banknorwegian

Norwegian Finans Holding Group

2020

Pillar 3

Content

1. CAPITAL ADEQUACY RULES

Pillar 3 is a regulatory requirement for the publication of information about capital and risk conditions. This document provides a description of Bank Norwegian's risk and capital management and shall satisfy the requirements for the public disclosure of financial information as stipulated in the Capital Adequacy Regulation.

Periodic information on the capital adequacy ratio and the minimum capital requirements is available in the Group's quarterly reports. All figures are stated in NOK thousand unless otherwise stated.

In addition to the information available in this document with attachments, we refer to «Om oss/IR» on our website; https://www.banknorwegian.no/OmOss/InvestorRelations

1.1 Capital adequacy regulations

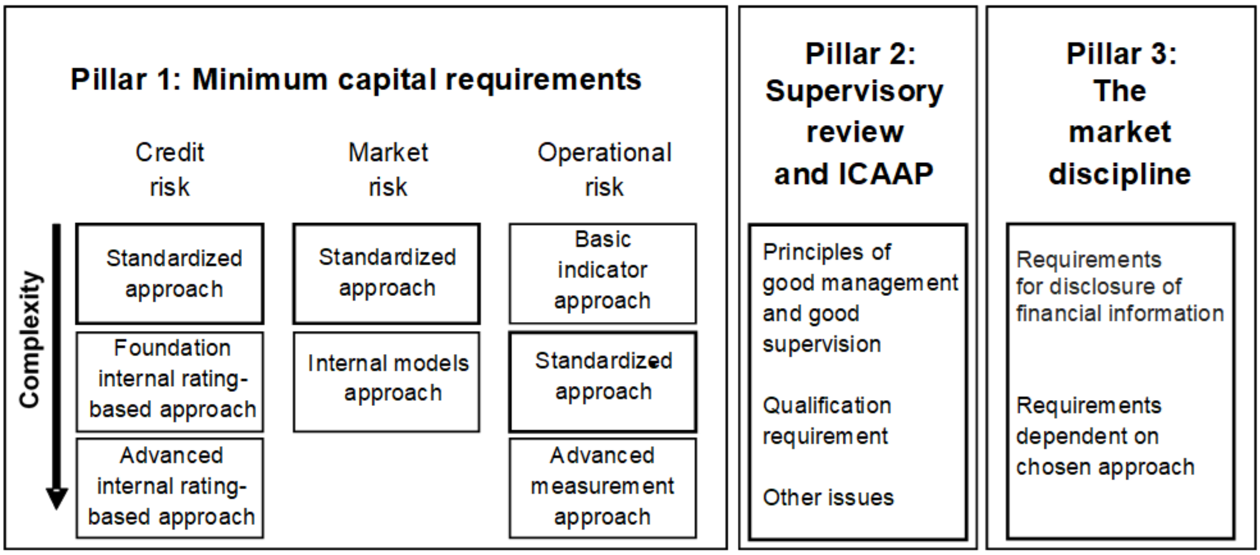
The capital adequacy regulations are based on a standard for calculating capital adequacy where the purpose is to reinforce the stability of the financial system through the following instruments:

- Risk sensitive capital requirements
- Regulatory requirements for risk management and control
- Supervisory follow-up
- Information to the market

The regulations are intended to ensure there is agreement between how the authorities stipulate capital adequacy requirements for financial institutions and the approaches the financial institutions use to calculate and evaluate their capital requirements. The capital adequacy rules and regulations are based on the following three pillars:

- Pillar 1: Minimum eligible capital requirements
- Pillar 2: Evaluation of the overall capital requirements and supervisory follow-up
- Pillar 3: Public disclosure of information

The figure below shows the content of the capital adequacy regulations.

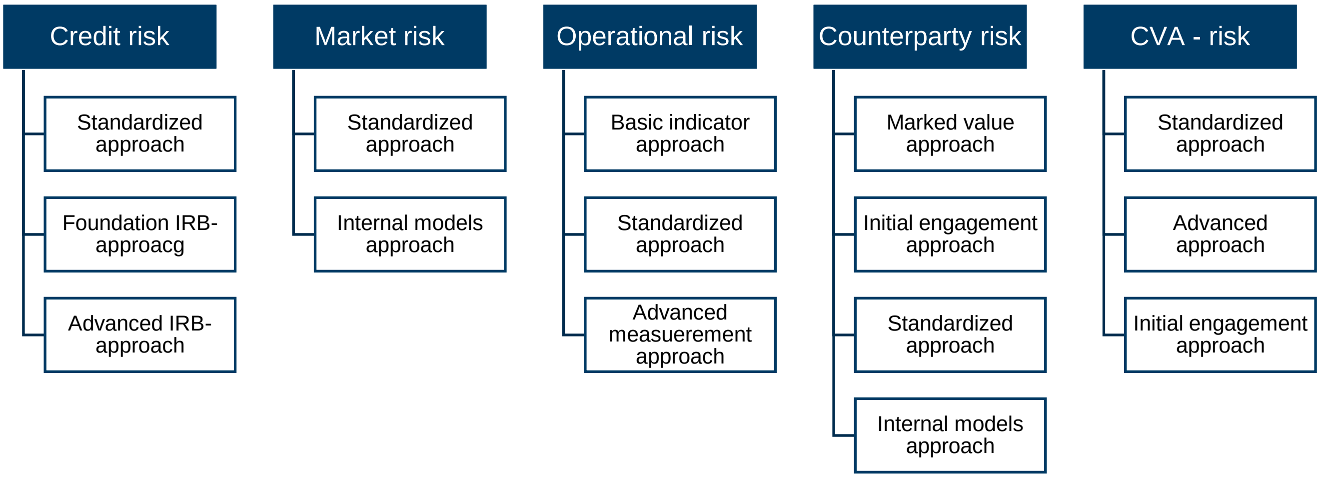


Pillar 1 – Minimum eligible capital requirements

Pillar 1 concerns the minimum eligible capital requirements for credit risk, operational risk and market risk, for which the minimum capital adequacy ratio requirement has been set at 8%. In addition to this comes a total buffer requirement of 6.0% as at 31 December 2020 which comprise of capital conservation buffer, systemic risk buffer and counter-cyclical buffer.

Capital adequacy ratio is defined as the relationship between the bank's total capital and its risk-weighted assets.

The capital adequacy regulations contain various methods for calculating the capital requirement, using standardized approach and internal rating-based approaches where approved to do so. Under the standardized approach the capital requirement is based on official credit ratings, and under the internal models' approach the capital requirements is based on the bank's internal risk assessments. The different methods are shown in the figure below.



Bank Norwegian bases its calculation of capital requirement on the standardized approach for credit risk and the standardized approach for operational risk. The bank changed from the basic indicator approach to the standardized approach for calculating the capital requirement for operational risk in the 3rd quarter of 2016. The bank has no trading portfolio or exposure requiring the bank to include a capital requirement for market risk. Calculated CVA-risk (Credit Valuation Adjustment risk) and counterparty risk are included under market risk and credit risk respectively in the tables in this report.

Pillar 2 – Assessment of capital requirement and supervisory review

Pilar 2 sets requirements for the companies' capital assessment process, called the ICAAP process where ICAAP is an abbreviation for the Internal Capital Adequacy Assessment Process. The purpose of the process is to conduct a structured and documented process for assessing the Group's risk profile to ensure that the Group has sufficient capital to cover the risks associated with the business. In addition, companies must have a strategy to maintain adequate capital levels. The assessed capital requirement shall cover risks which have not been taken into consideration when calculating the minimum requirement according to Pillar 1.

In the fall of 2016, the Financial Supervisory Authority published a circular 12/2016 "The Financial Supervisory Authority practice for assessing risk and capital requirement". Some attachments to the circular were updated in the summer of 2019. The Group has adapted its ICAAP process in accordance with the circular. The process is based on an assessment of exposure and the quality of management and control, where the capital requirement is mainly based on the methodology presented in the circular. In cases where the Financial Supervisory Authority does not have its own methods, the analyses are supplemented with alternative calculation methods, for example from the English Banking Authority (“The PRA’s (Prudential Regulation Authority) methodologies for setting Pillar 2 capital”).

The Financial Supervisory Authority will monitor and evaluate the Group’s risk exposure and risk management, the internal assessment of capital requirements and associated strategy, as well as the Group’s ability to ensure compliance with the authorities’ capital requirements. The Financial Supervisory Authority can assign individual capital requirements, require reduction in the risk level or require improved management and control if it is not satisfied with the outcome of this process.

Pillar 3 – Disclosure of information

The purpose of Pillar 3 is to contribute to increased market discipline and to make it easier to compare companies. The companies shall publish information that enables the market participants to assess the companies’ risk profile, capitalization, and risk management and control. The information shall be provided in a comprehensible way that makes it possible to compare different companies. The information is to be published at least annually at the same time as the annual report, but companies shall consider whether parts of the information should be published more frequently.

2. CONSOLIDATION

Consolidation of the capital adequacy follows the rules in Chapter 18 of the Financial Institutions Act on «Companies in financial groups, consolidation, etc.».

The consolidated financial statement has been prepared in accordance with IFRS and a description of the accounting principles is presented in the annual report.

Norwegian Finans Holding ASA owns 100% of the shares in Bank Norwegian AS and Lilienthal Finance Ltd. Norwegian Finans Holding ASA does not engage in any other operations. The same consolidation method is used for accounting and capital adequacy purposes.

Norwegian Finans Holding ASA, Bank Norwegian AS and Norwegian Finans Holding Group shall at all times maintain an appropriate capital adequacy.

There are no legal restrictions for swiftly transferring capital or repayment of liabilities between the parent company and subsidiaries.

3. TOTAL CAPITAL AND CAPITAL REQUIREMENTS

At the end of 2020, the Group is under pillar 1 subject to a requirement for common equity tier 1 of 10.5% and total capital of 14.0%.

In addition, the capital requirement under Pillar 2 is set at 5.8% at the end of 2020. The purpose of the Pillar 2 requirement is to capture capital requirements related to risks that are not or only partially covered by the capital requirements under Pillar 1.

In accordance with the Group's capital management policy, the Group shall have an internal management buffer of 1.25%.

The Group’s common equity tier 1 target was 16.3%, 17.5% including internal management buffer at the end of 2020.

3.1 Regulatory total capital – Pillar 1

3.1.1 Total capital and capital ratios

The table below presents information on total capital, including common equity tier 1, tier 1 capital and supplementary capital, and relevant additions, deductions and limitations at December 31, 2020 for the group, the holding company and the bank.

			31.12.2020
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Total capital			
Share capital	186 847	183 315	186 847
+ Share premium	978 201	966 646	978 201
+ Retained earnings	182 170	8 253 647	9 528 112
- Retained earnings not included in common equity Tier 1, accrued dividend	-	-	1 121 083
- Deferred tax assets and intangible assets	3	123 673	477 919
Common equity Tier 1	**1 347 215**	**9 279 935**	**9 094 158**
+ Additional Tier 1 capital	-	635 000	635 000
Tier 1 capital	**1 347 215**	**9 914 935**	**9 729 158**
+ Tier 2 capital	-	877 820	877 820
Total capital	**1 347 215**	**10 792 755**	**10 606 978**
Common equity Tier 1 %	**59,65 %**	**22,39 %**	**22,05 %**
Tier 1 capital %	**59,65 %**	**23,92 %**	**23,59 %**
Total capital %	**59,65 %**	**26,04 %**	**25,72 %**

Additional tier 1 capital and subordinated loans

The bank has at December 31, 2020 the following issued additional Tier 1 capital and subordinated loans.

Bank Norwegian AS	**Additional Tier 1 capital**	**Additional Tier 1 capital**	**Additional Tier 1 capital**	**Subordinated loans**	**Subordinated loans**	**Subordinated loans**
Unique identifyer	NO0010774318	NO0010797319	NO0010833320	NO0010774326	NO0010797988	NO0010833130
Issue date	September 21, 2016	June 14, 2017	October 2, 2018	September 21, 2016	June 16, 2017	October 2, 2018
Maturity date	No maturity date	No maturity date	No maturity date	September 21, 2026	June 16, 2027	October 2, 2028
Optional call date, contingent call dates and redemption amount	September 21, 2021. At par. In addition regulatory and fiscal call.	June 14, 2022. At par. In addition regulatory and fiscal call.	October 2, 2023. At par. In addition regulatory and fiscal call.	September 21, 2021. At par. In addition regulatory and fiscal call.	June 16, 2022. At par. In addition regulatory and fiscal call.	October 2, 2023. At par. In addition regulatory and fiscal call.
Coupon rate and any related index	3 month NIBOR + 5,25 %	3 month NIBOR + 5,25 %	3 month NIBOR + 5,40 %	3 month NIBOR + 3,00 %	3 month NIBOR + 3,75 %	3 month STIBOR + 3,75 %
Coupon rate 31. December 2020 and first interest adjustment	5,65 % 22. mars 2021	5,60 % 15. mars 2021	5,90 % 6. april 2021	3,40 % 22. mars 2021	4,10 % 16. mars 2021	3,70 % 6. april 2021

3.1.2. Risk-weighted assets and capital requirement

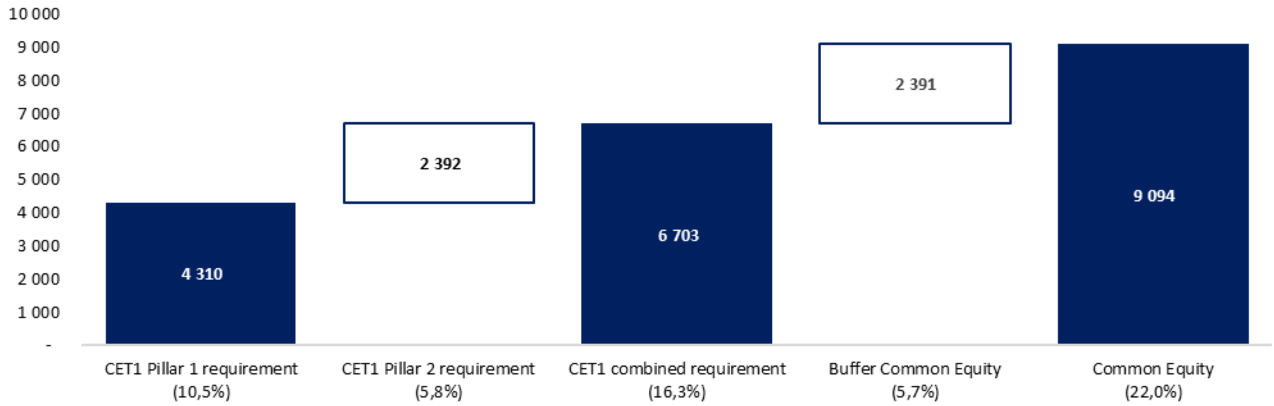
The group uses the standardized approach for calculating credit risk, and the standardized approach for calculating operational risk.

Risk-weighted assets and capital requirement			**31.12.2020**
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Risk-weighted assets			
Credit risk			
Covered bonds	-	939 778	939 778
+ Regional governments or local authorities	-	1 269 097	1 269 097
+ Institutions	725 950	764 928	563 273
+ Corporates	341 792	601	-
+ Loans to customers	-	23 960 025	23 960 025
+ Defaulted loans	-	5 996 989	5 996 989
+ Equity positions	1 190 240	50 642	50 642
+ Other assets	558	376 124	376 681
+ Operational risk	-	8 090 317	8 087 003
+ Market risk	-	2 788	2 788
Total risk-weighted assets	**2 258 539**	**41 451 287**	**41 246 275**
Capital requirement			
Credit risk			
Covered bonds	-	75 182	75 182
+ Regional governments or local authorities	-	101 528	101 528
+ Institutions	58 076	61 194	45 062
+ Corporates	27 343	48	-
+ Loans to customers	-	1 916 802	1 916 802
+ Defaulted loans	-	479 759	479 759
+ Equity positions	95 219	4 051	4 051
+ Other assets	45	30 090	30 135
+ Operational risk	-	647 225	646 960
+ Market risk	-	223	223
Minimum requirement total capital (Pillar 1) at 8%	**180 683**	**3 316 103**	**3 299 702**
Combined total capital requirement (Pillar 1 and 2) at 19.8%	**458 483**	**8 186 840**	**8 146 349**
Minimum common equity Tier 1 capital requirement at 4.5%	101 634	1 865 308	1 856 082
Additional Tier 1 capital at 1.5%	45 171	829 026	824 926
Tier 2 capital at 2.0%	33 878	621 769	618 694
Capital conservation buffer at 2.5%	56 463	1 036 282	1 031 157
Systemic risk buffer at 3.0%	67 756	1 243 539	1 237 388
Counter-cyclical buffer at 0.5%	22 585	186 742	185 818
Pillar 2 requirement at 5.8%	130 995	2 404 175	2 392 284

The group has operations in Norway, Sweden, Denmark and Finland. COVID-19 and the resulting partial shutdown of Nordic societies led to a sharp drop in economic activity, and in March 2020 the countercyclical capital buffers were reduced in Norway, Sweden and Denmark from 2.5%, 2.5% and 1.0% to 1.0%, 0% and 0% respectively. At December 31, 2020 the entity-specific countercyclical capital buffer was 0.5% for the group and the bank, and 1.0% for the holding company.

3.2. Regulatory common equity tier 1 – Pillar 1 and Pillar 2

The figure below provides a graphical presentation of the Group's capital situation with focus on common equity tier 1 at December 31, 2020. Numbers are in NOK million.



3.3 Leverage ratio

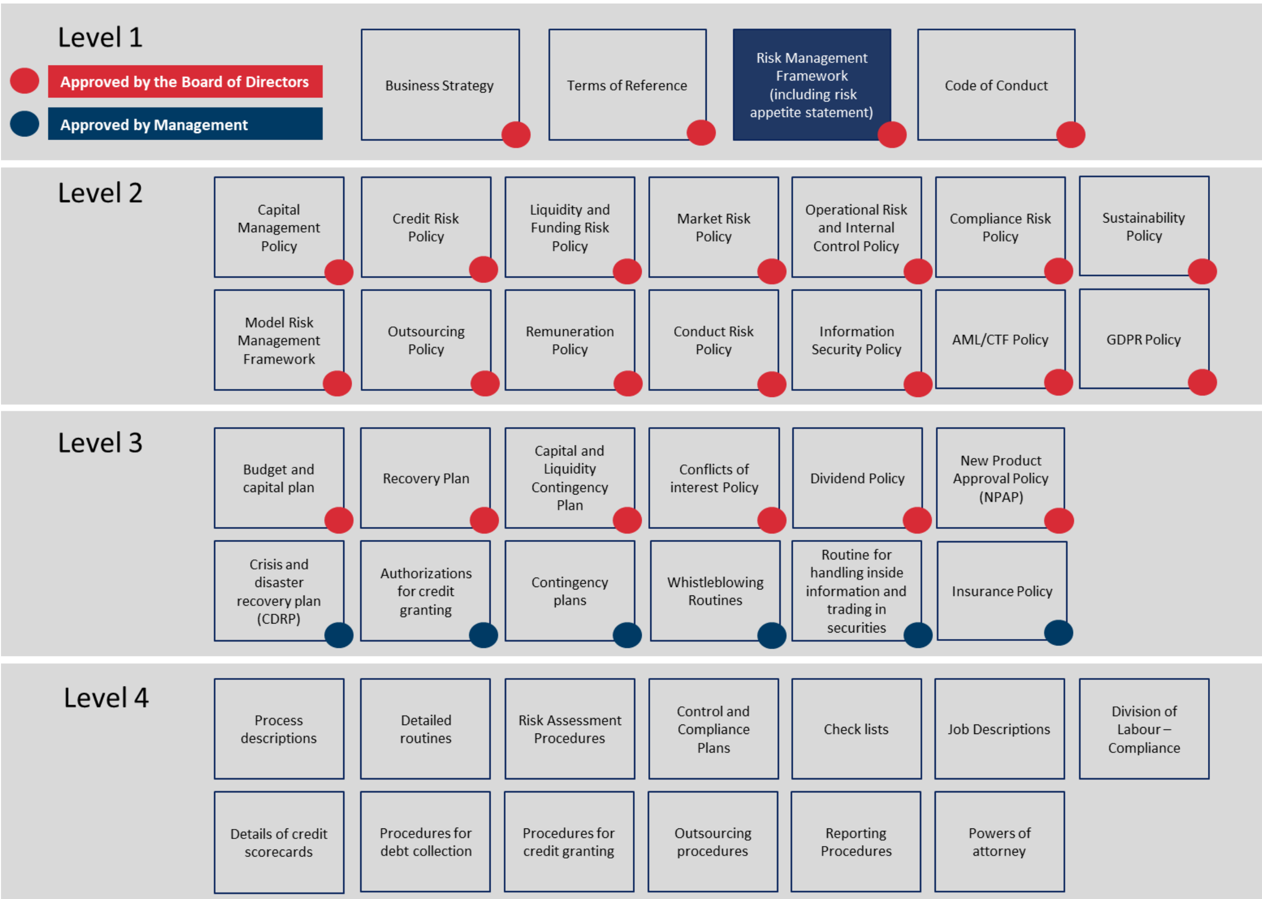
Leverage ratio is calculated as the Group's tier 1 capital as a proportion of the Group's total exposure. The total exposure is defined as the sum of on-balance assets and off-balance undrawn credit lines, guarantees and undrawn limits. The Group is at December 31, 2020, subject to a minimum requirement of 5% leverage ratio.

The table below presents the leverage ratio at December 31, 2020 for the group, the holding company and the bank.

Leverage ratio			**31.12.2020**
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Tier 1 Capital	**1 347 215**	**9 914 935**	**9 729 158**
Off-balance sheet items	-	4 909 760	4 909 760
+ On-balance sheet items	2 985 834	62 831 960	62 277 814
Total exposure	**2 985 834**	**67 741 721**	**67 187 574**
Leverage ratio	**45,12 %**	**14,64 %**	**14,48 %**

4. RISK MANAGEMENT AND CONTROL

Over the past couple of years, the Bank has invested considerable resources in raising the bank's Risk Management Framework to EBA level. The bank's document hierarchy is illustrated below.



4.1 Purpose

Sound risk and capital management are central to Bank Norwegian in terms of long-term value creation. Internal control aims to ensure efficient operation and proper management of risks of significance for the attainment of business goals.

This goal shall be achieved through:

- A strong organizational culture characterized by a high level of risk awareness.
- A good, holistic, and effective risk management.
- A good organization that ensures targeted and independent governance and control.
- A good understanding of the risks that drive earnings.
- Striving for optimal capital utilization within the framework of the adopted business strategy.
- Avoidance of unexpected individual events that can damage the Bank's financial position.

The bank has established a Board-approved Risk Management Framework with its own policies for all significant risks with associated risk appetite, key risk indicators (KRI) and tolerance levels. The overall purpose and objective of the Risk Management Framework is to provide guidance, principles and expectations for Bank Norwegian's Risk Management Processes and to ensure that material risks will be managed in accordance with Bank Norwegian's Business Objectives and Risk Appetite.

As outlined in the Risk Management Framework and in the business strategy, the Bank shall primarily generate earnings through exposure to unsecured lending in the retail segment. Other financial risks are limited by the defined risk limits. The risk limits are determined in relation to the Bank's buffer capital and risk-bearing capacity.

4.2 Elements of the Bank's Risk Management

In order to ensure sound management and control of risk, the bank relies on the following elements of the bank's Risk Management.

- Clear roles and responsibilities.
- Policies, guidelines, and procedures for managing and controlling risk.
- Strategic planning and capital planning.
- Reporting and monitoring.
- Recovery- and contingency plans.

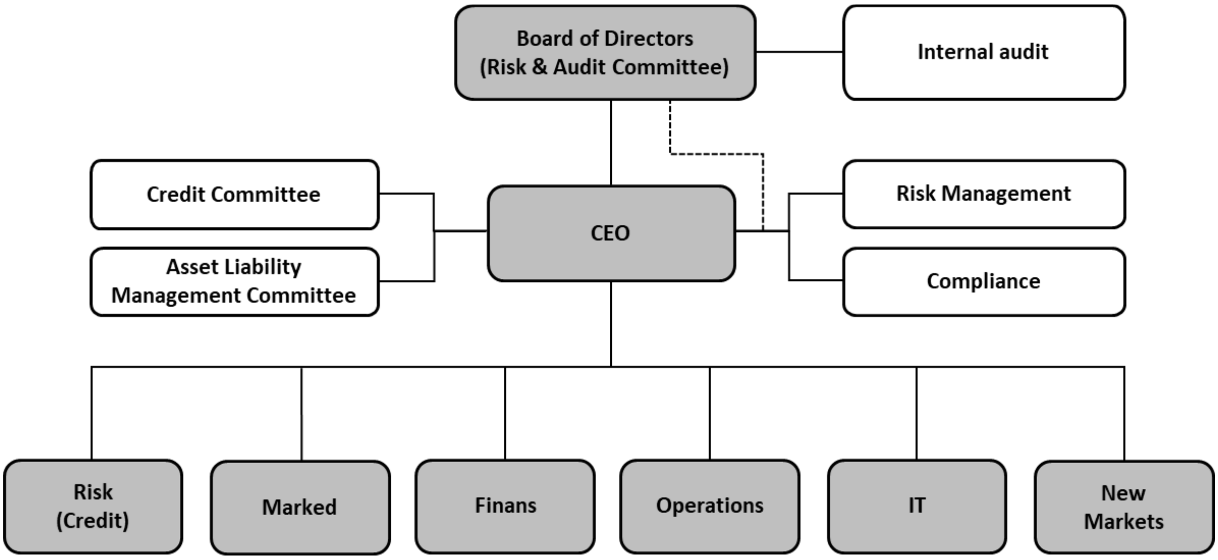
4.2.1 Roles and responsibilities

Risk Management within Bank Norwegian is organized according to the three lines of defense governance model. The model shall ensure that responsibilities are appropriately allocated to all functions.

The first Line of Defense consist of Business units, Support Functions and Senior Management with exception of Risk Management and Compliance.

The Risk Management Function and Compliance function form the second line of defense, while the Internal Audit form the third line of defense. The Internal Audit Function is outsourced to BDO.

Illustration of governing bodies in the Norwegian Finans Holding Group.



The Board exercises supervision and shall ensure that the Bank has a sound system for managing and controlling risk. It defines overall goals, policies, guidelines and authorization for the Bank's Risk Management and control activities.

There are separate Risk and Audit committees. The Committees shall ensure that the Bank is audited effectively by an independent auditor and satisfactorily fulfils its financial reporting obligations under applicable laws and regulations, and that internal risk management and internal control systems function effectively.

The Remuneration Committee is a subcommittee of the Board of Directors of Bank Norwegian AS and is tasked with preparing matters for the Board concerning the bank's remuneration policy and determining the remuneration of the CEO.

The CEO shall ensure that the Board-approved objectives, guidelines and authorizations for the Bank's Risk Management and internal control are complied with and shall ensure the effective management and control of risk. Heads of departments that report to the CEO are responsible for the control, reporting and monitoring of self-imposed and statutory requirements.

The business divisions and staff units are responsible for Risk Management within their areas of responsibility. This means that the managers should make sure that proper Risk Management is established and executed, and that it is performed in accordance with the management documents, authorizations, routines, and instructions.

The Risk Department is responsible for the development and maintenance of the bank's credit models, adopted credit policies and associated procedures, as well as ensuring regular reporting and monitoring of credit risk.

The Finance Department is responsible for complying with the requirements and guidelines set out in the bank's policies for capital management, liquidity and funding risk, and market risk. The Finance Department shall ensure regular reporting and monitoring.

The Risk Management Function reports to the CEO and is responsible for independent control, monitoring and reporting to Senior management and the Board. The Head of Risk Management shall follow up the Bank's Risk Management Framework and related key risk indicators (KRI) for credit risk, liquidity- and funding risk, market risk, operational risk, as well as capital management and business risk. The Risk Management Function shall also ensure that all significant risks are identified, measured, and reported by the relevant units.

The Compliance Function reports to the CEO and is responsible for independent control, monitoring and reporting of compliance with self-imposed and statutory requirements. The Chief Compliance Officer is responsible for following up key risk indicators (KRI) defined in the bank's compliance risk policy, as well as conduct risk policy.

The Internal Audit Function shall assist the Board and CEO in discharging their responsibilities for ensuring satisfactory internal control. It shall also assess the appropriateness and effectiveness of the Bank’s management and control processes.

The Asset and Liability management committee is an advisory body to the CEO and shall ensure compliance of the CEO’s responsibility for management and control of financial risk. The Asset and Liability management committee shall supervise the activities within funding, liquidity management and management of balance sheet products. Furthermore, the asset and liability management committee ensure control of reporting.

The Credit Committee is an advisory body for the CEO for credit decisions, the design of credit-related management documents, as well as for the practice of the bank's Credit Policy, guidelines, and routines.

4.2.2 Policies, guidelines and procedures for managing and controlling risk

The bank has established a Board-approved Risk Management Framework with its own policies for all significant risks with associated risk appetite, key risk indicators (KRI) and tolerance levels.

The bank has established policies for capital management, credit risk, liquidity and funding risk, operational risk and internal control, sustainability, GDPR, model risk, outsourcing, remuneration, conduct risk, information security, New Product Approval (NPAP), Anti-Money Laundering (AML) and Combating Financial Terrorism (CFT), conflicts of interest, insurance, and dividend. These policies and associated procedures and routines provide guidelines for the bank's efforts to identify and monitor various risks.

4.2.3 Strategic planning and capital planning

The Board approves strategic plans that are subject to ongoing review. The capital plan is a key element of the strategic planning process. Capital planning shall ensure adequate capitalization of the Bank beyond the legal minimum and demonstrate the expected capital requirements and plan for raising capital. The plan shall also demonstrate the need for debt financing during the period.

The bank's overall attitude to and principles for capital management are stated in the Capital Management Policy.

Determining the capital adequacy targets takes several factors into consideration, such as regulatory requirements, the bank's balance sheet management, earnings and retention of capital, credit practices and credit quality, risk diversification, ownership and access to capital. The Group's targets for common equity tier 1 and total capital adequacy shall ensure sufficient capital to meet government-imposed capital requirements and safeguard the protection of the Group's creditors.

The capital planning shall ensure solid capitalization of the bank beyond the legal minimum requirements and present the expected capital requirements and plan for the raising of capital over a five-year period. The plan shall also present the required need for debt financing in the period.

The bank projects the expected development in capital adequacy and buffer capital on a quarterly basis with a five-year projection horizon, giving the administration and the board of directors a strong tool for managing and controlling risk.

4.2.4 Reporting and monitoring

Bank Norwegian has established a set of thresholds that are used to monitor and review the risk exposure compared to its risk appetite. The key risk indicators are followed up and reported according to a "traffic light approach" for each risk indicator.

The Risk Management Function are responsible for ongoing and periodic risk reporting, and for ensuring that all risk factors are within the approved risk limits.

The Risk appetite related to profitability and capital will be reported to the Board of Directors on a monthly basis. Other risk indicators impacting profits and capital are available through daily and weekly reports to the CFO and the executive management. The head of the risk management function is responsible for independent reporting to the Board at least every quarter.

4.2.5 Recovery and contingency plans

The Group has established a Board-approved recovery plan in addition to various contingency plans for ensuring sufficient capital and liquidity in the event that internal and/or external factors have a negative impact on the Bank’s solvency or liquidity.

The Group has also prepared a "Crisis and Disaster Recovery Plan" (CDRP). CDRP is an overall plan that will function as a supporting document in the event of a crisis, and the document provides a complete overview of all the bank's current contingency plans (including disaster plans, recovery plans, etc.).

4.3 Central risk groups

The Group is exposed to a variety of risks where the main risk groups are:

- **System risk** is the risk that financial instability will disrupt the provision of financial services to an extent that can lead to significant negative effects on production and employment.
- **Credit risk** is the risk of losses resulting from a customer’s or other counterparty’s inability and/or unwillingness to fulfil its obligations.
- **Market risk** is the risk of losses due to changes in observable market prices, such as interest rates, share prices or currency rates.
- **Liquidity and funding risk** are the risk of being unable to fulfil obligations or finance assets, including desired growth, without significant extra costs.
- **Operational risk** is the risk of losses due to weak or inadequate internal processes or systems, human error, or external incidents.
- **Reputation risk** is the risk of a failure in earnings and access to capital due to failing confidence in the market, i.e. customers, counterparties, stock market and authorities.
- **Business and strategic risk** is the risk associated with unexpected income and cost fluctuations due to factors other than credit risk, market risk, and operational risk.
- **Compliance risk** is the risk that the Group will incur public sanctions/penalties, financial losses, or a damaged reputation as a result of a failure to comply with laws, regulations or guidelines from the authorities.
- **Conduct risk** is the risk of loss of license, other public sanctions or criminal sanctions, loss of reputation or financial loss as a consequence of the bank’s business methods or the employees’ conduct materially jeopardizing customers’ interests or the integrity of the market.

- **Regulatory risk** is the risk that changes to the regulatory framework significantly affect the bank's profitability, capital requirements or framework conditions in a negative way.
- **Sustainability risk (ESG risk)** is divided into the following three categories:
  - The risk of loss as a result of changes in natural, climate and/or environmental conditions (E).
  - The risk of loss due to non-compliance with regulatory requirements or market expectations related to human rights, labour rights and good business practice (S).
  - The risk of loss due to non-compliance with regulatory requirements or market expectations of governance and control (G).

4.4. Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with section 13-6 (1) of the Financial Institutions Act, the bank shall at all times keep an overview of its risk and assess whether the capitalization is reasonable according to the risk level. Based on this, the Bank conducts annually an internal capital adequacy assessment process (ICAAP) consisting of both a risk management and a capital management part, both of which are based on an overall target and strategy process.

The purpose of the capital assessment process is to ensure a structured and documented process for assessing the Group's risk profile in order to ensure that the Group has sufficient capital to cover the risk associated with the business. The process shall be integrated into the Group's other management processes.

In summary, the process can be illustrated as follows:

The ICAAP shall be based on the Group's business strategy, risk strategy and associated risk appetite. In this context, reference is made to the Risk Management Framework (RMF) and associated document hierarchy.

The Bank's risk assessment is based on the Bank's financial position (earnings, balance sheet and capital adequacy) at the reporting date and forecasts for the current year, as well as projections for the subsequent 3-4 years.

The Bank shall conduct an evaluation of the Group's governance and control of all risks at the reporting date, while the results of prepared stress tests shall be assessed as part of the Bank's overall capital requirement.

Annually the bank prepares an ICAAP document documenting analyzes and conclusions. An independent risk report shall be reported to the Board every quarter. The risk report shall show the status of all key risk indicators described in the Bank's RMF, as well as an overall risk assessment of all risk areas. In addition, the Board shall be submitted updated calculations of regulatory capital requirements and associated pillar 2 calculations as well.

ICAAP shall form the basis for updating the Group's capital plan, revising the risk strategies and policy documents.

4.5. Remuneration

Bank Norwegian's remuneration policy is practiced in accordance with the rules and guidelines laid down in the Financial Institutions Act and the Financial Institutions Regulations.

Guidelines for salaries to Senior Management are intended to contribute to long-term value creation for shareholders and to ensure healthy and efficient risk management.

For details regarding remuneration to Senior Management, please refer to note 18 in the Group's annual report.

5. CREDIT RISK

The greatest financial risk exposure in Bank Norwegian is credit risk in its lending portfolio. Credit risk is defined as the risk of loss due to customers or counterparties being unable or unwilling to meet their financial obligations.

The bank's business objective is primarily to receive customer deposits and to offer credits the retail market. Credit risk is therefore a source of revenue and a strategic risk for the bank. Bank Norwegian offers only unsecured loans and credit cards, and credit risk will thus constitute the main component of the bank's total risk.

5.1 Management and control

Credit risk in the Group shall be managed in accordance with the requirements and recommendations in:

- Financial Institutions Act.
- CRR/CRD IV Regulation.
- The Financial Supervisory Authority of Norway's methodology for risk-based supervision.
- Key recommendations from the EBA.

The Board of Directors of Bank Norwegian sets long-term targets for the risk profile through the Risk Management Framework and associated risk appetite. The Risk Management Framework shall form a holistic and balanced view of the risk in the business, while the bank's Credit Risk Policy and Capital Management Policy defines maximum limits for credit exposure. Limits have been set for annual loan growth (in % of gross loans), probability of default (PD), non-performing loans (stage 3) as a proportion of total loans, and Coverage Ratio.

The risk is continuously managed in line with the board approved Risk Management Framework with associated Credit Risk Policy, routines, and guidelines for granting credit, as well as various reporting and follow-up requirements.

Bank Norwegian's internal models for risk classification of customers are subject to continual improvement and testing. The risk classification systems are used for decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies.

The Bank's credit guidelines are based on automated rules where the applicant receives an automatic rejection or a conditional grant at the time of application. The credit allocations are based on a qualitative and quantitative analysis with a positive conclusion about the customer's future willingness to pay and ability to pay. The analysis of willingness to pay identifies the characteristics of the customer that predict future payment conduct, while the analysis of the customer's ability to repay is a quantitative evaluation of the customer's ability to repay his/ her obligations, given the customer's current and anticipated future financial situation. The case handler's role is to subsequently check if the preconditions for the conditional approval are present.

The bank's portfolio of interest-bearing securities also entails a credit risk but is followed up through the Bank's Market Risk Policy.

5.2 Expected Credit Losses and IFRS 9

The bank uses in-house developed models for calculating credit risk at the portfolio level and in the granting process.

The expected credit loss (ECL) is calculated in accordance with IFRS 9. Stage 1 is not impaired and uses a 12-month ECL calculation. Stage 2 has a significant increase in credit risk since its origination, according to defined triggers, and uses the lifetime approach to ECL calculation. Stage 3 is impaired with the 90 days past due definition and calculates the ECL based on the lifetime approach.

A significant increase in credit risk (SICR) is assessed on several criteria such as default of another product, previous default, forbearance, as well as late payment beyond 30 days after invoice due date. The most important factor for the assessment of a significant increase in credit risk is a comparison between the lifetime probability of default (PD) at origination and the lifetime PD at the reporting date, as this signifies an increased risk based on all factors in the behavior models including the macro impact.

During the fourth quarter of 2020, the bank has redeveloped the lifetime PD models for all products and countries to align better with the new macro deliveries and the new trigger models. To counter previous deficiencies in a step-model, the bank is introducing a continuous trigger model to capture any significant increase across the entire range of annualized PDs.

The trigger-model utilizes an assessment of the forward-looking lifetime of the exposure, considering the probability of early repayment and the lifetime PDs on the exposure. Both the lifetime PD at the reporting date and the lifetime PD at origination are annualized according to the estimated remaining lifetime.

5.3 Loan portfolio information

5.3.1 Gross loans and loan loss allowance by customers and geography

								31.12.2020
					Loan loss allowance			
Amounts in NOK 1000	Stage 1	Stage 2	Stage 3	Gross loans	Stage 1	Stage 2	Stage 3	**Total**
Instalment loans Norway	7 329 966	882 867	3 062 106	11 274 938	47 469	51 317	1 077 942	10 098 211
Credit card loans Norway	4 381 127	304 772	913 338	5 599 237	27 199	23 940	381 345	5 166 754
Instalment loans Sweden	2 962 324	446 295	1 851 721	5 260 340	48 005	56 956	846 519	4 308 860
Credit card loans Sweden	2 093 625	302 973	519 021	2 915 620	22 235	30 218	251 079	2 612 089
Instalment loans Denmark	3 416 011	138 711	1 164 081	4 718 803	62 827	23 649	645 408	3 986 919
Credit card loans Denmark	674 074	23 054	194 371	891 499	14 179	3 211	84 768	789 341
Instalment loans Finland	6 865 633	793 532	2 123 998	9 783 164	170 791	131 481	747 056	8 733 835
Credit card loans Finland	1 727 252	389 833	317 656	2 434 741	19 934	51 942	115 186	2 247 680
Total	**29 450 012**	**3 282 038**	**10 146 292**	**42 878 342**	**412 638**	**372 713**	**4 149 303**	**37 943 688**
Loan loss allowance coverage ratio per stage					**1,40 %**	**11,36 %**	**40,89 %**	

5.3.2 Changes in loan loss allowance in the period

Amounts in NOK 1000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan loss allowance as at 1.1.20	365 055	486 167	2 744 186	3 595 408
Transfers :				
Transfers between Stage 1 and Stage 2	-25 831	181 041	-	155 210
Transfers between Stage 1 and Stage 3	-23 045	-	432 959	409 914
Transfers between Stage 2 and Stage 1	72 503	-170 930	-	-98 427
Transfers between Stage 2 and Stage 3	-	-181 336	602 286	420 950
Transfers between Stage 3 and Stage 2	-	16 482	-80 782	-64 300
Transfers between Stage 3 and Stage 1	4 462	-	-70 803	-66 341
New financial assets issued	60 298	45 179	50 983	156 461
Financial assets derecognized in the period	-55 059	-45 240	-106 078	-206 378
Changes due to modifications that did not result in derecognition	14 254	41 351	1 209 900	1 265 506
Charge-off	-	-	-633 348	-633 348
Loan loss allowance as at 31.12.20	**412 638**	**372 713**	**4 149 303**	**4 934 654**

5.4 Use of official rating for the purpose of capital adequacy

By using the standardized approach, capital requirements may be dependent upon the counterpart's official rating. Official rating will not be relevant for the bank's loan customers but may be applicable for issuers of securities for the bank's liquidity placements. In such instances will either Standard & Poor's, Moody's and/or Fitch be relevant.

5.5 Capital requirement

As stated in Chapter 3.1.2, the minimum requirement for the Group's capital requirement (8%) amounts to NOK 2,653 million at December 31, 2020. Considering buffer requirements (Pillar 1), Pillar 2 requirements, as well as internal management buffer, the bank must effectively keep NOK 6,549 million in common equity tier 1 capital for the Group's credit risk (19.8%).

6. OPERATIONAL RISK

Operational risk is the risk of losses resulting from:

- **People:** violations of routines/guidelines, lack of competence, unclear policy, strategy or routines, internal failures.
- **Systems:** failure of ICT and other systems.
- **External causes:** crime, natural disasters, or other external causes.

6.1 Management and control

The process for managing operational risk shall, insofar as it is possible, ensure that no individual incidents caused by operational risk seriously damage the Bank's financial position.

The management of operational risk is based on the Policy for Operational Risk and Internal Control. Risk assessments are carried out both at the overall level, but also within different processes that the Bank is exposed to at all times. Special systems have been established for following up risk assessment control measures and improvement measures, as well as for reporting adverse events. Incidents that have impacted or could impact the Bank's profitability and/or reputation are systematically followed up.

In addition to an annual review of significant operational risks and control measures, management performs a continuous evaluation of the operational risk situation, and risk reducing measures are implemented as necessary. Ongoing reporting of operational loss incidents and internal control deviations is made to management and the Board.

The Bank's operating concept is based to a large extent on the purchase of services from external suppliers. The agreements contain provisions relating to quality standards and are continuously followed up by the Bank in accordance with the outsourcing guidelines.

Given the risk inherent in using Information and communications technology (ICT), this area is subject to continuous monitoring. ICT-related Key Risk Indicators (KRIs) are closely monitored and included in the bank's risk reporting to the Board and executive management team. The Internal Audit also carries out independent reviews and tests of the Bank's security in the area.

6.2 Capital requirement

The capital requirement for operational risk is calculated using the standardized approach.

The table below presents increasing commitment amount in recent years due to solid revenue growth in the period. In addition, the Group has in December 2020, changed the timing of the annual update of the operational risk calculation from January in the following year to December in the current year, so that at 31 December 2020, the exposure amount includes the average of the financial years 2018-2020.The risk weight is set at 150% and the minimum requirement for the Group's capital (8%) amounts to NOK 647 million at December 31, 2020. Considering buffer requirements (Pillar 1), Pillar 2 requirements and internal management buffer, the bank must effectively hold NOK 1,597 million in common equity tier 1 for the Group's operational risk (19.8%).

Operational risk

Amounts in NOK 1000	Norwegian Finans Holding Group		
Year	**Exposure**	**Risk-weighted assets**	**Requirement total capital at 8%**
2018	4 948 831	7 423 247	593 860
2019	5 582 477	8 373 716	669 897
2020	5 642 698	8 464 046	677 124
Average at 31.12.2020	**5 391 335**	**8 087 003**	**646 960**

7. MARKET RISK

Market risk is the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and shares/equity instruments. The risk associated with falls in value in the real estate market is also included in market risk. The same applies to the risk of changes in the market value of bonds, certificates and funds as a consequence of general changes in credit spreads (spread risk).

7.1 Management and control

The management of market risk is based on the Board approved Policy for Market Risk, which sets limits to the exposure in various risk categories. Risk exposure and development are continuously monitored and reported to the Board and executive management team.

Interest rate risk arises as a result of the balance sheet items having different remaining interest rate commitment terms. The Board of Directors has adopted limits for the total interest rate risk, both in the accounting and economic perspective. Economic interest rate risk is an expression of actual interest rate risk, while accounting interest rate risk includes those items that are recognized at fair value in the balance sheet.

The bank's investment portfolio is mainly invested with short interest rates. The bank only offers products with administratively set interest rates and no fixed interest rates are offered. The interest rate fixing in the Bank's financial instruments and products is largely coincident in the economic perspective, where the administrative interest rate risk has been taken into account, i.e. the effect of the fact that in practice there will be a lapse between a change in markets interest rates and the bank having adjusted the terms and conditions for deposits and loans at floating rates of interest. Any exposure beyond the interest rate risk limits shall be hedged with hedging instruments. Interest rate risk is closely followed by both first and second line and the exposure are regularly reported to the Board and executive management team.

Currency risk arises because the bank has differences between assets and liabilities in each currency. Board approved limits have been established for the net exposure in each currency, as well as the limits for aggregate net currency exposure. The Bank's framework defines quantitative targets for maximum net exposure in currency, measured in NOK.

Through its core business, the Bank has currency exposure in SEK, DKK and EUR and currency exposure is hedged using forward exchange contracts.

The Bank has no market risk associated with real estate and limited equity risk.

7.2 Exposure and capital requirements

At December 31, 2020, the Group has no trading portfolio and therefore no market risk is calculated under Pillar 1. Capital requirements for the bank's interest portfolio and equity positions are instead included as credit risk in a regulatory context.

7.2.1 Market risk related to interest rate risk

The table below shows the effect on profit after tax at December 31, based on a one percentage point parallel shift in the yield curve.

	Interest rate risk, 1% change	
Amounts in NOK 1000	**2020**	**2019**
Cash and deposits with the central bank	-1	-1
Loans and deposits with credit institutions	-57	-43
Loans to customers	-32 814	-34 812
Certificates and bonds	-36 072	-27 864
Financial derivatives	-	-
Total assets	**-68 944**	**-62 721**
Deposits from customers	53 311	49 736
Debt securities issued	9 154	9 564
Financial derivatives	27	-
Subordinated loan	1 613	500
Total liabilities	**64 106**	**59 800**
Tier 1 capital	1 052	825
Total equity	**1 052**	**825**
Total interest rate risk, effect on profit after tax*	**-3 787**	**-2 096**

**Negative figures indicates that the Bank loses on an increase in interest rates.*

Although the calculations above show that the Bank will incur a loss from an increase in interest rates, the way in which the increase in interest rates happens is not insignificant. The table below shows yield curve risk, i.e. the risk of the yield curve shifting differently within the different time periods when there is a change in interest rates, by measuring the Bank's net interest rate exposure within the different periods.

Yield curve risk	2020	2019
0 - 1 month	-986	-680
1 - 3 months	11 217	14 638
3 - 6 months	-6 930	-6 191
6 - 12 months	-7 088	-9 356
1-3 years	-	-508
3-5 years	-	-
> 5 years	-	-
Total interest rate risk, effect on profit after tax	**-3 787**	**-2 096**

7.2.2 Market risk related to currency exposure

The table shows net currency exposure including financial derivatives at December, 31 in addition to the effect on after-tax profit/loss of a 3 per cent change in FX-rates. Amounts in NOK thousand.

Currency	2020	2019
SEK	35 856	-37 388
DKK	18 926	109 888
EUR	16 727	-114 547
Sum	**71 509**	**-42 047**
Effect on after-tax profit/loss of a 3 per cent change in FX-rates	1 609	-946

7.2.3 Spread risk

The table below shows the bank's securities portfolio and calculated loss potential at December 31, 2020, broken down by rating and credit quality steps.

Rating	Credit quality step	Increase in spreads*	Portfolio	Average maturity (years)	Stresstest**
AAA	1	0,0 %	3 929 653	0,93	-
AA	1	0,0 %	1 639 885	1,07	-
A	1	0,0 %	191 864	1,94	-
AAA	1	0,9 %	30 111	0,67	108
AA	1	1,1 %	6 321 726	1,24	50 987
A	2	1,4 %	-	-	-
BBB	3	2,5 %	-	-	-
BB	4	4,5 %	-	-	-
B or lower	5	7,5 %	-	-	-
Not rated	-	3,0 %	-	-	-
OMF AAA	1	0,7 %	9 407 189	1,51	58 703
OMF AA	1	0,9 %	-	-	-
Total capital add-on			**21 520 427**	**1,29**	**109 798**

** 0 % spread indicates government bonds (or other 0 %-weighted bonds).*

*** The potential loss is multiplied by a factor of 0.6 according to current Pillar 2 methodology.*

7.2.4 Equity risk

The bank the following exposure in equities and equity and equity instruments at December 31, 2020.

	Book value 31.12.2020	Market value 31.12.2020
Vn Norge AS	50 249	50 249
Vipps AS*	443	443

*Not assessed market value

The shares are held in the bank portfolio as part of Bank Norwegian's ordinary operations and industry affiliation, and Bank Norwegian has no trading portfolio of shares.

In accordance with the Bank's “Market Risk Policy”, the Bank shall not have any equity investments other than strategic and/or operational investments approved by the Board of Directors.

8. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk of not being able to meet commitments or unable to finance assets, including desired growth, without significantly increased costs. Funding risk is defined as the risk that the Group will not be able to settle its loans on settlement date, or that new loans must be issued at, relatively speaking, substantially worse terms.

8.1 Management and control

The management of liquidity and funding risk is based on the Board approved Liquidity and Funding Policy which stipulate requirements concerning the time horizons for which the Group must be independent of new external funding, the size and quality of the liquidity reserve, and the duration and diversification of funding. Risk exposure and development are continuously monitored and reported to the Board and executive management team.

Deposits from customers represent the Group's most important source of funding. In addition to deposits, the Group is funded by loans in the Norwegian and international securities markets.

In December 2019, the Bank issued in total NOK 3.6 billion in new loans as part of the bank's strategy to increase the Bank's diversification and reduce the need for deposits as a source of funding. However, the borrowing was accelerated due to the Norwegian Financial Supervisory Authority's decision on MREL requirements.

In 2020 the Board of Directors decided to apply to merge Norwegian Finans Holding ASA and Bank Norwegian AS, resulting in Bank Norwegian AS being the group entity. As a result of the Norwegian FSA’s approval of changed group structure through a reversed parent-subsidiary merger, the issuances of MREL eligible debt will be made from Bank Norwegian AS. The completion of the merger will, subject to relevant approvals, be carried out during first half of 2021.

Norwegian Finans Holding ASA received an updated MREL requirement in December 2020. Norwegian Finans Holding ASA shall hold total MREL capital equal to 39.02% of risk-weighted assets. The requirement shall be fulfilled by January 1, 2021. The MREL eligible capital shall be issued by Norwegian Finans Holding ASA, where the subordination requirement shall be fulfilled by the end of the phase-in period on January 1, 2024. The updated requirement has a changed phase-in structure compared to the previous requirement. The senior preferred debt issued by Bank Norwegian AS with a minimum remaining tenor of 1 year, irrespective of the date of issue, will qualify as MREL capital until the end of the phase-in period, with a linear phase-in. The previous requirement that senior preferred debt issued by Bank Norwegian AS had to be issued prior to December 31, 2019 to be eligible, has as such been lifted.

The bank's liquidity management is considered good, both in terms of ongoing liquidity management, use of stress tests, amount control on refinancing needs, formalized contingency plans and organization.

To ensure satisfactory division of work between the departments and the people who take positions on the Group's behalf and the departments and persons responsible for settlement, control and reporting, the Group has established an organization in which executive and controlling functions are independent of each other.

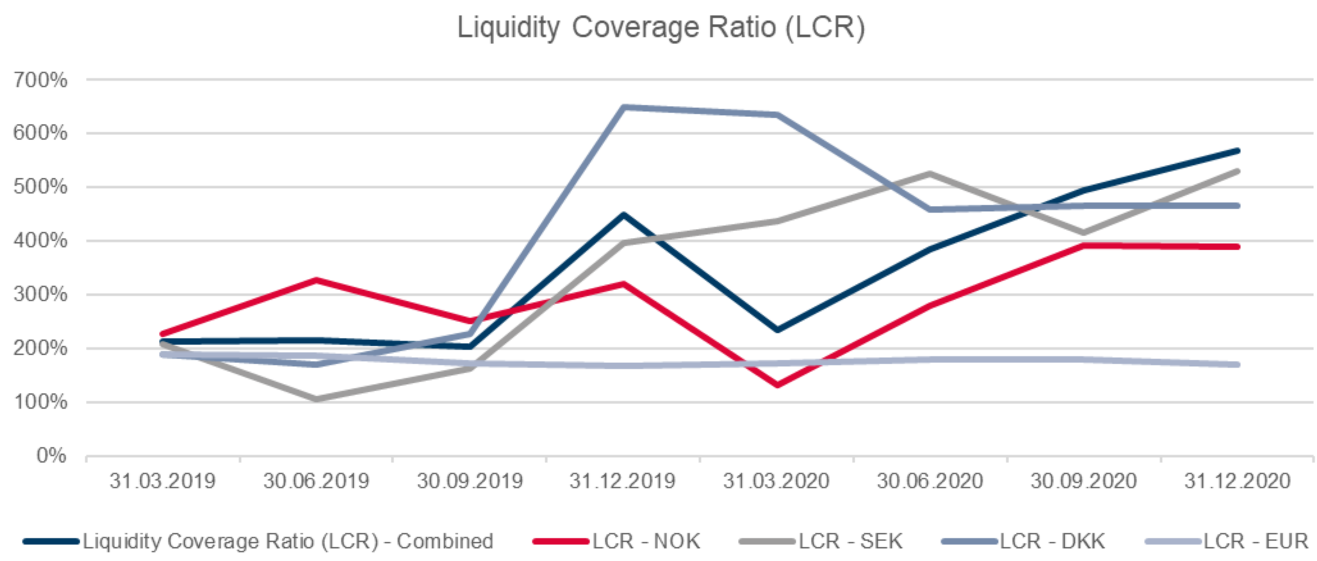
8.2 Exposure and capital requirements

Based on the current balance sheet structure, product portfolio and liquidity management, it is considered that there is no need hold Pillar 2 capital for liquidity and funding risk. Instead, the Group attaches considerable importance in establishment of conservative limits, as well as managing these limits to reduce the likelihood of adverse events occurring.

Below are some key figures that show the bank's endurance.

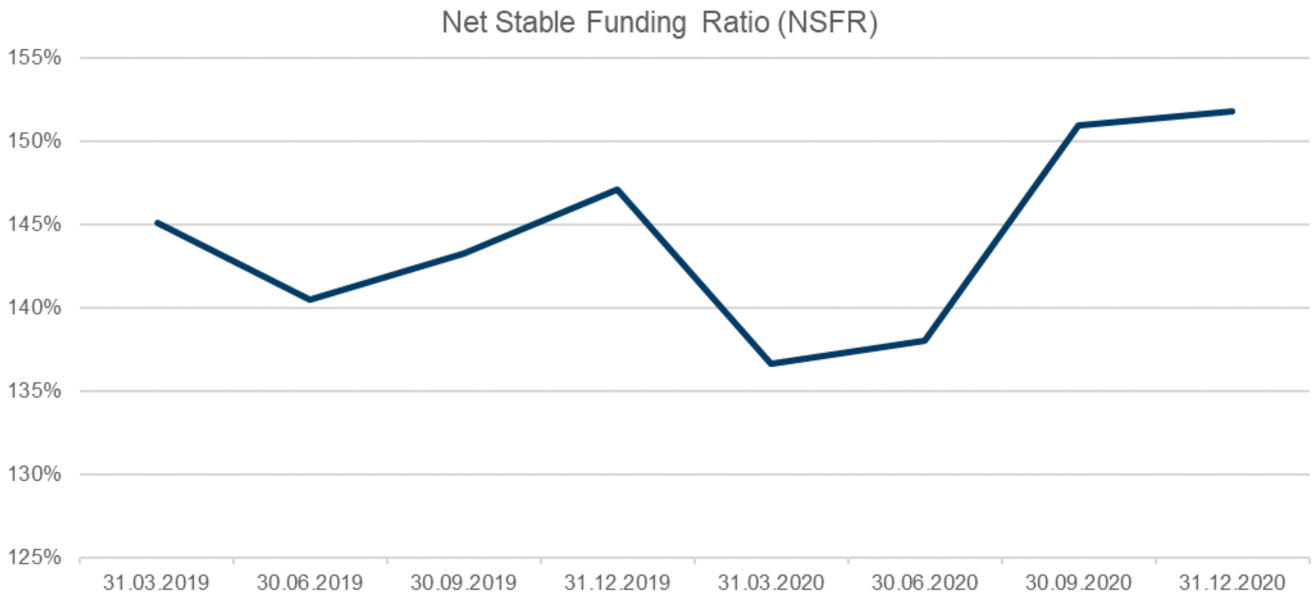
8.2.1 Liquidity Coverage Ratio

The Liquidity Coverage Ratio, referred to as LCR, defines a stress scenario that lasts for 30 days. The graph below shows the bank's LCR development over the past couple of years at the total level, as well for all the bank's significant currencies (NOK, SEK, DKK and EUR).



8.2.2 Net Stable Funding Ratio

The Net Stable Funding Ratio, referred to as NSFR, describes the extent to which the Group is long-term financed. The graph below shows the bank's NSFR development over the past couple of years.



8.2.3 Survival in a normal and custom defined stress situation

In a normal situation, the bank should have a survival of over 12 months without access to external financing. The bank also has a survival target of 6 months for a bank or market-specific stress situation, as well as a minimum of 3 months for a combination stress situation.

The result of the bank's stress test at December 31, 2020 is presented below.

Survival horizon - Stress testing (in months)	Target zone	Limit Breach	Status 31.12.2020
Basis scenario - excluding external funding	≥ 12	< 6	36
Bank specific crisis	≥ 6	< 3	23
Market specific crisis	≥ 6	< 3	23
Combination stress	≥ 3	< 1	13

9. COMPLIANCE RISK

Compliance risk is the risk that the Bank will incur public sanctions, penalties, other criminal sanctions, loss of reputation or financial losses caused by failure to comply with acts, regulations, official guidelines, and mandatory public orders.

9.1 Management and control

Management and control of the Bank's compliance risk is based on the Board of Directors' adopted Compliance Risk Policy. The Group has a low tolerance for compliance risk, and there is zero tolerance of deliberate infringement of regulations.

10. CONDUCT RISK

Conduct risk is the risk of public sanctions, criminal sanctions, loss of reputation or financial loss caused by the Bank's business methods or the employees' conduct materially jeopardizing customers' interests or the integrity of the market.

10.1 Management and control

Management and control of the Bank's conduct risk is based on the Board of Directors' adopted Conduct Risk Policy.

All employees are required to contribute to ensuring that customers' needs, and entitlements are adequately handled, including by providing professional and honest customer services to ensure that the bank's customers can make clear and well-informed choices.

Key instruments to ensure good business conduct include, among other things, ethical guidelines (Code of Conduct), internal information and training initiatives, implementation of risk analyses, in addition to a well-functioning procedure to handle customer complaints.

11. SUSTAINABILITY RISK (ESG RISK)

Nature, climate and environmental risk could primarily impact the bank, directly or indirectly, in the form of higher credit losses due to customers exposed to such risk. The risk category materializes through increased financial or reputational risk and is handled as such.

The risk associated with social conditions, business practice and inadequate corporate governance is managed as an integral part of the risk categories operational risk (including the risk associated with the area of money laundering), compliance risk and conduct risk.

11.1 Management and control

Management and control of the Bank's ESG risk is based on the Board of Directors' adopted Sustainability Policy and associated guidelines for sustainability. These have been approved by the Board and integrated into our day-to-day operations. Responsible lending, protecting customers' privacy, preventing economic crime and safeguarding our employees are priority areas that entail long-term obligations and provide the basis for our social mission. Please refer to the bank's annual report and the sustainability report for further details.