Risk Management and Capital Adequacy Report

Pillar 3 – 2020

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)
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
SFSA	Financial Supervisory Authority; Finansinspektionen in Sweden
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

31.12.2020 (kSEK)	Foreseeable dividends	Before dividends
Total Risk Exposure Amount	30,222,740	30,222,740
Capital Requirement - Pillar 1	2,417,819	2,417,819
Capital Requirement - Pillar 2	268,300	268,300
Total Pillar 1 + 2 Capital Requirement	2,686,119	2,686,119
Total Capital Base	5,496,309	6,496,309
CET 1 Ratio	18.2 %	21.5 %
Tier 1 Ratio	18.2 %	21.5 %
Total Capital Ratio	18.2 %	21.5 %
Leverage Ratio	13.1 %	13.5 %
Capital Ratio Risk Appetite	12.6 %	12.6 %
Sum Internal Capital Requirement	3,815,067	3,815,067
Surplus of Capital (above Risk Appetite)	1,681,242	2,681,242

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 2020.

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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 2020.

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 and operational risk is calculated using the standardised approach.

Pillar 2

Pillar 2 requires institutions to prepare and document their own Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The SFSA states that credit institutions shall have in place a sound, effective and complete strategies and processes to assess the amount, types and distribution of internal capital and liquidity that the management of Entercard considers adequate to cover the nature and level of the risks to which the business of Entercard is or might be exposed to.

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

Pillar 3

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

3.1 Entercard's business areas

Entercard operates in the Scandinavian market, with the issuance of credit cards and consumer loans. The company was founded in 2005 by Barclays Bank, 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 product and service solutions provided. Entercard is continuously active in developing simple and efficient digital customer interfaces, including enhancing all existing customer touch points, such as product apps and self-servicing, and upcoming launches within digitalized payment and aggregation solutions. Entercard is continuously exploring new ways of providing financing and create engagement with the customers throughout the customer lifecycle.

Actual and anticipated regulatory developments, related to providing more security, access and security for customers and the broader economies, will be relevant for Entercard's consideration going forward. Further implementation of PSD2 is important in order to ensure compliance as well as realizing business opportunities that especially PSD2 enables, which may have a disruptive effect on the value chain within the industry.

During 2020, new regulations have been introduced in Norway, enforcing more restrictions on consumer credit products, including more stringent rules on lending, stress testing on affordability assessments and reduced tenure of loans. The regulators in Sweden are currently evaluating whether similar measures are appropriate for the Swedish market. Entercard has been adapting to the changed landscape in the Norwegian consumer finance market, and will remain focused on the regulatory landscape in Sweden.

The Covid-19 pandemic has had adversely sharp impacts to infection and mortality rates and created a sustained level of fear and apprehension that persisted. As 2020 ended, there was no clear indication that the Covid-19 infection rates would diminish materially. In fact, the rate of infections showed signs of accelerating. Entercard is continuously following the development and evaluates the next steps, based on recommendations or steer from the government and health authorities through some part of 2021. Despite these conditions, Entercard has remained adaptive with 'work from home' strategies to ensure that the employee base can work in a secure manner while continuing to deliver products and services to the Entercard customer base and the larger open market.

3.3 Forthcoming regulations and key regulatory changes

An EU single rule book on AML/CTF (EU)
During 2020, the European Commission adopted an action plan for a comprehensive Union Policy on preventing money laundering and terrorism financing. The action plan builds on six pillars, which includes an EU single rule book on anti money laundering/ counter terrorist financing (AML/CTF). The rule book aims to harmonise AML/CTF rules to address diverging rule interpretations and therefore close existing loopholes which can be exploited by criminals. The Commission intends to deliver on all these actions during 2021.

Account and Securities system (SE)
The new act Account and Securities system, which took affect September 2020, aims to streamline certain Swedish authorities access to data from financial institutes to be able to determine the identity of holders to accounts and securities. The system is a requirement from the 4th EU AML Directive with the objective to prevent the financial system from being used for ML or TF. The Swedish Tax Agency, which are providing the system, is currently on-boarding applicable undertakings to the system.

AML reporting to the Danish Financial Supervisory Authority (DK)
AML reporting to the Danish Financial Supervisory Authority (D-FSA) will be applicable from July 2021. The purpose of the reporting is to assess the ML and TF risk an undertaking is exposed to and enable the D-FSA to conduct risk-based supervision of undertakings governed by AML regulations.

CRR II & CRD V "Banking Package"
The Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/201 and Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU, commonly referred to as CRR II and CRD V or the "Banking Package", refine and continue to implement Basel III in the EU, by making amendments in a number of areas, including large exposures, leverage ratio, liquidity, market risk, credit counterparty risk as well as reporting and disclosure requirements. CRD V is applicable from 28 December 2020; and the CRR 2 shall largely apply from 28 June 2020. Entercard has established a project to implement the "Banking Package".

EBA Guidelines on loan origination and monitoring
The EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) applicable from 30 June 2021, is another initiative to ultimately improve the financial stability and resilience of the EU banking system, and is further a key response to the European Council's Action Plan on non-performing loans. The objective of the guidelines is to improve institutions' practices and associated governance arrangements, processes and mechanisms in relation to credit granting, in order to ensure robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of a high credit quality. The aim is also to ensure that the institutions' practices are aligned with consumer protection rules and respect fair treatment of consumers. The guidelines entail a demanding set of requirements with significant implications for data management, lending strategies and customer relationships that need to be addressed.

3.4 Sustainability

The work for a sustainable society is an integral element in realizing the Entercard's vision. Entercard strives to measure its impact on society through the non-financial targets and are 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. Entercard's sustainability activities are activities where diverse staff are able to contribute with their time, knowledge and skills to local initiatives. An important element of Entercard's efforts within sustainability is to encourage engagement among employees. 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.

Gender equality
Gender equality is of high importance; at Entercard more than 50 percent of the leadership positions are held by women. Entercard make sure all employees can maintain a healthy balance between career and family life.

Decent work and economic growth
Decent work and economic growth is a core part of Entercard's business model. Entercard's business contributes to society's economic growth through stability Entercard continues to develop its services and products to ensure that Entercard can offer economic growth and employment. Entercard views responsible lending as a crucial part of ensuring sustainable growth and financial stability, and Entercard's employees respect the impact the products have on the customer's everyday lives.

Sustainable cities and communities
Rapid urbanization is exerting pressure on fresh water, supplies, sewage, the living environment, and public health. Entercard's offices are placed in the central areas of Oslo, Stockholm, Trondheim and Copenhagen. In all these offices employees contribute to cleaner cities by taking part in picking liter in the city center and participating in cleaning the local beaches. Entercard has joined Hold Norge Rent and Håll Sverige Rent and in addition to offices own local litter picking.

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

Table 2 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 2020.

Entercard's capital ratio after dividend, 18.2 % as per 31 December 2020, is well above the internal risk appetite of 12.6 %, which gives a capital surplus of 1,681,242 kSEK above internal requirements. Entercard thereby holds sufficient capital as per 31 December 2020.

Table 2.Key Ratios Entercard

31.12.2020 (kSEK)	Foreseeable dividends	Before dividends
Total Risk Exposure Amount	**30,222,740**	**30,222,740**
Capital Requirement - Pillar 1	**2,417,819**	**2,417,819**
Capital Requirement - Pillar 2	**268,300**	**268,300**
Total Pillar 1 + 2 Capital Requirement	**2,686,119**	**2,686,119**
Total Capital Base	**5,496,309**	**6,496,309**
CET 1 Ratio	**18.2 %**	**21.5 %**
Tier 1 Ratio	**18.2 %**	**21.5 %**
Total Capital Ratio	**18.2 %**	**21.5 %**
Leverage Ratio	**13.1 %**	**13.5 %**
Capital Ratio Risk Appetite	**12.6 %**	**12.6 %**
Sum Internal Capital Requirement	**3,815,067**	**3,815,067**
Surplus of Capital (above Risk Appetite)	**1,681,242**	**2,681,242**

4.1.2 Tier 1 and Tier 2 capital

Table 3 below shows the calculation of Tier 1, Tier 2 and capital base.

Entercard's capital base amounted to 5,496 mSEK per 31 December 2020, of which 100 % is Common Equity Tier 1.

Table 3. Tier 1, Tier 2 and capital base

31.12.2020 (kSEK)	Foreseeable dividends	Before dividends
Share capital	5,000	5,000
Retained earnings	5,549,435	6,549,435
Accumulated other comprehensive income	0	0
Deductions intangible assets	-41,296	-41,296
Deductions deferred tax assets	-16,831	-16,831
Total Common Equity Tier I Capital	**5,496,309**	**6,496,309**
Additional Tier 1 Capital	0	0
Total Tier 1 Capital	**5,496,309**	**6,496,309**
Subordinated loan	0	0
Total Tier 2 Capital	**0**	**0**
Total Capital	**5,496,309**	**6,496,309**

4.1.3 Capital requirement Pillar 1 and Pillar 2

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

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

The calculation of Pillar 2 capital is an individual requirement, which is mainly assessed by performing scenario- and stress testing. 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 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. 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 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

31.12.2020 (kSEK)	Foreseeable dividends	Before dividends
Total risk exposure amount	**30,222,740**	**30,222,740**
Credit risk	24,971,821	24,971,821
Operational risk	5,068,212	5,068,212
Market risk	182,707	182,707
Capital requirement - Pillar 1	**2,417,819**	**2,417,819**
Credit risk	1,997,746	1,997,746
Operational risk	405,457	405,457
Market risk	14,617	14,617
Capital requirement - Pillar 2	**268,300**	**268,300**
Interest rate risk in the banking book	26,328	26,328
Credit Concentration risk	171,566	171,566
Pension risk	70,341	70,341
Counterparty credit risk	65	65
Total Pillar 1 & 2 capital requirement	**2,686,119**	**2,686,119**

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 2020, Entercard's total internal capital requirement was equal to 12.6 %. Table 5 shows an overview in numbers.

All buffers are held in Common Equity Tier 1 capital.

Table 5. Capital buffers

31.12.2020 (kSEK)	Foreseeable before dividends
Capital conservation buffer (2.5 %)	755,569
Institution-specific countercyclical buffer (0.2 %)	71,152
Internal buffer (1.0 %)	302,227

Figures 1 and 2 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 21.5 %. Considering the proposed dividend of 1,000 mSEK, the total capital ratio is 18.2 % after dividend.

Fig. 1. Entercard regulatory and internal capital targets per 31 December 2020

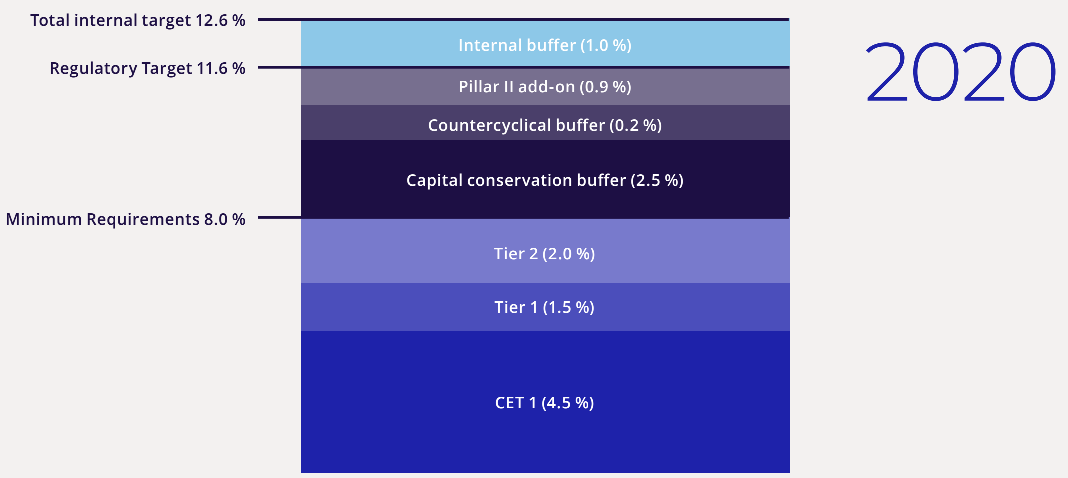
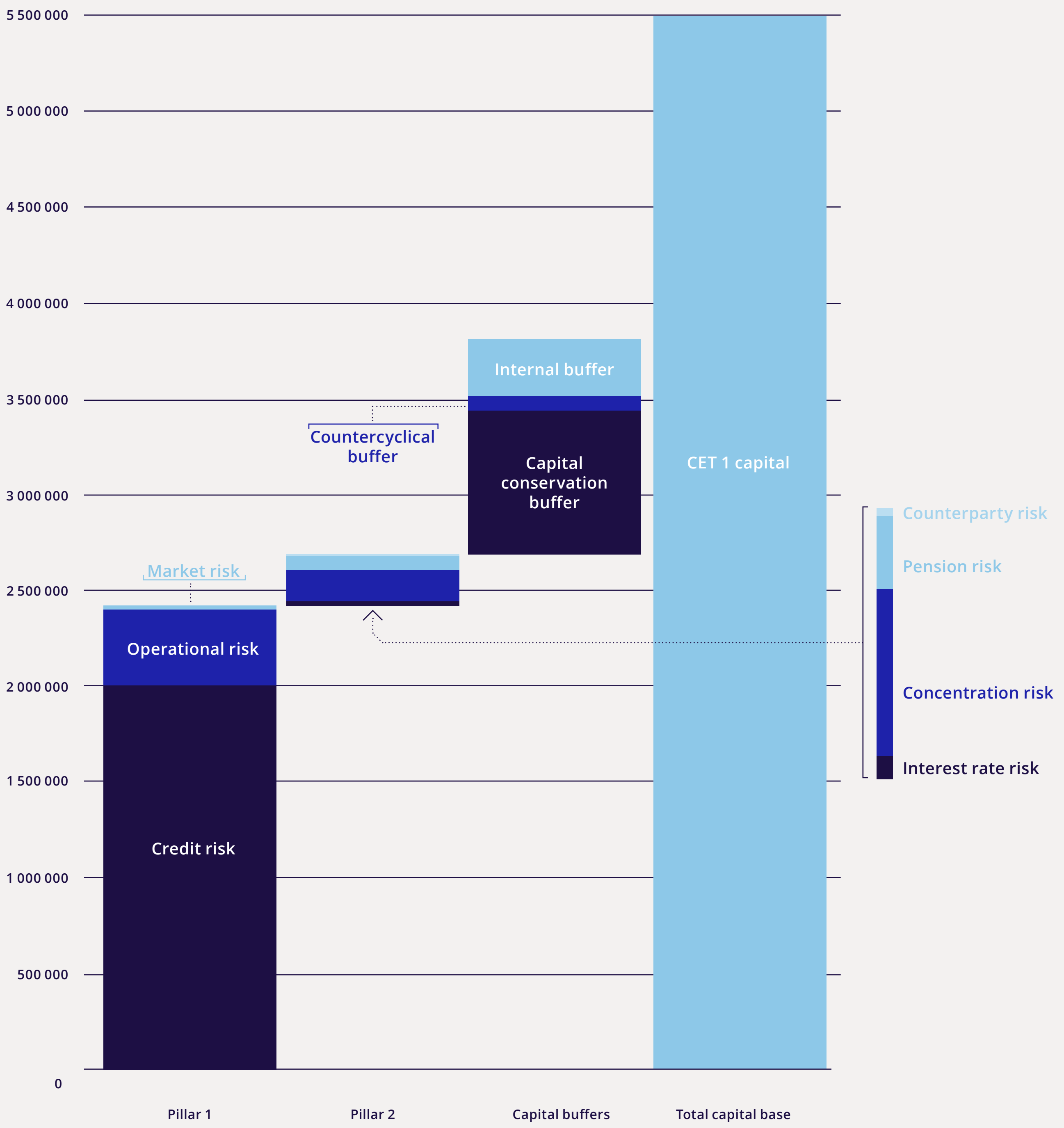


Fig. 2. Entercard minimum total capital requirement as per 31 December 2020 (kSEK)



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 2020. 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 2020.

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 2021, a scenario-based stress testing exercise was undertaken by Entercard. Spanning over the period 2021-2023, 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 lower than the Pillar 1 requirement for operational risk, and it is therefore not deemed necessary to hold additional capital for operational risk under Pillar 2.

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 2020.

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 Section 5.3.1. Table 6 shows an overview of set risk appetite levels versus the actual levels at year-end.

Table 6. Charge-off

31.12.2020	Sweden	Norway	Denmark
Charge-off ratio Credit Cards *risk appetite*	5.5 %	10.3 %	8.2 %
Charge-off ratio Credit Cards *actual*	3.3 %	5.5 %	4.5 %
Charge-off ratio Consumer Loans *risk appetite*	18.0 %	21.0 %	n/a [1]
Charge-off ratio Consumer Loans *actual*	12.5 %	11.7 %	11.7 %

[1] A risk appetite for Denmark Consumer Loans is currently under implementation and expected to be approved by the Board in June 2021.

5.1.2.2 Market risk

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

Interest rate risk measures the value of Entercard's assets and liabilities being negatively affected by a change in the interest rates. Entercard's risk appetite for interest rate risk is the effect on the total value of the portfolio of a 200 basis points parallel shift up/down shall not exceed 10 % of the capital base, without any risk reduction from risks in different currencies. Table 7 illustrates the interest rate risk sensitivity analysis per 31 December 2020 is well within the risk appetite.

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

31.12.2020	Entercard Group
200 bp parallel shift *risk appetite*	10 %
200 bp parallel shift *risk tolerance*	7 %
200 bp parallel shift *actual*	-0.06 %

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 1,648 mNOK and currency exposure to DKK shall not deviate more than 100 mDKK from the benchmark of 330 mDKK, respectively. These benchmark amounts would give Entercard a neutral capital ratio from a currency risk perspective. Table 8 shows that currency risk per 31 December 2020 is well within the risk appetite.

Table 8. Currency risk, deviation from the benchmark

31.12.2020	NOK	DKK
Deviation from the benchmark *risk appetite*	+/- 400 mNOK	+/- 100 mDKK
Deviation from the benchmark *actual*	155.6 mNOK	24.8 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 2020 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. Figures 4 and 5 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 Section 5.3.6.1 for more information.

Fig. 3. Survival horizon per 31 December 2020

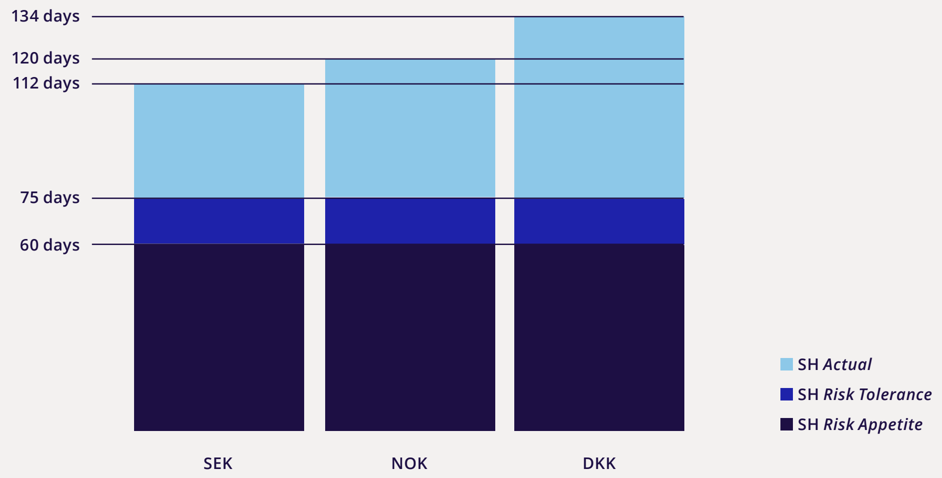
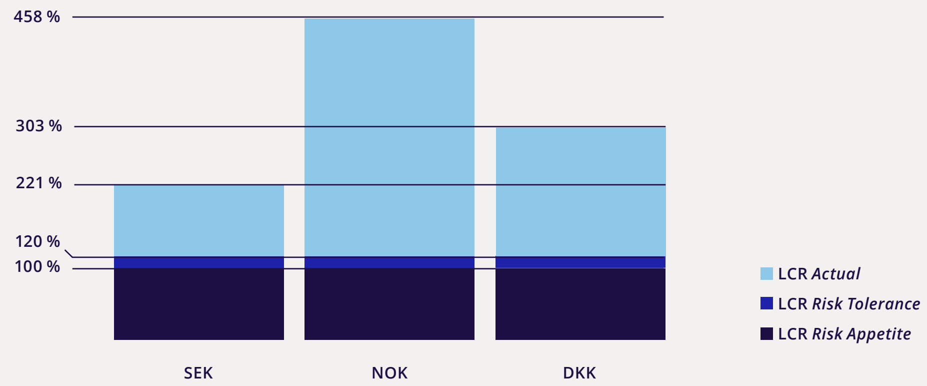
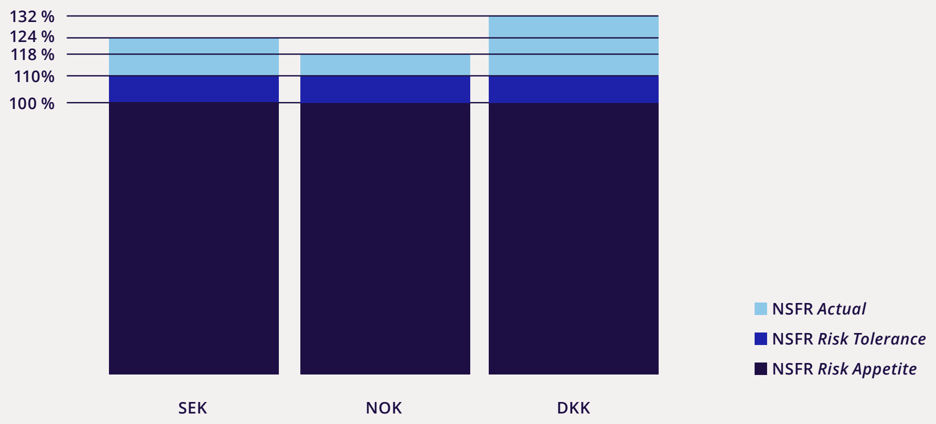


Fig. 4. LCR per 31 December 2020



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 Section 5.3.6.1.2.

Fig. 5. NSFR per 31 December 2020



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.

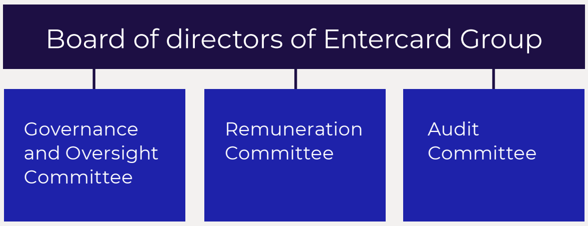
In the context of Entercard's field of activity, different types of risks arise, such as credit risk, operational risk, market risk and liquidity risk. For Entercard, credit risk is the most central risk for the business model. Entercard is striving for a well-balanced consumer financing portfolio with 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, assessing, 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 compliance 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 company's board of directors and senior management. Assessment whether risk- and capital management and governance 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.

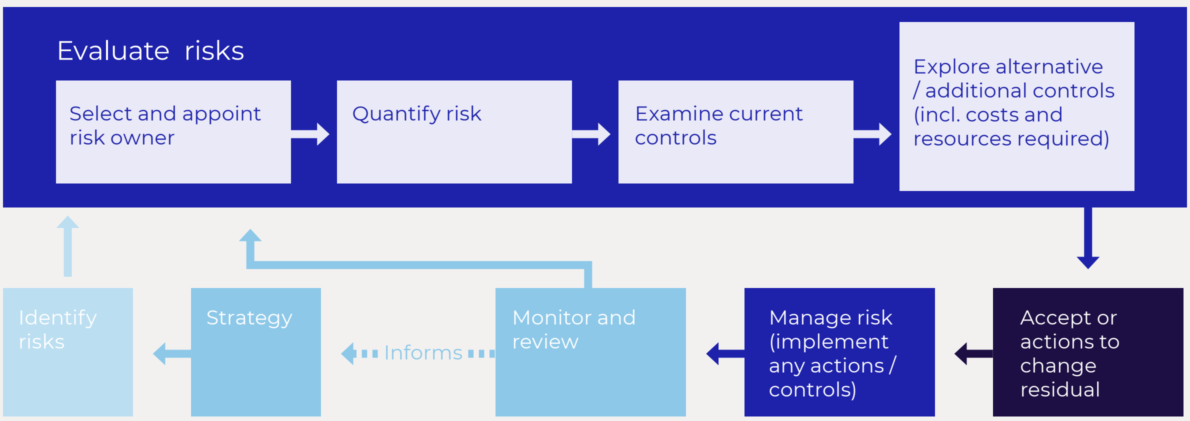
5.2.4 Risk Appetite and Enterprise Risk Management Policy

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 2020 and 2019 (kSEK)

	2020		2019	
Exposure classes	Risk exposure amount	Own funds requirement	Risk exposure amount	Own funds requirement
Institutional exposures	914,051	73,124	700,581	56,046
Covered bonds	64,458	5,157	112,891	9,031
Retail exposures	22,285,364	1,782,829	22,974,243	1,837,939
Regional governments or local authorities exposures	1,438	115	1,727	138
Corporate exposures	2,345	188	4,524	362
Exposures in default	1,427,787	114,223	1,309,590	104,767
Other exposures	276,378	22,110	519,859	41,589
Total	**24,971,821**	**1,997,746**	**25,623,415**	**2,049,873**

	2020	2019
Total capital requirement for credit risk according to the standardised approach	**1, 997,746**	**2,049,873**

Total loans to the public excluding provisions of anticipated loan losses amounted to 33,699.6 mSEK. Impaired loans amounted to a book value of 1,421.8 mSEK which constitutes 4.5 % of the total credit portfolio. Total provisions amounts to 2,520.6 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.

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

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

The total capital need for operational risk under Pillar 2, as the sum of the above scenario outcomes, is estimated to 222.3 mSEK, compared to regulatory minimum of 405.5 mSEK in Pillar 1.

Table 10. Capital requirements for operational risk per 31 December 2020 and 2019 (kSEK)

Capital requirements for operational risk	2020	2019
Risk exposure amount	5,068,212	4,632,277
Capital requirements according to the standardised approach	405,457	370,582
Total Capital requirement for operational risk	**405,457**	**370,582**

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 an EVE perspective, through the six scenarios in the EBA guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02), which is 5 mSEK. This is included in the total Pillar 2 add-on.

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

Table 11. Interest rate risk sensitivity per 31 December 2020 and 2019 (kSEK)

	Market interest rate -1 percent		Market interest rate +1 percent	
	2020	2019	2020	2019
< 3 Months	-1,724	-1,615	1,705	1,597
3-6 Months	11	19	-11	-19
6-12 Months	791	372	-778	-366
1-2 Years	-	948	-	-924
2-3 Years	-	-	-	-
Total	**-922**	**-276**	**916**	**288**

In addition to the interest rate risk, from an EVE perspective, Entercard also assesses the capital requirement from an NII perspective. The risk is measured by a sensitivity analysis (+/-1 percentage point interest shock) of the NII based on contractual commitments, assuming a 12-month analysis period.

Entercard assesses the capital need for net interest income to 2.2 mSEK. However, since this is lower than the 5 mSEK 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 12.5 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 8.8 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.

The SFSA approved Entercard's reapplication with the request to prolong the existing decision on exemption to currency positions taken in order to hedge against adverse effect on the exchange rates for NOK and DKK. The exempted amounts would give Entercard a neutral capital ratio from a currency risk perspective. This means that Entercard does not need to hold capital for the whole exposure to the own funds but for the deviation to 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 182.7 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 70.3 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.

Table 12 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 2020 and 2019 (kSEK)

Remaining maturity 2020	<3 Months	3-12 Months	1-5 Years	5-10 Years	10-15 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**

Remaining maturity 2019	<3 Months	3-12 Months	1-5 Years	5-10 Years	5-10 Years	No maturity	Total
Deposits	3,501,872						3,501,872
Loans to the public, net	20,121,309	18,871	1 203 999	4,593,617	6,059,779		31,997,575
Bonds and other interest-bearing securities	-	49,301	2,522,267	201,428			2,772,996
Prepaid expenses and accrued income	17,163	59,906	-				77,069
Other assets	360,678	11,408	74,244			81,758	528,088
Total assets	**24,001,022**	**139,485**	**3,800,510**	**4,795,045**	**6,059,779**	**81,758**	**38,877,600**
Amounts owed to credit institutions	2,426,639	5,720,834	23,834,726				31,982,199
Other liabilities	290,727	102,225	49,571				442,524
Accrued expenses and prepaid income	95,796	193,513	15,824				305,133
Equity						6 147 744	6,147,744
Total liabilities and equity	**2,813,162**	**6,016,572**	**23,900,121**			**6,147,744**	**38,877,600**

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 the coming 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 1,069 mSEK, 737 mNOK (corresponding to 704 mSEK) and 77 mDKK (corresponding to 105 mSEK) as per December 31 2020. 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. The SEK portfolio amounted to 1,039 mSEK, while the NOK portfolio amounted to 677 mNOK (corresponding to 681 mSEK) after haircuts.

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

2020 All country values presented in SEK	Total	Distribution by currency in SEK		
		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 %

2019	Total	Distribution by currency in SEK		
		SEK	NOK	DKK
Securities issued or guaranteed by government or central bank	**112,007**	-	-	112,007
Securities issued or guaranteed by municipalities or non-governmental public entities	**1,353,850**	1,066,805	287,046	
Covered bonds issued by others	**1,128 910**	-	1,128,910	
Securities issued or guaranteed by multilateral development banks	**178 228**	-	178 228	
Total	**2,772,996**	**1,066,805**	**1,594,184**	**112,007**
Distribution by currency, %		38.5 %	57.5 %	4.0 %

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

6.1.3 Compensation 2020

Table 14 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 2020 and 2019

2020 (kSEK)	Executive management 11 employees	Other employees 455 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

2019 (kSEK)	Executive management 11 employees	Other employees 455 employees
Fixed remuneration	20,667	258,574
Variable remuneration earned during 2019	10,366	49,593
Paid out variable remuneration, earned during 2019 and previous years	9,116	51,071
Deferred variable remuneration earned this and previous years	11,718	130

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