banknorwegian

Bank Norwegian Group

2021

Pillar 3

Content

1. CAPITAL ADEQUACY RULES 2
1.1 Capital adequacy regulations 2
2. CONSOLIDATION 4
3. TOTAL CAPITAL AND CAPITAL REQUIREMENTS 5
3.1 Regulatory total capital – Pillar 1 5
3.2. Regulatory common equity tier 1 – Pillar 1 and Pillar 2 6
3.3 Leverage ratio 7
4. RISK MANAGEMENT AND CONTROL 7
4.1 Purpose 8
4.2 Elements of the Bank's Risk Management 8
4.3 Central risk groups 12
4.4. Internal Capital Adequacy Assessment Process (ICAAP) 13
4.5. Remuneration 13
5. CREDIT RISK 14
5.1 Management and control 14
5.2 Expected Credit Losses and IFRS 9 15
5.3 Loan portfolio information 15
5.4 Use of official rating for the purpose of capital adequacy 16
5.5 Capital requirement 16
6. OPERATIONAL RISK 16
6.1 Management and control 17
6.2 Capital requirement 17
7. MARKET RISK 18
7.1 Management and control 18
7.2 Exposure and capital requirements 18
8. LIQUIDITY AND FUNDING RISK 21
8.1 Management and control 21
8.2 Exposure and capital requirements 21
9. COMPLIANCE RISK 22
9.1 Management and control 22
10. CONDUCT RISK 23
10.1 Management and control 23
11. SUSTAINABILITY RISK (ESG RISK) 23
11.1 Management and control 23

1. CAPITAL ADEQUACY RULES

Pillar 3 is a regulatory requirement for the publication of information about capital and risk conditions. This Pillar 3 report provides additional information to the Bank Norwegian Group's (BN Group) annual report and is intended to be read in conjunction with the annual report, in particular the sections Corporate Governance, remuneration disclosures and sustainability. Together with the annual report, this report provides information on the BN Group's material risks and capital management and shall satisfy the requirements for public disclosure of financial information as stipulated in the Capital Adequacy Regulation. The BN Group also publishes information according to Pillar 3 requirements quarterly in connection with the quarterly reports in an excel-file.

Norway implemented the EU's capital requirement legislation CRR/CRD IV in 2019. This report is prepared in accordance with this legislation as the EU Banking package is not yet in force in Norway. There is some uncertainty as to when this legislation will be incorporated into the EEA Agreement and thus enter into force in Norway. But it is not expected to occur until the first half of 2022 at the earliest. The EU Banking Package consists of amendments to the capital requirements legislation (CRR II/CRD V) and to the Bank Recovery and Resolution Directive (BRRD II).

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

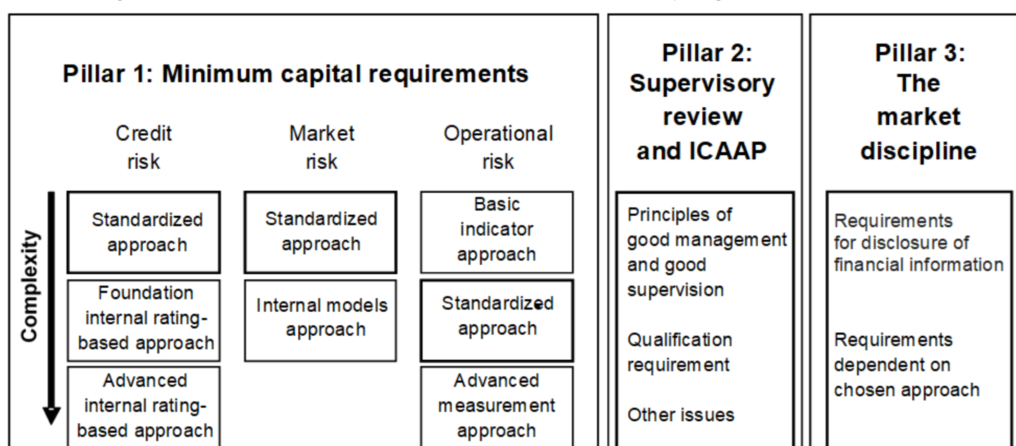
The capital adequacy regulations are based on a standard for calculating capital adequacy where the purpose is to reinforce the stability of the financial system through the following instruments:

- 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.

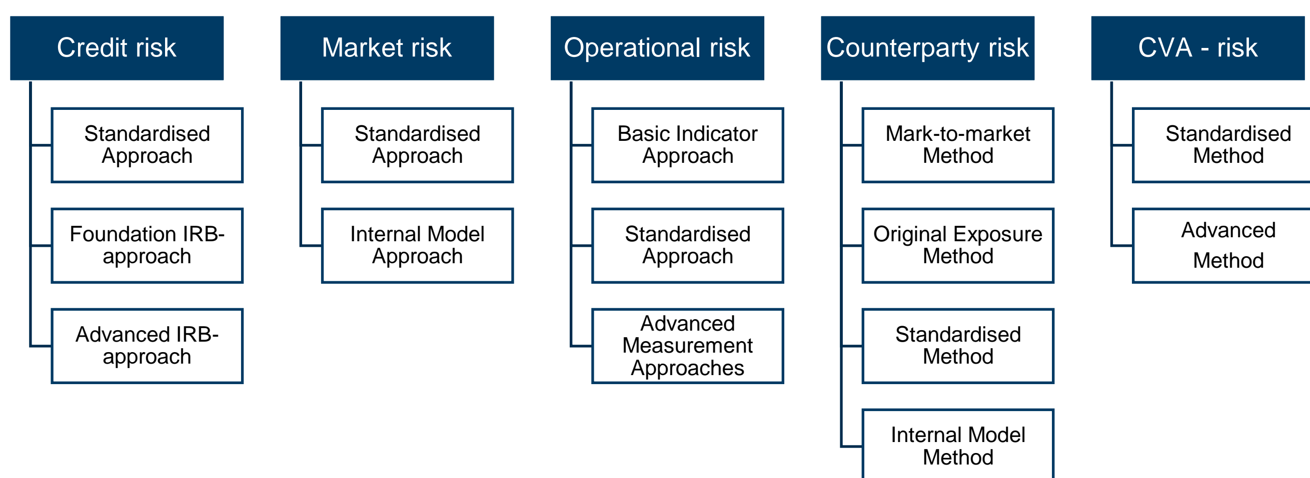


Pillar 1 – Minimum eligible capital requirements

Pillar 1 concerns the minimum eligible capital requirements for credit risk, operational risk and market risk, for which the minimum capital adequacy ratio requirement is set at 8%. In addition to this is a total buffer requirement of 5.9% as at December 31, 2021 which comprise of capital conservation buffer (2.5%), systemic risk buffer (3.0%) and counter-cyclical buffer (0.4%).

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 standardised approach and internal rating-based approaches where approved to do so. Under the standardised 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 standardised approach for credit risk, the standardised approach for operational risk, the mark-to-market method for counterparty risk and the standardised method for CVA-risk (Credit Valuation Adjustment risk). The Bank has no trading portfolio or exposure requiring the Bank to include a capital requirement for market risk. Calculated CVA-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

Pillar 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 – Public 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 BN Group publishes in addition to this annual Pillar 3 report, information according to Pillar 3 requirements quarterly in connection with the quarterly reports in an excel-file.

2. CONSOLIDATION

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

The consolidated financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the EU. The financial statements for Bank Norwegian ASA 2021 have been prepared in accordance with the regulations on annual accounts for banks, credit companies and finance companies, and follows the International Financial Reporting Standards (IFRS), with certain exceptions and simplifications regulated through the annual account regulations. A description of the accounting principles is presented in the annual report.

Bank Norwegian ASA is a Norwegian public limited company. The company is the parent company of the Norwegian Bank Group. The BN Group consist of Bank Norwegian ASA and its subsidiary Lilienthal Finance Ltd (100% ownership).

In 2021 Bank Norwegian ASA merged with its parent company Norwegian Finans Holding ASA. The merger was carried with accounting continuity. In November, Nordax Bank AB (publ.) (Nordax) acquired all the shares in Bank Norwegian ASA and the Bank was delisted from the Oslo Stock Exchange on November 15, 2021. The Bank is now a wholly owned subsidiary of Nordax Bank AB.

The same consolidation method is used for accounting and capital adequacy purposes.

Bank Norwegian ASA and Bank Norwegian Group shall at all times maintain an appropriate capital adequacy.

There are no legal restrictions for swiftly transferring capital or repayment of liabilities between Bank Norwegian ASA and the and its subsidiary Lilienthal Finance Ltd.

3. TOTAL CAPITAL AND CAPITAL REQUIREMENTS

At the end of 2021, the BN Group was under pillar 1 subject to a requirement for common equity tier 1 of 10.4% and total capital of 13.9%.

In addition, the capital requirement under Pillar 2 is set at 5.8% at the end of 2021. 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 BN Group's Capital Management Policy, the BN Group shall have an internal management buffer of 1.5%, which includes an estimated Pillar 2 Guidance (P2G) of 1.0%.

The BN Group's common equity tier 1 target was 16.2%, 17.7% including internal management buffer at the end of 2021.

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, 2021 for the BN Group and Bank Norwegian ASA (the Bank).

		31.12.2021	
Amounts in NOK 1000		Bank Norwegian ASA	Bank Norwegian Group
Total capital			
	Share capital	186 904	186 904
+	Share premium	983 401	983 401
+	Retained earnings	8 887 458	9 574 004
-	Adjustment to retained earnings for foreseeable dividends	-	719 581
-	Deferred tax assets and intangible assets	118 177	440 240
	Common equity Tier 1	**9 939 586**	**9 584 488**
+	Additional Tier 1 capital	425 000	425 000
	Tier 1 capital	**10 364 586**	**10 009 488**
+	Tier 2 capital	739 801	739 801
	Total capital	**11 104 387**	**10 749 289**
	Common equity Tier 1 %	**26,19 %**	**25,49 %**
	Tier 1 capital %	**27,31 %**	**26,62 %**
	Total capital %	**29,25 %**	**28,59 %**

Additional tier 1 capital and subordinated loans

The Bank has at December 31, 2021, the following issued additional Tier 1 capital and subordinated loans.

Bank Norwegian ASA	**Additional Tier 1 capital**	**Additional Tier 1 capital**	**Subordinated loans**	**Subordinated loans**
Unique identifyer	NO0010797319	NO0010833320	NO0010797988	NO0010833130
Issue amount	MNOK 300	MNOK 125	MNOK 200	MSEK 550
Issue date	June 14, 2017	October 2, 2018	June 16, 2017	October 2, 2018
Maturity date	No maturity date	No maturity date	June 16, 2027	October 2, 2028
Optional call date, contingent call dates and redemption amount	June 14, 2022. At par. In addition regulatory and fiscal call.	October 2, 2023. 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 + 5,40 %	3 month NIBOR + 3,75 %	3 month STIBOR + 3,75 %
Coupon rate December 31, 2021 and first interest adjustment	6,04 % March 14, 2022	5,98 % January 3, 2022	4,48 % March 16, 2022	3,69 % January 3, 2022

3.1.2. Risk-weighted assets and capital requirement

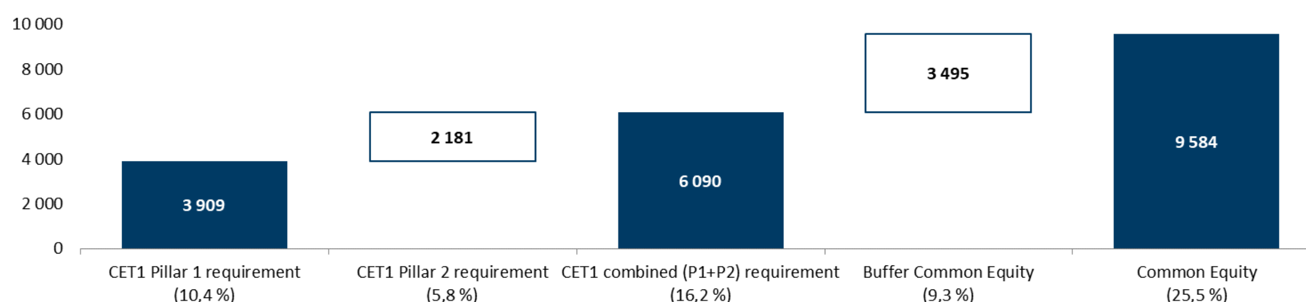
The BN Group uses the standardised approach for calculating credit risk, the standardised approach for calculating operational risk, the mark-to-market method for counterparty risk and the standardised method for CVA-risk (Credit Valuation Adjustment risk).

Risk-weighted assets and capital requirement		**31.12.2021**
Amounts in NOK 1000	Bank Norwegian ASA	Bank Norwegian Group
Risk-weighted assets		
Credit risk		
Covered bonds	1 028 448	1 028 448
+ Regional governments or local authorities	1 127 230	1 127 230
+ Institutions	476 608	476 608
+ Corporates	193 206	-
+ Loans to customers	21 673 195	21 673 195
+ Defaulted loans	5 173 830	5 173 830
+ Equity positions	188 267	26 775
+ Other assets	109 734	109 734
+ Operational risk	7 979 758	7 976 821
+ Market risk	7 364	7 364
Total risk-weighted assets	**37 957 640**	**37 600 005**
Capital requirement		
Credit risk		
Covered bonds	82 276	82 276
+ Regional governments or local authorities	90 178	90 178
+ Institutions	38 129	38 129
+ Corporates	15 457	-
+ Loans to customers	1 733 856	1 733 856
+ Defaulted loans	413 906	413 906
+ Equity positions	15 061	2 142
+ Other assets	8 779	8 779
+ Operational risk	638 381	638 146
+ Market risk	589	589
Minimum requirement total capital (Pillar 1) at 8%	**3 036 611**	**3 008 000**
Combined total capital requirement (Pillar 1 and 2) at 19.7%	**7 479 046**	**7 405 740**
Minimum common equity Tier 1 capital requirement at 4.5%	1 708 094	1 692 000
Additional Tier 1 capital at 1.5%	569 365	564 000
Tier 2 capital at 2.0%	759 153	752 000
Capital conservation buffer at 2.5%	948 941	940 000
Systemic risk buffer at 3.0%	1 138 729	1 128 000
Counter-cyclical buffer at 0.4%	153 222	148 939
Pillar 2 requirement at 5.8%	2 201 543	2 180 800

The BN Group has operations in Norway, Sweden, Denmark and Finland and started up in both Spain and Germany during the fourth quarter 2021. At December 31, 2021 the entity-specific countercyclical capital buffer was 0.4% for the BN Group and the Bank.

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

The figure below provides a graphical presentation of the BN Group's capital situation with focus on common equity tier 1 at December 31, 2021. Numbers are in NOK million.



3.3 Leverage ratio

Leverage ratio is calculated as the BN Group's tier 1 capital as a proportion of the total exposure. The total exposure is defined as the sum of on-balance assets and off-balance undrawn credit lines and undrawn limits. The BN Group is at December 31, 2021, subject to a minimum requirement of 5% leverage ratio.

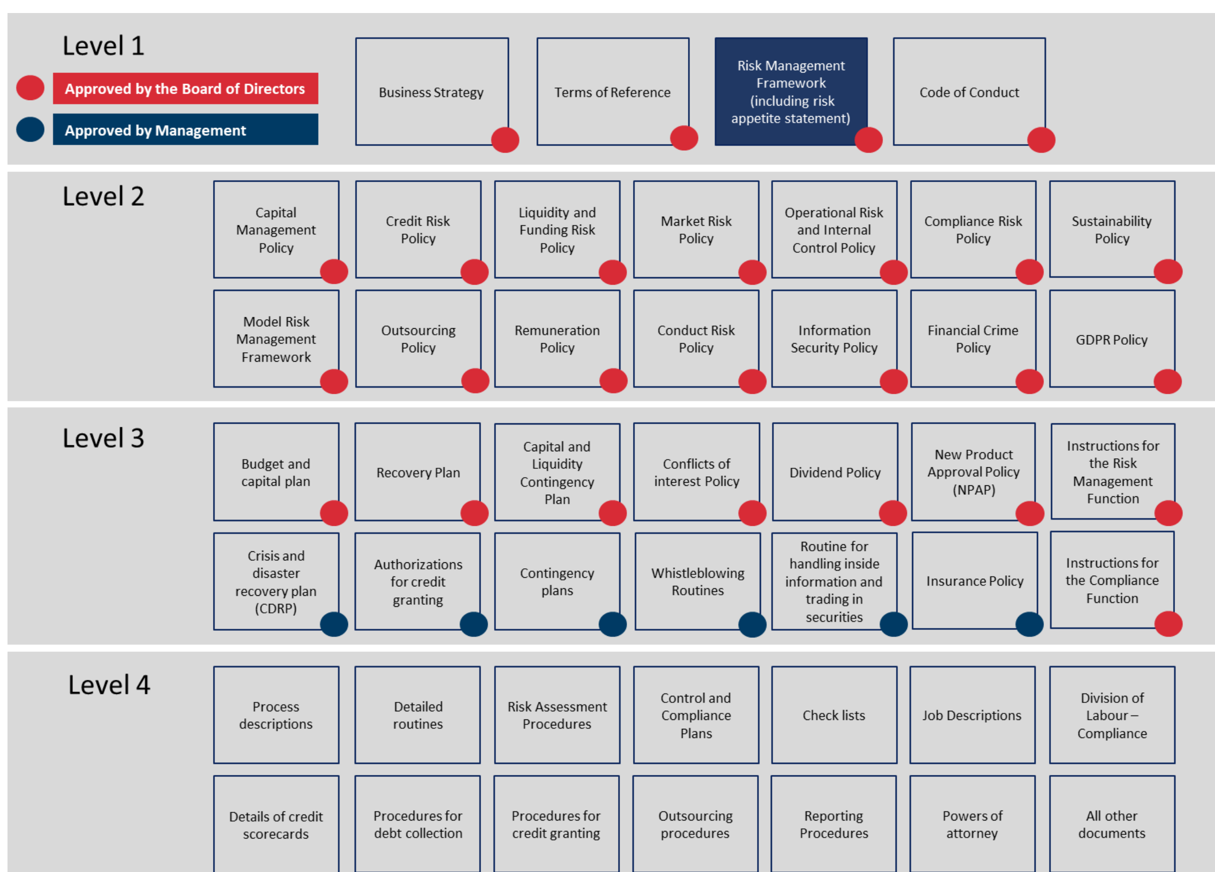
The table below shows the leverage ratio at December 31, 2021 for the BN Group and the Bank.

Leverage ratio		**31.12.2021**
Amounts in NOK 1000	Bank Norwegian ASA	Bank Norwegian Group
Tier 1 Capital	**10 364 586**	**10 009 488**
Off-balance sheet items	5 144 874	5 144 874
+ Derivative exposure items	53 731	53 731
+ On-balance sheet items (ex. derivatives)	56 225 656	55 870 958
Total exposure	**61 424 261**	**61 069 563**
Leverage ratio	**16,87 %**	**16,39 %**

4. RISK MANAGEMENT AND CONTROL

Risk Management at Bank Norwegian shall ensure that the exposure to risk is known at all times and within the limits set by the Board of Directors. Risk Management shall further support the Bank's strategic development and achievement of targets.

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

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.

The Risk Management Framework shall also:

- Describe the key elements in the Risk Management Framework.
- Define the key principles for risk management.
- Define the roles and responsibilities for governance and internal control functions.
- Provide a common framework and language to foster a consistent, comprehensive and transparent approach to risk management.
- Serve as supporting documentation in internal and external communication.

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

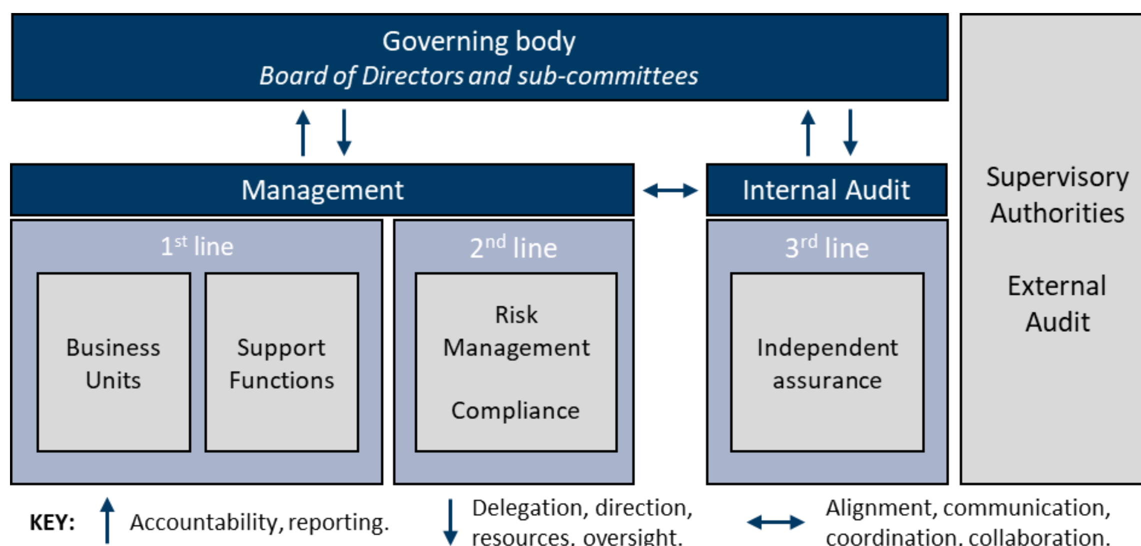
In order to ensure sound management and control of risk, the Bank relies on the following elements of Risk Management.

- 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 governance model. The model shall ensure that responsibilities are appropriately allocated to all functions.

Bank Norwegian's structure for control functions and risk oversight are organized in vertical and horizontal levels. The vertical organization reflects the hierarchy, while the horizontal organization reflects the three lines of defense.



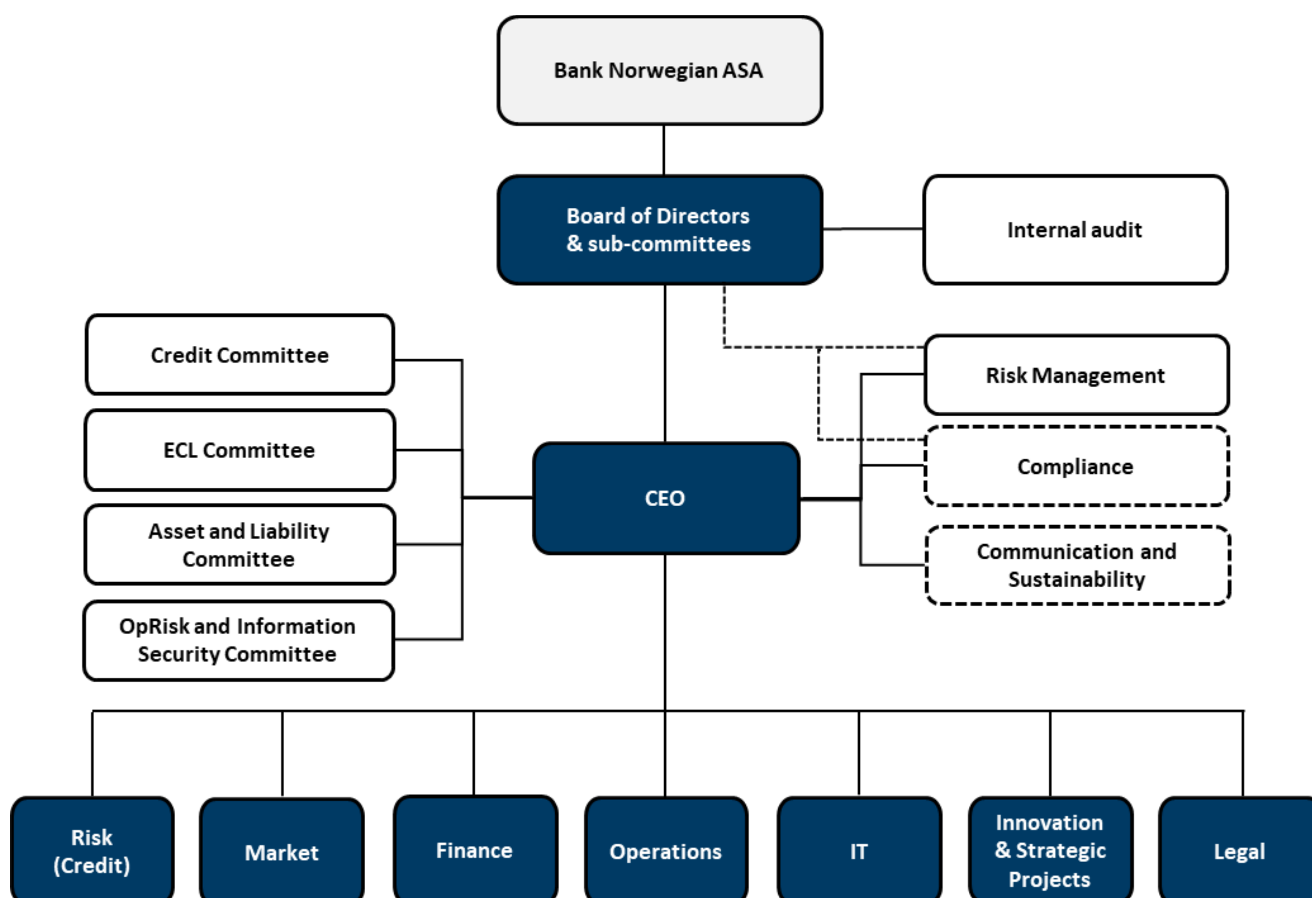
The first line of defense consists of Business units, Support Functions and Senior Management with exception of Risk Management and Compliance.

Risk Management and Compliance form the second line of defense. Heads of these internal control functions are independent senior managers with distinct responsibility. Both functions may intervene to ensure modification of internal control and risk management systems within the first line of defense where necessary.

The Internal Audit Function forms the third line of defense and provide independent review and objective assurance on the quality and effectiveness of the implemented internal control system, the first and second lines of defense and the risk governance framework.

Bank Norwegian has outsourced the Internal Audit Function to BDO, and the internal audit mandate has been approved by the Board of Directors. This ensures competence, capacity, and independent assurance.

The organization at Bank Norwegian ASA is illustrated below.



The Senior Management consists of 10 persons including Head of Compliance and Head of Communications and Sustainability, which are associated members of the management team, reporting directly to the CEO.

The Board of Directors refers to the Management Body in its supervisory function. The Board of Directors of Bank Norwegian is a Subsidiary Board of Nordax. The Board of Directors has the overall responsibility for adequate and effective risk management that fulfils the regulatory requirements in the countries where Bank Norwegian conducts business and is consistent with safe and sound business practices. Consequently, the Board of Directors are responsible for adopting the strategy and policy decisions concerning risk management of the Bank and for the establishment and maintenance of adequate and functioning internal control mechanisms.

The primary responsibility of the separated Risk and Audit Committees shall be to advise and support the Board of Directors regarding the oversight and monitoring of the Bank's current risk exposure and future risk appetite and strategy, as well as for the integrity of the financial statements, financial reporting process, systems of internal accounting and financial controls and the performance of Internal Audit.

The Remuneration Committee is a subcommittee of the Board of Directors of Bank Norwegian ASA and shall ensure that the Bank has a remuneration policy that contributes to promoting and providing incentives for strong, predictable results.

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 Credit Risk Department is the first line of defense organization responsible for the development and maintenance of the Bank's credit models, adopted Credit Risk Policy and associated procedures and model risk management framework, 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 second line of defense control, monitoring and reporting to Senior Management and the Board of Directors. 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 is a second line of defense control function reporting 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 forms the Bank's third line of defense. The function shall provide independent review and objective assurance to the Board on the quality and effectiveness of the implemented internal control system, the first and second lines of defense and the Risk Management Framework. The Bank has outsourced the Internal Audit Function.

The Credit Committee is an advisory body for the CEO on topics related to credit risk and impairment management. The Committee is also responsible for monitoring and evaluating credit granting, scorecards and risk assessment tools.

The Expected Credit Loss (ECL) Committee is an advisory body for the CEO. The key responsibilities of the Committee are to assess the Loan Loss Provision (LLP) and the Loan Loss Allowance (LLA). Setting the usage of 'forward looking' macro scenarios used in the ECL model calculations and to assess the need for any management override/overlay as a result of known factors or assumptions not yet included in the macro scenarios.

The Asset and Liability 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 Committee shall supervise the activities within funding, liquidity management and management of balance sheet products. Furthermore, the Asset and Liability Committee ensure independent control of reporting.

The Operational Risk and Information Security Committee advise and support the CEO to evaluate operational and Information and Communication Technology (ICT) risks and execute security governance activities.

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, market risk, operational risk and internal control, sustainability, GDPR, model risk, outsourcing, remuneration, conduct risk, information security, New Product Approval (NPAP), financial crime including Anti-Money Laundering (AML) and Combating the Financing of 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 BN 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 BN 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 (KRIs) are followed up and reported according to a "traffic light approach" for each risk indicator.

Bank Norwegian also report monthly KRIs to the Nordax Group CRO, according to their Risk Appetite Policy.

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 are 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 Senior management. The Head of Risk Management 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 IT plans, financial recovery plans, local emergency plan, vendor and system specific disaster recovery plans, communication plan 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.
- **Operational risk** is the risk of losses due to weak or inadequate internal processes or systems, human error, or external incidents.
- **Market risk** is the risk of losses due to changes in observable market prices, such as interest rates, share prices or currency rates. The Bank’s definition of market risk includes equity risk, interest rate risk, currency risk, credit spread risk, Credit Value Adjustments (CVA) and property risk.
- **Liquidity and funding risk** are the risk of being unable to fulfil obligations or finance assets, including desired growth, without significant extra costs.
- **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.
- **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.
- **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 act on financial institutions and financial groups (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 ICAAP is based on the Bank's business strategy, budget and capital plan, risk strategy and associated risk appetite. In this context, reference is made to the Bank's Risk Management Framework (RMF) and associated document hierarchy.

The purpose of the risk and capital assessment process is to ensure 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 summary, the process can be illustrated as follows:

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 conducts an evaluation of the Bank's management and control of all risks at the reporting date, while the results of prepared stress tests are assessed as part of the Bank's overall capital requirement.

Annually the Bank prepares this ICAAP document, documenting analyses and conclusions. An independent risk report is reported to the Board of Directors every quarter. The risk report shows the status of all Key Risk Indicators described in the Bank's Risk Management Framework (RMF), as well as an overall risk assessment of all risk areas. In addition, the Board of Directors are submitted updated calculations of regulatory capital requirements and associated pillar 2 add-ons as well. ICAAP form the basis for updating the 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 the shareholder and to ensure healthy and efficient risk management.

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

5. CREDIT RISK

The largest financial risk exposure in the BN Group is credit risk in the 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.

5.1 Management and control

The Board of Directors 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 BN Group'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), defaulted 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 continuous 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 BN Group'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 BN Group's portfolio of interest-bearing securities also entails a credit risk and is followed up through the BN Group's Market Risk Policy.

The BN Group shall not operate in a way that is harmful to people, the society or environment, and thereby support long-term social and ecological balance. To ensure that the Board of Directors' guidelines on consumer protection are followed, the BN Group has a Risk Management Framework with underlying policies, including a Credit Risk Policy, Code of Conduct, Sustainability Policy, New Product Approval Policy, Conduct Risk Policy and Bank Norwegian Supplier Conduct Principles. The framework is an important prerequisite for responsible lending in the consumer credit markets and to assure that the BN Group's consumer credit products are designed in a responsible way. The purpose is to assure that consumer borrowers' interests and needs are considered throughout the relationship in order to prevent consumer detriment. The BN Group seeks transparent conditions and provides proper information to perform affordability checks.

5.2 Expected Credit Losses and IFRS 9

The expected credit loss (ECL) is calculated in accordance with IFRS 9. The main drivers behind the ECL estimate are estimation of Loss Given Default (LGD), identification of significant increase in credit risk, and probability of default (PD).

The PD is an estimate of the likelihood of default over a given time horizon and is a point in time estimate. The estimation is based on statistical models assessing PD based on past, present and forward-looking information on variables that have high correlation with observed default.

Loss Given Default (LGD) is the estimated loss on an engagement once in default. It is based on the difference between the contractual cash flows due and the expected cash flows.

Exposure at Default (EAD) is the predicted amount of exposure calculated on the engagement at a future default date, which the Bank is exposed to when an obligor defaults on a loan. EAD is a dynamic number that changes as a borrower repays the loan and interest or draws on the credit limits of a card. The Bank utilizes an EAD model for pre-defaulted credit cards that estimates the Credit Conversion Factor based on lifetime of the card, exposure history and usage on the card, average arrears amount and months since last activity.

All loan engagements are placed in one of the three stages according to IFRS; Stage 1 is used for engagements considered not impaired and uses a 12-month ECL calculation. Stage 2 has a significant increase in credit risk since its origination, according to the triggers disclosed below, and uses the lifetime approach to ECL calculation. Stage 3 is defaulted with more than 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 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.

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.

The bank has a prudent model for allowance on defaulted loans with higher LGDs, where a full derecognition from the balance sheet is done on loan exposures that surpass an LGD of 70% (charge-off). The legal claim towards the customer remains with accumulation of interest.

5.3 Loan portfolio information

5.3.1 Gross loans and loan loss allowance

								31.12.2021
					Loan loss allowance			Loans to
Amounts in NOK 1000	Stage 1	Stage 2	Stage 3	Gross loans	Stage 1	Stage 2	Stage 3	customers
Instalment loans Norway	6 070 074	439 979	2 384 286	8 894 338	21 892	25 310	799 500	8 047 636
Credit card loans Norway	4 235 797	220 309	300 569	4 756 675	19 099	17 336	95 194	4 625 046
Instalment loans Sweden	2 976 367	322 226	1 123 245	4 421 838	45 092	46 929	510 289	3 819 528
Credit card loans Sweden	2 115 775	121 984	80 070	2 317 830	18 897	13 787	26 922	2 258 224
Instalment loans Denmark	3 188 505	86 581	133 789	3 408 875	47 098	15 386	73 882	3 272 508
Credit card loans Denmark	683 459	24 297	23 734	731 491	7 238	2 454	10 489	711 310
Instalment loans Finland	6 479 057	661 802	2 799 280	9 940 138	110 018	81 554	1 101 694	8 646 872
Credit card loans Finland	1 701 185	257 584	416 028	2 374 797	13 769	25 948	163 369	2 171 711
Instalment loans Spain	37 989	35	-	38 025	1 241	3	-	36 781
Credit card loans Spain	2 633	84	-	2 717	416	33	-	2 269
Instalment loans Germany	52 089	-	-	52 089	1 412	-	-	50 676
Credit card loans Germany	7 345	23	-	7 368	602	8	-	6 758
Total	**27 550 276**	**2 134 905**	**7 261 001**	**36 946 182**	**286 774**	**228 749**	**2 781 339**	**33 649 320**
Loan loss allowance coverage ratio per stage					**1,04 %**	**10,71 %**	**38,31 %**	

The coverage ratio was 38.3% at the end of 2021 on defaulted stage 3 loans. Including the Bank's charged-off accounts, the coverage ratio was 43,6%.

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 1.1.21	412 638	372 713	4 149 303	4 934 654
Transfers :				
Transfers between Stage 1 and Stage 2	-39 227	130 785	-	91 558
Transfers between Stage 1 and Stage 3	-47 333	-	417 112	369 779
Transfers between Stage 2 and Stage 1	21 020	-84 304	-	-63 285
Transfers between Stage 2 and Stage 3	-	-154 365	316 238	161 873
Transfers between Stage 3 and Stage 2	-	5 098	-22 836	-17 738
Transfers between Stage 3 and Stage 1	1 674	-	-31 713	-30 039
New financial assets issued	55 574	40 788	55 632	151 993
Financial assets derecognized in the period	-61 208	-72 002	-2 277 091	-2 410 300
Changes due to modifications that did not result in derecognition	-56 364	-9 964	966 840	900 512
Charge-off	-	-	-792 145	-792 145
Loan loss allowance as at 31.12.21	**286 774**	**228 749**	**2 781 339**	**3 296 861**

The reduction in financial assets derecognized in the period in stage 3 loans is a result of the five portfolio sales in 2021 where a substantial part of the sale was on loan volumes that were fully covered and written off.

5.4 Use of official rating for the purpose of capital adequacy

The BN Group use the standardised approach for credit risk where 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 and other assets. In such instances the Group makes use of external credit assessment institutions (ECAIs) which currently are either Standard & Poor's, Moody's, Scope Ratings and/or Nordic Credit Rating.

5.5 Capital requirement

As stated in Chapter 3.1.2, the minimum requirement for the Group's capital requirement for credit risk (8%) amounts to NOK 2,369 million at December 31, 2021. Considering buffer requirements (Pillar 1), Pillar 2 requirements (5.8 %), and internal management buffer (1.5% including Pillar 2 Guidance), the Bank must effectively keep NOK 5,241 million in Common Equity Tier 1 capital for the Group's credit risk (17.7%).

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, to the extent possible, ensure that no individual incidents caused by operational risk seriously damage the BN Group's financial position.

The management of operational risk is based on the Policy for Operational Risk and Internal Control. The Operational Risk and Information Security Committee (ORISC) advise and support the CEO to evaluate operational and Information and Communication Technology (ICT) risks and execute security governance activities.

Risk assessments are carried out both at the overall level, but also within different processes that the BN Group is exposed to at all times. Specialist 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 BN Group'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 Senior Management and the Board of Directors.

The BN Group’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 BN Group 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 BN Group's risk reporting to the Board of Directors and Senior Management. The Internal Audit also carries out independent reviews and tests of the BN Group's security in the area.

6.2 Capital requirement

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

In December 2020, BN Group changed the timing of the annual update of the operational risk calculation from January in the following year to December in the current year. The risk weight is set at 150% and the minimum requirement for the Group's capital (8%) amounts to NOK 638 million at December 31, 2021. Considering buffer requirements (Pillar 1), Pillar 2 requirements (5.8%), and internal management buffer (1.5% including Pillar 2 Guidance), the Bank must effectively hold NOK 1,412 million in common equity tier 1 for the Group's operational risk (17.7%).

Operational risk

Amounts in NOK 1000	Bank Norwegian Group		
Year	**Exposure**	**Risk-weighted assets**	**Requirement total capital at 8%**
2019	5 582 477	8 373 716	669 897
2020	5 642 698	8 464 046	677 124
2021	4 728 467	7 092 700	567 416
Average at 31.12.2021	**5 317 880**	**7 976 821**	**638 146**

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 reduction in prices 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. Market risk is a common term for the risk of a decrease in value or reduction in future revenues as a result of changes in observable or derivative rates or prices of financial instruments. The Bank's definition of market risk includes equity risk, interest rate risk, currency risk, credit spread risk, derivatives risk including Credit Value Adjustment (CVA) and property risk. Risk exposure and development are continuously monitored and reported to the Board of Directors and Senior Management.

Interest rate risk is the risk of a loss or decrease or increase in the value of assets or liabilities arising from a change in market interest rates. The Bank is exposed to interest rate risk through all interest-bearing assets and liabilities. Interest rate risk typically occurs when there is an interest rate duration gap or basis risk that provides exposure to movements in interest rates. The Board of Directors has adopted limits for the total interest rate risk, both in the accounting and economic perspective, calculated according to IRRBB (Interest Rate Risk in the Banking Book) given by EBA guidelines (EBA/GL/2018/02) and guidelines from the Swedish FSA. 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. The Bank's portfolio of non-performing loans is typically considered fixed interest rate assets, in accordance with IRRBB. 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 of Directors and Senior Management.

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 limits for the aggregate net currency exposure. The Bank's framework defines quantitative targets for maximum net absolute exposure in currency, measured in NOK as a percentage of total capital.

Through its core business, the Bank has currency exposures 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, 2021, the Group has no trading portfolio and therefore no market risk is calculated under Pillar 1. However, capital requirements for credit valuation adjustment (CVA)

are included as market risk in the tables in chapter 3.1.2. Capital requirements for the Bank's liquidity portfolios and equity positions are 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, 2021, based on a one percentage point parallel shift in the yield curve.

	Interest rate risk, 1% change	
Amounts in NOK 1000	**2021**	**2020**
Cash and deposits with the central bank	-17	-1
Loans and deposits with credit institutions	-23	-57
Loans to customers	-53 206	-32 814
Certificates and bonds	-33 693	-36 072
Total assets	**-86 939**	**-68 944**
Deposits from customers	764	53 311
Debt securities issued	9 358	9 154
Financial derivatives	-	27
Subordinated loan	1 351	1 613
Total liabilities	**11 473**	**64 106**
Tier 1 capital	691	1 052
Total equity	**691**	**1 052**
Interest Rate Derivatives	54 987	-
Sum rentesikringer	**54 987**	**-**
Total interest rate risk, effect on profit after tax*	**-19 787**	**-3 787**

*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

Amounts in NOK 1000	**2021**	**2020**
0 - 1 month	-253	-986
1 - 3 months	-24 637	11 217
3 - 6 months	-7 216	-6 930
6 - 12 months	-2 160	-7 088
1-3 years	15 338	-
3-5 years	-859	-
> 5 years	-	-
Total interest rate risk, effect on profit after tax*	**-19 787**	**-3 787**

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

Further, the interest risk is accumulated across currencies, in accordance with the following table.

Interest rate risk by currency

Amounts in NOK 1000	**2021**	**2020**
NOK	-4 714	-4 845
SEK	9 679	1 838
DKK	-2 679	5 960
EUR	-22 073	-6 741
Total interest rate risk, effect on profit after tax*	**-19 787**	**-3 787**

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

7.2.2 Market risk related to currency exposure

The table below shows net currency exposure including financial derivatives at December 31, 2021 in addition to the effect on after-tax profit/loss of a 3% change in FX-rates. Amounts in NOK thousand.

Amounts in NOK 1000	**2021**	**2020**
Currency		
SEK	-106 103	35 856
DKK	27 232	18 926
EUR	-58 834	16 727
Total	**-137 705**	**71 509**
Effect on after-tax profit/loss of a 3 percent change in FX-rates	-3 098	1 609

7.2.3 Spread risk

The table below shows the Bank's securities portfolio and calculated loss potential at December 31, 2021, broken down by rating and credit quality steps.

Rating	Credit quality step	Increase in spreads*	Portfolio	Average maturity (years)	Stresstest**
AAA	1	0.0 %	2 780 658	0.70	-
AA	1	0.0 %	1 327 419	0.77	-
A	1	0.0 %	188 635	0.94	-
AAA	1	0.9 %	33 408	0.34	62
AA	1	1.1 %	5 608 381	1.57	58 017
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 %	10 294 779	1.28	55 282
OMF AA	1	0.9 %	-	-	-
Total capital add-on			**20 233 281**	**1.24**	**113 361**

** 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 table below shows the Bank's the exposure in equities and equity instruments at December 31, 2021.

	Book value 31.12.2021	Market value 31.12.2021
Vn Norge AS	25 303	25 303
Vipps AS*	1 499	1 499

**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 Risk Policy which stipulate requirements concerning, amongst others, the time horizons for which the BN Group must be independent of new external funding, the size and quality of the liquidity reserve, and the duration and diversification of funding. Risk exposures and development are continuously monitored and reported to the Board of Directors and Senior Management.

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

Norwegian Finans Holding ASA received its first MREL requirement in 2019, applicable from June 30, 2020. The subordination requirement shall be fulfilled by the end of the phase-in period on January 1, 2024. In 2020 the Board of Directors decided to apply to merge Norwegian Finans Holding ASA and Bank Norwegian AS, resulting in Bank Norwegian ASA being the group entity and the issuing entity of MREL eligible capital. The merger was carried out in July 2021. The MREL requirement has further been updated every year.

In December 2021, Bank Norwegian received an updated MREL requirement which included a cap with respect to the subordination requirement calculated in accordance with BRRD2 (Directive (EU) 2019/879). The maximum of 8% of total assets and the sum of Pillar 1 x 2 + Pillar 2 x 2 + Combined Buffer requirements x 1. The linear subordination phase-in requirement was continued, while the starting point of the linear phase-in was set at a minimum subordination requirement of 13.5% which is in accordance with BRRD article 45c (5). Senior preferred bonds may be used in the phase-in period, however to be MREL eligible from the end of the phase-in period, all capital must qualify in accordance with BRRD article 45b (1) (restricted senior preferred bonds).

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 BN Group’s behalf and the departments and persons responsible for settlement, control and reporting, the BN Group has established an organization in which executive and controlling functions are independent of each other.

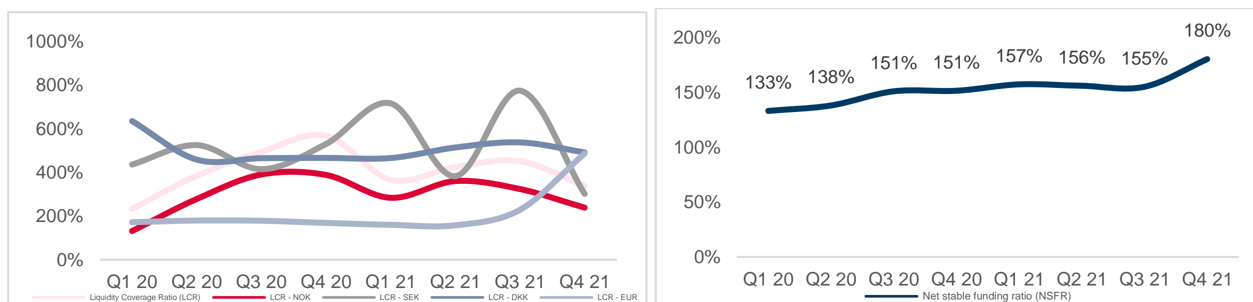
8.2 Exposure and capital requirements

Based on the current balance sheet structure, product portfolio and liquidity management, it is considered that there is no need to hold Pillar 2 capital for liquidity and funding risk. Instead, the BN 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 and Net Stable Funding 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).



The Net Stable Funding Ratio, referred to as NSFR, describes the extent to which the BN 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, 2021 is presented below.

Survival horizon - Stress testing (in months)	Target zone	Limit Breach	Status 31.12.2021
Basis scenario - excluding external funding	≥ 12	< 6	36
Bank specific crisis	≥ 6	< 3	20
Market specific crisis	≥ 6	< 3	23
Combination stress	≥ 3	< 1	11

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 of Directors and integrated into the Bank's day-to-day operations. Responsible lending, protecting customers' privacy, preventing economic crime and safeguarding employees are priority areas that entail long-term obligations and provide the basis for the Bank's social mission. Please refer to the Bank's annual report and the sustainability report for further details.