2021. The DKK portfolio contained only Danish government bonds, which are level 1 instruments where no haircuts are applied. The SEK portfolio contained mainly level 1 municipal bonds and one level 2 covered bond. The NOK portfolio contained level 1 instruments (municipal bonds and supranational issuers) and level 2 covered bonds.

Table 13. Liquidity reserve and liquidity risk per 31 December 2021 and 2020

2021 All country values presented in SEK	Distribution by currency in SEK			
	Total	SEK	NOK	DKK
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	
Total	**2,875,442**	**1,750,606**	**994,472**	**130,364**
Distribution by currency, %		60.9 %	34.6 %	4.5 %

2020	Distribution by currency in SEK			
	Total	SEK	NOK	DKK
Securities issued or guaranteed by government or central bank	**104,536**			104,536
Securities issued or guaranteed by municipalities or non-governmental public entities	**1,052,598**	861,600	190,998	
Covered bonds issued by others	**644,581**	207,654	436,927	
Securities issued or guaranteed by multilateral development banks	**76,490**		76,490	
Total	**1,878,204**	**1,069,254**	**704,415**	**104,536**
Distribution by currency, %		56.9 %	37.5 %	5.6 %

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

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 the business strategy, targets, long-term interests and vision. As far as possible, the total compensation should be individually designed based on the employee's role, corporate grade, competence and experience as well as the contribution to the business, both when it comes to the performance and behavior. The compensation process secures a healthy balance between fixed and variable pay, with a maximum percentage of 20 % to 50 % of the base salary, based on respective corporate grades. Entercard believes it is important that compensation works as an incentive for value-creation for the benefit of the long-term sustainable growth, with a balanced approach to risk-taking, employee satisfaction and well-being, and long-term customer and shareholder value. The variable compensation is linked to individual employee targets and Entercard's overall performance. The Board of Directors has the right to take a discretionary decision on whether a part of the variable compensation that has been promised, should be held back. Whilst the guiding principle is to reward performance, it is possible that the total variable compensation could be set to zero under specific circumstances. Entercard defer on the variable compensation for risk-takers, i.e. staff whose professional activities may 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, 50 % 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 2021

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. Entercard's distribution of compensation as per 31 December 2021 and 2020

2021 (kSEK)	Executive management 11 employees	Other employees 441 employees
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

2020 (kSEK)	Executive management 11 employees	Other employees 441 employees
Fixed remuneration	23,279	239,808
Variable remuneration earned during 2020	6,331	40,338
Paid out variable remuneration, earned during 2020 and previous years	7,609	40,146
Deferred variable remuneration earned this and previous years	9,137	192

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